Lesson - 3

STOCK EXCHANGE FUNCTIONS AND ORGANISATION

3.0 Objective:

After going through this lesson, you will get a Bird's Eye view of Stock Exchanges, its functions a importance and organisations and about broking and trading the Equity and Debt.

Structure:

3.1 Introduction:

The market for long term securities like Bonds, Equity Stocks and Preferred Stocks is divided into Primary Market and Secondary Market. The primary market deals with the new issues of securities. Outstanding securities are traded in the secondary market which is commonly known as "Stock Market" or Stock Exchange. In the Secondary Market, the investors can sell and buy securities. Stock Markets predominantly deal in the Equity shares. Debt instruments like Bonds and Debentures are also traded in the Stock Exchanges. Well regulated and active stock market, promotes capital formation growth of the Primary Market depends on the Secondary Market. The health of the Economy is reflected by the growth of the Stock Market.

3.2 History and Development of Stock Exchanges:

The credit of starting the earliest transactions in securities goes to East India Company in the 18th Century end. However, the actual stock market transactions were started by the Legislation of Companies Act in 1856. The Stock Market witnessed many booms and depressions before the organised stock exchanges came into being.

Calcutta Stock Exchange was established in 1830 and Stock Exchanges at Bombay and Ahmedabad were set up in 1875 and 1894 respectively. These were organised as voluntary non-profit making associations of brokers to regulate and protect their interests. A need for organised body was felt for the mutual protection and safety of the brokers and the trade which gave birth to CALCUTTA STOCK EXCHANGE ASSOCIATION, in June 1908. Till 1950, Control and Regulation of stock market was a state subject and the BOMBAY SECURITIES CONTRACTS (CONTROL) ACT 1925 used to regulate trading in securities. Under this Act, the Mumbai Stock Exchange was recognised in 1927 and AHMEDABAD in 1937. Under the new constitution in 1950 it became a central subject and a committee headed by A.D. GORWALA went into the bill for securities regulation. On the basis of the committee's recommendations the Securities Contracts (Regulation) Act because Law in 1956.

Due to out break of First World War, the Indian Stock Market almost became defunct and non-existent and the number of members reduced from hundred to three in 1923.

The Stock Market activity was later received in 1935 with the increases in Textiles Mills and many new plantation companies that have come up in South India. A need arose to cater to the growing trade in plantation and Mill shares and this has lead to the formation of 'MADRAS STOCK EXCHANGE ASSOCIATION (PVT.) LTD.. on 4th September, 1937.

Four more stock exchanges were set up in AHMEDABAD during the Second World War period. Calcutta and Delhi had two stock exchanges besides the existing ones. On 1940 two stock exchanges namely the U.P. Stock Exchange Limited and the NAGPUR STOCK EXCHANGE Ltd. were established in KANPUR AND NAGPUR respectively. In 1944 the HYDERABAD STOCK EXCHANGE Limited was incorporated in Hyderabad as a Company Limited by Guarantee and recognised under the Hyderabad Securities Contracts Control Act modeled on the lines of the Bombay Securities Control Act of 1925. A small stock exchange also sprang up in Bangalore city.

But this proliferation did not last long as many stock exchanges withered away by 1957. Though all the stock exchanges applied for recognition to the Central Government, Under Securities Contracts (Regulation) Act 1956. Only the old Established Stock Exchanges in Bombay, Calcutta, madras, Ahmadabad, Delhi, Hyderabad and Indore were recognised under this act. The Bangalore Stock Exchange Ltd., were recognised subsequently in 1957 and recognised in 1963. At present we have 24 stock exchanges and 21 of them had hardware and software compliance.

3.3 Functions of the Stock Exchange:

The Stock Exchange is defined as "an Association of member brokers for the purpose of facilitating and regulating the trading in securities. A major part of the trading takes place in Equity shares of Public Limited Companies whose transferability by endorsement is ensured under the Indian Companies Act 1956 and under the Securities Contract (Regulation) Act. The Stock Exchange provides the service of getting shares of Public Limited Companies listed for trading purposes. Listing means making a quotation available for a company's share to be traded. Under the present regulation system, public limited Companies with a minimum paid up capital of Rs.5 crores of which 25% are issued to the public can list their securities for trading on a Stock Exchange. For Bombay Stock Exchange (BSE) and NATIONAL STOCK EXCHANGE (NSE) the minimum paid up capital for listing purpose is Rs.10 crores. Following are the major functions of Stock Exchanges:

3.3.1. Maintains Active Trading:

Shares are traded on the Stock Exchanges, enabling the investors to buy and sell securities. The prices may change from transaction to transaction. A continuous trading increases the liquidity or marketability of the shares traded on the Stock Exchange.

3.3.2. Fixation of Prices:

Price is determined by the transactions that flow from investors demand and suppliers preferences. Usually the traded prices are made known to the public. This helps the investors to make better decisions.

3.3.3. Ensures Safe and Fair Trading:

The rules, regulations and Byelaws of the Stock Exchange provide a measure of safety to the investors. Transactions are conducted under competitive conditions enabling the investors to get a fair deal.

3.3.4. Stock Exchanges Helps in Financing the Industry:

A continuous market for shares provides a favourable climate for raising capital. The negotiability and transferability of the securities helps the companies to raise long term funds. When it is easy to trade the securities investors and willing to subscribe to the initial public offerings. This stimulate capital formation.

3.3.5. Dissemination of Information:

Stock Exchanges provide information through their various publications. They publish the share prices traded on daily basis along with the volume traded. Directory of Corporate Information is useful for the investors assessment regarding the corporate handouts, hand books and pamphlets provide information regarding the functioning of the Stock Exchanges.

3.3.6. Performance Inducer:

The prices of stocks reflect the performance of the traded companies. This makes the corporate more concerned with its public image and tries to maintain good performance.

