STUDY MATERIAL FOR B.COM AND BANKING & FINANCE

STOCK MARKET OPERATION

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PREPARED BY

COMMERCE DEPARTMENT

INDEX

STOCK MARKET OPERATIONS

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UNIT - I

INTRODUCTION

CONCEPT OF RISK:

Risk is the degree of uncertainty or potential variability of returns associated with an investment. It can arise from various factors, including market fluctuations, economic conditions, and specific characteristics of the investment.

All investments involve some degree of risk. In finance, risk refers to the degree of uncertainty and/or potential financial loss inherent in an investment decision. In general, as investment risks rise, investors seek higher returns to compensate themselves for taking such risks.

DEFINITION OF RISK MANAGEMENT:

Risk management is an integrated process of delineating (define) specific areas of risk, developing a comprehensive plan, integrating the plan, and conducting the Ongoing evaluation' – Dr. P.K. Gupta.

TYPES OF RISKS:

1. **Market Risk:** The risk of losses in a portfolio due to movements in market variables, such as interest rates, exchange rates, commodity prices, and equity prices.
   a. **Interest Rate Risk:** The risk that changes in interest rates will affect the value of fixed-income securities.
   b. **Currency Risk (Exchange Rate Risk):** The risk of losses due to changes in exchange rates for investments denominated in foreign currencies.

C. Commodity Price Risk: The risk associated with fluctuations in the prices of commodities, affecting industries reliant on these raw materials.

2. **Credit Risk:** The risk of loss arising from the default of a borrower or counterparty. It is prevalent in lending and investing activities.
   a. **Default Risk:** The risk that a borrower fails to repay the principal or interest on a loan.
   b. **Credit Spread Risk:** The risk that the yield spread between a risky asset (e.g., corporate bonds) and a risk-free asset (e.g., government bonds) widens.

3. **Operational Risk:** The risk of loss resulting from inadequate or failed internal processes, systems, people, or external events. It encompasses a wide range of factors, including human error, fraud, and technology failures.
    a. **Human Error:** Mistakes made by individuals within an organization.
    b. **Technology Risk:** Risks associated with the use of technology, including cyber security threats and system failures.
    c. **Fraud Risk:** The risk of losses due to fraudulent activities by employees or external parties.
4. **Liquidity Risk:** The risk that an asset cannot be bought or sold in the market without affecting its price due to insufficient market depth or trading volume.
    a. **Market Liquidity Risk:** The risk that an asset cannot be sold quickly at its current market price.
    b. **Funding Liquidity Risk:** The risk of being unable to meet short-term financial obligations due to a lack of available funding.
5. **Political and Regulatory Risk:** The risk arising from changes in government policies, regulations, or political instability that can impact the economic environment and business operations.
    a. **Policy Risk:** The risk associated with changes in government policies affecting industries or markets.
    b. **Regulatory Risk:** The risk of adverse effects on an organization due to changes in regulations.
6. **Legal Risk:** The risk of legal actions or liabilities that can result in financial losses for an organization.
    a. **Lawsuits:** Legal actions filed against the company.
    b. **Regulatory Fines:** Penalties imposed by regulatory authorities for non-compliance.
7. **Environmental Risk:** The risk associated with the impact of environmental factors on businesses, investments, or projects.
    a. **Climate Change Risk:** Risks arising from changes in climate patterns.
    b. **Natural Disasters:** Risks associated with events like earthquakes, floods, or hurricanes.

MEASUREMENT OF RISK:

In finance, the measurement of risk is a crucial aspect of decision-making, as it helps investors and financial professionals assess the potential variability of returns and make informed choices about investments. Various quantitative methods and metrics are employed to measure and quantify risk.

1. **Volatility:** Volatility measures the degree of variation of a trading price series over time. Higher volatility indicates a greater potential for large price swings, representing increased risk.

Measurement: Commonly calculated using standard deviation, which measures the dispersion of returns around the average return.

2. **Beta:**

Beta measures the sensitivity of an investment's returns to market movements. A beta greater than 1 indicates higher volatility than the market, while a beta less than 1 suggests lower volatility.

Interpretation: A beta of 1 implies the investment moves in line with the market, while a beta less than 1 suggests lower volatility, and a beta greater than 1 indicates higher volatility.

3. **Value at Risk (VaR):** VaR is a statistical measure that quantifies the maximum potential loss, at a given confidence level, over a specific time horizon. It provides an estimate of the worst expected loss under normal market conditions.

Calculation: VaR is often calculated using historical simulation, parametric methods, or Monte Carlo simulation.

4. **Standard Deviation:** Standard deviation measures the degree of variation of a set of values from their mean. In finance, it is commonly used to quantify the historical volatility of an investment.

Interpretation: A higher standard deviation indicates greater historical price volatility.

5. **Sharpe Ratio:** The Sharpe Ratio assesses the risk-adjusted return of an investment. It compares the excess return of the investment over the risk-free rate to its volatility.

Interpretation: A higher Sharpe Ratio indicates a better risk-adjusted performance.

6. **Covariance and Correlation:**

Covariance: Measures the degree to which two variables (e.g., asset returns) move together. Positive covariance indicates a positive relationship, while negative covariance suggests an inverse relationship.

Correlation: Standardizes covariance, providing a measure between -1 and 1. A correlation of 1 indicates a perfect positive relationship, -1 indicates a perfect negative relationship, and 0 indicates no relationship.

7. **Conditional Value at Risk (CVaR):** CVaR, also known as Expected Shortfall, is an extension of VaR that quantifies the expected loss given that the loss exceeds the VaR threshold.

Interpretation: It provides a measure of the potential severity of losses beyond the VaR level.

8. **Risk-Adjusted Return:** This metric adjusts the return of an investment for the level of risk taken. Common measures include the Sharpe Ratio, Treynor Ratio, and Jensen's Alpha.

Interpretation: Higher risk-adjusted return values are generally preferable, indicating better performance relative to the amount of risk taken.

CONCEPT OF RETURN:

A return, also known as a financial return, in its simplest terms, is the money made or lost on an investment over some period. A return can be expressed nominally as the change in dollar value of an investment over time. A return can also be expressed as a percentage derived from the ratio of profit to investment.

Definition: Return is the financial gain or loss made on an investment relative to the amount invested. It is usually expressed as a percentage.

TYPES OF RETURN:

1. **Capital Gain:**

Definition: Capital gain is the profit made from the increase in the value of an investment. It is realized when the investment is sold at a higher price than its purchase price.

Calculation: Capital Gain = Selling Price - Purchase Price

2. **Dividend Yield:**

Definition: Dividend yield is the income generated by an investment in the form of dividends, expressed as a percentage of the investment's current market price.

Calculation: Dividend Yield = (Annual Dividends per Share / Current Market Price) * 100

3. **Interest Income:**

Definition: Interest income is the return earned on fixed-income securities such as bonds or certificates of deposit.

Calculation: Interest Income = Principal Amount * Interest Rate

4. **Total Return:**

Definition: As mentioned earlier, total return encompasses all components, including capital gains, interest income, and dividends.

Calculation: Total Return = Capital Gain + Dividend Income + Interest Income

5. **Real Return:**

Definition: Real return is the return on an investment adjusted for inflation. It provides a more accurate measure of purchasing power.

Calculation: Real Return = (1 + Nominal Return) / (1 + Inflation Rate) - 1

6. **Risk-Adjusted Return:**

Definition: Risk-adjusted return considers the level of risk taken to achieve a certain level of return. Common measures include the Sharpe Ratio, Treynor Ratio, and Jensen's Alpha.

Calculation: Various formulas depending on the specific risk-adjusted measure.

7. **Total Shareholder Return (TSR):**

Definition: TSR measures the total return received by shareholders through capital appreciation and dividends.

Calculation: TSR = (Ending Share Price - Beginning Share Price + Dividends) / Beginning Share Price

SECURITIES- MEANING

The term "security" refers to a fungible, negotiable financial instrument that holds some type of monetary value. A security can represent ownership in a corporation in the form of stock, a creditor relationship with a governmental body or a corporation represented by owning that entity's bond; or rights to ownership as represented by an option.

The term '**Securities**' under **Section 2(81)** of the **Companies Act, 2013** has been defined to mean 'securities' as defined in **Section 2(h)** of the Securities Contracts (Regulation) Act, 1956 (SCRA).

Under section 2(h) of SCRA, the term 'securities' include the following:

- Shares, scrips, stocks, bonds, debentures, debenture stocks etc. in or of any incorporated company or another body corporate.
- Derivatives.
- Units issued by any Collective Investment Scheme to the investors in such scheme.
- Security receipt as defined in Section 2(zg) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
- Units or any other such instruments issued to the investors under any Mutual fund scheme.
- Government Securities
- Such other instruments, rights or interest therein shall be declared by the government to be securities be declared by the government to be securities.

TYPES OF SECURITIES:

1. **Equity Securities:** Equity refers to stocks and shares. It represents the ownership interest held by shareholders in a company. The earnings of a shareholder are usually in the form of dividends. Also, listed equity securities are volatile and are the prices rise or fall as per the market conditions.
2. **Debt Securities**: Debt or fixed income securities represent that the money is borrowed and shall be repaid with interest upon maturity. These securities include government bonds, certificate of deposits, corporate bonds, treasury bills etc. These are bought and sold with

a promise to repay the same with interest. Also, the debt agreement predetermines the rate of interest, the amount borrowed, the maturity and renewal date.

3. **Derivative Securities:** The value of derivatives securities depends on the underlying asset. The underlying asset can be stocks, bonds, interest rates, market indices, interest rates, or goods. It is a contract between two or more parties. Where the value of the investment is derived from underlying financial assets. The main purpose of derivatives is to minimise risk. One can achieve it by insuring against the price fluctuations. The different types of derivatives are future, forwards, options, and swaps.
4. **Hybrid Securities:** Hybrid security is a type of security that has both debt and equity securities characteristics. Many institutions use hybrid securities to borrow money from investors. Examples of hybrid securities are convertible bonds, where the bondholder can convert to equity stocks during the bond tenure or at maturity. Preferred stocks, these allow the holder to receive dividends prior to common stockholders.

DIFFERENCE BETWEEN DEBT SECURITIES AND EQUITY SECURITIES:

Basis of difference	**Debt Securities**	**Equity Securities**
1.Ownership and Claims:	Investors in debt securities are creditors to the issuer. Holders of debt securities have a claim on the issuer's assets and are entitled to receive interest payments and the return of principal.	Investors in equity securities are owners or shareholders of the company. Holders of equity securities have a residual claim on the company's assets after satisfying the claims of debt holders. They have the potential for dividends and capital appreciation.
2.Returns	Investors in debt securities typically receive fixed interest payments (coupon payments) at regular intervals. The principal is repaid at maturity. **Risk/Reward Profile:** Generally, debt securities offer more predictable returns but with lower potential for capital appreciation.	Returns for equity holders come in the form of dividends (if declared) and capital appreciation (increase in the stock price). **Risk/Reward Profile:** Equity securities have the potential for higher returns but also come with higher risk, as they are subject to

		market fluctuations.
3.Voting Rights	Debt holders typically do not have voting rights in the company's decision-making processes.	Equity holders often have voting rights, allowing them to participate in corporate decisions at shareholder meetings.
4.Priority of Claims in Bankruptcy	In the event of bankruptcy or liquidation, debt holders have a higher priority in the repayment hierarchy. They are paid before equity holders.	Equity holders have a lower priority in the repayment hierarchy and are entitled to the remaining assets after satisfying the claims of debt holders.
5.Risk Profile	Generally considered lower risk compared to equity securities. The fixed interest payments provide a level of predictability.	Higher risk due to the volatility of stock prices. Returns are more dependent on the company's performance and market conditions.
6.Participation in Profits and Losses	Debt holders do not participate in the company's profits beyond the fixed interest payments.	Equity holders participate in the company's profits through dividends and capital appreciation. However, they also absorb losses if the company performs poorly.

AN INTRODUCTION TO FINANCIAL MARKETS:

A financial market is a market in which people trade financial securities and derivatives such as futures and options at low transaction costs. Securities include stocks and bonds, and precious metals.

The term "market" is sometimes used for what are more strictly *exchanges*, organizations that facilitate the trade in financial securities, e.g., a stock exchange or commodity exchange. This may be a physical location (like the NYSE, BSE, LSE, JSE) or an electronic system (like NASDAQ). Much trading of stocks takes place on an exchange; still, corporate actions (merger, spinoff) are outside an exchange, while any two companies or people, for whatever reason, may agree to sell stock from the one to the other without using an exchange.

