Rohini college of Engineering and Technology
Palkulam

Unit III , Unit IV

Securities and Exchange Board of India

CONTENTS

After studying this unit, you will be able to:

- Know the guidelines
- State the types of exchanges Identify
- national exchange
- List the regional exchange or local stock exchange

Introduction

SEBI is the Regulator for the Securities Market in India. The Securities and Exchange Board of India was established in 1988 and was given the statutory status on April, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

The Preamble of the Securities and Exchange Board of India describes the basic functions of the Securities and Exchange Board of India as:

"…..**to protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto**".

5.1 SEBI Functions and Responsibilities

Chapter IV of the SEBI Act, 1992 deals with the powers and functions of the board. SEBI has to be responsive to the needs of three groups, which constitute the market:

1. Issuers of securities
2. Investors
3. Market intermediaries.

SEBI has three functions rolled into one body quasi-legislative, quasi-judicial and quasi-executive. It drafts regulations in its legislative capacity, it conducts investigation and enforcement action in its executive function and it passes rulings and orders in its judicial capacity. Though this makes it very powerful, there is an appeals process to create accountability. There is a Securities Appellate Tribunal which is a three member tribunal. A second appeal lies directly with the Supreme Court.

5.2 Guidelines

SEBI has enjoyed success as a regulator by pushing systemic reforms aggressively and successively.

Example: On April 1, 2003, SEBI made it compulsory for all transactions in all groups of securities in the equity segment and fixed income securities listed on BSE, to be settled within 2 days after the trade day. (T+2 rolling settlement). This made a quick movement of the market to get electronic and paperless.

SEBI has been active in setting up the regulations as required under law.

Section 11 of the Act lays down that it shall be the duty of the board to protect the interests of the investors in securities and to promote the development of and to regulate the securities markets by such measures as it thinks fit. These measures would include:

1. Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities market in any manner.
2. Registering and regulating the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries as the board may, by notification, specify in the behalf.
3. Registering and regulating the working of venture capital funds and collective investment schemes, including mutual funds.
4. Promoting and regulating self-regulatory organizations.
5. Prohibiting fraudulent and unfair trade practices relating to securities markets.
6. Promoting investors education and training of intermediaries of securities markets.
7. Prohibiting insider trading in securities.
8. Regulating substantial acquisition of shares and takeover of companies.
9. Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organizations in the securities market
10. Performing such functions and exercising such powers under the provisions of the Securities Contracts Act, 1956, as may be delegated to it by the Central Government.
11. Levying fees or other charges for carrying out the purposes of this section.
12. Conduction research for the above purposes.

Caselet

SEBI eases Lending Disclosure Norms for FIIs

securities lent by them to overseas entities (for the purpose of short selling) on a

S weekly rather than a daily basis.

The information will be submitted every Friday and SEBI will make it public the following Tuesdays This circular will be implemented from July 2.

The first such report will be submitted to SEBI on July 9 and it will be made public on July 13, said the SEBI circular.

According to the current guidelines, FIIs have to submit reports to the markets regulator on a daily basis and the details are made public by SEBI on Tuesdays and Fridays.

Participatory Notes issuing FIIs are required to submit details regarding "any fresh short positions" to SEBI immediately, the circular said.

Brokers are of the view this will not make much difference to the Securities Lending and Borrowing segment as there is hardly in activity happening in it.

The exchanges of India can be divided into national, regional or local exchanges. A detailed explanation of each is as follows:

National Exchange

The National Stock Exchange of India Limited (NSE), is a Mumbai-based stock exchange. It is the second largest stock exchange in India in terms of daily turnover and number of trades, for both equities and derivative trading. Though a number of other exchanges exist, NSE and the Bombay Stock Exchange are the two most significant stock exchanges in India, and between them are responsible for the vast majority of share transactions. The NSE's key index is the S&P CNX Nifty, known as the Nifty, an index of fifty major stocks weighted by market capitalisation.

NSE is mutually-owned by a set of leading financial institutions, banks, insurance companies and other financial intermediaries in India but its ownership and management operate as separate entities.

NSE is the third largest Stock Exchange in the world in terms of the number of trades in equities. It is the second fastest growing stock exchange in the world with a recorded growth of 16.6%.

