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 futu₹res 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

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