

MAA OMWATI DEGREE COLLEGE

HASSANPUR (PALWAL)

SUBJECT:- STOCK MARKET OPERATION (SEC)

M.com 1st sem.

Unit -1

Overview of Indian Securities Market

The **Indian securities market** refers to the platform where financial instruments such as stocks, bonds, and other securities are issued and traded. It plays a crucial role in mobilizing savings and channeling them into productive investments. The market enables businesses, governments, and other entities to raise capital and provides investors with opportunities to invest their funds. The securities market in India is regulated by the **Securities and Exchange Board of India (SEBI)**, which ensures fair practices and investor protection.

Meaning of the Securities Market

The **securities market** is a marketplace where various financial instruments like equity shares, bonds, debentures, derivatives, and government securities are bought and sold. It provides a platform for the exchange of securities, either through the **primary market** (where new securities are issued) or the **secondary market** (where existing securities are traded).

Functions of the Securities Market

The securities market performs several vital functions:

1. **Mobilizing savings:** It helps in channeling savings from households to businesses and the government for productive use.
2. **Capital formation:** It facilitates the raising of capital for companies, thereby promoting industrial growth.
3. **Price discovery:** Through the trading of securities, it helps in determining the market price of the securities.

4. **Liquidity:** The market provides liquidity to investors by enabling them to buy and sell securities.
5. **Efficient allocation of resources:** It ensures that capital flows to the most productive and profitable sectors of the economy.
6. **Risk diversification:** It allows investors to diversify their portfolios and manage risk by investing in different types of securities.

Intermediaries in the Securities Market

Several intermediaries facilitate the functioning of the securities market. These include:

1. **Stock Exchanges:** Organized platforms like the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) where securities are listed and traded.
2. **Brokers/Dealers:** They act as intermediaries between buyers and sellers in the securities market. They charge a commission for their services.
3. **Merchant Bankers:** They assist companies in raising capital through the issue of shares and bonds. They also advise on the structuring of financial products.
4. **Underwriters:** They agree to purchase the securities from the issuer if they are not sold to the public.
5. **Depositories:** They provide electronic storage of securities, ensuring their safe transfer between buyers and sellers.
6. **Custodians:** These are entities that safeguard securities on behalf of investors, ensuring their safekeeping and transfer.
7. **Registrar and Transfer Agents:** They manage the transfer of securities and maintain investor records.

Role of the Primary Market

The **primary market** (also known as the new issue market) is where new securities are issued for the first time to raise capital for companies or the government. This market enables the creation of new financial instruments that investors can purchase. The primary market serves several important functions:

1. **Capital Raising:** Companies can raise funds through equity shares, bonds, or other securities for business expansion, acquisitions, or working capital needs.
2. **Government Fundraising:** Governments issue securities (like bonds) to raise funds for developmental projects.
3. **Direct Investment Opportunities:** Investors in the primary market purchase securities directly from issuers, often at a fixed price, providing them with an opportunity to invest in new projects or companies.
4. **Price Discovery:** The price at which securities are issued in the primary market reflects the market's assessment of their value.

Methods of Floatation of Capital

Companies use several methods to float capital in the primary market:

1. **Public Issue:** This is the most common method where a company offers its securities (shares, bonds) to the public for the first time, through an Initial Public Offering (IPO).
 - o **IPO (Initial Public Offering):** Companies issue shares to the public for the first time to raise equity capital.
2. **Private Placement:** Companies offer securities directly to a select group of institutional investors or high-net-worth individuals (HNIs) rather than the general public.
3. **Rights Issue:** This method involves offering new shares to existing shareholders in proportion to their current holdings, typically at a discount.
4. **Bonus Issue:** A company issues new shares to existing shareholders free of cost, based on their existing holdings. This is often used as a way to distribute accumulated profits to shareholders.
5. **Preferential Allotment:** A company issues securities to a specific group of investors (such as promoters, institutional investors, or others) at a preferential price.
6. **Qualified Institutional Placement (QIP):** This is a fast-track route for raising capital by offering securities to institutional investors.

Problems of the New Issue Market (Primary Market)

While the primary market plays a vital role in the economy, it faces several challenges:

1. **Overpricing of Issues:** Companies may overprice their initial public offerings (IPOs), leading to poor post-issue performance and losses for investors. This often results in lack of investor confidence.
2. **Poor Market Sentiment:** Economic downturns or volatile market conditions can discourage companies from raising funds in the primary market or result in low demand for the new issues.
3. **Lack of Transparency:** Sometimes, there is insufficient information provided by companies to investors, making it difficult for them to make informed decisions.
4. **Delayed Listings:** Companies may delay their listings or fail to meet listing requirements, causing the investors to face uncertainty regarding the availability of trading opportunities.
5. **Regulatory Challenges:** Despite the presence of the SEBI, challenges like lack of stringent enforcement of regulations and insider trading still exist in the new issue market.
6. **Fluctuating Investor Demand:** The success of a new issue largely depends on investor sentiment and demand, which can be influenced by market conditions, interest rates, or company-specific factors.

IPOs and Investor Protection in the Primary Market

The **Initial Public Offering (IPO)** is one of the most common methods for companies to raise capital in the primary market by issuing shares to the public for the first time. However, with increased investor participation, ensuring **investor protection** in IPOs has become a key concern. The Securities and Exchange Board of India (SEBI) has implemented various measures to safeguard the interests of investors in IPOs:

Investor Protection Measures:

1. **Disclosure Requirements:** SEBI mandates that companies issuing an IPO must provide comprehensive disclosures in their **prospectus**. This includes details about the company's financials, business model, risk factors, and management. The aim is to ensure transparency and help investors make informed decisions.
2. **Price Discovery and Fair Pricing:** Companies are required to disclose the offer price or price band (for book-built issues), ensuring that investors can assess the value of the securities. The **book-building process** involves institutions and investors bidding for shares within a specified price range, ensuring price discovery based on demand and supply.
3. **Securities Allotment Guidelines:** SEBI has laid down strict rules for **allotment of shares** in the IPO to ensure fairness. In case of oversubscription, shares must be allotted on a pro-rata basis, ensuring no favoritism towards institutional investors.
4. **Minimum Subscription Requirements:** SEBI mandates a minimum subscription level (usually 90%) for an IPO to be considered successful, ensuring that companies can only access public capital if there is adequate demand.
5. **Investor Grievance Redressal Mechanisms:** SEBI has established mechanisms like **SEBI Complaints Redress System (SCORES)** to address investor complaints and provide timely resolution.
6. **Risk Warnings:** SEBI requires IPO prospectuses to highlight risks associated with the company and the securities being issued, ensuring that investors are aware of potential downsides before investing.
7. **Lock-In Period for Promoters:** To prevent market manipulation, the shares held by the promoters (usually before the IPO) are subject to a **lock-in period** (typically 1-3 years) after the IPO. This prevents promoters from selling their shares immediately, thus instilling confidence in investors.
8. **Adherence to Listing Regulations:** SEBI ensures that companies adhere to **listing requirements** once the IPO is completed. This ensures that the companies maintain good corporate governance practices and transparency after the public listing.

Recent Trends in the Primary Market

In recent years, the primary market in India has experienced several notable trends:

1. **Surge in IPO Activity:** There has been a notable **increase in IPOs**, particularly post-pandemic, driven by favorable market conditions, growing investor awareness, and a shift towards digital platforms for easy access to investment. Companies across various sectors such as technology, healthcare, and finance have been tapping the market for funds.
2. **Retail Participation:** Retail investor participation in IPOs has grown significantly, aided by the rise of **demat accounts**, online trading platforms, and the overall financial literacy of the general public. Retail investors are now taking a larger share of IPO allotments compared to earlier times.
3. ****Rise of Tech-Focused IPOs:** With the rapid growth of the tech sector in India, many tech companies (such as Zomato, Nykaa, and Paytm) have gone public, marking a shift towards technology-driven businesses in the IPO market.

4. **High Volatility and Price Revisions:** Some IPOs have witnessed **price volatility** post-listing, with their share prices fluctuating significantly. As a result, investors are becoming more cautious about the performance of newly listed companies.
5. **Private Equity Backed IPOs:** Many IPOs are now backed by **private equity firms** who play an active role in the pre-IPO stages, which has led to increased sophistication in the pricing and structuring of the offerings.
6. **SPACs (Special Purpose Acquisition Companies):** Although still relatively new in India, there has been growing interest in **SPAC IPOs**, where companies are listed via a merger with a listed special purpose vehicle. This trend has been observed more in the US but is being explored in the Indian context.