NSE has remained in the forefront of modernization of India's capital and financial markets, and its pioneering efforts include:

1. Being the first national, anonymous, electronic Limit Order Book (LOB) exchange to trade securities in India. Since the success of the NSE, existent market and new market structures have followed
2. the "NSE" model.
3. Setting up the first clearing corporation "National Securities Clearing Corporation Ltd." in India. NSCCL was a landmark in providing innovation on all spot equity market (and later derivatives market) in India.
4. Co-promoting and setting up of National Securities Depository
5. Limited, first depository in India.
6. Setting up of

7. S&P CNX Nifty.
8. NSE pioneered commencement of Internet Trading in February 2000, which led to the wide popularization of the NSE in the broker community.
9. Being the first exchange that, in 1996, proposed exchange traded derivatives, particularly on an equity index, in India. After four years of policy and regulatory debate and formulation, the NSE was permitted to start trading equity derivatives.
10. Being the first and the only exchange to trade GOLD ETFs (exchange traded funds) in India.
11. NSE has also launched the NSE-CNBC-TV18 media centre in association with CNBC- TV18.

Currently, NSE has the following major segments of the capital market:

1. Equity
2. Futures and Options
3. Retail Debt Market
4. Wholesale Debt Market
5. Currency futures.

It is the one of the most important stock exchanges in the world.

There are 23 stock exchanges in India. Among them two are national level stock exchanges namely Bombay Stock Exchange (BSE) and National Stock Exchange of India (NSE). The rest 21 are Regional or Local Stock Exchanges (RSE).

List of Regional Stock Exchanges in India

Ahmedabad Stock Exchange

- Bangalore Stock Exchange
- Bhubaneshwar Stock Exchange
- Calcutta Stock Exchange
- Cochin Stock Exchange
- Coimbatore Stock Exchange
- Delhi Stock Exchange
- Guwahati Stock Exchange

- Hyderabad Stock Exchange
  - Jaipur Stock Exchange
  - Ludhiana Stock Exchange
  - Madhya Pradesh Stock Exchange
  - Madras Stock Exchange
  - Magadh Stock Exchange
  - Mangalore Stock Exchange
  - Meerut Stock Exchange
  - OTC Exchange of India
  - Pune Stock Exchange
  - Saurashtra Kutch Stock Exchange
  - Uttar Pradesh Stock Exchange
  - Vadodara Stock Exchange.

- The Regional Stock Exchanges started clustering from the year 1894, when the first RSE, the Ahmedabad Stock Exchange (ASE) was established. In the year 1908, the second in the series, Calcutta Stock Exchange (CSE) came into existence.

During the early sixties, there were only few recognized RSEs in India namely Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore. The number remained unchanged for the next two decades. 1980s was the turning point and many RSEs was incorporated. The latest is Coimbatore Stock Exchange and Meerut Stock Exchange.

A new share trading platform called the BSEIndonext, inaugurated recently, might at best provide a lifeline to regional stock exchanges. These have been fast losing business to the two principal stock exchanges, the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). A more optimistic inference seems premature if recent stock exchange history is anything to go by. Until the mid-1990s the regional stock exchanges were significant players in the Indian capital market. Company law as well as capital market rules and regulations gave them a sizable captive business from companies located in their areas.

A company going public had to have its shares listed in the regional stock exchange nearest to its place of incorporation and only optionally with the BSE. In case of oversubscription, it was the regional exchange that approved the allotment pattern. Companies having a large market capitalisation as well as a wide branch network chose to have their shares listed in many regional stock exchanges as well as in the BSE. A major reason for the survival of regional stock exchanges was seen in the slow pace of technological progress. Well into the 1990s, Indian stock exchanges in general were laggards in adopting communication technology that was transforming bourses in the U.S. and Europe. Regional exchanges could still conduct trade in isolation from one another and from the BSE. This had several undesirable consequences: illiquidity of stocks, possibilities of manipulation, and arbitrage were some of them.