3.3.7. Self-Regulating Organisation:

The Stock Exchanges monitor the integrity of the members, Bankers, Listed Companies and clients. Continuous Internal Audit Safeguards the investors against unfair trade practices. It settles the disputes between member brokers, investors and brokers.

3.4 Organisation of Stock Exchanges:

Some of the recognised Stock Exchanges in BOMBAY, AHMADABAD and INDORE are voluntary non-profit organisations whereas those situated in Calcutta, Delhi and Bangalore function as joint stock companies limited by shares and stock exchanges functioning in Madras and Hyderabad are formed as companies limited by guarantee. Uniformity in their organization is ensured through articles of association which define the constitution of the recognised stock exchanges. The Bombay Stock Exchange was the first to get permanent recognition followed by Calcutta, Delhi, Madras, Ahmadabad, Hyderabad, Indore and Bangalore. The other exchanges were given at the first instance official recognition for a period of five years and at the end of each term the recognition has been renewed for another five year period.

At present there are more than 24 Stock Exchanges in India. As per the present guidelines the proposed region in which the Stock Exchange is to be set up must be industrially developed with a sizable number of industrial units and should be able to attract atleast 50 companies independently.

3.5 Securities Control (Regulation) Act - 1956:

The Securities (Regulation) Act is enacted in 1956 with the main objective of controlling and regulating the activities of Stock Exchange in India. The Act sets up a general framework of control which makes Government influence all pervasive. Every Stock Exchange has to be recognised under this Act before it starts operations. 'Stock Exchange', means any Development of Backward areas body or individuals whether incorporated or not constituted for the purpose of assisting regulating or controlling the business of buying, selling or dealing in securities. It is an association of member brokers for the purpose of self-regulation and protecting the interests of members.

3.6 Powers of the Central Government in Respect of Stock Exchanges:

The Union Government is vested with the following powers:

1. Grant and withdrawal of recognition approval or change of Bye Laws.
2. Call for periodical returns from the Stock Exchange.
3. Direct enquiries on the members or on the Stock Exchange.
4. Liability of the Exchange to submit Annual Reports.
5. Directing the stock exchange to make certain rules.
6. Supersede the Governing Body of the Stock Exchange.
7. Suspend the Governing Board of the Exchange.
8. Impose any other conditions or regulations for trading.

3.7 Bye-Laws:

Besides the Securities Control Regulation Act, the Securities Contracts (Regulations) rules were also made in 1957 to regulate certain matters of Trading on Stock Exchanges. These are also Bye-Laws on the Exchange which are concerned with the following Areas.

1. Opening/closing of the Stock Exchange
2. Tuning of Trading
3. Regulation of Blank Transfers
4. Regulation of Badla or Carry Over Business
5. Control of the Settlement and other activities of the Stock Exchange
6. Fixation of Margins, Fixation of Market Prices or making up prices
7. Regulation of Taravani Business etc.
8. Regulation of Brokers Trading
9. Brokerage Charges, Trading rules on the Exchange
10. Arbitration and Settlement Disputes
11. Settlement and clearing of the Trading.

3.8 Recognition by the Government:

As stated earlier, a Stock Exchange is recognised only after the Government satisfied that its rules and Bye - Laws conform to the conditions prescribed for ensuring the dealings and protection to investors. Government has also to be satisfied that it would be in the interests of the Trade and

Public Interest to grant such recognition. Mumbai, Calcutta, Delhi, Chennai, Ahmedabad, Hyderabad, Bangalore and Indore have so far been granted permanent recognition.

The rules can be amended, varied or rescinded only with the approval of the Government. Like wise, the Bye-laws of the recognised Exchanges in detail for the regulation and control of contracts in securities and for the trading activities of members must also be sanctioned by Governments amendments or modifications must be similarly approved. The Act empowered the government with power to make enquiries into the affairs of a recognized stock exchange members to supersede the Governing Body and take over the property of an Exchange to suspend its Business and finally to withdraw the recognition to an Exchange should such steps be deemed indispensable in the public interest.

3.9 Securities Contracts (Regulation) Rules - 1957:

Under this Act, Government has promulgated the Securities Contracts (Regulation) Rules 1957 for fulfilling the objectives of the legislation. These rules prescribe the procedure to be followed for

1. Recognition of Stock Exchanges.
2. Submission of periodical returns and Annual Reports by the recognised Stock Exchanges.
3. Inquiry into the affairs of recognised Stock Exchanges and their members.
4. Requirements for listing of securities.

The rules are statutory and applied uniformly to all the recognised Stock Exchanges.

3.10 Membership Rules Under SCR Act:

The regulations governing the admission of members of the Recognised Stock Exchanges are uniform in terms of the provisions of the Securities (Regulation) Rules 1957. These statutory rules provide that no person shall be eligible to be elected as a member if he is,

1. Less than 21 years of Age.
2. Not an Indian Citizen.
3. Adjudged Bankrupt or proved to be insolvent and has compounded with his creditors.
4. Convicted of an offence involving fraud or dishonesty.
5. Engaged as Principal or Employee in any Business other than that of securities.
6. Member of any other association in India where dealings in securities are carried on
7. Director or Employee of companies whose principal Business is that of dealing in securities.
8. Firms and companies are not eligible for membership of a recognised stock exchange.
9. Lastly individuals are ordinarily not deemed to be qualified unless they have had atleast two years market experience as an apprentice or as a partner or authorized assistant or authorized clerk.