SEBI's Measures for the Primary Market

SEBI (Securities and Exchange Board of India) plays a crucial role in ensuring the smooth functioning of the primary market by regulating the issuance of securities and ensuring investor protection. Some of the key measures include:

1. **Regulation of Public Issues:** SEBI issues guidelines on **disclosures, pricing, and allotment** for IPOs, ensuring transparency and fairness in the capital-raising process. SEBI also monitors compliance with these regulations.
2. **Investor Protection Initiatives:** SEBI regularly updates investor protection frameworks, such as the **Investor Protection Fund (IPF)**, which compensates investors in case of default by market intermediaries.
3. **Minimum Subscription and Refunds:** SEBI mandates that a minimum subscription level must be achieved for an IPO to be considered successful. If this level is not met, the company must refund investors, ensuring their interests are protected.
4. **Regulation of Underwriters:** SEBI enforces strict regulations for **underwriters** (who guarantee the issuance of shares), ensuring they play a fair role in the issue and avoid manipulative practices.
5. **Prevention of Market Manipulation:** SEBI actively monitors the primary market for any signs of market manipulation, insider trading, or fraudulent activities related to new issues.
6. **Strengthening of the Disclosures and Due Diligence Process:** SEBI enforces stringent **due diligence** by requiring merchant bankers to ensure that companies comply with all regulatory requirements before an issue is made. This ensures that the securities offered are of a certain quality and that investors are protected.

Meaning, Nature, and Functions of the Secondary Market

The **secondary market** is where existing securities (stocks, bonds, derivatives, etc.) are bought and sold between investors after they have been issued in the primary market. It provides a platform for **trading securities** and plays a vital role in the overall functioning of the capital markets.

Meaning:

The **secondary market** refers to the marketplace where previously issued securities are bought and sold by investors. It is also known as the **stock market** or **capital market**, and it includes **stock exchanges** (such as the NSE, BSE) and **over-the-counter (OTC) markets**.

Nature of the Secondary Market:

- **Liquid and Competitive:** The secondary market provides liquidity to investors, enabling them to buy and sell securities at prevailing market prices. It helps in price discovery, reflecting supply and demand dynamics.
- **Regulated:** The secondary market is heavily regulated by entities like SEBI to ensure fair practices, transparency, and investor protection.
- **Continuous Trading:** Unlike the primary market, which operates in fixed intervals (during an IPO), the secondary market operates continuously, allowing for real-time buying and selling of securities.

Functions of the Secondary Market:

1. **Liquidity:** The secondary market provides liquidity, enabling investors to buy or sell securities whenever they want.
2. **Price Discovery:** The market helps in determining the current market price of securities based on supply and demand dynamics. This provides a clear signal to investors about the fair value of a company's stock.
3. **Capital Formation:** The secondary market indirectly contributes to capital formation. By making securities more liquid, it encourages investors to buy and hold them, thus supporting businesses in raising capital in the future.
4. **Risk Diversification:** The secondary market allows investors to diversify their portfolios by investing in different types of securities, which helps in managing risk.
5. **Investment Channel:** It provides investors with opportunities to buy and sell a wide range of financial instruments like stocks, bonds, mutual funds, etc., to meet their investment objectives.
6. **Market Efficiency:** A well-functioning secondary market ensures that information about companies is efficiently reflected in their market prices, promoting market transparency.

Organization and Regulatory Framework for Stock Exchanges in India

The **organization and regulatory framework** for stock exchanges in India is structured to ensure that securities markets function in an orderly, transparent, and efficient manner. This framework includes various players, such as stock exchanges, regulatory bodies, and market participants, and is governed by a combination of statutory and self-regulatory mechanisms.

Key Regulatory Bodies:

1. **Securities and Exchange Board of India (SEBI):**

- **Role:** SEBI is the principal regulatory authority for the securities markets in India. It is responsible for creating and enforcing regulations to protect investors, ensure market integrity, and promote the development of capital markets.
 - **Regulatory Powers:** SEBI has wide-ranging powers over market intermediaries, listed companies, and exchanges. It drafts regulations in consultation with the government, issues guidelines for IPOs and secondary market activities, and monitors compliance.
2. **Stock Exchanges:**
 - The **stock exchanges** are self-regulatory organizations (SROs) responsible for providing a platform for securities trading and ensuring compliance with market rules and regulations.
 - They set rules for the conduct of trading and are responsible for implementing SEBI's regulations in their operations.
 - Major stock exchanges in India include the **Bombay Stock Exchange (BSE)**, **National Stock Exchange (NSE)**, **Calcutta Stock Exchange (CSE)**, and **Metropolitan Stock Exchange (MSE)**.
 3. **Ministry of Finance:**
 - The Ministry of Finance (under the Government of India) is responsible for overseeing the overall regulatory framework of the securities markets. It enacts policies and coordinates with SEBI to ensure that the market functions efficiently.
 4. **Reserve Bank of India (RBI):**
 - RBI plays a complementary role in regulating the financial markets, particularly in matters related to banking, monetary policy, and the management of currency.
 5. **Clearing Corporations:**
 - Clearing corporations, such as **National Securities Clearing Corporation (NSCCL)**, are responsible for clearing and settling trades made on stock exchanges. They ensure that securities and funds are exchanged smoothly after a trade is made.

Organization of a Stock Exchange:

- **Governing Board:** The governing body of a stock exchange is responsible for the overall governance, policy decisions, and regulatory oversight. The board consists of professionals, representatives from SEBI, and other stakeholders.
- **Trading Members:** These are entities or individuals who participate in the trading process. Trading members must be registered with SEBI and adhere to its regulations.
- **Listed Companies:** These are companies whose shares or other securities are listed for trading on the stock exchange.

Defects in the Working of Indian Stock Exchanges

While the Indian stock exchanges have undergone significant reforms over the years, some defects still persist, affecting their efficiency and credibility:

1. **Lack of Transparency:**
 - Despite significant regulatory improvements, there are still concerns about **insider trading**, **manipulation of stock prices**, and **opacity in corporate disclosures**. This can lead to market inefficiency and loss of investor trust.
2. **Over-Dependence on Institutional Investors:**

- In recent years, the market has been dominated by **institutional investors** (such as mutual funds, insurance companies, and foreign institutional investors or FIIs), leading to concerns that the interests of **retail investors** may not be adequately represented.
- 3. **Market Manipulation and Insider Trading:**
 - Despite stringent regulations, market manipulation practices such as **pump-and-dump** schemes, **insider trading**, and **front-running** (trading on privileged information) still occur in the Indian stock market, undermining investor confidence.
- 4. **Low Investor Awareness:**
 - A significant portion of retail investors lacks understanding of **capital market instruments, trading strategies, and regulatory measures**. This often leads to poor investment decisions, high risks, and financial losses.
- 5. **Operational Risks:**
 - Indian stock exchanges, despite being technologically advanced, have faced occasional **technical glitches** and issues related to **system downtime** during peak trading hours, affecting market functioning and investor sentiment.
- 6. **Liquidity Issues in Certain Sectors:**
 - While the major stocks are well-traded, **smaller stocks** or stocks from **lesser-known sectors** often face liquidity problems, which can hinder effective price discovery and increase the volatility of these stocks.
- 7. **Regulatory Gaps:**
 - Some of the older regulations may not be fully aligned with **modern market practices**. For instance, the **lack of regulation of high-frequency trading (HFT), cryptocurrency trading, and derivatives markets** remains an area of concern.

SEBI Measures for Secondary Market

SEBI has implemented several measures to ensure fair, transparent, and efficient functioning of the **secondary market**, where existing securities are traded between investors:

1. **Market Surveillance:**
 - SEBI regularly monitors market activities to detect and prevent **market manipulation, insider trading, and other unfair practices**. It uses technology and data analytics to track suspicious trading patterns.
2. **Regulation of Market Intermediaries:**
 - SEBI has established guidelines for **brokers, dealers, and other intermediaries** to ensure that they act in the best interests of investors. It ensures that market participants maintain proper **compliance standards** and ethical practices.
3. **Investor Protection Fund (IPF):**
 - SEBI mandates that stock exchanges maintain an **Investor Protection Fund (IPF)** to compensate investors in case of defaults by brokers or market intermediaries.
4. **Tightening Disclosure Norms:**
 - SEBI requires companies listed on stock exchanges to provide timely and accurate information through **disclosures** regarding financial performance, corporate governance, and related-party transactions. This ensures that investors have access to relevant data before making investment decisions.
5. **Corporate Governance Guidelines:**

- SEBI has laid down stringent **corporate governance norms** for listed companies to ensure transparency and accountability in their operations. These include provisions for **independent directors, audit committees, and disclosure of related-party transactions.**
- 6. **Short Selling and Margin Trading Regulations:**
 - SEBI regulates **short-selling, margin trading, and securities lending and borrowing** to prevent abusive practices that may lead to unnecessary volatility in the secondary market.
- 7. **Risk Management:**
 - SEBI mandates that stock exchanges implement strong **risk management systems** to manage **market volatility** and prevent excessive risks. This includes margin requirements, position limits, and circuit breakers (to temporarily halt trading in case of extreme price movements).
- 8. **Reforms in Trading Mechanisms:**
 - SEBI has introduced a **T+2 settlement cycle** (i.e., trade date + 2 working days) to ensure quicker settlement and reduce the risk of **settlement defaults.**

Overview of Major Stock Exchanges in India

India has a well-developed network of stock exchanges where trading in securities takes place. The major exchanges in India include:

1. *Bombay Stock Exchange (BSE):*

- **Established:** 1875, making it one of the oldest stock exchanges in Asia.
- **Location:** Mumbai, Maharashtra.
- **Key Features:**
 - BSE is known for its wide range of listed companies and its **benchmark index**, the **S&P BSE Sensex.**
 - It operates on an **electronic trading platform** and has an **extensive network** of trading members.
 - BSE has the largest number of listed companies compared to any other exchange in the world.