A vastly expanded reach was one of the major benefits the new technology conferred on the stock exchanges. Significantly improved trading and settlement practices resulted. These advantages were dramatically demonstrated by the advent of the NSE; it came into being in November 1994 with a specific mandate to develop a better model than the existing exchanges. Adopting the state of the art in technology and stock exchange management skills — the NSE is the only exchange run wholly by professionals — the new exchange soon acquired pre-eminence. Investors in many centres, outside the metros and even in semi urban areas, could trade on the all-India exchange. Very soon the BSE followed suit with its own "BOLT" system. The marginalisation of the regional stock exchanges became complete. Many large corporates, not perceiving any benefit in sticking to a regional exchange, opted out. This process was facilitated by the changed rules. Simultaneously, as part of stock market reform in India, exchanges were required to professionalise their management and change their organisational structure from a "mutual" basis — essentially a club type format with stock brokers as the only members — to a "demutual" basis, a corporate form. That move has gathered momentum with the Government amending the relevant legislation.

Will the regional exchanges adapt to the requirements of technology and organisational restructuring and remain viable entities? Until recently many experts felt the regional exchanges would go the way of many smaller exchanges in the developed world. However, the advent of Indonext opens up many possibilities for survival by coming together and trading through a new platform specially designed for the stocks of small and medium companies. As a rule such stocks do not have liquidity. The hope is that the new platform will pool the resources of its 18 members and overcome the deficiencies of trading in illiquid stocks and small exchanges. There have been some tall claims of Indonext paving the way for a strong all-India exchange that would eventually be up in competition with the BSE and the NSE. A more realistic view is that the new platform will give regional exchanges a lease of life.

BSE Derivative Trading

The path for derivatives trading was cleared in India with the introduction of Securities Laws (Amendment) Bill in Parliament in 1998. Yet the introduction of derivatives was delayed for as the infrastructure for it had to be set up. Derivatives trading required a computer-based trading system, a depository and a clearing house facility. In addition, problems such as low market capitalization of the Indian stock markets, the small number of institutional players and the absence of a regulatory framework caused further delays**Types of Membership in the BSE Derivatives Segment**

There are following types of memberships in the BSE derivatives segment-

1. Trading Member:

A Trading Member should be an existing Member of BSE cash segment.

A Trading Member has only trading rights but no clearing rights. He has to associate with a Clearing Member to clear his trades.

Trading-cum-Clearing Member:

A Trading-cum-Clearing Member should be an existing Member of BSE cash segment.

A TCM can trade and clear his trades. In addition, he can also clear the trades of his associate Trading Members.

3. *Professional Clearing Member/Custodial Clearing Member:*

A Professional Clearing Member need not be a Member of BSE cash segment.

A PCM has no trading rights and has only clearing rights i.e. he just clears the trades of his associate Trading Members & institutional clients.

4. Limited Trading Member:

A Limited Trading Member need not be a Member of BSE cash segment.

A LTM has only trading rights and no clearing rights. He has to associate with a Clearing Member to clear his trades.

Self-clearing Member:

A Self Clearing Member should be an existing member of the BSE cash segment.

An SCM can clear and settle trades on his own account or on account of his client only and not for any other Trading Member

Clearing Members of the Derivatives Segment (including Trading cum Clearing Members), are required to maintain the net-worth criteria of 3.00 crores, as per the following formula prescribed by SEBI.

Capital + Free Reserves – Non-allowable assets

Non allowable assets include:

1. Fixed assets
2. Pledged Securities (Pledged securities are required to be deducted at book value).
3. Member's card
4. Non-allowable securities (unlisted securities)
5. Bad deliveries
6. Doubtful debts and advances (debts/advances overdue for more than three months or given to associates)
7. Prepaid expenses, losses
8. Intangible assets
9. 30% of marketable securities (30% of Book value or Market Value, whichever is lower, of marketable securities).

1. Pledged securities are not to be considered at point no. (i)

Securities held as stock-in-trade, are not to be considered at point no. (i)

In the meantime, derivatives trading on the NSE (National Stock Exchange) picked up significantly since it was launched. Daily trading volumes in Nifty futures and options, and options on individual stocks, averaged 300 crores for some time. In contrast, trading in the BSE's (Bombay Stock Exchange) derivatives (Sensex options and futures and options on stocks) remained lacklustre, with an average daily volume of about 4 crores.In a bid to stimulate derivatives trading, the BSE invited prospective market-makers with a range of sops. For broker-members willing to commit to market-making, the exchange would waive the charges for the use of up to two VSATs or leased line links to the trading system. It would also waive its transaction fees (except for contribution to trade guarantee fund and investor protection fund). In return, market-makers would have to commit to offering quotes for purchase or sale of their chosen derivative products for a stipulated minimum order quantity. They also had to specify a spread (the difference between 'buy' and 'sell') prices below a stipulated figure. The market-maker's quote did not, however, enjoy any precedence over other quotes, once trading started. These were pretty stringent requirements. The 'incentives', on the other hand, were niggardly-the transaction charges that the BSE offered to waive were as low as 0.002 per cent of the traded value. As such, the sops were unlikely to catalyse any significant increase in trading volumes.

