II UNIT – SECURITIES MARKET

Financial Market - Segments – Types - Participants in financial Market – Regulatory Environment, Primary Market – Methods of floating new issues, Book building – Role of primary market – Regulation of primary market, Stock exchanges in India – BSE, OTCEI , NSE, ISE, and Regulations of stock exchanges – Trading system in stock exchanges –SEBI.

Primary Market

In a primary market, securities are created for the first time for investors to purchase. New securities are issued in this market through a stock exchange, enabling the government as well as companies to raise capital.

For a transaction taking place in this market, there are three entities involved. It would include a company, investors, and an underwriter. A company issues security in a primary market as an initial public offering (IPO), and the sale price of such new issue is determined by a concerned underwriter, which may or may not be a financial institution. An underwriter also facilitates and monitors the new issue offering. Investors purchase the newly issued securities in the primary market. Such a market is regulated by the Securities and Exchange Board of India (SEBI).

The entity which issues securities may be looking to expand its operations, fund other business targets or increase its physical presence among others. Primary market example of securities issued includes notes, bills, government bonds or corporate bonds as well as stocks of companies.

Functions of Primary Market

The functions of such a market are manifold –

New issue offer

The primary market organises offer of a new issue which had not been traded on any other exchange earlier. Due to this reason, it is also called a New Issue Market. Organising new issue offers involves a detailed assessment of project viability, among other factors. The financial arrangements for the purpose include considerations of promoters' equity, liquidity ratio, debt-equity ratio and requirement of foreign exchange.

Underwriting services

Underwriting is an essential aspect while offering a new issue. An underwriter's role in a primary marketplace includes purchasing unsold shares if it cannot manage to sell the required number of shares to the public. A financial institution may act as an underwriter, earning a commission on underwriting.

Investors rely on underwriters for determining whether undertaking the risk would be worth its returns. It may so thus happen that an underwriter ends up buying all the IPO issue, and subsequently selling it to investors.

Distribution of new issue

A new issue is also distributed in a primary marketing sphere. Such distribution is initiated with a new prospectus issue. It invites the public at large to buy a new issue and provides detailed information on the company, issue, and involved underwriters.

Types of Primary Market Issuance

After the issuance of securities, investors can purchase such securities in various ways. There are 5 types of primary market issues.

Public issue

Public issue is the most common method of issuing securities of a company to the public at large. It is mainly done via Initial Public Offering (IPO) resulting in companies raising funds from the capital market. These securities are listed in the stock exchanges for trading.

A privately held company converts into a publicly-traded company when its shares are offered to the public initially through IPO. Such public offer allows a company to raise funds for expansion of business, improving infrastructure, and repay its debts, among others. Trading in an open market also increases a company's liquidity and provides a scope for issuance of more shares in raising further capital for business.

The Securities and Exchange Board of India is the regulatory body that monitors IPO. As per its guidelines, a requisite due enquiry is conducted for a company's authenticity, and the company is required to mention its necessary details in the prospectus for a public issue.

Private placement

When a company offers its securities to a small group of investors, it is called private placement. Such securities may be bonds, stocks or other securities, and the investors can be both individual and institutional.

Private placements are easier to issue than initial public offerings as the regulatory stipulations are significantly less. It also incurs reduced cost and time, and the company can remain private. Such issuance is suitable for start-ups or companies which are in their early stages. The company may place this issuance to an investment bank or a hedge fund or place before ultra-high net worth individuals (HNIs) to raise capital.

Preferential issue

A preferential issue is one of the quickest methods available to companies for raising capital. Both listed and unlisted companies can issue shares or convertible securities to a select group of investors. However, the preferential issue is neither a public issue nor a rights issue. The shareholders in possession of preference shares stand to receive the dividend before the ordinary shareholders are paid.

Qualified institutional placement

Qualified institutional placement is another kind of private placement where a listed company issues securities in the form of equity shares or partly or wholly convertible debentures apart from such warrants convertible to equity shares and purchased by a Qualified Institutional Buyer (QIB).

QIBs are primarily such investors who have the requisite financial knowledge and expertise to invest in the capital market. Some QIBs are –

- Foreign Institutional Investors registered with the Securities and Exchange Board of India.
- Foreign Venture Capital Investors.
- Alternate Investment Funds.
- Mutual Funds.
- Public Financial Institutions.
- Insurers.
- Scheduled Commercial Banks.
- Pension Funds.

Issuance of qualified institutional placement is simpler than preferential allotment as the former does not attract standard procedural regulations like submitting pre-issue filings to SEBI. The process thus becomes much easier and less time-consuming.