2. *National Stock Exchange (NSE):*

- **Established:** 1992.
- **Location:** Mumbai, Maharashtra.
- **Key Features:**
 - NSE is India's largest stock exchange by market capitalization and trading volume.
 - **Nifty 50** is the benchmark index of NSE, which represents the top 50 companies listed on the exchange.
 - It pioneered **dematerialized trading** (paperless trading) and introduced several **innovative market segments** such as **futures and options.**
 - NSE is recognized for its efficient trading platform and robust risk management systems.

3. Calcutta Stock Exchange (CSE):

- **Established:** 1908.
- **Location:** Kolkata, West Bengal.
- **Key Features:**
 - CSE is a smaller exchange compared to BSE and NSE but plays a significant role in the regional capital markets.
 - It primarily focuses on **equity trading** and is well-known for its regional reach.

4. Metropolitan Stock Exchange of India (MSE):

- **Established:** 2008.
- **Location:** Mumbai, Maharashtra.

Unit – 2

Listing of Securities: Meaning, Merits and Demerits

Meaning of Listing of Securities: The process of **listing of securities** refers to the inclusion of a company's securities (stocks, bonds, or other financial instruments) on a **stock exchange**. When securities are listed, they become available for public trading, and the company is required to adhere to the regulatory standards set by the stock exchange and the **Securities and Exchange Board of India (SEBI)**.

Once listed, these securities can be bought and sold by investors in the secondary market. The listing of securities ensures **transparency**, **liquidity**, and **marketability** for the company's shares or other instruments.

Merits of Listing of Securities:

1. **Access to Capital:** By listing its securities, a company can raise capital through the issuance of shares or bonds, enabling it to fund expansion, research, or other business activities.
2. **Liquidity:** Listing provides **liquidity** to the securities, as they can be freely bought and sold in the market. Investors find it easier to exit their investments.
3. **Market Valuation:** A listed company's stock price reflects the **market's perception** of its value, which can serve as a benchmark for its financial health and business prospects.
4. **Improved Corporate Image:** Being listed on a reputed stock exchange can enhance the company's **credibility** and **visibility**, which can attract more investors and customers.

5. **Mergers and Acquisitions (M&A):** Listed companies can use their shares as a medium for **acquisitions** and mergers, making it easier to expand their operations or diversify into new areas.
6. **Stock-Based Compensation:** Listed companies can offer **stock options** or **equity-based compensation** to employees, which can be a powerful tool to retain talent.
7. **Regulatory Oversight:** Listing subjects companies to **regulations** and **disclosures** that promote better **corporate governance** and transparency, enhancing investor trust.

Demerits of Listing of Securities:

1. **Costs Involved:** The listing process is costly, involving significant fees for **listing, compliance, annual reporting, and audit costs**. Companies must also maintain ongoing legal and accounting expenses.
 2. **Increased Scrutiny:** Listed companies are subject to **increased regulatory scrutiny** and must adhere to strict **disclosure requirements**, which can be burdensome for smaller firms.
 3. **Loss of Control:** Publicly listed companies may face pressure from investors, particularly **institutional investors**, to meet quarterly performance targets, which may not align with the company's long-term goals.
 4. **Vulnerability to Market Volatility:** The stock price of a listed company is subject to **market fluctuations**. Adverse market conditions can result in stock price volatility, affecting the company's valuation and investor sentiment.
 5. **Legal and Compliance Risks:** Non-compliance with **listing regulations, financial disclosures**, or corporate governance standards can lead to legal issues, **fines**, and **reputational damage**.
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Listing Requirements

Stock exchanges have specific requirements for companies seeking to list their securities. These listing requirements include a combination of **financial, legal, and disclosure-related** criteria. Key requirements include:

1. **Minimum Paid-up Capital:** A company must have a minimum paid-up capital (e.g., ₹10 crore for BSE or ₹25 crore for NSE) to be eligible for listing.
2. **Minimum Number of Shareholders:** The company must have a minimum number of shareholders (e.g., at least 1,000 shareholders for BSE) to ensure liquidity and broad participation.
3. **Track Record:** Most stock exchanges require the company to have a certain track record of operations, typically around **3 years**, with audited financial statements for that period.
4. **Disclosures and Transparency:** Companies must adhere to the **disclosure norms** regarding financial statements, **audits**, and **corporate governance**. They must also submit a **prospectus** or a **listing document** outlining their financials, business plans, and risk factors.

5. **Minimum Public Shareholding:** Companies must maintain a minimum percentage of shares in public hands (e.g., at least 25% of the shares for a company listed on the NSE/BSE).
 6. **Corporate Governance:** Companies must comply with corporate governance standards, such as having independent directors, audit committees, and proper reporting of related-party transactions.
 7. **Profitability Criteria:** Some exchanges require that the company be **profitable** for a certain number of years before listing.
 8. **Timely Payment of Listing Fees:** A company must pay the prescribed **listing fees** to the exchange for processing the listing application.
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Procedure for Listing of Securities

The procedure for listing involves several steps, which may vary slightly depending on the stock exchange (e.g., BSE or NSE), but generally include the following:

1. **Eligibility Assessment:** The company checks whether it meets the exchange's listing requirements.
 2. **Appointment of Intermediaries:** The company hires various intermediaries, such as **merchant bankers, legal advisors, and auditors**, to assist in the listing process.
 3. **Preparation of Offer Document:** The company prepares a comprehensive **prospectus** or **offer document** outlining its business operations, financial performance, risk factors, and corporate governance practices.
 4. **Approval from SEBI:** The company submits its prospectus to **SEBI** for review and approval. SEBI ensures that the company complies with the relevant disclosure and regulatory requirements.
 5. **Filing with the Stock Exchange:** After SEBI's approval, the company files the listing application with the stock exchange(s) where it intends to list its securities (e.g., NSE, BSE).
 6. **Final Listing Approval:** The stock exchange verifies the documents and ensures compliance with the listing criteria before granting approval.
 7. **Opening for Public Subscription:** For IPOs, the company opens the issue for public subscription and raises capital. For a direct listing (e.g., through a bonus or rights issue), the shares are directly listed.
 8. **Allotment and Trading:** After the issue is closed, the company's securities are **allotted** to investors, and they start trading on the exchange once the listing approval is granted.
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Listing Fees

Listing fees are the costs that a company has to pay to the stock exchange for being listed. These include:

1. **Initial Listing Fees:** Paid when the company is first listed. The amount depends on the size of the issue, the paid-up capital, and the stock exchange.
2. **Annual Listing Fees:** Paid annually to maintain the listing status. These fees are usually based on the market capitalization of the listed company and the volume of trading.
3. **Additional Fees for Specific Activities:** There may be additional charges for specific activities such as **delisting**, **public issues**, or **bonus issues**.

Listing of Specific Issues: Rights Issue, Bonus Issue, Further Issue

Rights Issue:

A **rights issue** is an offer of new shares made to existing shareholders in proportion to their existing holdings. This allows the company to raise capital without diluting control too much.

- **Procedure for Listing:**
 - The company announces the rights issue, and shareholders are given the option to purchase additional shares at a predetermined price.
 - After the rights issue is completed, the new shares are listed on the stock exchange.
- **Listing Requirements for Rights Issue:**
 - The company must submit the rights issue details, including the offer price, entitlement ratio, and the offer period.
 - The securities issued in a rights issue must be listed in the same manner as regular IPO shares.

Bonus Issue:

A **bonus issue** is the issuance of free shares to existing shareholders in proportion to their current holdings, often to reward loyal investors or to convert accumulated profits into capital.

- **Procedure for Listing:**
 - The company announces the bonus issue along with the ratio (e.g., 1:1, 1:2).
 - After the bonus shares are issued to shareholders, the company applies for listing of these bonus shares on the stock exchange.
- **Listing Requirements for Bonus Issue:**
 - Similar to the rights issue, a bonus issue requires filing the necessary documentation with the exchange for approval.
 - The bonus shares must be listed and traded alongside the company's existing shares.

Further Issue (Public Issue/Follow-on Public Offering - FPO):

A **further issue** refers to the issuance of additional shares after an IPO. This may include a **follow-on public offering (FPO)**, where a company issues additional shares to raise more capital from the market.

- **Procedure for Listing:**

- The company files a detailed **prospectus** for the further issue with SEBI, indicating the offer price, number of shares, and terms of the issue.
 - Once approved by SEBI, the company applies for the listing of the further issue on the stock exchange.
 - **Listing Requirements for Further Issue:**
 - Similar to the IPO process, the company must ensure that the additional shares meet the exchange's listing criteria and follow the legal requirements.
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Delisting of securities from the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) in India occurs when a listed company's shares are removed from the exchange, meaning they are no longer available for trading. Delisting can be either voluntary or compulsory, and the conditions and procedures for delisting are governed by regulations outlined by the Securities and Exchange Board of India (SEBI) and the respective exchanges.