3.11 Various Stock Exchanges : Following are the Major Stock Exchanges in India:

3.11.1 National Stock Exchange (NSE):

The National Stock Exchange of India Ltd. was set up with the primary idea of facilitating computerised trading in Debt Market Instruments. This was incorporated in November 1992 by Industrial Development Bank of India and other all India Financial Institutions and because recognised Stock Exchange from April 26, 1993 to provide Nation wide Stock Trading facilities. The National Stock Exchange has a fully automated screen based trading system and operates on the principles of an order driven market. National Stock Exchange is the outcome of the recommendations of Shri M.J. Pherwani Committee. It is expected to operate as Model Stock Exchange and to provide a Nationally integrated stock market system facilitating an easy flow of transactions and resources on a cost effective manner.

3.11.2 Promoters: Following are the Leading Financial Institutions that promoted the National Stock Exchange:

a. Industrial Development Bank of India.

b. Industrial Finance Corporation of India.

c. Industrial Credit and Investment Corporation of India.

d. Life Insurance Corporation of India.

e. General Insurance Corporation of India.

f. SBI Capital Markets Limited

g. Stock Holding Corporation of India Ltd.

h. Infrastructural Leasing and Financial Services Ltd.

3.11.3 Market Segments of N.S.E.:

The National Stock Exchange was intended to establish a viable and vibrant debt market which was in an underdeveloped stage. It provides the traditional retail market for securities and also operates a wholesale Debt Market (which may be termed as Money Market Segment). The National Stock Exchange as conceived consists of three naturally exclusive segments.

1. Whole Sale Debt Market Segment
2. Capital Market Segment
3. Futures and Options Trading

3.11.4 Salient Features of Trading System at NSE:

The National Stock Exchange has a fully automated screen based trading system. It operates on the principle of an order driven market providing complete flexibility to the members in the kind of orders that can be placed by them. The total systems solutions adopted by the NSE involves a technology which is the State of Art. The NSE does not have trading floors as in Conventional Stock Exchanges. The trading entirely is screen based with automated order matching. The screen provides entire market information at the press of a button which the existing telephone trade or trading floor cannot provide instantaneously. At the same time the system provides for concealment of the identity of market operators. The trading system of the NSE is known as National Stock Exchange of Automated Trading. The NSE is connected through a VSAT (Very Small Earth Based Aperture Terminal) or through leased telephone lines.

3.11.5 Listing:

The term listing means admission of securities of a company to deal on a recognised stock exchange. The principal objective of listing is to provide liquidity and marketability to listed securities and ensure effective monitoring of trading for the benefits of all participants in the market.

A company desiring to get listing at the NSE has to enter into listing agreement and is required to pay the specified listing fees. Thereafter the company is required to comply with all clauses of the Listing Agreement and to send details of Book closure, record dates etc. A copy of Annual report, half-yearly reports and cash flow statements.

The securities of any entity may be listed at any of the following stazes.

1. At the time of public issue of Shares/Debentures
2. At the time of right issue of Shares/Debentures
3. At the time of Bonus issue.
4. Share issue on Amalgamations

3.11.6 Trading Mechanism at the NSE:

The NSE is a completely online screen based trading system accessible to all its trading members on equal time basis. The telecommunications link connecting the trading work station on trading member premises to the NSE's mainframe computer in Mumbai is of crucial importance for the exchange to provide online responses with in a few seconds. The permission to applicants selected as trading members to trade on the Exchange acts in groups as Telecom Network expands progressively to cover all eligible trading members. The NSE's VSAT Telelcommunication Network works as a closed user group and is available to its members. For trading on the system, the trading member will also require a work station which he is expected to purchase along with requisite software. The trading system provides enormous flexibility to trading members. While entering the order a trading member can place various conditions on the order.

3.11.7 NSE Membership:

At the NSE, operations are segmented into the Whole Sale Debt and Capital Market. Professional capability of members to provide desired results of services to investors is the benchmark of obtaining membership of NSE. The Admission criteria for NSE membership is different for the two segments and takes into account financial adequacy infrastructural ability, back ground, experience and education.

3.11.8 National Stock Exchange Benefits to Trading Members:

1. They can provide efficient service to their clients.
2. Their back office load is reduced considerably.

3. There will be no need to occupy office premises near the exchange unlike at present and thus can load reduced establishment cost.

4. The system will assure best practice to participate in the market.

5. Settlement will be quick and efficient.

To Investors:

1. The investor is assured of best price in the market.

2. Price and brokerage are separately shown on contract notes.

3. Date and Time of trade are indicated.

4. The system is better mentioned and regulated ensuring a fair deal to investors.

5. Safety of securities is enhanced in a depository and there will be no problems, delivery loss, theft or forgery.

To Issuers:

1. By a single listing they can provide nation wide access to their investors.

2. As a result their listing costs are reduced considerably.

3. Issuers will have high visibility.

3.11.9 Bombay Stock Exchange (BSE):

The origin of the Bombay (Mumbai) Stock Exchange dates back to 1875. It was organised under the name of “The Native Stock and Share Brokers Association” as a voluntary and non-profit making Association. It got permanent recognition in the year 1952. This Premier Stock Exchange is the Oldest Stock Exchange in Asia. The objectives of the Stock Exchange are:

1. To safeguard the interest of investing public having dealings on the exchange.

2. To establish and promote honourable and just practices in securities transactions.

3. To promote develop and maintain well regulated market for dealing in securities.

4. To promote industrial development in the country through efficient resource mobilisation by the way of investment in corporate securities.

3.11.10 The Trading System:

In March, 1995, the Bombay (Mumbai) Stock Exchange has introduced screen based trading called BOLT (BSE On line Trading). The BOLT is designed to get best bids and offers from Jobbers Book as well as the best buy and sell orders from the order book. Slowly the network is being extended to other cities too. Now the BOLT has a Nationwide Network. Trading work stations are connected with the main computer at Mumbai through Wide Area Network (WAN). The capacity of the Tandem hardware of BOLT is 5 lakhs trades per day (in 6 hours i.e. from 9.30 AM to 3.30 PM). After getting specific approval from SEBI, BOLT connections have been installed in Ahmedabad, Rajkot, Pune, Vadodara and Calcutta.