Rights and bonus issues

Another issuance in the primary market is rights and bonus issue, in which the company issues securities to existing investors by offering them to purchase more securities at a predetermined price (in case of rights issue) or avail allotment of additional free shares (in case of bonus issue).

For rights issues, investors retain the choice of buying stocks at discounted prices within a stipulated period. Rights issue enhances control of existing shareholders of the company, and also there are no costs involved in the issuance of these kinds of shares. For bonus issues, stocks are issued by a company as a gift to its existing shareholders. However, the issuance of bonus shares does not infuse fresh capital.

WHAT IS BOOK BUILDING PROCESS?

According to Securities and Exchange Board of India (Sebi) guidelines, “Book building is a process undertaken by which a demand for the securities proposed to be issued by a body corporate is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document."

Book building is a process for efficient price discovery of shares. Under it, the company offering the shares fixes a price range, depending on an ascertained market valuation, which it estimates is the accurate value of the business. A floor, or a minimum price, at which the company wants to sell its shares and a maximum price or cap price is mentioned. The difference between the two cannot be more than 20%. For instance, if the floor price is 250, upper cap cannot be more than 300.

HOW IS PRICE DETERMINED?

During the IPO period, bids are received from investors at various prices, which are above or equal to the floor price. Say, a company issues 100,000 shares at a price band of 250-300. Applications for 10,000 shares are received at 250; 50,000 at 275; and for 60,000 shares at 300. After the bid window closes, the final price—also known as cut-off price—is determined based on the proportion of application received at each price. While applying, if a retail investor is not sure of the price at which to bid, she should use the cut-off option. Choosing this option will ensure that her application is considered valid at whatever price is determined in the process. But in such cases, the payment or application money has to be deposited based on the cap price. In the above example, an investor can choose the cut-off price and pay the application amount based on upper cap, i.e 300. If the cut-off price is lower than the cap price, the investor gets the necessary refund or the money gets adjusted with any due payment. In the above example, to issue all 100,000 shares, minimum price will be 275, because applications for 50,000 and 60,000 shares (a total of 110,000) were received for or above 275 and above. The company will refund money to those who applied for shares at a bid price below 275. Those who have applied at 300 will also get the refund. Furthermore, against 100,000 shares, 110,000 shares were applied for at the cut-off price of 275, so, the company will issue shares in the 10:11 ratio. That means that an investor who applied for 11 shares, will get 10 shares.

Examples of Primary Stock Market Selling

Company	Details
Facebook	One of the remarkable IPOs that were undertaken includes the Facebook initial public offering. The offer initiated in 2012 is to date the largest IPO in the technology sector. The company successfully raised $16 billion through its initial public offering. As an effect, its turnover increased by close to 100%. Also, there was a high demand for the stock in the primary market, which led to the pricing of Facebook's stock to be fixed at $38 for each share as determined by the underwriters. The valuation of the stock eventually amounted to $104 billion, highest for a newly formed public company.
Coal India	The biggest IPO undertaken in India was by Coal India in 2010, which raised Rs. 15,200 Crore. The shares were listed at Rs. 287.75 and eventually increased to Rs.340. The company offered a 5% discount on the final IPO price to retail investors, along with the subsidiaries and employees of the company.

Furthermore, the Union Budget 2020-2021 also proposed the sale of a part of the government's stake in Life Insurance Corporation. Even a 10% stake sale may fetch Rs. 80,000 crore to the government. Listing of the insurer will thus make it the biggest initial public offer in India surpassing Coal India IPO.

Advantages of Primary Market

1. Companies can raise capital at relatively low cost, and the securities so issued in the primary market provide high liquidity as the same can be sold in the secondary market almost immediately.
2. The primary market is an important source for mobilisation of savings in an economy. Funds are mobilised from commoners for investing in other channels. It leads to monetary resources being put into investment options.
3. Chances of price manipulation in the primary market are considerably less when compared to the secondary market. Such manipulation usually occurs by deflating or inflating a security price, thereby deliberately interfering with fair and free operations of the market.
4. The primary market acts as a potential avenue for diversification to cut down on risk. It enables an investor to allocate his/her investment across different categories involving multiple financial instruments and industries.
5. It is not subject to any market fluctuations. The prices of stocks are determined before an initial public offering, and investors know the actual amount they will have to invest.

Disadvantages of Primary Market

1. There may be limited information for an investor to access before investment in an IPO since unlisted companies do not fall under the purview of regulatory and disclosure requirements of the Securities and Exchange Board of India.
2. Each stock is exposed to varying degrees of risk, but there is no historical trading data in a primary market for analysing IPO shares because the company is offering its shares to the public for the first time through an initial public offering.
3. In some cases, it may not be favourable for small investors. If a share is oversubscribed, small investors may not receive share allocation.
4. With this information regarding the primary market, individuals can make a well-thought-out decision regarding investment in the market. It also makes way for the creation of an investment portfolio with diversified risk.