Here are the conditions and procedures for delisting from BSE and NSE:

1. Voluntary Delisting

This occurs when a company chooses to remove its shares from the stock exchange. Companies may decide to delist for various reasons such as mergers, acquisitions, financial restructuring, or a decision to focus on private ownership. The process involves the following steps:

Conditions for Voluntary Delisting:

- **Board Approval:** The company's board must approve the proposal for delisting.
- **Shareholder Approval:** A special resolution must be passed by the shareholders through a general meeting. The resolution requires approval from at least two-thirds of the shareholders who are present and voting.
- **Exit Offer:** The company is required to make an exit offer to its shareholders, allowing them to sell their shares to the promoters or acquirers. The offer must be made at a fair value, determined in accordance with the SEBI (Delisting of Equity Shares) Regulations, 2009.
- **Minimum Public Shareholding:** Companies must ensure that the public shareholding is reduced to a level that satisfies the minimum public float requirements as set by the exchanges and SEBI.
- **Compliance with SEBI Regulations:** The company must comply with the SEBI (Delisting of Equity Shares) Regulations, 2009, including determining the exit price and the process for buying back shares from shareholders.

Process for Voluntary Delisting:

1. **Board Resolution:** Approval of the delisting proposal by the company's board.
2. **Shareholder Approval:** Passing of a special resolution by shareholders.
3. **Offer to Shareholders:** The company must provide an exit offer to its public shareholders, with the exit price decided based on a reverse book-building process or through negotiation.

4. **Notification to Exchanges:** The company must notify the exchanges about the delisting, once the exit offer is successful.
5. **Completion of Delisting:** After completing the exit offer and complying with all SEBI regulations, the company's shares are delisted.

2. Compulsory Delisting

This occurs when the exchange, i.e., BSE or NSE, delists a company's securities for failing to comply with the listing requirements, such as minimum public shareholding, financial reporting, or other statutory requirements.

Conditions for Compulsory Delisting:

- **Failure to Maintain Minimum Public Shareholding:** If a company fails to maintain the minimum public shareholding of 25% for listed companies, as mandated by SEBI, it may face compulsory delisting.
- **Non-compliance with Regulatory Requirements:** If a company fails to comply with continuous listing requirements, such as timely filing of financial results, corporate governance norms, or other disclosures, the exchanges can initiate delisting.
- **Failure to Pay Fees or Meet Standards:** If a company does not pay the listing fees or fails to meet the exchange's requirements for governance and other listing standards, it can face delisting.
- **Insolvency or Bankruptcy:** If a company undergoes insolvency or bankruptcy proceedings, the exchange may delist the company from the bourse.
- **Failure to Maintain Trading Volume:** A company that has low trading volumes or is considered dormant might face delisting.

Process for Compulsory Delisting:

1. **Notice of Non-Compliance:** If the exchange finds non-compliance with listing norms, it issues a notice to the company.
2. **Opportunity for Rectification:** The company is typically given an opportunity to rectify the non-compliance within a specified period.
3. **Decision for Delisting:** If the company fails to comply within the given time frame, the exchange may issue a final notice for compulsory delisting.
4. **Completion of Delisting:** Once delisted, the company's securities will be removed from the exchange, and they can no longer be traded on the platform.

3. Procedure for Delisting

The procedure for delisting is clearly outlined by SEBI, which ensures transparency and fairness in the process. Some of the key steps include:

- **Exit Offer Pricing:** In the case of voluntary delisting, the price of the exit offer is typically determined through a reverse book-building process. This allows shareholders to bid for a fair price at which they would be willing to sell their shares.

- **Reverse Book Building Process:** A mechanism where the shareholders can place bids for the price at which they are willing to sell their shares. The price that is accepted depends on the bids received during the offer period.
- **Public Announcement:** The company must announce the delisting to the public through advertisements, specifying the timeline for the exit offer and the price offered.
- **Approval from Stock Exchange:** The company must seek final approval from the stock exchange (BSE/NSE) for delisting once all the procedures are completed.

Key Regulations Governing Delisting

- **SEBI (Delisting of Equity Shares) Regulations, 2009:** These regulations lay down the detailed procedures for voluntary delisting, reverse book-building, exit offer pricing, and other aspects of the delisting process.
- **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:** This regulation also outlines the ongoing compliance requirements that must be met for companies listed on the stock exchanges.

Consequences of Delisting

- **Liquidity Impact:** Once delisted, the company's shares are no longer available for public trading on the exchange, which may affect their liquidity.
- **Shareholder Impact:** Shareholders may find it difficult to sell their shares once the company is delisted, although they may have the option to sell their shares during the exit offer.

BSE (Bombay Stock Exchange) Trading Systems

BSE uses different trading systems to facilitate the exchange of securities. Each system is designed for different types of market participants and securities. The key trading systems include:

1. BOLT System (BSE Online Trading System):

- **BOLT** is the BSE's online trading platform, which is fully automated and provides a screen-based trading environment for participants.
- **Key Features:**
 - **Fast Execution:** Real-time processing of orders.
 - **Integrated:** It links trading, settlement, clearing, and surveillance systems.
 - **Order Matching:** It matches buy and sell orders for equities, derivatives, and other products.
 - **Market Order Types:** Supports various order types, including limit orders, market orders, and stop-loss orders.
 - **Pre-Trade Risk Management:** Checks for adequate funds, margin requirements, and positions before order execution.

2. Share Groups on BSE:

Securities on BSE are classified into different **share groups** based on various parameters like liquidity, trading volumes, and risk profiles. These groups help in determining the trading conditions, margins, and settlement requirements for the securities.

- **Group A:** High liquidity stocks, actively traded.
 - **Group B:** Moderate liquidity stocks, with fewer trades.
 - **Group T:** Stocks traded on a T+1 (trade date + 1 day) basis.
 - **Group Z:** Stocks under surveillance or with low liquidity.
 - **Group XT, XU, etc.:** Groups based on special trading conditions.
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Settlement Systems on BSE

1. Types of Settlements:

- **T+2 Settlement:** The standard settlement system in BSE, where trades are settled on the second business day after the trade date. The buyer must pay for the securities, and the seller must deliver the securities within this period.
- **T+1 Settlement:** Some stocks may settle in one day, typically for high liquidity or specific groups (e.g., Group T).
- **Cash Settlement:** In certain cases (like derivatives), settlements are done in cash rather than delivering physical shares.

2. Pay-In and Pay-Out:

- **Pay-In:** The process by which the seller delivers securities to the clearinghouse or exchange after a trade. It involves the transfer of shares from the seller's demat account to the buyer's demat account.
 - **Pay-Out:** The process through which the buyer receives securities or funds (if cash settlement) after the settlement day. The clearinghouse credits the buyer's account with the shares or cash.
 - **Timeframes:** Pay-in and pay-out are executed at specified times, depending on the settlement cycle, typically after T+2 or T+1 days.
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Bad Delivery, Short Delivery, and Auction

- **Bad Delivery:** Occurs when the securities delivered by the seller do not meet the required standards set by the exchange, such as mismatch in share certificates, incorrect signatures, or missing documents.
 - **Consequence:** The delivery is rejected, and the seller must provide correct securities.

- **Short Delivery:** Happens when a seller fails to deliver the securities on time as per the settlement schedule.
 - **Consequence:** The exchange or clearinghouse may conduct an auction or impose penalties.
 - **Auction:** If a short delivery or bad delivery occurs, the exchange conducts an auction to buy back the securities from the market and deliver them to the buyer at the prevailing market price.
 - **Purpose:** It ensures that the buyer gets the securities even if the original seller fails to deliver.
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NSE (National Stock Exchange)

The NSE has a sophisticated trading system with multiple market segments and order types. The trading infrastructure is designed for high-speed, high-volume transactions and offers a wide range of financial instruments.

1. Market Segments on NSE:

- **Capital Market (Equity Segment):** The primary market for trading equities or stocks. It includes regular trading of shares, IPOs, and rights issues.
- **Derivative Segment:** Covers futures and options contracts on equities, indices, and other instruments.
- **Currency Derivatives Segment:** Deals with currency pairs and futures contracts in forex markets.
- **Debt Segment:** Bonds, Government securities, and other fixed-income instruments are traded here.
- **Commodity Derivatives:** Futures and options trading for commodities like gold, silver, crude oil, etc.

2. NEAT System (National Exchange for Automated Trading):

- **NEAT** is the NSE's fully automated screen-based trading system for executing orders in a fast, transparent, and efficient manner.
 - **Core Features:**
 - **Order Matching:** Automatically matches buy and sell orders.
 - **Risk Management:** Implements risk management tools like margining, circuit breakers, and position limits.
 - **Real-time Execution:** Trades are executed in real-time, ensuring minimal latency.
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NSE Market Types, Order Types, and Books

1. Market Types on NSE:

- **Normal Market:** The regular market segment where securities are traded on the exchange without any special conditions. Orders are matched based on price and time priority.
- **Block Deal Market:** A facility for executing large transactions (usually greater than 5 lakh shares or ₹5 crores) outside the normal trading system. These deals must be reported to the exchange.
- **After Market Orders (AMO):** Orders placed after market hours but executed during the next trading session.
- **Auction Market:** Used for the settlement of short delivery or bad delivery situations, similar to BSE.