The securities traded in the BSE are classified into three groups, namely, specified shares or ‘A’ Group and non specified securities. Again Non-specified Securities are divided into ‘B’, and ‘B’

Groups. ‘A’ Group contains the companies with large outstanding shares, good track record and large volume of Business in the secondary market. Carry forward transactions for a period of 90 days are permitted in ‘A’ group shares. A group contains 150 companies Liquid Securities come under the B group and it comprises of 746 companies. The remaining shares are placed under the ‘B’ group settlements of all the shares are carried out through the clearing house. The settlement period is reduced from 19 days to 7 days for all scrips.

3.11.11 Inter Connected Stock Exchange (ICSE):

This was started Trail runs from August 29, 1998. This is a diluted version of the National Stock Market System (NSMS) recommended by the M.J. Pherwani Committee. The main objective of ISE is to interlink, the Old Regional Stock Exchanges of the country to ensure liquidity. Because of the poor liquidity at the Regional Exchanges there has been a lot of shift in Business to BSE and NSE. The second objective is to minimise the cost of Regional Exchanges as they were incurring huge costs by supporting a very liquid market.

The ISE has received in principle approval from SEBI. The 15 Exchanges participating in ISE are Bangalore, Bhuvaneshwar, Chennai, Kochi, Coimbatore, Guwahati, Hyderabad, Jaipur, Luduiana, Indore, Mugadh (Patna), Mangalore, Saurashtra, Kutch, Uttar Pradesh (Kanpur) and Vadodara. The exchanges that are not part of ISE are Delhi, Calcutta, Ahmedabad, Pune, Mumbai, OTCEI and the National Stock Exchange. The total cost of the ISE project is about Rs.15 crores that is to be shared equally by all participating exchanges.

Mode of Functions: ISE enables a trading member of one exchange to deal with his counter part in other exchanges from his local trader work station using the ISE established central system. The Central Computer is in Mumbai and all the Regional Stock Exchanges are linked to the Central Computer through VSAT. Once these are linked each broker who has a terminal for the local market will be given additional segment of ISE. The broker will have two trading options i.e. he will be able to trade on the local market and the moment he switches over to ISE segment, he will have access to National Market. Whenever he enters an order in the National Market, it will immediately come to the central order book maintained in Mumbai gets matched and reporting will be done. Trading will be done through the same trader work station. Settlement period will be from Thursday to Wednesday and payout will be seven days from the last date of settlement.

3.11.12 Over the Counter Exchange of India:

This was started in the year 1992 after the role models of NASDAQ (National Association of Dealers Automated Quotation) and JASDAQ (Japanese Association of Securities Dealers Automated Quotation). The OTCEI was started with the objective of providing a market for the smaller companies that could not afford the listing fees of the large exchanges and did not fulfill the minimum capital requirement for listing. It aimed at creating a fully decentralised and Transparent Market. Over the counter means trading across the counter in scrips. The counter reforms to the location of the member or dealer of the OTCEI where the deal or trade takes place. Every counter is treated as a trading floor for the OTCEI where the investor can buy and sell. The members or dealers of OTCEI counters are linked to the central OTCEI computer. The member should have the computer and telecommunication facility.

OTCEI is incorporated as a company under Sec.25 of the Indian Companies Act 1956. As per the Registration Norms OTCEI will be obliged to plough back all its profits and will not be allowed to declare dividends on its share capital. The promoters of OTCEI and UTI, ICICI, IDBI, IFCI, GIC, SBI Capital Markets, Canbank Financial Services and LIC. The players on the OTCEI exchange are the members and dealers. The activities of the members and dealers are:

1. Act as Brokers, buy and sell securities according to the instructions of the investors.
2. Market makers in securities, they quote the prices at which members are willing to buy and sell the specified number of securities.

Members can be the public financial institutions, Scheduled Banks, Mutual Funds, SEBI approved merchant bankers. Banking subsidiaries, venture capital funds and other non-banking financial companies with minimum net worth of Rs.2.5 crores. Members pay a one time non-refundable admission fee of Rs.10 lakh and Rs.5 lakh after one year. The annual subscription fee is one lakh.

The dealers are individuals, partnership firms and corporate entities with a minimum net work of Rs.5 lakh. They should have adequate office space and telecommunications facilities guidelines are issued for the companies whose scrips are to be traded in the OTCEI by the Government. As per the guidelines.

1. The minimum capital requirement for a company to be listed on the OTCEI is Rs.3 crore and the maximum is Rs.50 crores.
2. For the companies with an issued capital of more than Rs.30 lakhs but less than Rs.300 lakhs, the minimum public offer should be 25 percent of the issued capital or 20 lakhs worth of shares in face value which ever is higher.
3. Companies with an issued capital of more than Rs.30 crores seeking to be listed have to comply with listing requirements and guidelines that are applicable to such companies in other Stock Exchanges.

The Procedure adopted for the Listing of the Scrips:

1. An OTCEI member is appointed as a sponsor for the company's issue. The sponsor appraises the project or company on technical, managerial, commercial, economical and financial aspects. The sponsor certifies the OTCEI regarding its appraisal.
2. The sponsor determines the price of the company shares offered to the public, members and dealers of the OTCEI.
3. The sponsor gets all statutory consent and compliance with all SEBI guidelines.
4. The sponsor registers the issue with the OTCEI and places equity.
5. The listing application has to be made to the OTCEI as per its rules and regulations.
6. After getting the approval the allotment is made. Once the allotment is over, the equity is listed and the trading commences. In the primary issue the sponsor carries the activities of issue management and he is the sole underwriter for the issue. He can sub-write his liability with the syndicate of members and dealers.

