

FINANCE

STOCK MARKET

DATA



Stock Market Ecosystem

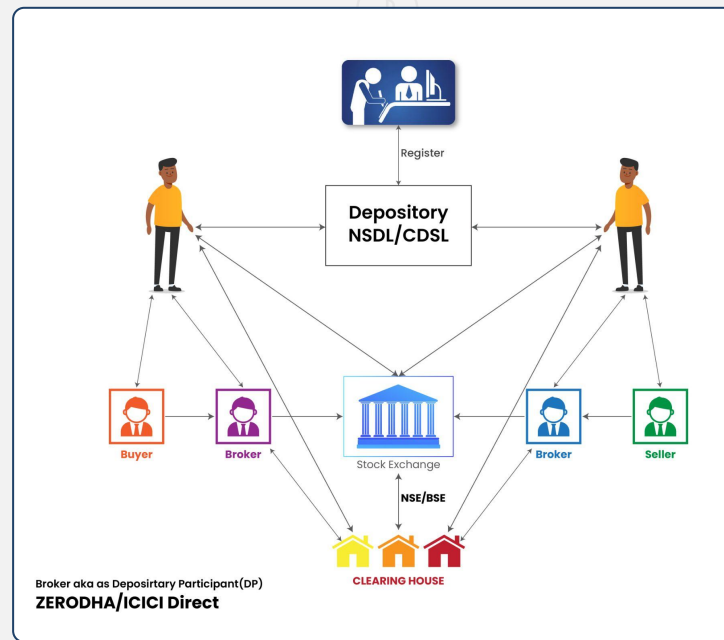


BANKING

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Stock Market Ecosystem

- Stock markets primarily comprise of five main participants which include:
 - **SEBI** – Regulator of Stock Markets – Established in 1992.
 - **Stock exchanges** – Platform where shares can be issues/traded
 - **Companies** – Legal entities running a business
 - **Investors / traders** – Market participants
 - **Market intermediaries** – Dealers, Depository Participant (DP), trading members are better known as brokers, clearing members, clearing houses and clearing banks



SEBI (1/3)

- **About SEBI**

- Regulates the stock markets in India
- Established as a non-statutory body with limited powers in April 1988
- After the **Harshad Mehta scam** unfolded in 1992, SEBI was established as a statutory body with wide ranging powers

- The prime **objective** of SEBI is to establish and implement regulations for:

- The functioning of the stocks markets,
- Prevent frauds and
- Develop the Indian Stock Market.

- In case you list a company, you will have to comply with SEBI's regulations including:

- SEBI (ICDR) Regulations, 2018 - [click here to read](#)
- SEBI (LODR) Regulations, 2015 - [click here to read](#)

SEBI (2/3)

- **Functions of SEBI:**

Regulatory

- To register brokers and agents
- To define the rules and regulations to be followed by the financial entities
- It plays the role of conducting audits of stock exchanges
- It regulates the activities of stock brokers
- Levying penalties and fees for contravention of rules

Development

- Providing training to the intermediaries
- It conducts research and publishes useful info for market entities
- It undertakes measures to develop the capital markets

Protective

- Insider trading is defined as the selling or buying of securities by insiders of a company
- SEBI aims at prohibiting Insider trading
- Promoting fair trade practices in the securities market
- Preventing malpractices by checking price rigging
- Providing financial education to the investors

SEBI (3/3)

- A classic example of SEBI's intervention was in the case of Hindustan Lever limited (HLL) where SEBI acted against insider trading.
- HLL had bought 8 lakhs shares of Brooke Bond Lipton India Ltd. (BBLIL) from Unit Trust of India
- Two weeks prior to the public announcement of the merger of two companies, i.e., HLL and BBLIL
- London-based Unilever was the parent company of HLL and BBLIL and were operating under the same management
- SEBI determined that HLL and its directors were insiders because they had prior knowledge of the merger
- SEBI further determined that HLL was in the possession of Price Sensitive Insider Information

Stock Exchange

What is Stock Exchange?

- Stock Exchange facilitates a transparent and regulated platform to registered stockbrokers and investors to transact in securities electronically
- NSE and BSE are the two major stock exchanges in India

History of Stock Exchanges in India

- **BSE(Bombay Stock Exchange)** - First stock exchange in India as well as Asia was established in Mumbai in 1875. More than 5300+ companies are listed on BSE.
- **NSE(National Stock Exchange)** - Established in 1992, introduced electronic trading in India. More than 1600+ companies are listed on NSE.

How do stock exchanges work?

- Stock exchanges operate as a marketplace where buyers place bids for buying shares and sellers place offers to sell shares. When bid matches offer, transaction happens.