2. Order Types on NSE:

- **Limit Orders:** The buyer specifies the maximum price they are willing to pay, or the seller specifies the minimum price they are willing to accept. Orders are executed only at that price or better.
- **Market Orders:** An order to buy or sell a security at the best available price in the market. These orders are executed immediately.
- **Stop Loss Orders:** A type of order used to limit losses. A stop loss order is triggered when the price of the stock reaches a specified threshold.
- **Good Till Cancelled (GTC):** An order that remains open until it is either executed or canceled by the trader.
- **Immediate or Cancel (IOC):** An order that must be executed immediately, with any unfilled portion of the order being canceled.
- **All or None (AON):** An order type that will only be executed in full; if the full order cannot be filled, it will not be executed at all.

3. Order Books:

- **Order Book:** A system that records all the buy and sell orders placed in the market.
 - The **Buy Book** contains all pending buy orders.
 - The **Sell Book** contains all pending sell orders.
 - The system matches orders from the buy and sell books to execute transactions.

4. Types of Settlement:

- **T+2 Settlement:** Like BSE, NSE also follows a T+2 settlement cycle for most equity transactions, where the settlement occurs two days after the trade date.
- **Auction:** Used in case of short delivery or bad delivery, just like on BSE.

Summary

- **BSE:** Uses the **BOLT system** for trading and has different **share groups** based on the liquidity and risk levels of stocks. It follows a **T+2 settlement cycle** and manages **pay-in and pay-out** processes. Delisting events like **bad delivery** and **short delivery** are managed through the **auction process**.
- **NSE:** Offers various **market segments** like **equity, derivatives, and currency** segments. The **NEAT system** is used for fast, automated trading. It also supports multiple **order types** (limit, market, stop loss) and provides sophisticated risk management features. The settlement system follows **T+2**, with **auctions** used in case of short deliveries or bad deliveries.

De-mat Settlement vs Physical Settlement

1. Dematerialized (De-mat) Settlement:

- **De-mat settlement** refers to the electronic transfer of securities from one account to another in the **dematerialized form** (i.e., without any physical certificates). This is the primary method for settling trades in the Indian stock markets today.
- **Process:**
 - When a trade is executed, the buyer's broker transfers the securities from the seller's **demat account** to the buyer's demat account.
 - **T+2 Settlement:** This process typically occurs two days after the trade date (T+2) in line with the standard settlement cycle.
 - **No Physical Certificates:** There are no physical share certificates involved; the ownership is transferred electronically via the **Depository Participant (DP)** in the **National Securities Depository Limited (NSDL)** or **Central Depository Services (India) Limited (CDSL)**.

2. Physical Settlement:

- **Physical settlement** refers to the transfer of **physical share certificates** from the seller to the buyer.
 - **Process:**
 - In the case of physical settlement, after a trade is executed, the buyer has to receive physical share certificates from the seller.
 - **Rare:** Physical settlement is rarely used today in equity markets, as it involves a cumbersome process of sending physical certificates and verifying them, unlike dematerialized settlement.
 - **Regulations:** The Securities and Exchange Board of India (SEBI) has mandated **dematerialization** of shares for all listed companies to make trading more efficient and secure.
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Institutional Segment:

The **institutional segment** refers to the market activities involving **institutional investors**, such as mutual funds, hedge funds, insurance companies, pension funds, and other large financial entities, rather than individual retail investors.

- **Key Features:**
 - **Larger Trades:** Institutional investors often trade in **large quantities** of securities, often influencing market trends.
 - **Dedicated Platforms:** Some exchanges provide specialized platforms or segregated market segments to handle the orders of institutional participants.
 - **Compliance and Reporting:** Institutional investors need to adhere to higher levels of compliance, reporting, and risk management due to their large financial scale.
 - **Block Deals:** Large transactions, also known as **block deals**, are often executed by institutional investors at a negotiated price, separate from the regular market.
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Funds Settlement:

- **Funds settlement** refers to the process of settling cash or money for the purchase and sale of securities.
 - **Process:**
 - **T+2 Settlement:** Just like the securities, the payment for the securities is settled on T+2, meaning the buyer must pay the full cash consideration for the securities on the second business day after the trade.
 - **Pay-in and Pay-out:** The buyer's broker will **pay-in** funds (through the clearinghouse) on settlement day, and the seller's broker will **pay-out** the funds after the settlement is completed.
 - **Clearing Corporation:** The **Clearing Corporation** ensures that funds are transferred between the buyer and seller.
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Valuation Debit and Valuation Price:

- **Valuation Debit** and **Valuation Price** are terms associated with the process of calculating and determining the price of securities during settlement and marking-to-market (MTM).

1. Valuation Price:

- **Valuation price** refers to the market value of a security or portfolio of securities at a given point in time. It is used for settlement, margining, and calculating the gains or losses on a security.
 - **Basis for Pricing:** For example, the **NSE or BSE closing price** is typically used as the **valuation price** for calculating the value of stocks at the end of the trading session.

- **For Settlement:** The valuation price is used to determine the amount that needs to be paid or received for the settlement of a trade.

2. Valuation Debit:

- **Valuation debit** refers to the debit entry made in the **client's account** when securities are sold or transferred to meet the settlement obligation. It represents the cost of the securities that are being transferred or settled, based on the **valuation price**.
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Bad Delivery and Short Delivery:

1. Bad Delivery:

- **Bad delivery** occurs when the securities delivered by the seller to the buyer do not meet the required standards, and therefore cannot be accepted for settlement.
- **Common Reasons for Bad Delivery:**
 - Mismatch in **share certificates** (e.g., wrong number of shares).
 - **Signature mismatch** on share transfer forms or documents.
 - **Non-transferable shares** (e.g., locked-in period securities).
 - **Defective or forged** documents.
- **Consequence:** The buyer rejects the delivery, and the **seller is asked to deliver valid shares**. The exchange may charge penalties for bad delivery and can initiate corrective actions like **auctioning the securities** to ensure the buyer receives the securities.

2. Short Delivery:

- **Short delivery** happens when the seller fails to deliver the securities that were sold, within the settlement period (T+2).
 - **Common Reasons:**
 - The seller may not have enough securities in their **demat account** to deliver.
 - There could be **clerical errors** or mismatches in trade execution.
 - **Consequences:**
 - The seller may face **penalties** or **auctioning** of the securities.
 - The buyer will not receive the securities they paid for.
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Auction Mechanism in Case of Bad or Short Delivery:

- **Auction** is a process initiated by exchanges (like BSE or NSE) to resolve **short deliveries** or **bad deliveries**.
- **Purpose:** The auction ensures that the buyer gets the securities they were promised, even if the original seller fails to deliver them on time.

Auction Process:

1. **Defaulting Seller:** If a short delivery or bad delivery occurs, the exchange identifies the defaulting seller and initiates an **auction** to buy back the securities.
2. **Auction Participants:** The auction process involves **matching the buyer's demand** for securities with **available sellers** in the market.
3. **Pricing:** The auction price is typically determined based on the **market price** or the **prevailing price** on the exchange. The auction could be conducted at a price higher than the original trade price if the market price has increased.
4. **Settlement of Auction:** The auction proceeds are settled as per the rules, with the securities being delivered to the buyer and the defaulting seller either penalized or required to make up the difference in price.
5. **Penalties:** If the auction price is higher than the original trade price, the **seller** may be liable to pay the difference, along with any penalties or fees.

Unit – 3

Foreign Stock Exchange: NYSE and NASDAQ

New York Stock Exchange (NYSE)

The **New York Stock Exchange** (NYSE) is one of the largest and most well-known stock exchanges globally, based in New York City. The exchange uses a **hybrid model**, combining both **traditional open outcry** (floor-based trading) and **electronic trading**.

Trading Rooms on NYSE

- **Trading Rooms (Floors):** The NYSE has a **physical trading floor**, a unique feature that distinguishes it from fully electronic exchanges. This is where **human brokers** and **specialists** manage orders and execute trades. The exchange also uses **electronic systems** to support trading alongside the floor activity.
 - **Floor Brokers:** Individuals who are responsible for executing orders on behalf of clients. They physically stand on the floor and participate in the matching of orders, interacting with **specialists**.
 - **Specialists:** A crucial role on the NYSE, these market makers ensure that there is liquidity and that orders can be matched efficiently. They manage **auction-based trading** for stocks assigned to them.
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Players on the NYSE Trading Floor

1. **Floor Brokers:** Individuals or firms that represent buyers or sellers of securities on the NYSE floor. They execute trades on behalf of their clients or institutions.