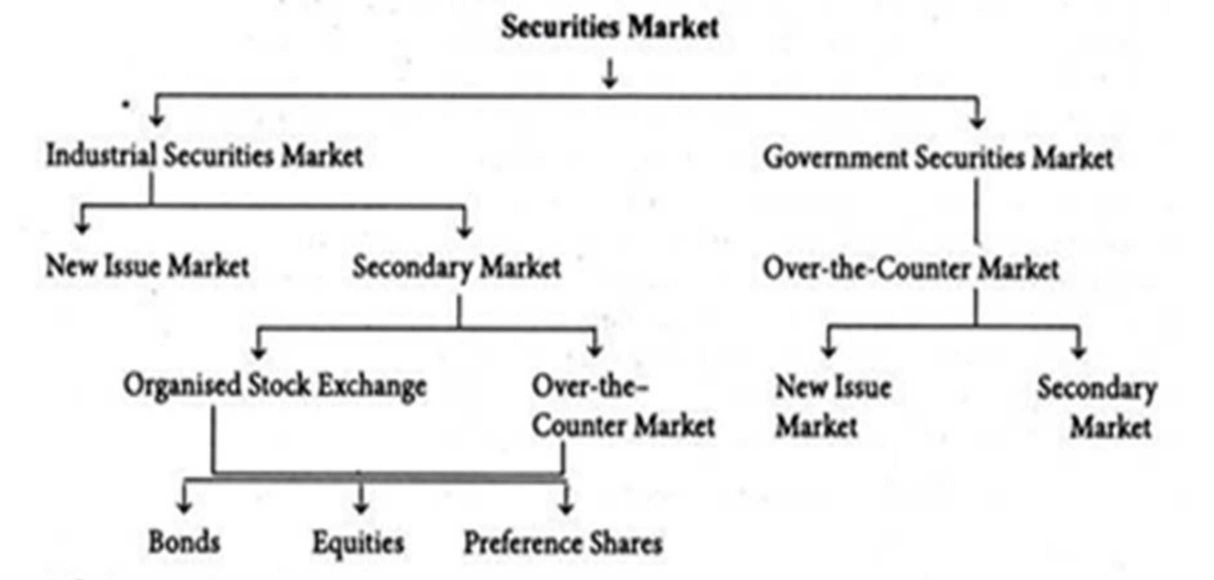
A financial market is a market in which people and entities can trade financial securities, commodities and other fungible assets at prices that are determined by pure supply and demand principles. Markets work by placing the two counterparts, buyers and sellers, at one place so they can find each other easily, thus facilitating the deal between them.

Definition:

Financial Market refers to a marketplace, where creation and trading of financial assets, such as shares, debentures, bonds, derivatives, currencies, etc. take place. It plays a crucial role in allocating limited resources, in the country's economy. It acts as an intermediary between the savers and investors by mobilizing funds between them.

The financial market provides a platform to the buyers and sellers, to meet, for trading assets at a price determined by the demand and supply forces.

Table 40.1. The Structure of Securities Market



Functions of Financial Market:

1. It facilitates mobilization of savings and puts it to the most productive uses.
2. It helps in determining the price of the securities. The frequent interaction between investors helps in fixing the price of securities, based on their demand and supply in the market.

3. It provides liquidity to tradable assets, by facilitating the exchange, as the investors can readily sell their securities and convert assets into cash.

4. It saves the time, money and efforts of the parties, as they don't have to waste resources to find probable buyers or sellers of securities. Further, it reduces cost by providing valuable information, regarding the securities traded in the financial market.

5. Financial markets may be viewed as channels through which flow loanable funds directed from a supplier who has an excess of assets toward a demander who experiences a deficit of funds.

There are different types of financial markets and their characterization depends on the properties of the financial claims being traded and the needs of the different market participants. We recognize several types of markets, which vary based on the type of instruments traded and their maturity.

Capital market:

The capital market aids raising of capital on a long-term basis, generally over 1 year. It consists of a primary and a secondary market and can be divided into two main subgroups – Bond market and Stock market.

- The Bond market provides financing by accumulating debt through bond issuance and bond trading.
- The Stock market provides financing by sharing the ownership of a company through stocks issuing and trading.

Money Market

The money market enables economic units to manage their liquidity positions through lending and borrowing short-term loans, generally under 1 year. It facilitates the interaction between individuals and institutions with temporary surpluses of funds and their counterparts who are experiencing a temporary shortage of funds.

One can borrow money within a quite short period of time via a standard instrument, the so-called “call money”. These are funds borrowed for one day, from 12:00 PM today until 12:00 PM on the next day, after which the loan becomes “on call” and is callable at any time. In some cases, “call money” can be borrowed for a period of up to one week.

Foreign exchange market

The foreign exchange market abets the foreign exchange trading. It’s the largest, most liquid market in the world with an average traded value of more than $5 trillion per day. It includes all of the currencies in the world and any individual, company or country can participate in it.

Commodity market

The commodity market manages the trading in primary products which takes place in about 50 major commodity markets where entirely financial transactions increasingly outstrip physical purchases which are to be delivered. Commodities are commonly classified in two subgroups.

- Hard commodities are raw materials typically mined, such as gold, oil, rubber, iron ore etc.
- Soft commodities are typically grown agricultural primary products such as wheat, cotton, coffee, sugar etc.

Derivatives market

It facilitates the trading in financial instruments such as futures contracts and options used to help control financial risk. The instruments derive their value mostly from the value of an underlying asset that can come in many forms – stocks, bonds, commodities, currencies or mortgages. The derivatives market is split into two parts which are of completely different legal nature and means to be traded.

Exchange-traded derivatives

These are standardized contracts traded on an organized futures exchange. They include futures, call options and put options. Trading in such uniformed instruments requires from investors a payment of an initial deposit which is settled through a clearing house and aims at removing the risk for any of the two counterparts not to cover their obligations.

Over-the-counter derivatives

Those contracts that are privately negotiated and traded directly between the two counterparts, without using the services of an intermediary like an exchange. Securities such as forwards, swaps, forward rate agreements, credit derivatives, exotic options and other exotic derivatives are almost always traded this way. These are tailor-made contracts that remain largely unregulated and provide the buyer and the seller with more flexibility in meeting their needs.

Insurance market

It helps in relocating various risks. Insurance is used to transfer the risk of a loss from one entity to another in exchange for a payment. The insurance market is a place where two peers, an insurer and the insured, or the so-called policyholder, meet in order to strike a deal primarily used by the client to hedge against the risk of an uncertain loss.

Introduction to capital market

The term capital market refers to facilities and institutional arrangements through which long-term funds; both debt and equity are raised and invested. It consists of a series of channels through which savings of the community are made available for industrial and commercial enterprises and for the public in general. An ideal capital market is one where finance is available at reasonable cost. The process of economic development is facilitated by the existence of a well-functioning capital market. In fact, development of the financial system is seen as a necessary condition for economic growth. It is essential that financial institutions are sufficiently developed and that market operations are free, fair, competitive and transparent. The capital market should also be efficient in respect of the information that it delivers, minimize transaction costs and allocate capital most productively.

Definition:

Capital market can be defined as” an organised mechanism for transfer of money capital and financial resources from investing parties to entrepreneurs engaged in industry and commerce.”

Money Market	Capital Market
1. It is a market fir short- term loanable funds for a period within one year.	1. It is market for long- term funds exceeding a period one year.
2. This market supplies funds for financing current business operations, working capital requirements of industries and short period requirements of the Government.	2. This market supplies funds for financing the fixed capital requirements of trade and commerce as well as the long term requirements of the Government.
3. The instruments that are dealt in a money market are bills of exchange, treasury bills, commercial papers, certificate of deposit, etc.	3. This market deals in instruments like shares, debentures, Government bonds, etc.,
4. The Central bank and commercial banks are the major institutions in the money market.	4. Development banks and insurance companies play a dominant role in the capital market.
5. Money market instruments generally do not have secondary markets.	5. Capital market instruments generally have secondary markets.
6. Transactions mostly take place over-the-phone and there is no formal place.	6. Transactions take place at a formal place i.e., Stock exchange.

Need for and importance of capital market:

1. It is only with the help of the capital market; long-term funds are raised by the business community.
2. It provides an opportunity for the public to invest their savings in attractive securities which provide a higher return.
3. A well-developed capital market is capable of attracting funds even from foreign countries. Thus, foreign capital flows in to the country through foreign investments.
4. Capital market provides an opportunity for the investing public to know the trend of different securities and the conditions prevailing in the economy.
5. It enables the country to achieve economic growth as capital formation is promoted through the capital market.
6. Existing companies, because of their performance, will be able to expand their industries and also go in for diversification of their activities due to the capital market.
7. Capital market is the barometer of the economy by which you are able to study the economic conditions of the country and it enables the government to take suitable action.
8. Through different media, the public are informed about the prices of different securities that enable them to take necessary investment decisions.
9. Capital market provides opportunities for different institutions such as commercial banks, mutual funds, investment trust, etc., to earn a good return on the investing funds. They employ financial experts who are able to predict the changes in the market and accordingly undertake suitable portfolio investments.

Functions of Capital Market:

- Mobilizing long term savings to finance long-term investments.
- Providing risk capital in the form of equity and quasi-equity to entrepreneurs.
- Provide liquidity with a mechanism enabling the investors to sell financial assets.
- Lower the cost of transaction and information.

- Improve the efficiency of capital allocation through the competitive price mechanism.
- Enable quick valuation of financial instruments – both equity and debt.
- Provide insurance against market risk or price risk through derivative trading and default risk through investor protection fund.
- Enable wider participation by enhancing the width of the market by encouraging both individual and institutional investors within and outside the country.
- Provide operational efficiency through – a) simplified transaction procedure. b) lowering settlement timings and c) lowering transaction cost.
- Develop integration among – a) Real and financial sectors. b) equity and debt instruments. c)long term and short term funds. d) private and government sectors and domestic and foreign funds.

CAPITAL MARKET IN INDIA

In India Capital market into:

1. Industrial Security Market

2. Government Securities Market

1. INDUSTRIAL SECURITIES MARKET:

The Industrial securities market refers to the market for shares and bonds of the existing companies, as well as those of new companies.

This market is further divided into New Issue Market (NIM) and Old Issue Market. The New Issue Market is also called Primary Market. Likewise, the Old Issue Market is also called Secondary Market or Stock Exchange.

However, it is important to emphasize that the New Issue Market and Stock Exchange are inter-linked and work in conjunction with each other. Although they differ from each other in the sense that the New Issue Market deals with 'new securities' issued for the first time to the public and Stock Exchange deals with those securities which have already been issued once to the public.

2. **GOVERNMENT SECURITY MARKETS:**

Government securities refer to the marketable debt issued by the government of semi-government bodies. A government security is a claim on the government. It is a totally securer financial instrument ensuring safety of both capital and income. That is why it is called gilt-edged security or stock. Central Government securities are the safest among all securities.

Government securities are issues by:

- Central Government
- State Government
- Semi-Government authorities like local government authorities, e.g., city corporations and municipalities
- Autonomous institutions, such as metropolitan authorities, port trusts, development trusts, state electricity boards.
- Public Sector Corporations
- Other governmental agencies, such as SFCs, NABARD, LDBs, SIDCs, housing boards etc.

DEVELOPMENT OF SECURITIES MARKET IN INDIA:

The development of securities markets in India has been a significant aspect of the country's economic evolution. The Indian securities market has undergone several phases of development, marked by regulatory reforms, technological advancements, and increased investor participation. Here's an overview of the key stages in the development of security markets in India:

1. Introduction of Stock Exchanges (19th Century):

The Bombay Stock Exchange (BSE) was established in 1875, making it one of the oldest stock exchanges in Asia.Early trading in securities was characterized by informal gatherings under banyan trees, which eventually evolved into more organized exchanges.

2. Formation of the Securities and Exchange Board of India (SEBI) - 1988:

SEBI was established in 1988 as an independent regulatory body to oversee and regulate the securities market.SEBI's formation marked a crucial step toward ensuring transparency, investor protection, and the efficient functioning of the securities market.

3. National Stock Exchange (NSE) - 1994:

The National Stock Exchange (NSE) was established in 1994 to provide a modern, electronic trading platform with nationwide reach.NSE introduced the screen-based trading system, replacing the open outcry system, which enhanced market efficiency.

4. Dematerialization and Central Depository System (1996-1998):

The process of dematerialization began in 1996, allowing investors to convert physical share certificates into electronic form.The National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) were established to facilitate electronic holding and transfer of securities.

5. Introduction of Derivatives (2000):

SEBI permitted the trading of equity derivatives in 2000, allowing investors to hedge their risks and speculate on future price movements.This move added depth and liquidity to the market and attracted a wider range of participants.

6. Liberalization and Foreign Institutional Investors (FIIs) - 1990s:

Economic reforms in the 1990s led to liberalization, allowing increased foreign participation in Indian markets.The entry of FIIs brought in capital, expertise, and global best practices.

7. Introduction of Online Trading and Electronic Clearing - 2000s:

The adoption of online trading platforms in the early 2000s made stock trading more accessible to retail investors.Electronic clearing systems, such as the National Electronic Clearing Service (NECS), were introduced to streamline fund transfers.

8. Mutual Fund Industry Growth:

The mutual fund industry witnessed significant growth, offering investors diversified investment options and professional fund management.

9. Initiatives for Investor Protection and Education:

SEBI has introduced various initiatives to enhance investor protection, such as Know Your Customer (KYC) norms and investor education programs.