Regulations of Primary Market

Securities and Exchange Board Of India [SEBI] is a regulator of securities market in India. Initially, it was formed for the purpose of observing the activities afterward in May 1992, Government of India granted legal status to SEBI.

Functions Of Primary Market Under SEBI

- Primary Market facilitates capital growth by encouraging individuals to convert savings into investments.
- Primary Market being the part of Capital market also issues new securities.
- Government or Public sector institutions and companies can obtain funds in exchange of a new stock or bond issues via an investment Bank or financial Syndicate of securities dealers.
- It encourages Initial Public Offerings [IPO]

Role of SEBI

Protecting the interest of investors

SEBI ensures that the investors do not get be fooled by misleading and false advertisements. In return, SEBI issued guidelines so as to protect investors and also ensured that the advertisement is fair and concise.

Regulation of price rigging: Price rigging refers to manipulation of prices by way of fluctuating the prices with the object of inflating and depressing the market price of securities.

SEBI make efforts to educate investors so that they are able to make choices between the offerings of different companies and choose the most profitable securities.

SEBI has issued guidelines to investigate cases of fraud and insider trading. Adding to this the provisions for fine and Imprisonment.

To ensure Development activities in Stock Exchange

E-Trading: Concept of E-trading have been introduced few years back by SEBI to eliminate the discomfort. It simplifies the process of buying and selling of securities.

The initial public offering of Primary Market (which is a part of Capital market) permits through stock exchange.

SEBI promotes training of intermediaries of securities market with the object of smooth functioning.

Regulate the business of stock exchange and activities of stock exchange

SEBI introduced proper Code Of Conduct applicable to everyone who is a part of the process of buying and selling of securities, stock exchange, etc. Following are the areas of concern:

- Rules and Regulations to regulate intermediaries such as Broker, underwriters, etc.
- Registers and Regulates the working of merchant Bankers, sub-brokers, stock-brokers, share transfer agent, trustees, etc.
- Registers the working of mutual Funds.
- SEBI regulates turnover of the companies.
- It also conducts inquiry and audits.

To Regulate Insider Trading

Insider Trading have been a problem since the introduction of the Market dealing with buying and selling of securities, stock exchange, etc. An Insider is a person or a group of people having first- hand knowledge about the internal issues and Ups and downs of a company. The moment insider gets to know about the loss which is going to occur, the shares under insider's name are sold immediately. Hence, company suffers a huge amount of loss.

Guidelines by SEBI on Rights Issue

- Only Listed company can make right issue.

- Right can be made only in respect of fully paid up shares.
- Company will have to make announcement before such issue and this cannot be withdrawn.
- The right issue should be open for minimum period of 30 days, and maximum up to 60 days.
- Company will have to make an agreement with the depository to issue the shares in Demat form.

SEBI in one of the important body which regulates both Primary as well as Secondary Market. SEBI encourages both growth and development of the security market and act as a watchdog.

Secondary Market

What is the Secondary Market?

A secondary market is a platform wherein the shares of companies are traded among investors. It means that investors can freely buy and sell shares without the intervention of the issuing company. In these transactions among investors, the issuing company does not participate in income generation, and share valuation is rather based on its performance in the market. Income in this market is thus generated via the sale of the shares from one investor to another.

Some of the entities that are functional in a secondary market include –

- Retail investors.
- Advisory service providers and brokers comprising commission brokers and security dealers, among others.
- Financial intermediaries including non-banking financial companies, insurance companies, banks and mutual funds.

Different Instruments in the Secondary Market

The instruments traded in a secondary market consist of fixed income instruments, variable income instruments, and hybrid instruments.

Fixed income instruments

Fixed income instruments are primarily debt instruments ensuring a regular form of payment such as interests, and the principal is repaid on maturity. Examples of fixed income securities are – debentures, bonds, and preference shares.

Debentures are unsecured debt instruments, i.e., not secured by collateral. Returns generated from debentures are thus dependent on the issuer’s credibility.

As for bonds, they are essentially a contract between two parties, whereby a government or company issues these financial instruments. As investors buy these bonds, it allows the issuing entity to secure a large amount of funds this way. Investors are paid interests at fixed intervals, and the principal is repaid on maturity.

Individuals owning preference shares in a company receive dividends before payment to equity shareholders. If a company faces bankruptcy, preference shareholders have the right to be paid before other shareholders.