Trading System:

The OTCEI dealers screen has a left and right halt for the sell and buy counters. The sell counter gives the rate, the number of shares offered and the name of the market maker. It is always in an ascending order with the lowest buy quote given at first. The sell quote prices are displayed in the descending order and the seller can decide to unload at the highest price displayed. Once the deal is struck, it is entered into the computer. To confirm the transaction on line message appears on the screen. The confirmation slip or trading document is generated through the computer in duplicate. One copy is retained and the other is sent to be OTCEI counter. This is known as the counter receipt.

3.11.13 National Securities Depository Limited (NSDL):

To meet the capital requirements companies turn towards the capital market that is more flexible and responsive source of funds. The savers of Indian Economy a decade ago hold simple pass books of the Post Office and Banks. Today they hold plenty of paper or marketable Financial Assets or Securities. The Stock Brokers have to move large number of paper certificates to give delivery on behalf of their clients. Each transfer deed involves different manual checks. Many of the share transfers are rejected because of some technical defect and investors who sell their shares often, wait a couple of months before they receive their money. Because of this tiring procedure, many of the Foreign Institutional Investors restrict their trading with sensex scrips. In order to mitigate these problems National Securities Depository Limited was established.

National Securities Depository Limited was promoted by the Industrial Development Bank of India, the Unit Trust of India and the National Stock Exchange of India Ltd., to provide Electronic Depository facilities for securities traded in the equity and debt market. The Depositories Ordinances Promulgated by the Government of India in September 1995 enabled the setting up of multiple depository system. The Securities and Exchange Board of India (SEBI) issued the guidelines for depositories in May 1996. The Bill was passed by the Parliament in July 1996. National Securities Depository Limited was registered by SEBI on June, 1996.

Functioning of NSDL: NSDL performs the following functions through its various participants:

1. enables surrender and withdrawal of securities to any from the depository.
2. maintains investors holdings in the electronic form.
3. effects settlement of securities traded on exchanges.
4. carries out settlements of trader that have not been done on the stock exchanges.

NSDL Depository Participant (DP) can be a public financial Institution, Bank, Custodian, Registered Stock Broker or NBFC (Non-Banking Financial Company) subject to approval from the Depository Company and the SEBI. Brokers and NBFCs are required to have a minimum Net Worth of Rs.50 lakhs. Depository participant has to pay a Security Deposit of Rs.10 lakhs and an admission fee of Rs.25,000 to NSDL. The Depository participants are likely to pass on these charges to the investors. NSDL makes use of VSAT Network of the NSE (National Stock Exchange) for communications as it is easier for Depository Participants who have leased lines with NSE to join. After ascertaining its requirement on the volume of trade NSDL would set up its own Network. At present NSE only has the clearing corporation, the National Securities clearing corporation and it can participate in the functioning of NSDL. The Securities Exchange Board of India has now made it mandatory for all Stock Exchanges to have clearing corporation. The Stock Exchanges are setting up their own clearing corporation.

Individual Investor and NSDL:

The investor has to open an account with the depository participant that is similar to the opening of a Bank Account. Investors can get a list of depository participant from NSDL. The depository participants may also advertise the services offered by them once they are registered. The investor can choose any depository participant of his choice and fill up an account opening form. Reasonable charges are received by the depositories for the opening of accounts and every transaction in the accounts. The investor receives a pass book or a statement of holdings. Just like the Bank Pass Book from the Depository Agent. The statement of holdings is despatched to the investors periodically. The investor can contact the depository participant for any disparity in the statement of holding. It the discrepancy cannot be resolved at the depository participant level, he could approach NSDL for clarification. There is absolutely no restriction with the number of depository participants the investor can open accounts.

Advantages to the Investor:

1. Depositing the securities with NSDL would give the freedom from the worry of loss of share certificates through theft mutilation due to careless handling, fire etc.
2. In setting the shares, the paper work required is reduced to a minimum. Investors also prefer to buy shares that are already in the depository mode. The investor would find it easy to sell the shares whenever he wants to do it.
3. The investor can become the owner of shares within a day of the settlement is being completed. It the shares bought are in the depository mode. There is no need to apply to the company for registering the share in the name of investors. There is no possibility of loss or theft when the share certificates are posted to the company. There is no fear of any fake or stolen shares being delivered to the investor. In the physical transfer of shares, it taken nearly 40-60 days to get the shares registered in his name.

3.11.14 Dematerialisation:

This is a process in which the physical certificates of an investor are taken back by the company. The registrar destroys the shares and equivalent number of shares are credited in the electronic holdings of the investor.

1. Surrendering of certificate to the depository participants for dematerialisation.
2. NSDL is informed by the D.P. through electronic connectivity.
3. Original share certificates are submitted to the registrar by the D.P.
4. The request for dematerialisation from NSDL to the Register.
5. The Register credits an equivalent number of shares in the account and informs NSDL.
6. The NSDL updates its own account and the depository participants are informed.
7. The Depository Agent Credit it in the Account of the and the same is informed to the investor.

3.11.15 Rematerialisation:

Sometimes the investor is likely to convert his electronic holdings back into physical share certificate. The process undertaken for this purpose is called REMATERIALISATION. The investor has to make a request to the Depository Participant for rematerialisation. The Depository Participant puts forward the request to NSDL after verifying whether the investor is having necessary security balances. NSDL in turn will intimate the registrar who prints the certificate and despatch the same to the investor. The certificate has a new range of certificate has a new range of certificate numbers and new folio number.

1. Investor requests the Depository Participant (DP) for rematerialised.
2. The Depository Participant informs it to the NSDL.
3. NSDL intimate the Registar.
4. The Registar of the company prints certificates with new numbers and informs NSDL.
5. NSDL adjust its account and passes on the details to the D.P.
6. The certificates are despatched to the investor.