10. Listing of Companies and IPOs:

The listing of Indian companies on stock exchanges, along with Initial Public Offerings (IPOs), has provided avenues for capital raising and increased market capitalization.

11. Regulatory Reforms and Market Infrastructure Development:

SEBI has continued to introduce regulatory reforms to enhance market integrity, transparency, and investor confidence.Infrastructure development includes the establishment of market segments like SME exchanges to support small and medium-sized enterprises.

UNIT- II

PRIMARY MARKET

MEANING:

The Industrial securities market consists of new issue market and stock exchange. The new issue market deals with the new securities which were not previously available to the investing public. It is the market that are offering securities to the investing public for the first time.

The new issue market encompasses all institutions dealing in fresh claim. These may be in the form of Equity shares, Preference shares, Debentures, Right issues, Deposits etc.,

FEATURES OF PRIMARY MARKETS

1. The securities are issued by the company directly to the investors.
2. The company receives the money and issues new securities to the investors.
3. The primary markets are used by companies for the purpose of setting up new ventures/ business or for expanding or modernizing the existing business.
4. Primary market performs the crucial function of facilitating capital formation in the economy.

FUNCTIONS OF PRIMARY MARKETS

The main functions of a new issue market is to facilitate transfer of resources from savers to the users. The main functions of a new issue market can be divided into a triple service functions:

1. Origination
2. Underwriting
3. Distribution

1. Origination:

Origination refers to the work of investigation, analysis and processing of new project proposals. Origination starts before an issue is actually floated in the market. A careful study of the viability of the project has to be studied to ensure soundness of the project in the preliminary stage. The advisory services are also the functions of new issue market which improve the quality of capital issues.

This origination function is done by merchant bankers who may be commercial banks, all India financial institutions or private firms.

2. **Underwriting:**

Underwriting is one of the most important functions in the financial world wherein an individual or an institution undertakes the risk associated with a venture, an investment, or a loan in lieu of a premium. Underwriters are found in banking, insurance, and stock markets.

Underwriting is an agreement, whereby the underwriter promises to subscribe to a specified number of shares or debentures or a specified amount of stock in the event of public not subscribing to the issue. If the issue is fully subscribed, then there is no liability for the underwriter. If a part of shares issues remains unsold, the underwriter will buy the shares. Thus, underwriting is a guarantee for the marketability of shares.

Types of underwriting:

There are two types of underwriting. They are

1. **Institutional underwriting** – IDBI, IFCI, UTI, SBI Capital Market
2. **Non-Institutional underwriting** – Any NBFC.

Institutional underwriting in India helps companies to raise capital in their early stages. In fact, many companies which may not come to the notice of the public were promoted due to the support given by institutional underwriters.

Many institutional underwriters were responsible for the promotion of infrastructure companies in the area of steel, chemicals, fertilizer, etc.

Advantages of underwriting:

1. Large issues could be undertaken successfully.
2. Companies with a long gestation period cannot raise capital without the support of professional underwriters.

3. Underwriters undertake the burden of highly specialised function of distributing securities.
4. New projects in the market could be taken boldly.
5. They provide expert advice with regard to timing of security issue, the pricing of issue, the size and type of securities to be issued, etc.,
6. Public confidence on the issue is enhanced when underwriting is done by reputed underwrites.

3. Distribution:

Distribution is the function of sale of securities to ultimate investors. This service is performed by brokers and agents who maintain a regular and direct contact with the ultimate investors.

METHODS OF FLOATING NEW ISSUES IN THE PRIMARY MARKET

1. **Public issue**:

When a company raises funds by selling (issuing) its shares (or debenture / bonds) to the public through issue of offer document (prospectus), it is called a public issue. Under this method the issuing company directly offers to the general public/ institutions at a stated price through a document is known as a public issue. The prospectus must contain all the information about the issue like Name and address , Names of Directors, Dates of opening and closing the subscription list, Minimum subscription.

According to Companies Act 1956, every application form must be accompanied by a prospectus. Now, it is no longer necessary to furnish a copy of the prospectus along with every application form as per the Companies Amendment 1988.

Merits

- ❖ It has the advantage of inviting a large section of the investing public through advertisement.
- ❖ It is a direct method and no intermediaries are involved in it.

Demerits

- ❖ It is an expensive method.

- This method is suitable only for large issues.

2. **Offer for sale:**

The method of offer of sale consists in outright sale of securities through the intermediary of issue houses or share brokers. In other words, the shares are not offered to the public directly. Institutional investors like venture funds, private equity funds etc., invest in unlisted company when it is very small or at an early stage. Subsequently, when the company becomes large, these investors sell their shares to the public, through issue of offer document and the company's shares are listed in stock exchange. This method consists of two stages. In the first stage is a direct sale by the issuing company to the issue house and brokers at an agreed price. In the second stage, the intermediaries resell the above securities to the ultimate investors. It is also called Bought Out Deals (BOD).

Advantages:

1. The company is relieved from the problem of printing and advertisement of prospectus and making allotment of shares.
2. The intermediaries get higher return.
3. BOD enables an issuer with good project to obtain funds with a minimum cost without under subscription.

Disadvantages:

1. The company will not be benefited when the shares are sold at a higher price by the intermediaries.

3.Private Placement:

The shares of the companies are given to the investing public with the help of issue houses. This method is adopted by certain companies as it prevents the presence of underwriters. The issue houses are responsible for the sale of the shares and no prospectus is required under this system. It also involves minimum expenditure. Here the brokers would make profit in the process of reselling to the public. There is no need for a formal prospectus as well as underwriting agreement.

Advantages:

1. This method is suitable when small companies issue their shares.
2. There are no entry barriers for a company to access the private placement market.
3. The terms of issue is flexible since the issue deals with only few institutional investors.
4. There are no entry barriers for a company to access the private placement market.
5. This method is also suitable for first generation entrepreneurs.

Disadvantages:

1. The securities are not widely distributed to the large section of investors.
2. This method of private placement is used to a limited extent in India..

4.Rights issue (RI):

Right issue is a method of raising funds in the market by an existing company. When a company raises funds from its existing shareholders by selling (issuing) them new shares / debentures, it is called as **rights issue**. Right shares are offered to the existing shareholders in a right propotion to their existing share ownership. The ratio in which the new share or debentures are offered to the existing share capital would depend upon the requirement of capital. The offer document for a rights issue is called as the **Letter of Offer** and the issue is kept open for 30-60 days. Existing shareholders are entitled to apply for new shares in proportion to the number of shares already held.

Advantages:

1. The cost of issue is minimum. There is no underwriting, brokerage, advertising and printing of prospectus expenses.
2. It prevents the directors from issuing new shares in their own name or to their relatives at a lower price and get controlling right.

5.Initial Public Offering - IPO

The process of offering shares in a private corporation to the public for the first time is called an initial public offering (IPO). Growing companies that need capital will frequently use IPOs to raise money, while more established firms may use an IPO to allow the owners to exit some or all their ownership by selling shares to the public. In an initial public offering, the issuer, or company raising capital, brings in underwriting firms or investment banks to help determine the best type of security to issue, offering price, amount of shares and time frame for the market offering.

Advantages of an IPO

The primary objective of an IPO is usually to raise capital for a business. However, a public offering has other benefits as well.

- A public company can raise additional funds in the future through secondary offerings because it already has access to the public markets through the IPO.
- Many companies will compensate executives or other employees through stock compensation. Stock in a public company is more attractive to potential employees because shares can be sold more easily. Being a public company may help a company recruit better talent.

Disadvantages of an IPO

An IPO is expensive, and the costs of maintaining a public company are ongoing and usually unrelated to the other costs of doing business. There are other disadvantages of an IPO as well.

- Fluctuations in a company's share price can be a distraction for management, which may be compensated and evaluated based on stock performance rather than real financial results.
- Strategies used to inflate the value of a public company's shares, such as using excessive debt to buy back stock, can increase the risk and instability in the firm.
- A public company must file reports with the SEC that may reveal secrets and business methods that could help competitors.
- Rigid leadership and governance by the board of directors can make it more difficult to retain good managers willing to take risks.

DISTINCTION BETWEEN INITIAL PUBLIC OFFER AND FOLLOW ON PUBLIC OFFER

S.No	Initial Public Offer	Follow On Public Offer
1	**Ipo** refers t**o the** shares offered the public investors by the companies for the first time by listing the company in a stock exchange	**FPO** refers to the additional shares offered to the public investors by the companies which are already listed in a stock exchange.
2	The main objective of issuing IPOs by the companies is to raise capital through public investment and to increase exposure, prestige and public image.	The main objective of issuing FPOs by the companies is to restructure their business or raise funds for business or to expand the existing business.
3	The rate of risk is high in case of IPO as in individual investor cannot predict what will happen to the initial trading in the coming days.	The rate of risk is low in case of FPOs as an investor already has an idea about the investment and future growth of the company.
4	There are extremely stringent regulatory requirements which are costly and time consuming.	There are less regulations cost and less time consuming as compared to IPOs
5	IPOs are usually more profitable than FPOs	FPO s are considered usually less profitable than IPOs
6	IPOs are of two types namely fixed price than issue and book building.	FPO s are of two types namely Dilutive and Non-Dilutive.

PROCEDURE OF PUBLIC ISSUE:

Under public issue, the new shares/debentures may be offered either directly to the public through a prospectus (offer document) or indirectly through an offer for sale involving financial intermediaries or issue houses. The main steps involved in public issue are as follows

1. **Draft prospectus:**

A draft prospectus has to be prepared giving all required information. Any company or a listed company making a public issue or a right issue of value more than Rs. 50 lakh has to file a draft offer document with SEBI for its observation. The company can proceed further after getting observations from the SEBI. The company can open its issue within 3 months from the date of SEBI's observation letter.

2. **Fulfilment of Entry Norms**:

The SEBI has laid down certain entry norms (parameters) for accessing the primary market. A company can enter into the primary market only if a company fulfils these entry norms.

3. **Appointment of underwriters:**

Sometimes underwriters are appointed to ensure full subscription.

4. **Appointment of bankers**:

Generally, the company shall nominate its own banker to act as collecting agent. The bankers along with their branch network process the funds procured during the public issue.

5. **Initiating allotment procedure:**

When the issue is subscribed to the minimum level, the registrars initiate the allotment procedure.

6. **Appointment of brokers to the issue:**

Recognised members of the stock exchange are appointed as brokers to the issue.

7. **Filing of documents:**

Documents such as draft prospectus, along with the copies of the agreements entered into with the lead manager, underwriters, bankers,

8. Printing of prospectus and application forms:

After filing the above documents, the prospectus and application forms are printed and dispatched to all merchant bankers, underwriters and brokers to the issue.

9. Listing the issue:

It is very essential to send a letter to the stock exchange concerned where the issue is proposed to be listed.

10. Publication in news papers:

The next step is to publish an abridged version of the prospectus and the commencing and closing dates of issues in major English dailies and vernacular newspapers.

11. Allotment of shares:

After close of the issue, all application forms are scrutinised tabulated and then the shares are allotted against those applications received.

BOOK BUILDING AND ITS PROCESS:

Book building is a systematic process of generating, capturing, and recording investor demand for shares during an initial public offering (IPO), or other securities during their issuance process, in order to support efficient price discovery. Usually, the issuer appoints a major investment bank to act as a major securities underwriter or book runner.

Book building is an alternative method of making a public issue in which applications are accepted from large buyers such as financial institutions, corporations or high net-worth individuals, almost on firm allotment basis, instead of asking them to apply in public offer. Book building is a relatively new option for issues of securities, the first guidelines of which were issued on October 12, 1995 and have been revised from time to time since. Book building is a method of issuing shares based on a floor price which is indicated before the opening of the bidding process.

Book Building in India:

The introduction of book-building in India was done in 1995 following the recommendations of an expert committee appointed by SEBI under Y.H. Malegam. The committee recommended and SEBI accepted in November 1995 that the book-building route should be open to issuer companies, subject to certain terms and conditions. In January 2000, SEBI came out with a compendium of guidelines, circulars and instructions to merchant bankers relating to issue of capital, including those on the book-building mechanism.

The following are the important points in book building process:

1. The Issuer who is planning an offer nominates lead merchant banker(s) as 'book runners'.
2. The Issuer specifies the number of securities to be issued and the price band for the bids.
3. The Issuer also appoints syndicate members with whom orders are to be placed by the investors.
4. The syndicate members put the orders into an 'electronic book'. This process is called 'bidding' and is similar to open auction.
5. The book normally remains open for a period of 5 days.
6. Bids have to be entered within the specified price band.
7. Bids can be revised by the bidders before the book closes.
8. On the close of the book building period, the book runners evaluate the bids on the basis of the demand at various price levels.
9. The book runners and the Issuer decide the final price at which the securities shall be issued.
10. Generally, the number of shares is fixed; the issue size gets frozen based on the final price per share.
11. Allocation of securities is made to the successful bidders. The rest bidders get refund orders.

Price Fixation in Book building Process:

All the applications received till the last dates are analyzed and a final offer price, known as the cut off price is arrived at. The final price is the equilibrium price or the highest price at which all the shares on offer can be sold smoothly. If the price quoted by an investor is less than the final price, he will not get allotment.