Variable income instruments

Investment in variable income instruments generates an effective rate of return to the investor, and various market factors determine the quantum of such return. These securities expose investors to higher risks as well as higher rewards. Examples of variable income instruments are – equity and derivatives.

Equity shares are instruments that allow a company to raise finance. Also, investors holding equity shares have a claim over net profits of a company along with its assets if it goes into liquidation.

As for derivatives, they are a contractual obligation between two different parties involving pay-off for stipulated performance.

Hybrid instruments

Two or more different financial instruments are combined to form hybrid instruments. Convertible debentures serve as an example of hybrid instruments.

Convertible debentures are available as a loan or debt securities which may be converted into equity shares after a predetermined period.

Functions of Secondary Market

1. A stock exchange provides a platform to investors to enter into a trading transaction of bonds, shares, debentures and such other financial instruments.
2. Transactions can be entered into at any time, and the market allows for active trading so that there can be immediate purchase or selling with little variation in price among different transactions. Also, there is continuity in trading, which increases the liquidity of assets that are traded in this market.
3. Investors find a proper platform, such as an organised exchange to liquidate the holdings. The securities that they hold can be sold in various stock exchanges.
4. A secondary market acts as a medium of determining the pricing of assets in a transaction consistent with the demand and supply. The information about transactions price is within the public domain that enables investors to decide accordingly.
5. It is indicative of a nation's economy as well, and also serves as a link between savings and investment. As in, savings are mobilised via investments by way of securities.

Types of Secondary Market

Secondary markets are primarily of two types – Stock exchanges and over-the-counter markets.

Stock exchange

Stock exchanges are centralised platforms where securities trading take place, sans any contact between the buyer and the seller. National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are examples of such platforms.

Transactions in stock exchanges are subjected to stringent regulations in securities trading. A stock exchange itself acts as a guarantor, and the counterparty risk is almost non-existent. Such a safety net is obtained via a higher transaction cost being levied on investments in the form of commission and exchange fees.

Over-the-counter (OTC) market

Over-the-counter markets are decentralised, comprising participants engaging in trading among themselves. OTC markets retain higher counterparty risks in the absence of regulatory oversight, with the parties directly dealing with each other. Foreign exchange market (FOREX) is an example of an over-the-counter market.

In an OTC market, there exists tremendous competition in acquiring higher volume. Due to this factor, the securities' price differs from one seller to another.

Apart from the stock exchange and OTC market, other types of secondary market include **auction market and dealer market**.

The former is essentially a platform for buyers and sellers to arrive at an understanding of the rate at which the securities are to be traded. The information related to pricing is put out in the public domain, including the bidding price of the offer.

Dealer market is another type of secondary market in which various dealers indicate prices of specific securities for a transaction. Foreign exchange trade and bonds are traded primarily in a dealer market.

Examples of Secondary Market Transactions

- Secondary market transactions provide liquidity to all kinds of investors. Due to high volume transactions, their costs are substantially reduced. Few secondary market examples related to transactions of securities are as follows.
- In a secondary market, investors enter into a transaction of securities with other investors, and not the issuer. If an investor wants to buy Larsen & Toubro stocks, it will have to be purchased from another investor who owns such shares and not from L&T directly. The company will thus not be involved in the transaction.
- Individual and corporate investors, along with investment banks, engage in the buying and selling of bonds and mutual funds in a secondary market.

Advantages of Secondary Market

a) Investors can ease their liquidity problems in a secondary market conveniently. Like, an investor in need of liquid cash can sell the shares held quite easily as a large number of buyers are present in the secondary market.
b) The secondary market indicates a benchmark for fair valuation of a particular company.

c) Price adjustments of securities in a secondary market takes place within a short span in tune with the availability of new information about the company.
d) Investor's funds remain relatively safe due to heavy regulations governing a secondary stock market. The regulations are stringent as the market is a source of liquidity and capital formation for both investors and companies.
e) Mobilisation of savings becomes easier as investors' money is held in the form of securities.

Disadvantages of Secondary Market

a) Prices of securities in a secondary market are subject to high volatility, and such price fluctuation may lead to sudden and unpredictable loss to investors.
b) Before buying or selling in a secondary market, investors have to duly complete the procedures involved, which are usually a time-consuming process.
c) Investors' profit margin may experience a dent due to brokerage commissions levied on each transaction of buying or selling of securities.
d) Investments in a secondary capital market are subject to high risk due to the influence of multiple external factors, and the existing valuation may alter within a span of a few minutes.