- They receive instructions from clients (individual investors or institutional traders) and carry out the trades on the floor.
 - 2. **Specialists:** Market makers who are responsible for the orderly trading of specific stocks assigned to them. The role of specialists has evolved with the growth of electronic trading, but they still play a vital role in ensuring liquidity and fair price discovery.
 - **Responsibilities:**
 - **Match Orders:** Specialists match buy and sell orders from brokers and ensure the market remains liquid.
 - **Stabilize Prices:** They step in to buy or sell from their own inventory if there is an imbalance in buy and sell orders.
 - **Facilitate Auctions:** They manage auctions at the opening and closing of trading sessions.
 - 3. **Market Makers:** Market makers are firms that ensure liquidity for stocks by being willing to buy and sell specific stocks at quoted prices. While specialists on the NYSE are a form of market makers, some **Designated Market Makers (DMMs)** also fulfill this role.
 - 4. **Traders:** These include individuals and firms involved in buying and selling stocks on behalf of clients, whether retail or institutional investors.
 - 5. **Exchange Officials:** They oversee the smooth functioning of the market, ensuring that all participants adhere to NYSE rules and regulations.
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Role of Specialist on NYSE

The **specialist** plays a pivotal role in ensuring liquidity, maintaining market stability, and facilitating smooth trading operations for listed stocks.

- **Market Making:** Specialists act as intermediaries between buyers and sellers, ensuring that there are no disruptions in the trading of the stocks assigned to them.
 - **Price Discovery:** They help discover the **fair market price** of a stock by matching buy and sell orders.
 - **Liquidity Provider:** When there is an imbalance in buy and sell orders, specialists step in to buy or sell from their own inventory of shares, ensuring that the stock is tradable even if market demand is low.
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Trading, Technology, and Procedure on NYSE

1. Trading Procedures

- The NYSE has both **manual** and **automated systems**. Traditional floor-based **open outcry** trading is used for certain stocks, while **electronic trading** dominates for others.
- **Order Flow:** Orders are routed to the exchange, and trading can occur through direct interaction with a floor broker or electronically.

- **Auction Market Model:** The NYSE operates as an auction market where buyers and sellers are matched through a centralized process. Each stock has a designated specialist who facilitates the auction and manages trades.
- **Closing Auction:** The NYSE conducts an auction at the end of the day to determine the final price of a stock for the day's close.

2. Technology

- **Automated Trading Systems:** NYSE has integrated **electronic systems** (like the **NYSE Arca** platform) that allow for **high-frequency trading** and the **execution of trades** when there is no human intervention.
- **Trading Algorithms:** Advanced algorithms and trading technologies have made the NYSE a blend of traditional and high-tech trading, allowing firms to conduct trades rapidly and efficiently.

3. Advantages of NYSE

- **Liquidity:** The combination of floor-based trading and electronic systems provides **deep liquidity** for stocks, especially large-cap stocks.
 - **Price Discovery:** The auction process helps ensure **accurate price discovery** and minimizes large price fluctuations.
 - **Transparency:** The NYSE maintains **high levels of transparency** for both retail and institutional investors. All transactions are publicly visible on the order book.
 - **Market Integrity:** The specialist system ensures that **liquidity is maintained**, and stocks are not subject to erratic price changes.
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NASDAQ (National Association of Securities Dealers Automated Quotations)

The **NASDAQ** is a global electronic marketplace for buying and selling securities, focusing primarily on technology, biotechnology, and growth-oriented stocks. It is entirely **electronically based**, unlike the hybrid model of the NYSE.

NASDAQ Organization and Structure

1. NASDAQ's Organization:

- **Fully Electronic Market:** Unlike the NYSE, which still relies on a physical trading floor, NASDAQ operates as a **fully electronic exchange**. It uses **computerized systems** to facilitate trading and price discovery.
- **Multiple Market Makers:** NASDAQ employs **multiple market makers** for each stock, unlike the single-specialist system of the NYSE. This encourages competition and liquidity.

- **Global Reach:** NASDAQ has a **global presence**, allowing companies from all over the world to list their shares. It is also known for listing high-tech companies such as **Apple, Microsoft, and Amazon**.

2. Structure of NASDAQ:

- **Market Makers:** In NASDAQ, several firms act as market makers for a stock, providing liquidity by quoting both **buy and sell prices**.
 - **NASDAQ Stock Market:** It is divided into **three market tiers** based on the size, growth potential, and market capitalization of the companies:
 - **NASDAQ Global Select Market:** For larger, more established companies.
 - **NASDAQ Global Market:** For companies with medium market capitalization.
 - **NASDAQ Capital Market:** For smaller companies or startups.
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Functions of NASD (National Association of Securities Dealers)

1. NASD's Role:

The **National Association of Securities Dealers (NASD)** was an organization that regulated over-the-counter (OTC) trading before its merger with the **New York Stock Exchange (NYSE)** in 2007 to form **FINRA (Financial Industry Regulatory Authority)**. The NASD's primary functions included:

- **Regulation and Compliance:** Ensuring that broker-dealers comply with securities regulations and operate in a fair and transparent manner.
- **Market Surveillance:** Monitoring trading activities to ensure compliance with fair trading practices.
- **Investor Protection:** Protecting investors from fraudulent activities by ensuring that firms abide by financial market rules and regulations.

2. NASD Rules:

The **NASD** developed and enforced a wide range of **rules and regulations** for the conduct of brokers and firms, ensuring market integrity and protecting investors. These included:

- **Suitability Rule:** Requiring brokers to recommend suitable investments based on the investor's needs.
 - **Anti-Fraud Rules:** Prohibiting market manipulation and fraudulent activities.
 - **Trading Rules:** Governing how trades should be executed, reported, and handled.
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Trading Firms on NASDAQ

NASDAQ hosts a large number of **trading firms**, including:

- **Market Makers:** Firms that are responsible for providing liquidity to the exchange by continuously quoting buy and sell prices. Each listed security must have at least one market maker.
 - **Broker-Dealers:** Firms that act as intermediaries in buying and selling stocks on behalf of investors.
 - **Hedge Funds and Institutional Traders:** These players engage in high-frequency trading and large-volume trades on NASDAQ.
 - **Proprietary Trading Firms:** These firms trade their own capital using advanced algorithms, often leveraging high-frequency trading (HFT) techniques.
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Summary

- **NYSE:** A **hybrid market** combining **electronic** and **floor-based** trading with **specialists** facilitating liquidity and price discovery. The trading involves floor brokers, specialists, and various traders, with a robust **auction system** for pricing and settlement. The **advantage** of NYSE includes deep liquidity, efficient price discovery, and high market transparency.
- **NASDAQ:** A fully **electronic exchange** known for **technology stocks**, where **multiple market makers** create liquidity. It operates as a decentralized market and is considered the world's largest electronic stock market. **NASDAQ** rules and functions are aimed at **market efficiency, fairness, and transparency.**

Market Makers, ECNs, and Order Entry Firms on NASDAQ

1. Market Makers on NASDAQ

Market makers are financial firms or individuals who facilitate the trading of stocks on an exchange by **buying and selling** securities at quoted prices. They provide liquidity to the market by ensuring there is always a **buy or sell price** for stocks, which makes it easier for investors to trade without causing significant price changes.

- **Functions of Market Makers:**
 - **Provide Liquidity:** Market makers continuously quote both **buy (bid)** and **sell (ask)** prices for a specific stock.
 - **Maintain Order:** They help in maintaining an orderly market by buying and selling shares from their inventory, especially in the case of low liquidity or large orders.
 - **Profits from Spread:** Market makers earn from the **bid-ask spread** (the difference between the buying and selling price).
- **NASDAQ and Market Makers:**
 - **Multiple Market Makers:** Unlike traditional exchanges like the NYSE, NASDAQ employs **multiple market makers** for each stock, which fosters competition and helps in keeping the market efficient and liquid.

- **Obligations:** Market makers have specific obligations, such as quoting prices for a certain number of shares during each trading session and stepping in when there are imbalances in supply and demand.

2. ECNs (Electronic Communication Networks)

ECNs are computerized systems that facilitate the trading of financial products by matching buy and sell orders directly without the need for a traditional exchange. ECNs are used to enable **automated, anonymous** trading in various assets like stocks, options, and currencies.

- **Key Features of ECNs:**
 - **Direct Order Matching:** ECNs match buy and sell orders from multiple market participants without human intervention.
 - **Access to Liquidity:** They provide traders and institutions access to large liquidity pools.
 - **After-Hours Trading:** ECNs facilitate **extended trading hours**, allowing trades to be made before or after regular market hours.
 - **Anonymity:** Traders can execute orders without revealing their identity to other participants.
- **Types of ECNs:**
 - **NASDAQ OMX PSX:** Formerly known as the **Philadelphia Stock Exchange**.
 - **Archipelago:** Part of **NYSE Arca**, which operates as an ECN for stocks and exchange-traded products.

3. Order Entry Firms

Order entry firms are **brokerage firms** or **trading institutions** that accept orders from clients and enter them into the exchange system for execution.

- **Function:**
 - **Routing Orders:** These firms route the orders to the market makers or ECNs for execution, depending on where they can get the best price.
 - **Client Orders:** They act on behalf of institutional or retail clients to place buy or sell orders in the market.
 - **Access to Platforms:** Some order entry firms provide traders with access to **automated platforms** or **algorithms** to make decisions on order placements.

Order Execution on NASDAQ

Order execution on NASDAQ involves the process of matching a **buy order** with a **sell order**. This process is driven by several mechanisms on the exchange, including **market makers**, **ECNs**, and **direct market access** systems.