3.12 Broking and Trading in Equity:

Many Broking Companies and partnership firms are helping the customers in trading equity. Using the net as a medium for communicating client orders to the stock exchanges through broken websites is called Online Stock Trading or Trading in Equity. Value added services like on the line Stock Quoter, Companies Financial Information and Analysis etc; are also provided by such broker sites apart from full trading through the web site. The online Trading in Equity provides an opportunity to leverage an un-paralleled immediacy, flexibility and transparency to reach out the investors spread throughout the country. In western markets like the (SS about 40 percent of transactions are executed through online. In India too, Internet Trading has taken off in a big way by the initiative taken by most of Big Stock Exchanges. The Premier Exchanges. The Premier Exchanges in India viz. Bombay Stock Exchange (BSE) and the National Stock Exchange of India (NSE) are embracing the Internet in an effort to leverage the power of this medium to reach out to the un-tapped masses by Stock Trading to the desktop.

3.12.1 Order Routing System (ORS):

Using the internet as a route for client orders to Stock Exchanges through a registered broker on behalf of clients for execution of trader is called ORDER ROUTING (ORS). In this system, a broker who opened a website, offers Internet Trading Facility through an electronic template. In ORS, a broker offering internet trading facility provides an Electronic Template/Space for the customer to enter the name of the security whether it is to be bought or sold and the quantity and price specifications. Once the Broker's System receives the information it is checked electronically against the customer's account and is routed to the appropriate exchange for execution by the broker. After the order is executed the customer receives a message confirming the order. The customer's portfolio and Ledger Account may also be updated online to reflect the transaction. The main benefit of ORS is that an investor will have control over the information and quotes and will be able to hit the quote on an online basis. This ensures reliability confidence in the capacity or intention of the broker. There is no need re-confirming the 'tip' the broker gave no more running over missed chances.

3.12.2 Procedure in Online Trading in Equity:

As a matter of practice, a provision or space is made in the website for the customer to enter the name of the security, whether he would like to buy or sell quantity and price at which securities are intended to be brought or sold. The Information so furnished by the customer would be checked electronically against the customers, account and is routed to the appropriate Stock Exchange for execution by the broker. After execution of the order, a message is sent to the customer through e-mail at the time specified by the client confirming the order. The customer's portfolio and ledger account would also be updated online to reflect the transaction. The investor would be allowed to specify the time interval on the website itself within which he would like to receive this information through e-mail. The Broken System would be capable of assessing the risk of the client as soon as the order comes in. The client would be informed of acceptance/rejection of the order within a reasonable period. Reports on margin requirements payment and delivery obligations and so on would be informed to the client through the system. As a matter of abundant precaution, Brokers using internet based systems for routing client orders will also be allowed cross trades of their clients with each other, that is they have to go through the exchange for matching.

3.12.3 Advantages of Online Trading in Equity:

1. Independent Decisions:

With online Trading in Equity the basic requirements are P.C. and modem. One can log on to an Online Trading Portal, go through a comprehensive database of information. Use the online analytical tools and pass on the instructions to the broker.

2. Economical:

Online Trading really is the perfect combination of the medium of the Net Catering to a real life concept. All the information with regard to company's performance to the industrial and economic sceneries the net usually is the perfect solution to investor needs.

3. Convenient:

Online Trading in Equity enables one and all to make trades from any one's home. The case of transaction also makes is highly pragmatic.

4. Fast Mobilization of Resources:

Online Trading in Equity also has a role to play in economic factors such as the mobilisation of savings.

5. End to Fraudulent Practices:

The investors are well equipped with the latest information about the changes in the companies financial position and stock quotes and would be able to hit the quote on an online basis. Such a system puts a full stop to the various types of malpractices to which customers were subjected at present. The individual customers can dependent on their wisdom, capacities and take right timely decisions.

3.12.4 Control by SEBI:

SEBI formulated rules and regulations to be adhered to both by customers and brokers in such a way that malpractices on any side are minimised. It made mandatory for the broker web sites to contain arbitration rules, investor protection rules and links to the relevant stock exchanges site displaying all the rules and regulations. To ensure the financial soundness of the brokers setting up online service, SEBI stipulated minimum Network requirements of brokers to support volumes generated through internet orders. A minimum networth of Rs.50 Lakhs is mandatory for an individual broker and for a team of brokers. The minimum networth is decided by the relevant Stock Exchanges.

3.12.5 Prospects of Broking and Trading in Equity in India:

Broking and Trading in Equity essentially provides investors multiple access points through the net and further exponential growth in the numbers of investors and the amounts invested is sure to create and increase in close connection with the increase in net penetration in India. Improvements in infrastructure, reduction in cost of hardware and the consequent proliferation of cyber cafes across the country will enable investors in smaller towns across India to experience the phenomenon of online trade in Equity. With the increased internet penetration in India. On line broking and trading in Equity with multifaceted advantages of convenience, 24 hours availability and case of transaction is poised to grow exponentially.

3.13 Broking and Trading in Debt:

A Broker is a member of a Stock Exchange who buys, sells or deals in securities. A certificate of Registration from the SEBI is a mandatory to act as a Broker. The Securities Exchange Board of India is empowered to impose conditions while granting the certificate. As a member of a Stock Exchange, the Stock Broker will have to abide by its rules, regulations, Bye-laws, pay the prescribed fee and take adequate steps for redressel of investors grievances within one month of the receipt of the complaint and keep the SEBI informed about the number, nature and other particulars of such complaints.

A Broker seeking registration with SEBI has to apply through the Stock Exchange of which he is a member. The application must be forwarded by the Exchange to the SEBI within 30 days from the date of receipt. For granting registration to the Broker, the SEBI checks whether or not he is eligible to be member of a Stock Exchange, has the necessary infrastructure including manpower to effectively discharge his activities has past experience in the business of buying, selling or dealing in debt and is subject to disciplinary proceedings under the rules, regulations and Bye-laws of the stock exchange with respect to his business and is a fit and proper person.