Difference between Primary and Secondary Market

Primary Market	Secondary Market
Securities are initially issued in a primary market. After issuance, such securities are listed in stock exchanges for subsequent trading.	Trading of already issued securities takes place in a secondary market**.**
Investors purchase shares directly from the issuer in the primary market.	Investors enter into transactions among themselves to purchase or sell securities. Issuers are thus not involved in such trading.
The stock issue price in a primary market remains fixed.	Prices of the traded securities in a secondary market vary according to the demand and supply of the same.
Sale of securities in a primary market generates fund for the issuer.	Transactions made in this market generate income for the investors.
Issue of security occurs only once and for the first time only.	Here, securities are traded multiple times.
Primary markets lack geographical presence; it cannot be attributed to any organisational set-up as such.	A secondary market, on the contrary, has an organisational presence in the form of stock exchanges.

As for the platform provided by a secondary market, it facilitates stock trading and also enables converting securities into cash. Continuous trading in a secondary market also increases the liquidity of traded assets. Investors are thus encouraged to undertake investments in financial

instruments available in secondary markets for substantial corpus creation. It is ideal to take the assistance of fund managers to make the most of investment in a volatile market scenario.

Stock Exchanges in India

When we talk of Indian stock exchanges, most of the investing population have heard of only two stock exchanges in India – Bombay stock exchange (BSE) and National stock exchange (NSE).

However, the list of Indian stock exchanges is bigger than just two names.

List of Indian Stock Exchanges

A stock exchange is a place or platform which hosts a market where buyers and sellers come together to trade stocks during specific hours of business days.

Here is the list of major stock exchanges in India:

1. Bombay Stock Exchange (BSE)

BSE is an Indian stock exchange located at Dalal Street, Mumbai and operates with a vision of to "*Emerge as the premier Indian stock exchange with best-in-class global practice in technology, products innovation, and customer service.*"

It is one of the two principal large stock exchanges of India and was founded by Mr. Premchand Roychand, famously known as the Cotton King, the Bullion King or the Big Bull.

He was one of the most influential Indian businessmen of the 19th century and made a fortune in the stock-broking business.

Established in 1875, BSE is the oldest and first stock exchange of Asia and was formerly known by the name of –The Native Share & Stock Brokers Association.

But the story of BSE starts back in the 1850s when 22 stockbrokers would gather under banyan trees in front of Mumbai's Town Hall. Location of these meetings changed multiple times to accommodate an increasing number of brokers.

The group eventually moved to Dalal Street in the year 1874.

In the year 1986, Sensex was introduced, as the first equity index to provide a base for identifying the top 30 trading companies of the exchange, in more than 10 sectors.

Apart from Sensex, other important indices of BSE are BSE 100, BSE 200, BSE 500, BSE MIDCAP, BSE SMLCAP, BSE PSU, BSE Auto, BSE Pharma, BSE FMCG, BSE Metal, etc.

As of April 2018, BSE has an overall market capitalization of over $4.9 trillion, which makes it the 10th largest stock exchange marketplace in the world.

It also offers varied services such as market data services, risk management, CDSL (Central Depository Services Limited) depository services, etc.

2. National Stock Exchange (NSE)

NSE is the youngest stock exchange of India which came into picture in the year 1992 and operates with a vision, "*To continue to be a leader, establish a global presence, and facilitate the financial well-being of people.*"

Mr. Vikram Limaye is MD & CEO of NSE.

In 1992, for the very first time in India, NSE introduced the advanced electronic trading system which removed the paper-based settlement system from trading and offered an easy trading facility.

One year later, in the year 1993, NSE was set up as a tax paying company, which later on registered itself as a Stock Exchange under the Securities Contract Regulation Act.

In the year 1995, National Securities Depository Limited (NSDL) was formed to provide depository services to the investors.

NSDL allows investors and traders to securely hold and transfer their stocks electronically along with this, it also allows investors to hold and trade in as few as one share or one bond.

Nifty 50 the popular benchmark index in the Indian stock market, was introduced by NSE in the same year. Nifty lists out top 50 companies which traded on the NSE stock exchange market.

3. Calcutta Stock Exchange (CSE)

CSE is a regional stock exchange (RSE) located at the Lyons Range, Kolkata and is the second oldest stock exchange in South East Asia.

Incorporated in 1908, CSE is the second largest Stock Exchange in India.

In the year 1980, it was granted permanent recognition by the Government of India under the relevant provisions of the Securities Contracts (Regulation) Act, 1956. While nearly 20 regional stock exchanges have voluntarily exited in the face of SEBI's stringent regulations against RSEs, CSE continues to fight a lone battle.

4. Metropolitan Stock Exchange (MSE)

MSE was recognized by SEBI on 16 September 2008 and is valid till 15 September 2019.

MSE offers a hi-tech platform to trade in the capital market, futures & options, currency derivatives, and debt market segments of the Indian market.