- **Execution Process:**
 1. **Order Routing:** Once an investor places an order, it is routed to either a **market maker** or **ECN**, depending on the trader's preference.

2. **Order Matching:** The system matches the best available **bid and ask** prices.
 3. **Trade Confirmation:** Once a match is made, the trade is executed, and the investor is notified.
 4. **Liquidity Providers:** Market makers and ECNs help ensure liquidity, allowing orders to be executed quickly and efficiently.
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OTCEI (Over-the-Counter Exchange of India)

The **OTCEI** was established to promote the **trading of small and medium-sized companies** in India that were not listed on major stock exchanges like the **BSE** or **NSE**.

1. Need for OTCEI:

- **Alternative to Mainstream Exchanges:** It was created to provide a platform for companies that could not meet the listing requirements of the **BSE** or **NSE**, offering an alternative to get listed.
- **Accessibility for Smaller Companies:** OTCEI aimed to provide easier access to **capital markets** for small and medium enterprises (SMEs) by offering lower listing requirements.
- **Investor Protection:** By bringing companies under a regulated exchange system, OTCEI provided investors with a more transparent and secure environment compared to direct over-the-counter (OTC) trading.

2. Features of OTCEI:

- **Electronic Trading:** OTCEI operates on an **electronic trading platform**, unlike the floor-based trading used by traditional exchanges.
- **Investor-Friendly:** It focused on providing small investors with the opportunity to invest in lesser-known and emerging companies.
- **Listing Criteria:** The exchange has more relaxed listing requirements, enabling smaller companies to raise capital in the stock market.
- **Transparency:** The OTCEI is designed to offer **more transparency** in trading, similar to the practices followed by larger exchanges.

3. Participants in OTCEI:

- **Issuers:** Companies (primarily small and medium-sized) that list their securities on the OTCEI to raise capital.
 - **Investors:** Retail and institutional investors who trade shares listed on the OTCEI platform.
 - **Market Makers:** These are firms or entities responsible for providing liquidity on the OTCEI by quoting bid and ask prices for the listed stocks.
 - **Brokerage Firms:** Firms that facilitate the buying and selling of securities for clients.
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Listing Procedure on OTCEI

The **listing procedure** on OTCEI is relatively straightforward compared to the requirements of other major exchanges like BSE and NSE.

1. **Eligibility Criteria:** The company must be a **public limited company** and meet certain basic criteria such as a minimum number of shareholders and share capital requirements.
2. **Application:** The company submits an application for listing, which includes **financials, business operations, and a prospectus**.
3. **Approval:** After meeting the necessary regulatory and compliance requirements, the exchange provides approval for the listing.
4. **Issuance of Shares:** Once approved, the company can issue shares through an **Initial Public Offering (IPO)** or **private placements**.

Market Makers, ECNs, Order Entry Firms, and Order Execution on NASDAQ

1. Market Makers (NASDAQ):

- **Definition:** Market makers are firms or individuals that are responsible for providing liquidity on an exchange. They do this by quoting both **buy and sell prices** for a security and are required to buy and sell the security at those quoted prices within certain market conditions.
- **Role on NASDAQ:** NASDAQ operates as a **dealer market**, where multiple market makers for each stock compete by quoting prices for the stock. Market makers are required to:
 - **Maintain a fair and orderly market** for the stocks they handle.
 - **Provide liquidity** by buying and selling shares even when there are no immediate buyers or sellers.
 - **Commit capital** to their inventory of shares, ensuring that orders can be matched even if there is low trading volume.

2. ECNs (Electronic Communication Networks):

- **Definition:** ECNs are automated systems that match buy and sell orders in the market, facilitating direct trades between participants without the need for a middleman, like a market maker or a traditional exchange.
- **Role in NASDAQ:**
 - ECNs allow **direct electronic trading** between buyers and sellers, bypassing traditional market-making systems.
 - They can provide **better price discovery**, faster execution, and lower transaction costs by offering **anonymous trading**.
 - ECNs play a **critical role in after-hours trading** and **electronic order matching**, especially for NASDAQ-listed securities.
- **Examples of ECNs:** Some well-known ECNs include **Instinet, Archipelago, and Island ECN**, which later merged to form part of the **NASDAQ market**.

3. Order Entry Firms:

- **Definition:** Order entry firms are brokerage firms or financial institutions that facilitate the submission of orders to the stock exchanges. These firms may be a **direct market participant** (e.g., market maker) or a **non-market participant** that routes orders to other firms or exchanges.
- **Role:**
 - **Submit Orders:** These firms submit client orders (buy/sell) to the exchange or market maker.
 - **Order Routing:** They might route orders to the appropriate market maker or ECN for execution, depending on the **order type** and **market conditions**.

4. Order Execution on NASDAQ:

- **Order execution on NASDAQ** is carried out by several participants, including **market makers**, **ECNs**, and **broker-dealers**. When an order is placed, it is routed to:
 - **Market Makers:** If the stock is actively traded, the order may be matched with a market maker's bid or offer.
 - **ECNs:** If the order is not matched by a market maker, it can be routed to an ECN that can match the order with other participants.
 - **Automated Order Matching:** In some cases, **automated systems** can match orders through an **electronic order book**.

Execution can occur through the **open market** or **dark pools** (private exchanges), and the trade is reported to the central exchange for settlement.

OTCEI (Over-the-Counter Exchange of India)

The **Over-the-Counter Exchange of India (OTCEI)** was an initiative to provide a platform for trading in **unlisted securities** in India. Although its operations have reduced significantly, OTCEI still holds historical importance.

1. Need for OTCEI:

- **Access to Capital:** OTCEI was designed to help **small and medium-sized enterprises (SMEs)** raise capital by offering them a platform for listing their shares. Companies could list their shares without the rigorous requirements of the main stock exchanges.
- **Liquidity for Unlisted Securities:** It provided a platform for trading securities that were not listed on the **BSE (Bombay Stock Exchange)** or **NSE (National Stock Exchange)**, helping investors gain liquidity on such securities.
- **Ease of Trading:** OTCEI aimed to reduce the **informal** and **illiquid market** for unlisted stocks, offering transparency and a regulated environment for trading these stocks.

2. Features of OTCEI:

- **Electronic Trading:** OTCEI used an **electronic order book** for matching buy and sell orders, similar to modern electronic exchanges like NASDAQ.
- **Transparency:** The exchange provided greater **transparency** in pricing and order matching for unlisted securities.
- **Lower Listing Requirements:** The listing requirements for OTCEI were lower compared to traditional exchanges, making it accessible for smaller companies.
- **Centralized Market:** OTCEI created a **centralized market** for trading unlisted securities, improving price discovery and liquidity.

3. Participants in OTCEI:

- **Companies:** Small and medium-sized companies looking to raise capital through the sale of shares or bonds.
- **Investors:** Retail and institutional investors looking for investment opportunities in unlisted companies.
- **Brokers:** Financial intermediaries who facilitate trading by connecting buyers and sellers.
- **Market Makers:** Firms that provide liquidity by quoting buy and sell prices for unlisted securities.

4. Listing Procedure on OTCEI:

The listing process for a company on OTCEI involved the following steps:

- **Application:** Companies had to submit an **application** to OTCEI with the required documentation, including financial statements and other corporate information.
- **Due Diligence:** OTCEI conducted a **due diligence process** to ensure the company met the listing requirements.
- **Approval and Listing:** Once approved, the company could list its securities and start trading on the exchange.
- **Post-Listing Compliance:** Listed companies had to adhere to **reporting and disclosure norms** set by OTCEI to maintain listing status.

5. Trading and Settlement on OTCEI:

- **Trading:** Trading on OTCEI was carried out electronically. Investors could place buy and sell orders through brokers, and the orders were matched on the OTCEI electronic system.
- **Settlement:** Settlement was conducted on a **T+2 basis** (trade date + two days), meaning the transaction was finalized two days after the trade was executed. The securities were delivered through **Demat accounts**.

6. Market Making on OTCEI:

Market makers on OTCEI played a key role in ensuring liquidity for the unlisted securities. They did this by:

- **Quoting Buy and Sell Prices:** Market makers maintained an inventory of securities and quoted both **buy and sell prices** for them.
 - **Providing Liquidity:** In case of a trade imbalance (more buyers than sellers or vice versa), market makers stepped in to buy or sell securities from their inventory, ensuring that trades were always possible.
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Factors Inhibiting Growth of OTCEI

Although OTCEI initially had potential to grow, several factors hindered its success and overall development:

1. **Lack of Investor Awareness:** Many investors were unfamiliar with the concept of **OTC trading** and preferred more established markets like the **BSE** or **NSE**, leading to limited participation.
 2. **Limited Liquidity:** The low volume of trading on OTCEI made it difficult for investors to exit their positions, leading to a **lack of liquidity** in the market.
 3. **Competition from NSE and BSE:** With the rapid growth of the **NSE** and **BSE**, which offered **better liquidity, more liquidity providers, and wider investor participation**, OTCEI struggled to compete and attract listings and investors.
 4. **Regulatory and Compliance Issues:** Companies listed on OTCEI had to adhere to certain regulatory norms, which were sometimes seen as cumbersome for smaller firms. Moreover, there was a **lack of robust market surveillance** on the exchange.
 5. **Technological Challenges:** Although OTCEI used an electronic trading system, it was not as advanced or widely adopted as the systems used by BSE and NSE, which had greater access to **advanced trading technology**.
 6. **Lack of Active Market Makers:** Unlike larger exchanges, OTCEI struggled to maintain **active market makers**, leading to reduced liquidity and fewer opportunities for traders to execute buy or sell orders at favorable prices.
 7. **Limited Listing Opportunities:** Many companies found it easier to list on the larger exchanges (BSE and NSE) due to the relatively **lower costs** and **better visibility** they offered compared to OTCEI, leading to a **lack of strong listings** on the platform.
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Summary of Key Points:

- **Market Makers on NASDAQ** provide liquidity by quoting both buy and sell prices for securities.
- **ECNs** facilitate electronic matching of buy and sell orders and offer **lower costs** and **anonymous trading**.
- **Order Entry Firms** submit orders to exchanges for execution, either through brokers, market makers, or ECNs.
- **NASDAQ Order Execution** is handled by a combination of **market makers** and **electronic order books**.