Every Registered Broker has to pay the SEBI a specified Registration fee based on the Annual Turnover, that is the aggregate of the sale and purchase of securities received and receivable by the Broker during any financial year on his own account as well as on account of his clients. Every Registered Broker has to maintain high standards of integrity, promptness and fairness with due skills, care and diligence in the conduct of all his business. He should not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to disturb the market equilibrium or making personal gains.

Every Broker is required to keep and maintain the following books of accounts, records and documents: (a) Register of Transactions (b) Client Ledger (c) General Ledger (d) Journals (e) Cash Book (f) Bank Pass Book (g) Documents Register containing particulars of securities received and delivered in physical form. The Capital adequacy requirements for brokers consists of three components (1) Base minimum Capital (2) Additional/Optional Capital related to the volume of business.

The debt market segment provides a facility for Institutions/Body Corporates (Institutional Investors) to enter into high volume transactions in instruments such as Government Securities, T-Bills, Public Sector Under taking (PSU) Bonds, Units of Mutual Funds, Certificates of Deposits, Commercial Papers and so on. The players on the Debt Market segment are trading members and participants.

Trading Members are the recognised members of the National Stock Exchange (NSE). Body Corporates, Subsidiaries of Banks and Financial Institutions can become Trading Members. They are selected on the basis of comprehensive selection criteria. Trading Members must possess a Networth of 2 crore. Participants are the organizations directly responsible for the settlement of the trade. They are large players in the Debt Market and as such take direct settlement responsibility of their own trades executed through Trading Members.

Trading Debt Market Segment is fully computerised online Trading System. The system has increased trading velocities and cut time frames, it has also managed to incorporate the critical aspect of security in its functioning. The NSE provides a facility for screen based trading with order matching facility. The Debt Market Trading System recognises three types of users: (1) Trader, Privileged and Enquiry. Trading Members can have all the three user types whereas participants are allowed as privileged and enquiry users only. The user of a trader gives access for entering orders or traders on the Trading System. The privileged user has the exclusive right to setup counter party exposure limits.

Trading on the Debt Market can be executed in the continuous a negotiated market. In the continuous market, orders entered by the Trading members are matched by the Trading System. The Debt Market Trading System provides for Trading in Debt and other instruments either as outright purchase and sale as Non-Repo trades. While entering the order the Trading member has to indicate the trade type and the desired settlement terms if their order is to settle into a trade. At present the NSE permits the settlement term from T+ o (that is same day) to T+5 (Six Days) and Repo term from three to 14 das. Ropo's allowed in certain Government Securities, PSO Bonds and Corporate Debentures that are traded in a Electronic form.

LIST OF RECOGNISED STOCK EXCHANGES IN INDIA

ADDRESSES AND DATE OF RECOGNITION

SI.No.	Name & Address of the Exchange	Office Telephone Telex/Fax	Date of Recognition	Approx. No. of Members'
1.	The Ahmedabad Stock Exchange Kamadhenu Complex Shahajanand Complex, Panjarapole Ahmedabad-380008	26561856 STD : 079 TLx:0121-6789 ASEX:100 FAX: 079 GRAM: SHARATION	16-9-57	299
2.	The Stock Exchange (BSE) Prioze Jeejee Bhoy Towers, Dalal Street, Mumbai-400001	2270563/2275581 STD: 022 TLx: 0212-8925 FAX: 022-275981 GRAM: SHARATION	31-8-57	533
3.	The Bangalore Stock Exchange Ltd. UNI Building, Miller Tank, Bangalore - 560052	2225687, 2226577 2222637, 2326631 2227338, 2222137 STD: 080 TLx:080-2874 (BSEIN) GRAM: BANGSTOCKS	16-2-63	223

4.	The Bhubaneswar Stock Exchange Association Ltd., 217, Bhudaraja Building Jharpada, Cutpack Road Bhubaneswar - 751006	252340/41, 255140 254140 STD: 0674 TLx: 0675-437 GRAM: STOCK	5-6-89	300
5.	The Culcutta Stock Exchange Association Ltd. 7, Lyons Range Calcutta - 700001	2203335, 2201488 2206977, 2206957 2201489, 2209368 3202514 STD: 033 TLx: 021-74714 FAX: 033-283724 GRAM: CLASTOCK	10-5-59	726
6.	The Cochin Stock Exchange Ltd., Exchange House, Veekshanam Road Ernakulam P.B.No.3529 Cochin - 680035	GRAM: STOCK		
7.	The Coimbatore Stock Exchange Ltd., Chamber of Commerce Building 8/732 Avanashi Road Coimbatore - 641018	2215100, 2215101 STD: 0422 TLx: 0855-503 FAX: 0422-221130 GRAM: CHAMBER	1991	200
8.	The Delhi Stock Exchange Ltd., 344/4B Asaf Ali Road New Delhi - 110002	2515150/25103 23266845/23271038 23270600/23277708 23271302/23265542 STD: OIL TLX: 031-55317 FAX: 011-3267112 GRAM: UPKARI	9-12-59	375
9.	The Gauhati Stock Exchange Ltd., Saraf Building Annex, A.T. Road, Gauhati-781001	233667, 233672 233670 STD:0361 TLX: 0235-2412 GRAM: STOCKS	1-3-84	126