If price quoted by an investor is higher than the final price, the amount in excess of the final price is refunded if he gets allotment. If the allotment is not made, full money is refunded within 15 days after the final allotment is made. If the investor does not get money or allotment in a month's time, he can demand interest at 15 per cent per annum on the money due.

Example:

In this method, the company doesn't fix up a particular price for the shares, but instead gives a price range, e.g., Rs. 80 to 100. When bidding for the shares, investors have to decide at which price they would like to bid for the shares, e.g., Rs. 80, Rs. 90 or Rs. 100. They can bid for the shares at any price within this range. Based on the demand and supply of the shares, the final price is fixed.

The lowest price (Rs. 80) is known as the floor price and the highest price (Rs. 100) is known as cap price. The price at which the shares are allotted is known as cut off price. The entire process begins with the selection of the lead manager, an investment banker whose job is to bring the issue to the public.

Both the lead manager and the issuing company fix the price range and the issue size. Next, syndicate members are hired to obtain bids from the investors. Normally, the issue is kept open for 5 days. Once the offer period is over, the lead manager and issuing company fix the price at which the shares are sold to the investors.

If the issue price is less than the cap price, the investors who bid at the cap price will get a refund and those who bid at the floor price will end up paying the additional money. For example, if the cut off in the above example is fixed at Rs. 90, those who bid at Rs. 80, will have to pay Rs. 10 per share and those who bid at Rs. 100, will end up getting the refund of Rs. 10 per share. Once each investor pays the actual issue price, the share are allotted.

PRIMARY MARKET INTERMEDIARIES

The following market intermediaries are involved in the primary market:

1. Merchant Bankers/Lead Managers
2. Registrars and Share Transfer Agents

3. Underwriters
4. Bankers to the Issue
5. Debenture Trustees etc.

1. Merchant Bankers

- Merchant Bankers play an important role in the issue management process. Merchant Bankers are mandated by SEBI to manage public issues (as lead managers) and open offers in take-overs.
- Apart from these, they have other diverse services and functions. These include organizing and extending finance for investment in projects, assistance in financial management, acceptance house business, raising Euro-dollar loans and issue of foreign currency bonds.
- Lead Managers (Category 1 merchant bankers) has to ensure correctness of the information furnished in the offer document.
- They have to ensure compliance with the SEBI Rules and regulations and also guidelines for Disclosure and Investor Protection. To this effect, they have are to submit to SEBI a Due Diligence Certificate confirming that disclosures made in the draft prospectus or letter of offer are true, fair and adequate to enable the prospective investors to make a well-informed investment decision.

Regulation:

Merchant Bankers are one of the major intermediaries between the issuer and the investors, hence their activities are regulated by

1. SEBI (Merchant Bankers) Regulations, 1992
2. Guidelines of SEBI and Ministry of Finance
3. Companies Act 1956.
4. Securities Contracts (Regulation) Act, 1956. and so on.

Criteria for Merchant Banker:

Regulation 3 of SEBI (Merchant Bankers) Regulations, 1992 lays down that the application by a person desiring to become merchant banker shall be made to SEBI in the prescribed form seeking a grant of a certificate of registration along with a non-refundable application fee as specified.

- The applicant shall be a body corporate other than NBFC
- The applicant has the necessary infrastructure like adequate office space, equipment's and manpower to effectively discharge his activities.
- the applicant has in his employment a minimum of two persons who have the experience to conduct the business of the merchant banker.
- The applicant shall be a net worth of not less than 5 Crore rupees.
- The applicant, his director, partners, or principal officer is not involved in any litigation connected to securities market
- the applicant, his director, partner, or principal officer has not any time been convicted for any offence involving moral turpitude or has been found guilty of any offence.
- the applicant has the professional qualification from an institution recognized by the Government of Finance, Law or Business Management.
- the applicant is fit and proper person
- grant of certificate to the applicant is in the interest of investors

2. **Registrars and transfer agents**

- R & T agents form an important link between the investor and issuer in the Securities Market.
- R & T agent is appointed by the issuer to act on its behalf to service the investors in respect of all corporate actions like sending out notices and other communications to the investors as well as dispatch of dividends and other non-cash benefits.
- R & T agents perform an equally important role in the depository system as well.

- R & T agents are registered with SEBI in the terms of SEBI (Registrars to the Issue and Share Transfer Agents) Rules and Regulations, 1993.

3. Underwriters

- Underwriting services are provided by some large specialists financial institutions such as banks, insurance or investment houses, whereby they guarantee payment in case of damage or financial loss and accept the financial risk for liability arising from such guarantee.
- Securities underwriting is the process by which investment banks raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equities and debt capital). The services are typically used during a public offering in the primary market.
- Underwriters are required to register with SEBI in terms of SEBI (Underwriters) Rules and Regulations, 1993.

4. Bankers to the Issue

Bankers to an Issue means a scheduled bank carrying on all of the following activities:

- acceptance of application and application money
- acceptance of allotment of call money
- refund of application money
- Payment of dividends or interest warrants etc.

The activities of the Banker to an issue in the Indian Capital Market are regulated by SEBI (Bankers to an issue) Regulations, 1994

5. Debenture Trustees

Debenture Trustee means a Trustee of a Trust deed for securing any issue of debentures.

- Debenture trustees call for periodical reports from the body corporate
- takes possession of trust property in accordance with the provisions of the trust deed

- enforce security in the interest of debenture holders
- do such acts as necessary in the event the security becomes enforceable
- carry out such acts as are necessary for the protection of debenture holders and to do all things necessary in order to resolve the grievances of the debenture holders.
- ascertain and specify that debenture certificates have been discharged within 30 days of registration of the charge with ROC
- ascertain and specify that debenture certificates have been discharged in accordance with the provisions of the Company Act
- ascertain and specify that interest warrants for interest due on the debentures have been dispatched to the debenture holders on or before the due date and so on.
- To inform SEBI in case of breach of Trust Deed and take measures accordingly.

The activities of Debenture Trustee in the Indian Capital Market are regulated by SEBI (Debenture Trustees) Regulations, 1993.

APPLICATION SUPPORTED BY BLOCKED AMOUNT (ASBA)

Application Supported by Blocked Amount (ASBA) is a process used to apply for Initial Public Offerings (IPOs) or Follow-on Public Offerings (FPOs) in India. Under this process, investors' application money remains in their bank accounts but is temporarily blocked or reserved until the shares are allotted. Once the shares are allotted, the blocked amount is debited from the investor's account, and the remaining amount is unblocked or released. Investors may submit their ASBA applications to these SCSB (Self Certified Syndicate Banks)

Process of ASBA :

1. **Application Form:** Investors who want to apply for shares in an IPO or rights issue fill out the application form provided by the issuer.
2. **Bank Account:** Investors submit the application form to their designated banks that offer ASBA services. The investors must have a bank account with a bank that provides ASBA services.

3. **Blocking of Funds:** Instead of paying the entire application amount upfront, ASBA allows investors to authorize their banks to block the application amount in their bank accounts. The funds are only blocked and not debited from the account at the time of application.

4. **Authorization:** The investor authorizes the bank to make the payment only if shares are allotted to them. This ensures that the funds remain in the investor's account until the allotment process is completed.

5. **Allotment and Refund:** After the allotment process is completed, only the amount for the allotted shares is debited from the investor's account, and the remaining blocked amount is released. In case of non-allotment, the blocked amount is entirely released.

Benefits of ASBA :

- **No Need for Refund Processing:** Since the funds are blocked and not debited until allotment, there is no need for a refund process in case of non-allotment. This reduces the hassle for investors and ensures a smoother process.

- **Interest Earning:** Investors continue to earn interest on the blocked amount until it is debited from the account. This provides a financial benefit to the investors.

- **Security:** ASBA ensures that investors' funds are not misused during the application process, as the funds remain in the investors' accounts until shares are allotted.

- **Simplified Process:** ASBA eliminates the need for writing multiple cheques or making multiple payments for various applications, streamlining the application process.

ASBA has become a standard method for subscribing to IPOs and rights issues in India, offering a convenient and secure way for investors to participate in primary market offerings.

LISTING OF SECURITIES

Listing of Securities

Listing means the admission of securities of a company to trading on a stock exchange. Listing is not compulsory under the Companies Act. It becomes necessary when a public limited company desires to issue shares or debentures to the public. When securities are listed in a stock exchange, the company has to comply with the requirements of the exchange.

Objectives of Listing

The major objectives of listing are

1. To provide ready marketability and liquidity of a company's securities.
2. To provide free negotiability to stocks.
3. To protect shareholders and investors interests.
4. To provide a mechanism for effective control and supervision of trading.

Listing requirements

A company which desires to list its shares in a stock exchange has to comply with the following requirements:

1. Permission for listing should have been provided for in the Memorandum of Association and Articles of Association.
2. The company should have issued for public subscription at least the minimum prescribed percentage of its share capital (49 percent).
3. The prospectus should contain necessary information with regard to the opening of subscription list, receipt of share application etc.
4. Allotment of shares should be done in a fair and reasonable manner. In case of over subscription, the basis of allotment should be decided by the company in consultation with the recognized stock exchange where the shares are proposed to be listed.
5. The company must enter into a listing agreement with the stock exchange. The listing agreement contains the terms and conditions of listing. It also contains the disclosures that have to be made by the company on a continuous basis.

Minimum Public Offer

A company which desires to list its securities in a stock exchange, should offer at least sixty percent of its issued capital for public subscription. Out of this sixty percent, a maximum of eleven percent in the aggregate may be reserved for the Central government, State government, their investment agencies and public financial institutions.

The public offer should be made through a prospectus and through newspaper advertisements. The promoters might choose to take up the remaining forty percent for themselves, or allot a part of it to their associates.

Fair allotment

Allotment of shares should be made in a fair and transparent manner. In case of over subscription, allotment should be made in an equitable manner in consultation with the stock exchange where the shares are proposed to be listed.

In case, the company proposes to list its shares in more than one exchange, the basis of allotment should be decided in consultation with the stock exchange which is located in the place in which the company's registered office is located.

Listing Procedure

The following are the steps to be followed in listing of a company's securities in a stock exchange:

1. The promoters should first decide on the stock exchange or exchanges where they want the shares to be listed.
2. They should contact the authorities to the respective stock exchange/ exchanges where they propose to list.
3. They should discuss with the stock exchange authorities the requirements and eligibility for listing.
4. The proposed Memorandum of Association, Articles of Association and Prospectus should be submitted for necessary examination to the stock exchange authorities
5. The company then finalizes the Memorandum, Articles and Prospectus
6. Securities are issued and allotted.
7. The company enters into a listing agreement by paying the prescribed fees and submitting the necessary documents and particulars.
8. Shares are then and are available for trading.

Advantages of listing:

1. It facilitates the issue of securities to raise new finance, making a company less dependent upon retained earnings and banks.
2. The wider share ownership which results will increase the likelihood of being able to make rights issues.
3. The transfer of shares becomes easier. Less of a commitment is necessary on the part of shareholders. For this reason the shares are likely to be perceived as a less risky investment and hence will have a higher value.
4. The greater marketability and hence lower risk attached to a market listing will lead to a lower cost of equity and also to a weighted average cost of capital.
5. A market-determine price means that shareholders will know the value of their investment at all times.
6. The share price can be used by management as an indicator of performance, particularly since the share price is forward looking, being based upon expectations, whilst other objectives measures are backward looking.
7. The shares of a quoted company can be used more readily as consideration in takeover bids.
8. The company may increase its standing by being quoted and it may obtain greater publicity.
9. Obtaining a quotation provides an entrepreneur with the opportunity to realize part of his holding in a company.

Disadvantages of Listing:

1. The cost of obtaining a quotation is high, particularly when a new issue of shares is made and the company is small. This is because substantial costs are fixed and hence are relatively greater for small companies. Also, the annual cost of maintaining the quotation may be high due to such things as increased disclosure, maintaining a larger share register, printing more annual reports, etc.

2. The increased disclosure requirements may be disliked by management.
3. The market-determined price and the greater accountability to shareholders that comes with its concerning the company's performance may not be liked by management.
4. Control of a particular group of shareholders may be diluted by allowing a proportion of shares to be held by the public.
5. There will be a greater likelihood of being the subject of a takeover bid and it may be difficult to defend it with wide share ownership.
6. Management conditions, management employees give themselves more salaries due to prosperity obtained.

UNIT - 3

SECONDARY MARKET

MEANING OF SECONDARY MARKET:

A secondary market refers to the availability of shares from the stock market through the brokers. Shares are purchased or sold according to the returns or expectations in the future market. In a stock market, purchases and sales of securities whether of Government or Semi-government bodies or other public bodies and also shares and debentures issued by joint stock

Stock Exchange is a major component of the capital markets in India. It is a place where shares of public listed companies are traded. It is an organised market where trading of securities like sale or purchase of securities are conducted in a systematic manner. A stock exchange facilitates stock broker's trade in company stocks and other securities. A stock may be bought or sold only if it is listed on an exchange. It is the meeting place of the stock buyers and sellers. companies are effected.