- **OTCEI** was intended to provide liquidity and opportunities for small and medium enterprises (SMEs) to list their stocks, but faced several challenges:
 - Lack of **investor awareness**.
 - **Limited liquidity**.
 - **Competition from NSE/BSE**.
 - **Technological and regulatory challenges**.

Risk Management System in BSE and NSE

1. Risk Management System in BSE & NSE

Both the **Bombay Stock Exchange (BSE)** and the **National Stock Exchange (NSE)** have established robust risk management systems to mitigate various market risks and ensure the integrity and stability of the markets.

- **Risk Management Framework:** These exchanges employ advanced technology-driven systems and processes for risk management, which include measures such as:
 - **Margining System:** To manage **market risk** and **credit risk**.
 - **Exposure Limits:** To limit the amount of risk a participant can take.
 - **Position Limits:** To prevent excessive speculation and reduce systemic risks.

2. Margin and Exposure Limits

- **Margin Requirements:** Both BSE and NSE require traders and investors to maintain a certain margin to participate in trading. This margin acts as a form of **collateral** against the potential risk of default.
 - **Initial Margin:** A percentage of the value of the trade required to open a position.
 - **Maintenance Margin:** The minimum balance an investor must maintain to keep the position open.
- **Exposure Limits:** Exposure limits refer to the maximum amount an investor can trade in a particular security or asset class. These limits are set to protect the system from undue risk by preventing any single participant from having too much exposure to any particular stock or security.

3. Surveillance System in BSE & NSE

Both exchanges have sophisticated **surveillance systems** designed to monitor trading activity in real-time and detect any anomalies that might indicate **manipulative practices** or **market abuse**. The surveillance systems include:

- **Real-time Monitoring:** Tracking **price movements**, **trade volumes**, and **order book activity** to identify unusual trading patterns.
- **Suspension of Trading:** In cases of manipulation or extreme price volatility, exchanges have the authority to suspend trading of a stock temporarily.

- **Automated Alerts:** Alerts are generated when trading behavior deviates from normal activity, indicating potential market manipulation or insider trading.
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4. Circuit Breakers (Meaning, Purpose, and Considerations)

Circuit breakers are mechanisms designed to **prevent extreme market volatility** by temporarily halting trading if a stock or market experiences sharp, sudden movements. Both BSE and NSE have implemented these systems to maintain orderly markets and protect investors from rapid price swings.

- **Meaning:** A circuit breaker is a predefined level at which the trading is **paused or halted** if the market experiences extreme volatility.
 - **Purpose:**
 - **Prevent panic selling or buying:** Reducing the risk of cascading sell-offs or unsustainable price surges.
 - **Allow for cooling-off:** Provide traders with a pause to reassess the market conditions and avoid impulsive actions.
 - **Maintain orderly market conditions:** Ensure that prices do not deviate drastically from their fundamental values.
 - **Considerations in Developing Circuit Breakers:**
 - **Volatility of the Market:** Circuit breakers are designed to trigger based on the magnitude of price movements.
 - **Market Liquidity:** The ability of the market to handle orders without drastic price fluctuations.
 - **Investor Confidence:** The goal is to maintain investor confidence in the markets by minimizing extreme swings.
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Stock Market Indices in India

1. BSE Sensex

The **BSE Sensex** is one of the most recognized and widely followed stock market indices in India, representing the performance of 30 major stocks listed on the **Bombay Stock Exchange (BSE)**.

- **Scrip Selection Criteria:**
 - **Liquidity:** Stocks must have sufficient trading volume and market liquidity.
 - **Industry Representation:** The Sensex includes companies from a wide range of sectors, ensuring it reflects the overall market performance.
 - **Market Capitalization:** Stocks with large market capitalization are prioritized for inclusion.
 - **Public Float:** The free-float market capitalization is considered to ensure the index is representative of the investable market.

- **Construction of BSE Sensex:** The Sensex is calculated using a **free-float market capitalization** weighted methodology. The index value is calculated by multiplying the free-float market capitalization of constituent stocks by a **base value**.

2. Other BSE Indices

BSE has several other indices that track the performance of different sectors or market segments:

- **BSE 100:** Tracks the top 100 companies on the BSE.
- **BSE 200:** Represents the top 200 companies based on market capitalization.
- **BSE MidCap:** Tracks the performance of mid-sized companies.
- **BSE SmallCap:** Focuses on small companies.

3. NSE Indices

The NSE also has various indices to track the performance of different market segments:

- **S&P CNX Nifty (NSE Nifty):**
 - One of India's most prominent indices, comprising 50 of the largest and most liquid stocks listed on the **National Stock Exchange (NSE)**.
 - **Scrip Selection Criteria:** The selection is based on market capitalization, liquidity, sectoral representation, and trading history.
- **NSE Nifty Next 50:** Represents the next 50 stocks after the Nifty 50.
- **Nifty Bank Index:** Tracks the performance of the banking sector.
- **Nifty IT Index:** Tracks the performance of IT companies.

4. Scrip Selection Criteria for NSE Indices:

- **Liquidity:** Stocks must have high trading volume and liquidity.
- **Market Capitalization:** The stocks with higher market capitalization are given preference.
- **Sectoral Representation:** Ensuring that various sectors are well represented in the index.
- **Free-Float Market Capitalization:** Indices are weighted based on the free-float market capitalization of the constituent stocks.

Methods for Calculating Stock Market Indices

1. Weighted Aggregate Value Method

In this method, the index value is calculated by taking the weighted average of the prices of the constituent stocks, where the weights are based on factors like market capitalization, trading volume, or other relevant measures.

2. Weighted Average of Price Relatives Method

This method uses the **price relative** (the ratio of the current price to the base price) of each stock to calculate the overall index. The index is the weighted sum of the price relatives, and weights are assigned based on stock importance or market cap.

3. Free-Float Market Capitalization Method

In this widely-used method, the index value is based on the **free-float market capitalization** of the constituent stocks. Only the **freely available shares** (i.e., shares not held by insiders or promoters) are considered in the calculation, ensuring the index reflects the real investable market.

Stock Market Indices in Foreign Countries (Overview)

Many countries have established stock market indices to reflect the performance of their stock markets. Some of the most significant indices globally include:

- **Dow Jones Industrial Average (DJIA) – USA:**
 - One of the oldest and most recognized indices, representing 30 major companies in the U.S.
 - It is **price-weighted**, meaning stocks with higher prices have a more significant impact on the index.
- **S&P 500 – USA:**
 - Comprises 500 of the largest companies in the U.S. and is **market-capitalization weighted**.
- **FTSE 100 – UK:**
 - Tracks the 100 largest companies listed on the London Stock Exchange (LSE), based on market capitalization.
- **Nikkei 225 – Japan:**
 - A **price-weighted index** representing 225 major companies listed on the Tokyo Stock Exchange.
- **DAX – Germany:**
 - Represents 30 of the largest companies on the Frankfurt Stock Exchange and is **market-capitalization weighted**.
- **CAC 40 – France:**
 - Represents 40 of the largest companies in France, calculated using **market-cap weighting**.

Key Characteristics of Global Indices:

- **Calculation Methodology:** Most global indices use **market-capitalization weighting**, though some, like the **Dow Jones**, are **price-weighted**.

- **Diversification:** Indices represent a **wide range of sectors** (e.g., **technology, energy, financials**) and reflect the broader economic conditions of the country or region.
 - **Investor Confidence:** Stock indices are used as a **benchmark** for the performance of the broader market or sector and are often used in **investment funds** and **exchange-traded funds (ETFs)**.
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Summary of Key Concepts:

- **Risk Management in BSE & NSE** involves margin requirements, exposure limits, and real-time surveillance.
- **Circuit Breakers** help in managing market volatility by halting trading under extreme conditions.
- **BSE Sensex** and **NSE Nifty** are the two most prominent stock indices in India, with **free-float market capitalization** methods used for their construction.
- **Global Stock Indices** include well-known indices like the **DJIA, S&P 500, FTSE 100, and Nikkei 225**, each representing large, diverse groups of stocks in their respective markets.