10.	The Hyderabad Stock Exchange Ltd., 3-6-275, Himayat Nagar, Hyderabad - 500029	236707 Tradiary Hall 231985, 236746 STD: 040 TLX: 0425-6053 GRAM: STOCK EXCHANGE	29-9-58	180
11.	The Jaipur Stock Exchange Ltd., Indira Place, Malaviya Nagar Jaipur - 320017	2552779, 27203637 STD: 0141 TLx: 0365-2648 GRAM: JAI STOCK	9-1-89	600
12.	The Mangalore Stock Exchange Ltd. 4th Floor, Ram Bhavan Complex, Kodal Bail Mangalore - 575 003	235853, 235613 235614 STD: 0284 FAX: 0824-34736 GRAM: STOCK ANARA	9-9-58	60
13.	The Ludhiana Stock Exchange Association Ltd., Phiroze, Gawhdi Market Clock Tower, Ludhiyana	239318, 239319 2404748 STD: 0161 GRAM: DEAL WELL	29-4-83	220
14.	The Madras Stock Exchange Building, P.B.No.183 11, Second Lane Beach, Chennai - 600 001	2512237, 2510845 2514897, 2513081 STD: 044-514897 GRAM: MASTEX	15-10-59	166
15.	The Madhya Pradesh Stock Exchange Ltd., Rajani Bhavan 3rd Floor M.G. Road, Opp:High Court Indore - 452 001	237423, 221773 STD: 0731 GRAM: INDSTEX	24-12-58	72
16.	The Magadh Stock Exchange Ltd., Bihar Industries Association Premises, P.B.No.7, PATNA - 800 001.	2262312, 2262320 2223644, 2222852 STD: 0612 GRAM: MAG EXCHANGE	01-12-86	187
17.	The Meerut Stock Exchange Ltd., Functional Kingsway Building, 345, Bombay Bazar, Meerut - 250 001	273633 STD: 0121		

18.	The Pune Stock Exchange Ltd., Shivleela Chambers, 752, Sadashivpath, R.B. Kumthekar Marg, Pune - 411 030.	2421584, 2858585 2441679, STD: 0212-430764 FAX: 0212-430764 GRAM: STOCK	2-9-82	73
19.	The Saurashtra Kutch Stock Exchange Ltd, 21, New Jagnath Dr. Yagnik Road, Rajkot - 360 002	248176, 242145 STD: 0281 TELEX: 0169-352 SKSEIN	July 89	300
20.	The U.P. Stock Exchange Association Ltd., Padam Towers, 14/113, Civil Lines Kanpur - 208 001	2210133 2210882, 2210601 STD: 0512 GRAM: SHARE BAZAAR	3-6-82	445
21.	The Vadodara Stock Exchange Ltd, 101, Paradise Complex, Opp: Commercial College, Tilak Road, Sayaji Ganj, Baroda - 390 005	232434 (p) 2327501 (E.D.) STD: 0285 GRAM: FAIR DEAL	1990	300
22.	Over the Counter Exchange of India (OTCEI) 92-93, Maker Towers, F. Cuffe Parade, Mumbai - 400 005.	22188164/654/66 22188023 STD: 023	23-8-89	1000
23.	National Stock Exchange of India Ltd., (NSE), Mahindra Towers, Near Doordarshan T.V. Tower, 1st Floor, 'A' Wing Kbc WORLI, Mumbai - 400 018	24928405 24932556 24932578 STD: 022 FAX : 24935631	26-4-93	400
24.	The Inter Connected Stock Exchange of India Ltd., (ICSE), Silver Arcade, 3rd Floor, 147, Marol Maroshi Road, Andheri, East, Mumbai - 400 059.	28593671 28593688 STD: 022 FAX: 8591879	21-10-97	

3.15 Key Words:

1. Capital Market	- This is the Barometer of that country's Economy and provides a mechanism for capital formation. Business firms use capital market for raising long-term funds to take up their capital budgeting proposals.
2. Stock Exchange	- Any body of individuals whether incorporated or not constituted for the purpose of regulating or controlling the business of buying, selling or dealing in securities.
3. SCR Act - 1956	- The Securities Contracts (Regulation) Act is formed in 1956 with the main objective of controlling and regulating the activities of Stock Exchange in India.
4. Online Trading	- Using NET as a medium for communicating client orders to the stock exchanges through broker websites.
5. Order Routing System	- Using the internet as a route for client orders to stock exchanges through a registered broker on behalf of clients for execution of trades.
6. BSE	- Bombay Stock Exchange
7. NSE	- National Stock Exchange
8. ICSE	- The Inter Connected Stock Exchange of India Ltd., (ICSE)
9. OTCEI	- Over the Counter Exchange of India.
10. SEBI	- Securities Exchange Board of India
11. Listing	- Means admission of securities of a company to dealing on a recognised stock exchange.

3.16 Self - Assessment Questions:

1. What are the functions of Stock Exchanges.
2. Specify the conditions for a person to become a member of Stock Exchange?
3. Discuss about Securities Control (Regulation Act) 1956.
4. Explain the powers of Central Government in respect of Stock Exchanges?
5. Explain the procedure of recognition of a Stock Exchange by the Government.
6. Discuss about the membership rules under SCR Act.
7. What are the salient features of trading at NSE?
8. Explain about Inter Connected Stock Exchange (ICSE)?
9. What is over the Counter Exchange of India.
10. Discuss about Broking and Trading in Equity.

3.17 Reading Books:

1. *Security Analysis and Portfolio Management* ; Punithavathy Pandian, Vikas Publishing House Pvt. Ltd.

2. *Investment Management;* V.A. Avadhani, Himalaya Publishing House.

3. *Investment and Securities Market in India Management, Investment Management;* V.A. Avadhani, Himalaya Publishing House.

4. *Banking and Financial Systems;* S.N. Maheswari and R.N. Paul, Kalyani Publishers, Ludhiana.

5. *Financial Institutions and Markets*, L.M. Bhole; Tata McGraw Hill Ltd., New Delhi.

6. *Indian Financial System;* M.Y. Khan, Tata McGraw Hill Publishing Co., Ltd., New Delhi.

Dr. A. SATHISH BABU