ROLE OF STOCK EXCHANGE:

The stock exchange plays an important role in the economy of the country. The stock market maintains the stock indices which are the indicators of the general trend of the economy. Listed below are some of the important roles of stock market:

1. **Raising capital for business:**

The stock market helps companies raise funds for their businesses by selling shares to the public for investment.

2. **Mobilizing savings for investment:**

They help the public mobilize savings to invest in high yielding economic sectors, which results in higher yield, both to the individual and to the national economy.

3. **Helps the company grow:**

The selling and buying of shares helps in the growth of the company by acquisition or fusion.

4. **Profit sharing:**

The stock market helps both the casual and professional investors earn a share of the company's profit.

5. **Corporate governance:**

Stock exchanges have proper rules and regulation for companies to get listed. So the listed public sector companies have better management records than the unlisted companies.

6. **Investment opportunity for small investors:**

Small investors can buy a small number of shares. Thus it creates investment opportunity for small investors.

7. **Raising funds for government capital projects:**

The stock market also helps raise funds for the development projects of the governments by issuing government bonds. An investor buying them lends money to the government. These investments are secure and also enjoy tax benefits.

Stock exchanges are the important ingredient of the capital market. The functions of stock exchanges are discussed below:

FUNCTIONS OF STOCK EXCHANGES:

1. **Economic Barometer:**

A stock exchange is a reliable barometer to measure the economic condition of a country. Every major change in country and economy is reflected in the prices of shares. The rise or fall in the share prices indicates the boom or recession cycle of the economy. Stock exchange is also known as a pulse of economy or economic mirror which reflects the economic conditions of a country.

2. **Pricing of Securities:**

The stock market helps to value the securities on the basis of demand and supply factors. The securities of profitable and growth oriented companies are valued higher as there is more demand for such securities. The valuation of securities is useful for investors, government and creditors. The investors can know the value of their investment, the creditors can value the creditworthiness and government can impose taxes on value of securities.

3. **Safety of Transactions:**

In stock market only the listed securities are traded and stock exchange authorities include the companies names in the trade list only after verifying the soundness of company. The companies which are listed they also have to operate within the strict rules and regulations. This ensures safety of dealing through stock exchange.

4. **Contributes to Economic Growth:**

In stock exchange securities of various companies are bought and sold. This process of disinvestment and reinvestment helps to invest in most productive investment proposal and this leads to capital formation and economic growth.

5. **Spreading of Equity Cult:**

Stock exchange encourages people to invest in ownership securities by regulating new issues, better trading practices and by educating public about investment.

6. **Providing Scope for Speculation:**

To ensure liquidity and demand of supply of securities the stock exchange permits healthy speculation of securities.

7. **Liquidity:**

The main function of stock market is to provide ready market for sale and purchase of securities. The presence of stock exchange market gives assurance to investors that their investment can be converted into cash whenever they want. The investors can invest in long term investment projects without any hesitation, as because of stock exchange they can convert long term investment into short term and medium term.

8. **Better Allocation of Capital:**

The shares of profit making companies are quoted at higher prices and are actively traded so such companies can easily raise fresh capital from stock market. The general public hesitates to invest in securities of loss making companies. So stock exchange facilitates allocation of investor’s fund to profitable channels.

9. **Promotes the Habits of Savings and Investment:**

The stock market offers attractive opportunities of investment in various securities. These attractive opportunities encourage people to save more and invest in securities of corporate sector rather than investing in unproductive assets such as gold, silver, etc.

DIFFERENCE BETWEEN PRIMARY MARKET AND SECONDARY MARKET

S.No	Primary Market	Secondary Market
1.	It is a way of issuing fresh shares in the market. It is also called New Issue Market. A major component of the primary market is the IPO.	It is a place where already issued or existing shares are traded. It is called After Issue Market.
2.	The amount received from the issue of shares goes to the company for their business expansion purposes.	The amount invested by the buyer of shares goes to the seller, and hence the company doesn't receive anything.
3.	Securities are issued by the companies to the investors.	Securities are exchanged between buyers and sellers, and stock exchanges facilitates
4.	The securities are all issued at one price for all investors participating in the offering.	Securities are exchanged at the market
5.	The primary market doesn't provide liquidity for the stock.	The secondary market provides liquidity to the stock.
6.	Underwriters act as intermediaries.	Brokers act as intermediaries.
7.	On the primary market, security can be sold just once.	On the secondary market, securities can be sold innumerable times.

ON LINE TRADING:

- The information technology has brought out revolutionary changes in the operations of stock exchanges in India.
- The traditional method of trading without the use of technology was time- consuming and inefficient. Further, it imposed limits on trading volumes and efficiency. To overcome those defects and to provide efficient and transparent services, the NSE has introduced a nationwide online fully automated Screen Based System(SBTS).
- The advent of online trading has reduced costs for both investors and discount brokers. To encourage people to do their investing themselves, brokers have lower commissions for trades placed online than for trades placed over the phone with a representative.
- It is not uncommon to pay somewhere between $4.95 to $9.99 for an online trade; same trade which would cost about $29.99 if made over the phone.
- The lower fees have also made the capital markets accessible to a wider range of people who may not have been able to afford the higher commission fees of a personal advisor or over-the-phone trade. As brokers transition into automated trading, they save costs on their ends from hiring fewer human representatives.
- Another benefit of online trading is the improvement in the speed of which transactions can be executed and settled, because there is no need for paper-based documents to be copied, filed and entered into an electronic format.
- When an investor enters an order online, the order is placed in a database which checks for the best price by searching all the market exchanges that trade the stock in the investor's preferred currency.
- The exchange with the best price matches the buyer with a seller and sends the confirmation to both the buyer's broker and the seller's broker. All this is done within seconds of placing a trade, compared to making a phone call which has to go through several confirmation steps before the rep can enter the order.

TRADING PROCEDURES:

Before selling the securities through stock exchange, the companies have to get their securities listed in the stock exchange. The name of the company is included in listed securities only when stock exchange authorities are satisfied with the financial soundness and other aspects of the company.Previously the buying and selling of securities was done in trading floor of stock exchange; today it is executed through computer and it involves the following steps:

Trading Procedure on a Stock Exchange:

The Trading procedure involves the following steps:

1. **Selection of a broker:**

The buying and selling of securities can only be done through SEBI registered brokers who are members of the Stock Exchange. The broker can be an individual, partnership firms or corporate bodies. So the first step is to select a broker who will buy/sell securities on behalf of the investor or speculator.

2. **Opening Demat Account with Depository:**

Demat (Dematerialized) account refer to an account which an Indian citizen must open with the depository participant (banks or stock brokers) to trade in listed securities in electronic form. Second step in trading procedure is to open a Demat account.

The securities are held in the electronic form by a depository. Depository is an institution or an organization which holds securities (e.g. Shares, Debentures, Bonds, Mutual (Funds, etc.) At present in India there are two depositories: NSDL (National Securities Depository Ltd.) and CDSL (Central Depository Services Ltd.) There is no direct contact between depository and investor. Depository interacts with investors through depository participants only.

Depository participant will maintain securities account balances of investor and intimate investor about the status of their holdings from time to time.

3. **Placing the Order:**

After opening the Demat Account, the investor can place the order. The order can be placed to the broker either (DP) personally or through phone, email, etc.

Investor must place the order very clearly specifying the range of price at which securities can be bought or sold. e.g. "Buy 100 equity shares of Reliance for not more than Rs 500 per share."

4. Executing the Order:

As per the Instructions of the investor, the broker executes the order i.e. he buys or sells the securities. Broker prepares a contract note for the order executed. The contract note contains the name and the price of securities, name of parties and brokerage (commission) charged by him. Contract note is signed by the broker.

5. Settlement:

This means actual transfer of securities. This is the last stage in the trading of securities done by the broker on behalf of their clients. There can be two types of settlement.

(a) On the spot settlement:

It means settlement is done immediately and on spot settlement follows. T + 2 rolling settlement. This means any trade taking place on Monday gets settled by Wednesday.

(b) Forward settlement:

It means settlement will take place on some future date. It can be T + 5 or T + 7, etc. All trading in stock exchanges takes place between 9.55 am and 3.30 pm. Monday to Friday

Clearing is the process of updating the accounts of the trading parties and arranging for the transfer of money and securities. There are 2 types of clearing: bilateral clearing and central clearing. In **bilateral clearing**, the parties to the transaction undergo the steps legally necessary to settle the transaction.

Central clearing uses a third-party — usually a clearinghouse — to clear trades. Clearinghouses are generally used by the members who own a stake in the clearinghouse. Members are generally broker-dealers. Only members may directly use the services of the clearinghouse; retail customers and other brokerages gain access by having accounts with member firms.

The member firms have financial responsibility to the clearinghouse for the transactions that are cleared. It is the responsibility of the member firms to ensure that the securities are available for transfer and that sufficient margin is posted or payments are made by the customers of the firms; otherwise, the member firms will have to make up for any shortfalls. If a member firm becomes financially insolvent, only then will the clearinghouse make up for any shortcomings in the transaction.

For transferable securities, the clearinghouse aggregates the trades from each of its members and nets out the transactions for the trading day. At the end of the trading day, only net payments and securities are exchanged between the members of the clearinghouse.

For options and futures and other types of cleared derivatives, the clearinghouse acts as a counterparty to both the buyer and the seller, so that transactions can be guaranteed, thereby virtually eliminating counterparty risk. Additionally, the clearinghouse records all transactions by its members, providing useful statistics, as well as allowing regulatory oversight of the transactions.

Settlement is the actual exchange of money and securities between the parties of a trade on the **settlement date** after agreeing earlier on the trade. Most settlement of securities trading nowadays is done electronically. Stock trades are settled in 3 business days (**T+3**), while government bonds and options are settled the next business day (**T+1**). Forex transactions where the currencies are from North American countries have T+1 settlement date, while trades involving currencies outside of North America have a T+2 settlement date. In futures, settlement refers to the mark-to-market of accounts using the final closing price for the day. A futures settlement may result in a margin call if there are insufficient funds to cover the new closing price.

ROLLING SETTLEMENT

A rolling settlement is the process of settling security trades on successive dates based upon the specific date when the original trade was made so that trades executed today will have a settlement date one business day later than trades executed yesterday. This contrasts with account settlement, in which all trades are settled once in a set period of days, regardless of when the trade took place. Trade settlement refers to when the security is delivered after the trade is executed.

Securities that are sold on the secondary market typically settle three business days after the initial trade date. Within a portfolio, if some stocks are sold on Wednesday, they will settle the following Monday if there were no market holidays. Stocks in that same portfolio that are sold on Thursday will settle on the following Tuesday if there were no market holidays. Finally, if some of the stocks are sold on Friday, they will settle the following Wednesday if there were no market holidays. When securities are sold and settled on successive business days, they are said to be experiencing a rolling settlement.

MERITS OF ON LINE TRADING: (INTERNET BASED TRADING)

1. **Faster trading:**

Technology driven trading is faster than manual trading. Once the order is matched, it is executed immediately.

2. **Accessible to all:**

It provides full anonymity by accepting orders from members irrespective of the size of the orders – whether big or small without disclosing their identity. Thus, it provides equal access to all.

3. **Faster incorporation of price-sensitive information**

The SBTS allows faster incorporation of price-sensitive information into the prevailing prices and thus, it increases the information efficiency of the markets.

4. **Widening the Market:**

It also widens the market by enabling the market participants to trade with one another simultaneously irrespective of their geographical location. Thus, it improves the depth and liquidity of the market.

5. **Saving of time and cost:**

The SBTS electronically matches orders on a strict price condition as well as on time priority basis. Hence, it cuts down cost as well as time in executing orders.

6. **Fully transparent**:

Online trading is fully automated and screen-based. Everything is transparent on the screen and hence, there is no possibility to play any hide and seek game.

7. **No erroers and frauds:**

The price conditions , quantity conditions, etc., are purchased into the computers by the members themselves. So, the risk of error is very less. Moreover, the trading is fully automated and screen-based and hence, frauds cannot enter into the system.

8. **Perfect audit trail:**

It also provides perfect audit trail which helps to resolve disputes by logging in the execution on entirely. Thus, online trading ensures efficiency, liquidity and transparency in the trading on stock exchanges.

TYPES OF BROKERS:

In the stock market, brokers play a crucial role as intermediaries between buyers and sellers of securities. There are different types of brokers, each offering varying levels of services and catering to different types of investors. Here are some common types of brokers in the stock market:

1. **Full-Service Brokers:**

Full-service brokers offer a wide range of services beyond just executing trades. They provide investment advice, research reports, financial planning, and a variety of investment products.Investment advice, portfolio management, retirement planning, research reports, and a full suite of financial services. They typically charge higher commissions or fees compared to discount brokers.

2. **Discount Brokers:**

Discount brokers offer a no-frills approach, primarily focused on executing trades at a lower cost. They may provide basic tools and resources for investors to make their own investment decisions. They offer basic trading services, online platforms, limited research and analysis tools. They charge lower commissions or fees compared to full-service brokers.