It was recognized by SEBI on 16th September 2008 and is valid till 15th September 2019.

Shareholders of MSE include Indian public sector banks, private sector banks, investors and domestic financial institutions which are subjected to CAG Audit.

It has come out with a "Manifesto of Change", which is a roadmap of what the stock exchange intends to achieve in terms of driving market development and inclusive growth over the next 10 years.

5. India International Exchange (India INX)

Opened in January 2017, India INX is India's first international stock exchange.

It is a wholly owned subsidiary of the Bombay Stock Exchange (BSE) and is located at the International Financial Services Centre (IFSC), GIFT City in Gujarat.

It is claimed to be the world's most advanced technological platform with a turn-around time of 4 microseconds which operates 22 hours a day and six days a week.

Because of these timings, international investors and Non-Resident Indians (NRIs) can trade from anywhere across the globe at their preferred timings.

Also, India INX launched Global Securities Market, India's first international primary market platform that connects global investors with Indian and foreign issuers.

6. NSE IFSC Ltd.

NSE IFSC Limited (NSE International Exchange) incorporated on 29th November 2016, is a wholly owned subsidiary of the National Stock Exchange (NSE) and is located at the International Financial Services Centre (IFSC), GIFT City in Gujarat.

NSE IFSC Limited has been launched to grow the financial market as well as expected to bring capital into India.

It is permitted to offer trading in securities in any currency other than the Indian rupee.

NSE IFSC Limited conducts 16 hours of daily trading, which it intends to gradually expand in line with market feedback. Currently, there are two trading sessions, the first between 8 am and 5 pm and the second between 5.30 pm and 11.30 pm.

Former Stock Exchanges

There are 23 stock exchanges in India. Among them, two are national level stock exchanges namely BSE and NSE. The rest 21 are Regional Stock Exchanges (RSEs).

Due to stringent norms introduced by SEBI, 20 RSEs in the country opted to exit the business.

Here is a list:

S.No	Former Stock Exchanges	Closed in
1	Ahmedabad Stock Exchange	2018
2	Delhi Stock Exchange	2017
3	Guwahati/Gauhati Stock Exchange	2015
4	Jaipur Stock Exchange	2015
5	Madhya Pradesh Stock Exchange	2015
6	Madras Stock Exchange	2015
7	OTC Exchange of India	2015
8	Pune Stock Exchange	2015
9	UP Stock Exchange	2015
10	Vadodara Stock Exchange	2015
11	Bangalore Stock Exchange	2014
12	Cochin Stock Exchange	2014
13	Inter-connected Stock Exchange of India	2014
14	Ludhiana Stock Exchange	2014
15	Bhubaneshwar Stock Exchange	2005
16	Coimbatore Stock Exchange	2009
17	Hyderabad Stock Exchange	2007
18	Magadh Stock Exchange	2007
19	Mangalore Stock Exchange	2004
20	Trivandrum Stock Exchange	2010

Which Stock Exchange should investors/traders transact in India?

It totally depends on the companies where one is looking to invest in.

Some companies may have their shares listed on BSE and not on NSE. For those companies, there is no choice of stock exchange requirement.

However, if any company's share is listed on more than one exchange, it depends on the investor's choice.

BSE and NSE are the most popular stock exchanges in India as they operate at a national level.

The Bottom Line

Stock exchanges are one of the most important constituents of capital market in any country.

Currently, only a few percentage of the Indian household saving invests in the domestic stock market, but with GDP growing more than 7% annually and a stable financial market ahead, it is estimated that more Indians will start investing.

The SEBI Act enumerates the powers with respect to regulating the stock exchange. The act has conferred a wide variety of powers to SEBI.

SEBI Regulations

Some of the **most important powers of SEBI with respect to regulating the Indian stock market** are listed below:

Specifying rules and regulations

SEBI has the authority to specify rules and regulations to control the stock exchange. For example, the timings i.e. opening (9.15 am) and closing (3.30 pm) time of the market has been set by SEBI, and it retains the right to change the timing if required.

Providing licenses to dealers and brokers

Every dealer or broker requires a prior approval and license from SEBI to start distributing securities to investors. It also reserves the right to withhold or cancel the license of brokers and dealers not adhering to guidelines.

Reviewing the performance of various stock exchanges

The regulating body is also responsible for the performances of various stock exchanges and bringing transparency in their functioning.

Controlling mergers, acquisitions and take-overs of the companies

Some companies try to manipulate stocks and buy a majority stake in other companies with an intention of a take-over. SEBI controls and prohibits such movements if it is not in the interest of the company.