Till June 2009, derivatives' trading on BSE was done only through Derivatives Trading and Settlement System (DTSS), which used to generate trades by matching orders.

Till then, only cash market trades were done through Bolt. The efforts of the Bombay Stock Exchange (BSE) to infuse life into its moribund derivatives segment by shifting the trading platform to BSE Online Trading (Bolt) terminals are not yielding any results, at least till now.

BSE, which began trading in futures on its Sensex index and 100-odd individual stocks on Bolt terminals from June 29, is yet to attract trades from brokers.

As per the data available on the BSE website, the trading turnover in the derivatives segment was an insignificant ₹4.34 lakh on July 1, compared with its rival National Stock Exchange's ₹65,000- plus crores average daily turnover. BSE claims it would take some time before brokers get used to trading on Bolt, which is designed to make derivatives trading 'easier and cost-effective'.

At present, only futures trading have been shifted to Bolt and soon

trading in options will also be transferred to Bolt, they said.

Did u know? **What is short selling?**

Simply put, short selling is the sale of shares that the seller does not own. That sounds funny, right? It isn't. Short selling is the sale of stocks that seller doesn't own, but there is a promise of delivery. It may sound a bit complicated, but it is actually a very simple concept. When you are short selling a stock, your broker lends the stock to you. The stock may be part of the broker's portfolio holdings, a customer's or from another broking house.

You have the obligation to close the "short" by buying the same number of shares (covering in technical parlance) and return them to your broker.

In India, SEBI had banned short selling after heavy shorting by operators resulted in a crash in the stock market in 2001. After plugging a few loopholes, it thought short selling could be re-introduced, as it would add depth to the market. Consequently, short selling was re-introduced on Dec 20, 2007 in Indian market again.

5.1 BSE Indices

For the premier stock exchange that pioneered the securities transaction business in India, over ₹a century of experience is a proud achievement. A lot has changed since 1875 when 318 persons by paying a then princely amount of 1, became members of what today is called Bombay Stock Exchange Limited (BSE).

Over the decades, the stock market in the country has passed through good and bad periods. The journey in the 20th century has not been an easy one. Till the decade of eighties, there was no measure or scale that could precisely measure the various ups and downs in the Indian stock market. BSE, in 1986, came out with a Stock Index-SENSEX- that subsequently became the barometer of the Indian stock market*Sensex*

SENSEX, first compiled in 1986, was calculated on a "Market

Capitalization-Weighted" methodology of 30 component stocks representing large, well-established and financially sound companies across key sectors. The base year of SENSEX was taken as 1978-79. SENSEX today is widely reported in both domestic and international markets through print as well as electronic media. It is scientifically designed and is based on globally accepted construction and review methodology. Since September 1, 2003, SENSEX is being calculated on a free-float market capitalization methodology. The "free-float market capitalization-weighted" methodology is a widely followed index construction methodology on which majority of global equity indices

. are based; all major index providers like MSCI, FTSE, STOXX, S&P and Dow Jones use the free- float methodology.

The growth of the equity market in India has been phenomenal in the present decade. Right from early nineties, the stock market witnessed heightened activity in terms of various bull and bear runs. In the late nineties, the Indian market witnessed a huge frenzy in the 'TMT' sectors. More recently, real estate caught the fancy of the investors. SENSEX has captured all these happenings in the most judicious manner. One can identify the booms and busts of the Indian equity market through SENSEX. As the oldest index in the country, it provides the time series data over a fairly long period of time (from 1979 onwards). Small wonder, the SENSEX has become one of the most prominent brands in the country.

1. ***Specifications***
2. Base Year1978-79
3. Base Index Value 100
4. Date of Launch01-01-1986
5. Method of calculation Launched on full market capitalization method and effective September 01, 2003, calculation method shifted to free-float market capitalization.
6. Number of scrips 30