3. **Online Brokers:**

Similar to discount brokers, online brokers operate primarily through online platforms. They provide a user-friendly interface for investors to trade and manage their portfolios. They serve through online trading platforms, research tools, and educational resources.Their charges vary but are generally lower than full-service brokers.

4. **Traditional Brokers:**

Traditional brokers operate through physical offices, and clients can visit them in person. They offer a combination of in-person and online services.They areIn-person consultations, research reports, financial planning services.Their Commissions and fees may vary, often higher than online or discount brokers.

5. **Deep-Discount Brokers:**

Deep-discount brokers offer extremely low-cost trading services. They often provide minimal research tools and may not offer as many additional services as discount brokers. They do Basic trading services with minimal frills. Their Cost is Extremely low commissions or fees.

6. **Direct Market Access (DMA) Brokers:**

DMA brokers provide traders with direct access to financial markets, allowing them to execute trades directly on exchanges. This is more common in institutional trading.

They serve asDirect access to markets, algorithmic trading tools, and advanced trading platforms. Their costs can vary, often based on trading volumes.

7. **Prime Brokers:**

Prime brokers cater to institutional clients, including hedge funds and large financial institutions. They offer a range of services, including trade execution, clearing, and custody.Their sevices includeSecurities lending, financing, risk management, and other specialized services for institutional clients.Fees are negotiated based on the specific services provided.

UNIT – IV

REGULATORY FRAMEWORK OF STOCK MARKETS

INTRODUCTION

Securities Exchange Board of India (SEBI) was set up in 1988 to regulate the functions of securities market. SEBI promotes orderly and healthy development in the stock market but initially SEBI was not able to exercise complete control over the stock market transactions.

It was left as a watch dog to observe the activities but was found ineffective in regulating and controlling them. As a result in May 1992, SEBI was granted legal status. SEBI is a body corporate having a separate legal existence and perpetual succession.

Reasons for Establishment of SEBI:

With the growth in the dealings of stock markets, lot of malpractices also started in stock markets such as price rigging, â€˜unofficial premium on new issue, and delay in delivery of shares, violation of rules and regulations of stock exchange and listing requirements. Due to these malpractices the customers started losing confidence and faith in the stock exchange. So government of India decided to set up an agency or regulatory body known as Securities Exchange Board of India (SEBI).

Purpose and Role of SEBI:

SEBI was set up with the main purpose of keeping a check on malpractices and protect the interest of investors. It was set up to meet the needs of three groups.

1. **Issuers:**

For issuers it provides a market place in which they can raise finance fairly and easily.

2. **Investors:**

For investors it provides protection and supply of accurate and correct information.

3. **Intermediaries:**

For intermediaries it provides a competitive professional market.

Objectives of SEBI:

The overall objectives of SEBI are to protect the interest of investors and to promote the development of stock exchange and to regulate the activities of stock market. The objectives of SEBI are:

1. To regulate the activities of stock exchange.
2. To protect the rights of investors and ensuring safety to their investment.
3. To prevent fraudulent and malpractices by having balance between self regulation of business and its statutory regulations.
4. To regulate and develop a code of conduct for intermediaries such as brokers, underwriters, etc.

Functions of SEBI:

The SEBI performs functions to meet its objectives. To meet three objectives SEBI has three important functions. These are:

(i) Protective functions

(ii) Developmental functions

(iii) Regulatory functions.

1. **Protective Functions:**

These functions are performed by SEBI to protect the interest of investor and provide safety of investment.

As protective functions SEBI performs following functions:

(i) It Checks Price Rigging:

Price rigging refers to manipulating the prices of securities with the main objective of inflating or depressing the market price of securities. SEBI prohibits such practice because this can defraud and cheat the investors.

(ii) It Prohibits Insider trading:

Insider is any person connected with the company such as directors, promoters etc. These insiders have sensitive information which affects the prices of the securities. This information is not available to people at large but the insiders get this privileged information by working inside the company and if they use this information to make profit, then it is known as insider trading, e.g., the directors of a company may know that company will issue Bonus shares to its shareholders at the end of year and they purchase shares from market to make profit with bonus issue. This is known as insider trading. SEBI keeps a strict check when insiders are buying securities of the company and takes strict action on insider trading.

(iii) SEBI prohibits fraudulent and Unfair Trade Practices:

SEBI does not allow the companies to make misleading statements which are likely to induce the sale or purchase of securities by any other person.

(iv) SEBI undertakes steps to educate investors so that they are able to evaluate the securities of various companies and select the most profitable securities.

(v) SEBI promotes fair practices and code of conduct in security market by taking following steps:

- SEBI has issued guidelines to protect the interest of debenture-holders wherein companies cannot change terms in midterm.
- SEBI is empowered to investigate cases of insider trading and has provisions for stiff fine and imprisonment.
- SEBI has stopped the practice of making preferential allotment of shares unrelated to market prices.

Developmental Functions:

These functions are performed by the SEBI to promote and develop activities in stock exchange and increase the business in stock exchange. Under developmental categories following functions are performed by SEBI:

(1) SEBI promotes training of intermediaries of the securities market.

(2) SEBI tries to promote activities of stock exchange by adopting flexible and adoptable approach in following way:

- SEBI has permitted internet trading through registered stock brokers.
- SEBI has made underwriting optional to reduce the cost of issue.
- Even initial public offer of primary market is permitted through stock exchange.

Regulatory Functions:

These functions are performed by SEBI to regulate the business in stock exchange. To regulate the activities of stock exchange following functions are performed:

(i) SEBI has framed rules and regulations and a code of conduct to regulate the intermediaries such as merchant bankers, brokers, underwriters, etc.

(ii) These intermediaries have been brought under the regulatory purview and private placement has been made more restrictive.

(iii) SEBI registers and regulates the working of stock brokers, sub-brokers, share transfer agents, trustees, merchant bankers and all those who are associated with stock exchange in any manner.

(iv) SEBI registers and regulates the working of mutual funds etc.

(v) SEBI regulates takeover of the companies.

(vi) SEBI conducts inquiries and audit of stock exchanges.

SEBI play an Important Role in our Economy

1. Restricts Illegal Practices

It forbids illegal and fraudulent practices of the firm which operate in the securities market.

2. Safeguard Investor's Interest

It protects an investor's interest in the Capital Market through guidance and proper education.

3. Regulate working of Exchanges

It regulates and keeps a check on the working of Stock Exchanges and other aspects of the Securities Market.

4. Monitor the workings of Mutual Funds

It monitors and regulates the working of Mutual Funds. It keeps a tight supervision on their business operations and protects investors from any unfair practices.

5. Monitor the functioning of Intermediaries

Keeps a tight check on the functioning of the intermediaries like Merchant Bankers, Stock Brokers and other intermediaries present in the Capital Market.

6. Regulate Takeovers and Acquisitions

They issue guidelines to regulate Takeovers, Mergers, and Acquisitions of firms to protect investor's interest.

7. Prohibition of Insider Activity

It prohibits insider activity and also restricts the undesirable practice of brokers and other agents in the Capital Market.

8. Conducting Audit

It conducts an audit, inspection and other suitable measures to keep a check on the workings of Stock Exchanges and other Intermediaries.

SEBI has played a really important role in regulating the capital markets and in the development of our overall economy. SEBI has till date played a significant role in maintaining efficiency and transparency in the economy and has also introduced various products fulfilling the need of market participants.

The Organisational Structure of SEBI:

1. SEBI is working as a corporate sector.
2. Its activities are divided into five departments. Each department is headed by an executive director.
3. The head office of SEBI is in Mumbai and it has branch office in Kolkata, Chennai and Delhi.

4. SEBI has formed two advisory committees to deal with primary and secondary markets.
5. These committees consist of market players, investors associations and eminent persons.

Objectives of the two Committees are:

1. To advise SEBI to regulate intermediaries.
2. To advise SEBI on issue of securities in primary market.
3. To advise SEBI on disclosure requirements of companies.
4. To advise for changes in legal framework and to make stock exchange more transparent.
5. To advise on matters related to regulation and development of secondary stock exchange.

These committees can only advise SEBI but they cannot force SEBI to take action on their advice.

Investor protection measures of SEBI:

Investor protection is one of the most important elements of a thriving securities market or other financial investment institution. Investor protection focuses on making sure that investors are fully informed about their purchases, transactions, affairs of the company that they have invested in and the like. SEBI had issued guidelines for the protection of the investors through the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000.

Investors are the pillar of the financial and securities market. They determine the level of activity in the market. They put the money in funds, stocks, etc. to help grow the market and thus, the economy. It thus very important to protect the interests of the investors.

Investor protection involves various measures established to protect the interests of investors from malpractices. Securities and Exchange Board of India (SEBI) is responsible for regulations of the Mutual Funds and safeguard the interests of the investors. Investor protection measures by SEBI are in place to safeguard the investors from the malpractices in shares, the stock market, Mutual Fund, etc.

The Role of SEBI in Investor Protection SEBI has given out various methods and measures to ensure the investor protection from time to time. It has published various directives, driven many investor awareness programmes, set up investor protection Fund (IPF) to compensate the investors.

Investor Protection Measures by SEBI

Investor protection legislation is implemented under the Section 11(2) of the SEBI Act. The measures are as follows:

- Stock Exchange and other securities market business regulation. Registering and regulating the intermediaries of the business like brokers, transfer agents, bankers, trustees, registrars, portfolio managers, investment consultants, merchant bankers, etc.
- Recording and monitoring the work of custodians, depositors, participants, foreign investors, credit rating agencies, etc.
- Registering investment schemes like Mutual fund & venture capital funds, and regulating their functioning.
- Promotion and controlling of self-regulatory companies. Keeping a check on frauds and unfair trading methods related to the securities market.
- Observing and regulating major transactions and take-over of the companies. Carry out investor awareness and education programme.
- Train the intermediaries of the business. Inspecting and auditing the security exchanges (SEs) and intermediaries. Assessment of fees and other charges

SECURITIES CONTRACT REGULATION ACT 1956:

The Securities Contracts (Regulation) Act, 1956 "Act" was enacted in order to prevent undesirable transactions in securities and to regulate the working of stock exchanges in the country. The provision of the Act came into force with effect from 20th February, 1957 vide Notification No. SRO 528 dated 16th February, 1957.

Objective of the Act:

● To provide for the regulation of stock exchanges and their transactions of securities dealt in on them.

●It also indulges in regulating the securities outside the stock market.

● To avoid undesirable transactions in securities by regulation of the business of dealing

Sec. 3 Recognised stock exchanges

Those exchanges recognised by the central government

Sec. 4 Application for RSE

●To the Central govt.

●Along with necessary documents relating to by-laws of the stockexchange and governance of the exchange

 ○the governing body of such stock exchange, its constitution, andpowers

 ○powers and duties of the office-bearers

●After inspection and the govt. Being satisfied with the above the govt.Has the power to grant recognition to any stock exchange

●Publication in the official gazette.

Sec 4A

Corporatization

●The mandate for every stock exchange to be converted into a bodycorporate/ Company limited by shares.

Demutualization

●The transition of the Stock exchange from a Mutually owned associationto a company owned by Shareholders. Separation or segregation of management of a stock exchange from theowners and other entities.

●In simpler terms, it is a process by which a mutually owned stockexchange isconverted into a company owned by the shareholders by transformingits legalstructure into a business entity.

●Thus from a group of people managing the stock exchange, it istransformed into a company having a separate legal entity from itsshareholders.

Sec 4B

Procedure for Recognition

●Companies have to submit a scheme to SEBI

●After such inquiry, if SEBI deemed fit, it will in public interest approvethe scheme, with or without modification

●The scheme shall be published in two daily newspapers and the officialgazette

●After which it will have a binding eﬀect on all persons and authorities

●SEBI has certain powers (restricting voting rights of SH, right torepresentation of Stock brokers on the governing body, not exceeding by1/4th of total strength,)

●After approval, either by the fresh issue of equity shares or mannerprescribed in the scheme, raise money

●Atleast 51% should be held by equity shares within 12 months ofapproval

●SEBI may also reject such a scheme, given in writing and reasonableopportunity to be heard

●Publication of such rejection in the official gazette

Constitution of the Governing body- to pass resolutions for the SE (like BOD)

●General election- 16 members

●Govt. representatives- 3

●Public representative- 3

●RBI nominee- 1

Powers under the act:

1. Stock Exchanges:

To make bye-laws for the governance, such as

●Restrictions on voting rights

●hours of trade, opening and closing of the market

●Maintaining and regulating the clearing houses

●Fixing of days for settlement

●Terms and conditions of contracts

●The method and procedure for the settlement of claims or

disputes, including settlement by arbitration

●Imposing fines, etc

2. Central Government:

●To delegate their power to SEBI

●To grant and withdraw recognition to SEs

●Power to supersede governing body

●Call for periodical returns

●Ask for annual financial returns

Make rules and regulations and mandatory compliance

●Suspend business of any SE

●Appeal against the orders of such SEs (where they have refusedlisting of any stocks: can be set aside by an appeal to the CG)

3. Securities Appellate Tribunal:

●Powers of a civil court (requiring the attendance of a party,summon witnesses, production documents)

●Give ex-parte decison

●Review its own decision

●Refuse or grant listing of securities in appeal and vary from thedecision of SEs

Listing Agreements and Listing of Securities

●For listing, a stock on a SE they must first comply with all regulationsand conditions of the Stock Exchange

●The Stock exchange in pursuance of its powers and bye-laws can refuse listing,provided reasons in writing

●Can appeal within 15 days to the CG or the SAT and further to the SCwithin 60 days of such order by SAT

Penalties under the Act:

1. Failure to comply with section 4

2. Failure to produce periodical returns

3. Stock exchanges other than recognised ones

4. Any contract entered into which is prohibited by CG to preventundesirable speculation

5. Provides for an additional trading floor without prior govt. Permission.

6. Misrepresentation as a recognised SE enters into a contract

7. Uses a place other than RSE to enter into contracts or perform anycontract imprisonment for 10 years, fine up to 25 crores.