Prohibiting unfair trade practices in the market

While SEBI has laid down specific guidelines that promote fair trade practices, many companies occasionally undertake activities that are not healthy for the market. SEBI has the power to prohibit such activities and take action against the parties involved in such a trade. Penalties may range from Rs 25 crores or 3 times the profits made out of such failure, whichever is higher.

Imposition of Penalties in case of violation

A number of acts / activities have been identified and declared to be punishable by SEBI. The same has been mentioned under various sections of the Act.

Stock broker activities

A penalty can be imposed in case a stockbroker defaults or fails in –

1. Issuing in Contract Note, or
2. Delivering any security or making payment of an amount due to an investor , or
3. charges an amount of brokerage which is in excess of brokerage specified in the regulations.

The penalty may range from Rs 1 lac per day to Rs 1 crore depending on the type of default or failure.

Insider Trading

A person becomes liable of insider trading if –

1. Deals of self or others on basis of unpublished / confidential price sensitive information, or
2. Communicates any unpublished price sensitive information, or
3. Counsels any person to deal in securities of any corporate on basis of unpublished price sensitive information.

The penalty can be very heavy is such cases going upto Rs 25 crores or thrice the profit made out of such insider trading activity, whichever is higher.

Non-Disclosure of acquisition of shares and takeovers

Non-Disclosure penalty is applicable if a person fails to –

1. Disclose his total shareholding in a corporate body before acquiring further shares of the corporate body, or
2. Makes a public announcement so are to acquire shares at a certain price, or
3. Makes a public offer by sending an offer letter to the shareholder of the concerned corporate, or
4. Makes payment of consideration to shareholders who sold their shares pursuant to the offer letter as mentioned earlier.

Here again, the penalty can be very heavy ranging from Rs 25 crores or thrice the profit made out of such Non-Disclosure activity, whichever is higher .

Contravention of rules where no separate penalty has been provided

The Act has also specified the penalty for such instances wherein no specific or separate penalty has been provided. The penalty in such cases may go upto Rs 1 crore.

Broadly, for the purpose of clarity on regulatory aspects and other functions of the SEBI, one can divide the **functions of SEBI** into three parts:

Protective Functions:

- To check unfair trade practices in respect to share / security market.
- To check insiders trading in shares / securities.
- To provide education relating to dealing in securities to the investors.
- To provide a code of conduct relating to the security market.

Regulatory Functions (already enumerated earlier in detail):

- To regulate the business doing done in the share / securities market.
- To register and regulate the various venture capital funds.
- To carry out an audit of the share markets.
- To register and regulate the credit rating agency.

Developmental Functions:

- To impart training to the various Intermediaries.
- To encourage self-regulating organizations.
- To carry on research work.
- To publish various kinds of information for the education & convenience of all the parties operating in the capital markets.

Conclusion

The stock market as mentioned earlier is a barometer of the state of the economy for a country. It indicates the direction, the growth and overall health of the economy. All this is reflected on a real time basis, in the most transparent & non-partisan manner, strictly on the basis of merits. Therefore regulating the performance and activities of the stock market, so that same may be conducted in an orderly manner, is of critical importance. The SEBI Act and the provisions incorporated in the Act are all a measure of the importance that has been placed on the orderly conduct of the stock market. Any violations are to be dealt with in a strict manner along with the provision of large and stringent penalties.

Trading System

Trading Mechanism

Trading at both the exchanges takes place through an open electronic limit order book in which order matching is done by the trading computer.3 There are no market makers and the entire

process is order-driven, which means that market orders placed by investors are automatically matched with the best limit orders. As a result, buyers and sellers remain anonymous.

The advantage of an order-driven market is that it brings more transparency by displaying all buy and sell orders in the trading system. However, in the absence of market makers, there is no guarantee that orders will be executed.

All orders in the trading system need to be placed through brokers, many of which provide an online trading facility to retail customers. Institutional investors can also take advantage of the direct market access (DMA) option in which they use trading terminals provided by brokers for placing orders directly into the stock market trading system.

Settlement and Trading Hours

Equity spot markets follow a T+2 rolling settlement.4 5 This means that any trade taking place on Monday gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 a.m. and 3:30 p.m., Indian Standard Time (+ 5.5 hours GMT), Monday through Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk by serving as a central counterparty.

4 Common Active Trading Strategies

1. Day Trading

Day trading is perhaps the most well-known active trading style. It's often considered a pseudonym for active trading itself. Day trading, as its name implies, is the method of buying and selling securities within the same day. Positions are closed out within the same day they are taken, and no position is held overnight. Traditionally, day trading is done by professional traders, such as specialists or market makers. However, electronic trading has opened up this practice to novice traders.