8. Failure to furnish information returns maintain books of accounts, etc.Fine upto 1 lacs, or 1 lacs per day max. 1 crore.

9. to enter into an agreement with his client fails to enter into such anagreement, he shall be liable to a penalty

10.for failure to redress investors' grievances by any stockbroker orsub-broker or a company.

Sec. 11 Power of Central Govt. to supersede the governing body of an RSE

●The govt, at any point, as it deemed fit can supersede a governing bodyof RSE

●After giving notice in written and reasonable opportunity to be heard

●Declare in official gazette as governing body of RSE as superseded

●Can appoint a person or persons to take over the functions of the body

●When more than one person is appointed, CG can appoint a chairmanand a vice president

●Effect of supersession: 1. The governing body will vacate the offce

2. Appointed persons will constitute the body

3. All the property of the Stick exchange will vest in the body soappointed

●Govt. at any point in time ask the RSE to reconstitute the body

●Till the time it is reconstituted appointed persons will hold o�ce

●After reconstitution, the property will revest in the body reconstituted

The Securities and Exchange Board of India (SEBI) Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015:

The Securities and Exchange Board of India (SEBI) Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015, are aimed at ensuring transparency, accountability, and protection of the interests of investors in the securities market. These regulations apply to companies listed on stock exchanges in India. Here is a summary of key provisions:

1. **Corporate Governance:**
    - Mandates the adoption of good corporate governance practices.
    - Requires the composition of boards and committees, including the audit committee, nomination and remuneration committee, etc.
    - Specifies the role and responsibilities of independent directors.
2. **Disclosure and Reporting:**
    - Companies must promptly disclose all material information to stock exchanges to ensure transparency.
    - Requires the submission of quarterly and annual financial results and statements.
    - Prescribes disclosure norms for events like mergers, acquisitions, and defaults on payments.

3. **Shareholding Patterns:**
    - Companies must disclose their shareholding patterns, including details of promoters, public shareholders, and institutional investors.
    - Any change in shareholding exceeding a certain threshold must be reported.
4. **Code of Conduct:**
    - Mandates the formulation and adherence to a code of conduct for board members and senior management personnel.
5. **Related Party Transactions:**
    - Requires the approval of shareholders for material related party transactions.
    - Mandates disclosure of details of related party transactions on a quarterly basis.
6. **Listing Fees:**
    - Companies are required to pay listing fees to the stock exchanges as prescribed.
7. **Corporate Social Responsibility (CSR):**
    - Applicable to certain categories of companies, requiring them to spend a percentage of their profits on CSR activities.
8. **Stakeholder Grievance Redressal:**
    - Mandates the establishment of a mechanism for redressal of investor grievances.
    - Requires companies to appoint a Compliance Officer for ensuring compliance with LODR.
9. **Whistleblower Mechanism:**
    - Encourages companies to establish a mechanism for employees and directors to report concerns about unethical behavior.
10. **Listing Agreement:**
    - The LODR regulations consolidated and replaced the existing listing agreements with a unified set of regulations applicable to all listed entities.
11. **Training of Board Members:**
    - Requires training programs for board members to enhance their understanding of the company, the industry, and their roles.

12. **Annual Secretarial Compliance Report:**
    - Companies are required to obtain an annual secretarial compliance report from a practicing company secretary.

13. **Risk Management:**
    - Mandates the establishment of a risk management committee to frame, implement, and monitor the risk management plan.

14. **Quarterly Compliance Report:**
    - Companies are required to submit a quarterly compliance report on the fulfillment of conditions of corporate governance.

The Securities Contracts (Regulation) Act, 1956 (SCRA):

The Securities Contracts (Regulation) Act, 1956 (SCRA) is an important piece of legislation in India that regulates the securities market in the country. The primary objective of the SCRA is to prevent undesirable transactions in securities by regulating the business of dealing therein and by providing for certain other matters connected with securities. Here are some key features and aspects of the Securities Contracts (Regulation) Act:

1. **Regulation of Securities Markets:**The SCRA empowers the government to recognize and regulate stock exchanges in India. It outlines the criteria for recognition and the powers and duties of recognized stock exchanges.
2. **Licensing of Brokers and Sub-Brokers:**The act requires individuals or entities engaged in the business of dealing in securities to obtain a license from the Securities and Exchange Board of India (SEBI), the regulatory authority for the securities market.
3. **Prohibition of Unrecognized Securities:**The SCRA prohibits the buying or selling of securities in any recognized stock exchange that is not registered or recognized by the government.
4. **Regulation of Contracts in Securities:**The act lays down rules for the conduct of contracts in securities and provides legal recognition to contracts made on recognized stock exchanges.

5. **Penalties for Fraudulent and Unfair Trade Practices:** The SCRA prescribes penalties for fraudulent and unfair trade practices related to securities. It aims to ensure fair dealings and protect the interests of investors in the securities market.

6. **Prohibition of Insider Trading:** The act prohibits insider trading, i.e., trading in securities by individuals with access to non-public information about the company. This is to prevent unfair advantages and protect the integrity of the securities market.

7. **Regulation of Stock Exchanges and Clearing Corporations:** SCRA empowers SEBI to regulate stock exchanges and clearing corporations. It grants SEBI the authority to oversee their functioning and take necessary actions to ensure the integrity and stability of the securities market.

8. **Securities Appellate Tribunal (SAT):** The act establishes the Securities Appellate Tribunal (SAT) to hear appeals against the decisions of SEBI. SAT provides an avenue for individuals and entities to challenge regulatory decisions in a quasi-judicial forum.

UNIT -V

DEMAT ACCOUNT AND BASICS

Dematerialisation of Securities:

Dematerialized securities are securities that are not on paper and a certificate to that effect does not exist. They exist in the form of entries in the book of depositories. Essentially, unlike the traditional method of possessing a share certificate to the effect of ownership of shares, in the demat system, the shares are held in a dematerialized form. This system works through a depository who is registered with the Securities and Exchange Board of India (SEBI) to perform the functions of a depository as regulated by SEBI.

Under Section 68 B of the Companies Act, inserted by the Companies (Amendment) Act, 2000, it is mandated that every initial public offer made by a listed company in the excess of Rs 10 Crores has to be issued in dematerialized form by complying with the requisite provisions of the Depositories Act, 1996.

Process of conversion of securities into the demat form:

1. Securities specified as being eligible for dematerialization by the depository in its bye laws and as under the SEBI (Depositories and Participants) Regulations, 1996 (the Regulations) can be converted or issued in a dematerialized form. The process of conversion of securities into a dematerialized form or the issuance of the same in a dematerialized form can be explained thus:
   Firstly, the issuer company, whose securities are eligible for dematerialization, has to enter into an agreement with a depository for dematerialization of securities already issued, or proposed to be issued to the public or existing shareholders.
2. The investor is given an option to hold the securities in a dematerialized form and it is his prerogative to exercise the option to hold the securities in that manner.
3. The depository enters into an agreement with the participants who are the agents of the depository and co-functionaries in the process of dematerialization of securities.
4. Any person can then enter into an agreement, through the participant, with the depository for availing the services provided by the depository.

5. Upon the entering into such agreement with the depository, the person has to surrender the certificate pertaining to the securities sought to be dematerialized to the issuer. This surrender is effected in the following manner:
   (i) The person (beneficial owner) who has entered into an agreement with the participant for dematerialization of the securities has to inform the participant about the details of the certificate of such securities.
   (ii) The beneficial owner has to then surrender the said certificate to the participant.
   (iii) The participant informs the depository about the particulars of the securities to be dematerialized and the agreement entered into between him and the beneficial owner.
   (iv) The participant then transfers the certificate pertaining to the said securities to the issuer along with the details and particulars of the securities.
   (v) These certificates are mutilated upon receipt by the issuer and substituted in the records against the name of the depository, who is the registered owner of the said securities. A certificate to this effect is sent to the depository and all stock exchanges where the security is listed.
   (vi) Subsequent to this, the depository enters the name of the person who has surrendered the certificate of security as the beneficial owner of the dematerialized securities.
   (vii) The depository also enters the name of the participant through whom the process has been carried out and sends an intimation of the same to the said participant.
6. Once the aforesaid process of dematerialization is carried out, the depository has the responsibility to maintain all the records pertaining to the securities that have been dematerialized.

Advantages of Dematerialization

The advantages of dematerialization of securities can be summarized as follows:

A. Share certificates, on dematerialization, are cancelled and the same will not be sent back to the investor. The shares, represented by dematerialized share certificates are fungible and, therefore, certificate numbers and distinctive numbers are cancelled and become non-operative. The depository system and dematerialized securities offer paperless trading and transfer of shares through the use of technology.

B. It enables processing of share trading and transfers electronically without involving share certificates and transfer deeds, thus eliminating the paper work involved in scrip-based trading and share transfer system.

C. Transfer of dematerialized securities is immediate and unlike in the case of physical transfer where the change of ownership has to be informed to the company in order to be registered as such, in case of transfer in dematerialized form, beneficial ownership will be transferred as soon as the shares are transferred from one account to another.

D. The investor is also relieved of problems like bad delivery, fake certificates, shares under litigation, signature difference of transferor and the like.

E. There is no need to fill a transfer form for transfer of shares and affix share transfer stamps.

F. There is saving in time and cost on account of elimination of posting of certificates.

G. The threat of loss of certificates or fraudulent interception of certificates in transit that causes anxiety to the investors, are eliminated.

Disadvantages of Dematerialization

The disadvantages of dematerialization of securities can be summarized as follows:

A. Trading in securities may become uncontrolled in case of dematerialized securities.

B. It is incumbent upon the capital market regulator to keep a close watch on the trading in dematerialized securities and see to it that trading does not act as a detriment to investors. The role of key market players in case of dematerialized securities, such as stock-brokers, needs to be supervised as they have the capability of manipulating the market.

C. Multiple regulatory frameworks have to be confirmed to, including the Depositories Act, Regulations and the various Bye Laws of various depositories.

Depository system:

Meaning:

A depository is an organisation which holds securities (like shares, debentures, bonds, government securities, mutual fund units etc.) of investors in electronic form at the request of the investors through a registered Depository Participant. It also provides services related to transactions in securities. At present two Depositories viz.

1. National Securities Depository Limited (NSDL)
2. Central Depository Services (India) Limited (CDSL) are registered with SEBI. The minimum networth stipulated by SEBI for a depository is Rs 100 crore.

Features of depository system:

- ❖ Reduce the time for transfer of securities.
- ❖ Avoid the risk of settlement of securities.
- ❖ Enhance liquidity and efficiency.
- ❖ Reduce cost of transaction for the investor.
- ❖ Create a system for the central handling of all securities.
- ❖ Promote the country 's competitiveness by complying with global standards
- ❖ Provide service infrastructure in a capital market.

Activities of a Depository:

The main activities of a depository are as follows:

- ❖ Accepting deposit of securities for custody.
- ❖ Making computerised book entry deliveries of securities which are immobilised in its custody.
- ❖ Creating computerised book entry deliveries of securities which are immobilised in its custody.
- ❖ Creating computerised book entry pledges of securities in its custody.

- Providing for withdrawal of securities.
- Undertaking corporate actions like distribution of dividend and interest.
- Redemption of securities on maturity.

Depository process:

- Immobilisation of shares is the first step in the depository process. In the immobilisation process, the share certificates are submitted to the depository which converts the physical certificates in to electronic data and starts issuing statement of accounts for the holdings of the investors or share holders.
- The stock exchange will notify through an advertisement after which the investors may deposit their shares into the Central Depository through an Authorised Depository Agent with the investor's account will be maintained.
- On receipt of the share certificate the depository or the depository's agent sends the certificate to the Registrar and Transfer Agent for registering Depository Nominee's name.
- Within the prescribed period, the registrar will transfer the scrips, after confirming that the shares are good for deposition, in the name of the Depository Nominee and return it for safe custody with the Depository.
- The depository will credit the account of the investor with the number of shares deposited Thereafter the shares get traded through a book entry system.

Benefits of the Depository system:

Benefits to the investors:

1. This system will eliminate paper work as the book entry system does not need physical movement of certificates for transfer process.
2. The risk of bad deliveries, fraud and misplaced, mutilated and lost share certificates will not exist.
3. The electronic media will shorten settlement time and hence the investor can save time and increase the velocity of security movement.
4. Investors will be able to change portfolio more frequently.
5. The distribution of dividends, interest and other benefits will be speedier as the ownership can be easily identifiable.

6. The cost of transfer is less as the share transfers are exempt from stamp duty.
7. Faster payment is in the ensured case of sale of shares.

Benefits to the companies:

1. The companies will be able to know the particulars of beneficial owners and their holdings periodically.
2. At time of declaration of dividends , bonus etc., there will not be any rush for transfer related activities for the companies
3. Investor complaints will be reduced substantially .as majority of the present-day-complaints relate to signature difference , time lapse during the transfer and mutilated certificates.

Benefits to the capital market:

1. The capital market will be more transparent as the trading,clearing and settlement mechanism have to be highly automated and interlinked with the depository among themselves.
2. The market will be highly automated and efficient due to the usage of cmputing and telecommunication technology for the back office activities for all the capital market players.
3. The investors confidence will improve due to the above two aspects.
4. The foreign investors will start participating in the market resulting in a more buoyant capital market.
5. The existence of the depository will result an increase in the volume of trade both by number and value.

National securities depository Ltd (NSDL)

NSDL is the first depository in India established in the year 1996. It has been promoted by the industrial development bank of india, unit trust of India and national stock exchange.

NSDL performs a wide range of securities related functions through the DPs:

- Maintenance of individual investors beneficial holdings In an electronic form.
- Dematerialisation and rematerialisation of securities.

- ❖ Account transfer for settlement of trade in electronic shares.
- ❖ Allotments in the electronic form in case of initial public offerings.
- ❖ Distribution of non cash corporate actions.
- ❖ Facility for freezing / locking of investor accounts.
- ❖ Facility for pledge and hypothecation of securities.

Stock Exchanges In India:

Bombay Stock Exchange (BSE)

The Bombay Stock Exchange (BSE) is the first and largest securities market in India and was established in 1875 as the Native Share and Stock Brokers' Association. Based in Mumbai, India, the BSE lists close to 6,000 companies and is one of the largest exchanges in the world, along with the New York Stock Exchange (NYSE), NASDAQ, London Stock Exchange Group, Japan Exchange Group, and Shanghai Stock Exchange.

The BSE has helped develop the country's capital markets, including the retail debt market, and helped grow the Indian corporate sector.

In 1995, the BSE switched from an open-floor to an electronic trading system. There are more than a dozen electronic exchanges in the U.S. alone with the New York Stock Exchange (NYSE) and Nasdaq being the most widely known. Today electronic systems dominates the financial industry overall, offering fewer errors, faster execution and better efficiency than traditional open-outcry trading systems.

BSE functions as the first-level regulator in the securities market, providing monitoring and surveillance mechanisms that are able to detect irregularities and manipulations in stock prices. The Exchange also provides counter-party risk management in all transactions that take place on its trading platform through its clearing and settlement services. Shares of more than 5,000 companies are traded on BSE. In addition to equity and debt, the Exchange allows for trading of mutual fund units and derivatives.

Its benchmark index, the Sensitive Index (Sensex) was launched in 1986. In 1995, the BSE launched its fully automated trading platform called BSE On-Line Trading system (BOLT) which fully replaced the open outcry system.

National stock exchange:

The National Stock Exchange of India Limited (NSE) is India's largest financial market. Incorporated in 1992, the NSE has developed into a sophisticated, electronic market, which ranked fourth in the world by equity trading volume in 2015. Trading commenced in 1994 with the launch of the wholesale debt market and a cash market segment shortly thereafter.

Today, the exchange conducts transactions in the wholesale debt, equity and derivative markets. One of the more popular offerings is the NIFTY 50 Index, which tracks the largest assets in the Indian equity market. US investors can access the index with exchanged traded funds (ETF) like the Shares India 50 ETF, which is listed under the ticker symbol INDY.

The National Stock Exchange of India Limited was the first exchange in India to provide modern, fully automated electronic trading. It was set up by a group of Indian financial institutions with the goal of bringing greater transparency to the Indian capital market.

Introduction to Demat Account

A Demat account, short for 'Dematerialization,' is a digital vault for your stock investments. Instead of dealing with physical paper certificates, your shares are stored electronically in this account. The purpose of Demat accounts is to ensure the safety of your shares, reducing the risk of loss or forgery.

To participate in stock market trading, you need two essential accounts a Demat account for electronic share holding and a trading account to swiftly execute buy and sell orders. Demat trading was initially introduced in India for NSE transactions in 1996.

In the past, it used to take a long time for people to open an investment account, and they had to do it in person. But now, things have become much easier. You can open a Demat account online in just 5 minutes. This online process has made investment accounts, known as Demat accounts, very popular.

Features of Demat Account

1. **Easy Access:** A Demat account offers quick and easy access to all your investments and statements through online banking.
2. **Simple Conversion**: With the help of a depository participant (DP), you can easily convert your physical share certificates into electronic form (dematerialization) and vice versa.
3. **Dividends and Benefits**: It simplifies the process of receiving dividends, interest, or refunds. Your account is automatically credited with these earnings. Electronic Clearing Service (ECS) is used to update your account with information about stock splits, bonus issues, rights, public issues, and more.
4. **Effortless Share Transfers:** Transferring shares has become much easier and faster when you have a Demat account.
5. **Share Liquidity:** Demat accounts make it simpler and more convenient to sell shares and access the money quickly.
6. **Loan Facility**: After opening a Demat account, you can also avail of a loan using the securities held in your account as collateral.

Working of Demat Account:

A Demat account, short for a Dematerialized account, is a digital repository for holding and managing your securities, primarily stocks and bonds, in electronic form. It serves as a bridge between your investments and the stock market, making trading and investment processes more convenient and secure. Here's a detailed breakdown of how a Demat account works:

1. **Account Opening:**To open a Demat account, an individual needs to approach a Depository Participant (DP), which can be a bank, financial institution, or a brokerage firm that is registered with depositories like NSDL (National Securities Depository Limited) or CDSL (Central Depository Services Limited).

2. **Submission of Documents:**The account holder is required to submit certain documents for the KYC (Know Your Customer) process. This includes identity proof, address proof, and other necessary documents.

3. **Account Allotment:**Once the necessary documentation is completed and verified, the DP allots a unique Demat account number to the account holder.

4. **Linking with Trading Account:**The Demat account is usually linked to a trading account. The trading account is used for buying and selling securities in the stock market, while the Demat account is used for holding these securities in electronic format.

5. **Electronic Holding of Securities:**Instead of physical share certificates, all securities bought or sold by an investor are credited or debited in their Demat account electronically. This eliminates the need for handling and storing physical certificates, reducing the risk of loss or damage.

6. **Transaction Process:**When an investor buys securities, the securities are credited to their Demat account, and when they sell securities, the same are debited from the account. The transfer of securities is done through electronic communication between the depository, DP, and the stock exchange.

7. **Statement of Holding:**The account holder receives periodic statements from the DP detailing their holdings and transactions. This statement serves as a record of the securities held in the Demat account.

8. **Corporate Actions:**Any corporate actions like dividends, bonus issues, or rights issues are directly credited to the Demat account. This ensures that investors receive the benefits without the need for physical paperwork.

9. **Online Access:**Most Demat accounts offer online access, allowing investors to view their holdings, track transactions, and perform various operations through a secure online platform.

Demat Participants

It is essential to understand the key participants or agents associated with the Demat process. Dematerialization (Demat) involves primarily four crucial entities

1. **Investors** - Investors are individuals, partnership firms, or companies that own securities such as stocks and bonds in electronic form. These individuals or entities open Demat accounts to hold their securities electronically. Each investor's name is linked to a depository, which keeps a record of their holdings in Dematerialized (Demat) form. Investors can buy and sell these securities through their Demat accounts.

2. **Depositories -** In simple terms, Depositories are like digital banks for your investments. They securely hold your securities in electronic form, replacing traditional paper certificates. In India, there are two primary depositories NSDL (National Securities Depository Limited) and CDSL (Central Depository Services Limited). These depositories play a crucial role in connecting companies that issue shares with the individuals who invest in them, offering safe and efficient management of your investments. They ensure your holdings are kept secure, transactions are smooth, and they operate under strict regulatory guidelines to maintain the integrity of the Indian financial market.
3. **Depository Participants** - Depository Participants, also known as DPs, are like intermediaries registered by SEBI. They link investors with depositories like NSDL and CDSL. DPs facilitate the opening of Demat accounts, making it easier for investors to manage digital securities. These DPs play a vital role in ensuring the smooth functioning of India's securities market.
4. **The Issuing Company** - The issuing company is a legal entity or business that is registered with a depository. Its primary purpose is to create, register, and offer securities to the public as a means of raising funds for its operations. These securities typically include bonds, shares, commercial paper, and other financial instruments. The issuing company plays a pivotal role in the financial market by providing investment opportunities to the public and businesses seeking capital for growth and development.

Dematerialization Process

Dematerialization is an important process for investors to understand. The following section contains the process of dematerialization:

1. Submitting Your Certificates - To begin, you hand over all your paper certificates to your DP (Depository Participant) for dematerialization, essentially turning your physical assets into digital ones.

2. Notifying the Depository - Your DP lets the depository know about your desire to convert these assets into electronic form, initiating the process.

3**. Registrar's Role** - Your DP forwards your certificates to the company's registrar, the guardian of these records.

4. Registrar's Confirmation - After consulting with the depository, the registrar confirms the dematerialization request, ensuring everything is in order.

5. Transformation into Electronic Form - Once confirmed, your paper securities undergo a magical transformation into electronic ones, making them easy to manage and trade.

6. Registrar's Record Update - The registrar updates their records and informs the depository about the successful dematerialization process.

7. Depository's Record Update - Your depository account receives the electronic securities, and they make sure you're in the loop by informing your DP.

8. DP's Final Touch - Your DP completes the process by updating your Demat account with these new, sleek electronic assets, making your investment journey more efficient and secure.

Opening of Demat Account:

The first step of dematerialization is the opening of a Demat account. It is a myth among people that this is a complex process. The process of opening a Demat account is as follows:

Step 1: Choose a Depository Participant (DP): Most financial institutions and brokerage firms are recognized as Depository Participants.

Step 2: Complete an Account Opening Form: To initiate the process of opening a Demat account, you are required to fill out an account opening form. This form will collect essential contact information from you.

Step 3: Submit Document Verification: You'll need to provide copies of documents for verification, which include proof of income, identity, address, an active bank account, and a passport-sized photograph. Ensure that all document copies are appropriately attested.

Step 4: Signing of agreement between an investor and the DP: You'll be presented with a standardized agreement that outlines the rules, regulations, associated charges, and terms and conditions governing your relationship with the Depository Participant.

Step 5: Verification of Documents: A member of the DP's team will carefully review all the documents you've submitted as part of your application.

Step 6: Generation of Demat Account Details: Once your documents have been successfully verified, your Demat account number and ID will be generated. These credentials will grant you access to your online Demat account without any issues.

Merits of opening a Demat account:

1. **Easy and Paperless Transactions:**Demat accounts eliminate the need for physical share certificates. All transactions, including buying, selling, and transferring securities, are done electronically, making the process quick and convenient.

2. **Safe and Secure Holding:**Physical share certificates can be lost, damaged, or stolen. Demat accounts provide a secure electronic holding for securities, reducing the risk of such issues.

3. **Reduction in Paperwork:**Traditional trading involved a significant amount of paperwork for each transaction. Demat accounts drastically reduce paperwork, making the overall process more efficient and environmentally friendly.

4. **Quick Settlement:**Transactions settle faster in a demat account. This is especially beneficial for investors as they receive the proceeds from a sale or securities from a purchase in a shorter time compared to the physical share certificate system.

5. **Automatic Updates and Corporate Actions:**Demat accounts automatically update investors about corporate actions such as dividends, bonus issues, rights issues, and stock splits. This ensures that investors stay informed and can make timely decisions.

6. **Pledging and Lending:**Investors with demat accounts can easily pledge their securities as collateral for loans or margin trading. This flexibility allows investors to use their holdings for various financial needs.

7. **Single Account for Various Investments:**A demat account can hold a variety of financial instruments, including stocks, bonds, mutual funds, government securities, and Exchange Traded Funds (ETFs). This provides investors with a single account for managing multiple types of investments.

8. **Access to Stock Exchanges:** Demat accounts are linked to stock exchanges, allowing investors direct access to the stock market. This facilitates real-time trading and monitoring of investments.

9. **No Risk of Bad Deliveries:** With physical certificates, there is a risk of bad deliveries, where the shares do not reach the intended recipient due to errors in the transfer process. Demat accounts significantly reduce the possibility of such errors.

10. **Convenience of Online Trading:** Demat accounts are often linked to online trading platforms, providing investors with the convenience of buying and selling securities from the comfort of their homes or offices.