2. Position Trading

Some actually consider position trading to be a buy-and-hold strategy and not active trading. However, position trading, when done by an advanced trader, can be a form of active trading. Position trading uses longer term charts – anywhere from daily to monthly – in combination with other methods to determine the trend of the current market direction. This type of trade may last for several days to several weeks and sometimes longer, depending on the trend.

Trend traders look for successive higher highs or lower highs to determine the trend of a security. By jumping on and riding the "wave," trend traders aim to benefit from both the up and downside of market movements. Trend traders look to determine the direction of the market, but they do not try to forecast any price levels. Typically, trend traders jump on the trend after it has established itself, and when the trend breaks, they usually exit the position. This means that in periods of high market volatility, trend trading is more difficult and its positions are generally reduced.

3. Swing Trading

When a trend breaks, swing traders typically get in the game. At the end of a trend, there is usually some price volatility as the new trend tries to establish itself. Swing traders buy or sell as that price volatility sets in. Swing trades are usually held for more than a day but for a shorter time than trend trades. Swing traders often create a set of trading rules based on technical or fundamental analysis.

These trading rules or algorithms are designed to identify when to buy and sell a security. While a swing-trading algorithm does not have to be exact and predict the peak or valley of a price move, it does need a market that moves in one direction or another. A range-bound or sideways market is a risk for swing traders.

4. Scalping

Scalping is one of the quickest strategies employed by active traders. It includes exploiting various price gaps caused by bid-ask spreads and order flows. The strategy generally works by making the spread or buying at the bid price and selling at the ask price to receive the difference between the two price points. Scalpers attempt to hold their positions for a short period, thus decreasing the risk associated with the strategy.

Additionally, a scalper does not try to exploit large moves or move high volumes. Rather, they try to take advantage of small moves that occur frequently and move smaller volumes more often. Since the level of profits per trade is small, scalpers look for more liquid markets to increase the frequency of their trades. And unlike swing traders, scalpers like quiet markets that aren't prone to sudden price movements so they can potentially make the spread repeatedly on the same bid/ask prices.

Trading Style	Timeframe	Time period of trade
Scalping	Short-term	Seconds or minutes
Day trading	Short-term	1 day max - do not hold positions overnight
Swing trading	Short/medium-term	Several days, sometimes weeks
Position trading	Long-term	Weeks, months, years

The Futures and Options Trading System provides a fully automated trading environment for screen-based, floor-less trading on a nationwide basis and an online monitoring and surveillance mechanism. The system supports an order driven market and provides complete transparency of trading operations.

Orders, as and when they are received, are first time stamped and then immediately processed for potential match. If a match is not found, then the orders are stored in different 'books'. Orders are stored in price-time priority in various books in the following sequence:

- Best Price
- Within Price, by time priority.

Order Matching Rules

The best buy order will match with the best sell order. An order may match partially with another order resulting in multiple trades. For order matching, the best buy order is the one with highest price and the best sell order is the one with lowest price. This is because the computer views all buy orders available from the point of view of a seller and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with highest price and vice-versa.

Members can pro actively enter orders in the system which will be displayed in the system till the full quantity is matched by one or more of counter-orders and result into trade(s). Alternatively members may be reactive and put in orders that match with existing orders in the system. Orders lying unmatched in the system are 'passive' orders and orders that come in to match the existing orders are called 'active' orders. Orders are always matched at the passive order price. This ensures that the earlier orders get priority over the orders that come in later.

Order Conditions

A Trading Member can enter various types of orders depending upon his/her requirements. These conditions are broadly classified into 2 categories: time related conditions and price-related conditions.

Time Conditions

DAY - A Day order, as the name suggests, is an order which is valid for the day on which it is entered. If the order is not matched during the day, the order gets cancelled automatically at the end of the trading day.

IOC - An Immediate or Cancel (IOC) order allows a Trading Member to buy or sell a security as soon as the order is released into the market, failing which the order will be removed from the market. Partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.

Price Conditions

Limit Price/Order - An order that allows the price to be specified while entering the order into the system.

Market Price/Order - An order to buy or sell securities at the best price obtainable at the time of entering the order.

Stop Loss (SL) Price/Order - The one that allows the Trading Member to place an order which gets activated only when the market price of the relevant security reaches or crosses a threshold price. Until then the order does not enter the market.

A sell order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or falls below the trigger price of the order. A buy order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or exceeds the trigger price of the order.

E.g. If for stop loss buy order, the trigger is 93.00, the limit price is 95.00 and the market (last traded) price is 90.00, then this order is released into the system once the market price reaches or exceeds 93.00. This order is added to the regular lot book with time of triggering as the time stamp, as a limit order of 95.00