Types of Investors

1. Retail Investors

- SEBI defines retail investors as individuals who invest less than Rs 2L in an IPO and don't hold or buy stocks for a value of more than Rs. 2L (in face value)
- Retail investors own only ~7.4% stake in the Indian Markets

2. High Net-worth Individuals (HNI's)

- These are individuals who have investable assets of over Rs. 2 Crore and who apply for shares above Rs. 2 L in an IPO



Types of Investors

3. Institutional Investors

- Institutional investors are financial institutions such as:
 - Banks,
 - Mutual funds,
 - Pension funds,
 - Insurance companies etc.
- They are generally categorised into:
 - Domestic institutional investors (DII) and
 - Foreign Institutional investors (FIIs) or Foreign Portfolio Investors (FPI)
- **Let us see a tabular comparison between DII's and FII's**

Types of Investors



Parameter	DII	FII
Country of Origin	India	Foreign
Regulatory Authority	SEBI	SEBI
Investment Focus	Domestic Markets	Global Markets
Investment Horizon	Long term	Short or Mid term
Investment limitations	None	Limited by regulation
Marketplace impact	Less significant	Significant
Example	LIC, UTI, etc.	BlackRock, JP Morgan



Market Intermediaries (1/6)

These are institutions that ensure that all rules laid out by SEBI are complied with while you enjoy the fruits of investing.

1. Depositories

- Until 1996, to stake an ownership claim, a physical share certificate was required. However, India introduced the Demat Account system in 1996
- Depositories are institutions that hold your securities in this digital format. They are effectively a 'bank' for securities
- India, has 2 depositories viz. National Securities Depository Limited (NSDL), established in 1996 and Central Depository Services Limited (CDSL), established in 1999..
- NSDL is the depository for NSE and is promoted by IDBI Bank, UTI and NSE while CDSL is the depository for BSE and is promoted by BSE.

Market Intermediaries (1/6)

How NSDL/CDSL earns revenue?

- **Annual issuer charges** : As per SEBI's guidelines, every listed company on NSE and BSE pays annual charges to NSDL and CDSL respectively
- **Transaction Charges** : For every transaction made by traders/investors, Depository Participants(DP) collects transaction charge and deposits the same amount to the depository.
- **Online Data Charges** : Depositories charges one time fee for KYC creation and fetching other data as well
- **IPO and Corporate action charges** : These charges are paid by the issuer companies for facilitating IPO and other corporate actions by crediting the securities in the investors' Demat account.
- **Other charges** : e-voting charges, ECAS charges, document storage charges, and others.

Market Intermediaries (2/6)

2. Depository Participants (DP)

- An investor cannot open an account with a depositories directly.
- NSDL/CDSL authorizes various companies (also known as Depository Participant (DP)) to provide you with an account to hold your securities digitally.
- Think of DPs as branches of a bank with CDSL/NSDL being the headquarters.
- DP's earn money by charging clients for services like account opening, securities transfer, pledging of securities and also levy annual maintenance charges.
- **Example** - Zerodha Broking Limited, a Depository Participant registered with CDSL, charges a Rs. 200 fee for opening a Demat account.



Market Intermediaries (3/6)

3. Dealers / Merchant Bankers

- A dealer is an individual or a firm who buys and sells securities for his own account.
- They are market makers and underwrite securities. Underwriting a security simply refers to subscribing that part of a public issue of a share that remains unsubscribed. It is a way to provide support to a public issue in return for a fee in the form of premium.
- Think of it this way, you bring out an IPO of Flipkart and issue 1L shares to the public at large; however only 80k shares are purchased by the public.
- Your dealer will subscribe the remaining unsubscribed 20k shares and give support to your public issue.
- You will have to pay the dealer a fee in return for the dealer undertaking the risk to subscribe to 20k shares.
- This ensures you are able to sell your entire lot of 1L shares and raise the required money.
- **Kotak Mahindra Capital Co, Citigroup Global Markets India Pvt. Ltd** are examples of underwriters.

Market Intermediaries (4/6)

4. Brokers

- A broker is a person or a company that executes transactions of buying and selling on behalf of another party as opposed to a dealer who buys and sells securities for his own account.
- Brokers charge a brokerage fees for every transaction undertaken by their client (investors)

5. Clearing House

- A Clearing House acts a mediator between two parties to a transaction and is responsible for clearing and settling a transaction
- Basically, they ensure that buyer gets the right number of shares and seller receives the right amount of funds thereby eliminating any counterparty risk
- NSE Clearing Ltd is responsible for clearing and settlement of all trades executed on NSE.
- Indian Clearing Corporation Ltd is the primary clearing house of BSE.
- Another example of a clearing house is India International Clearing Corp IFSC Ltd.

Market Intermediaries (5/6)

6. Clearing Members and Custodians

- Clearing corporation transfers every trade to a clearing member or custodian.
- Core responsibility clearing member or custodian is to ensuring availability of funds and shares on settlement day (T+2 Day)

7. Clearing Banks

- SEBI has authorized 15 clearing banks that aid in the settlement of funds
- Every clearing member has to open a clearing account with one of these banks and in case of purchase transaction, ensure sufficient availability of in its clearing banks account before T+2
- In case of sale transaction, funds are received by Clearing member in its clearing banks account

Market Intermediaries (6/6)

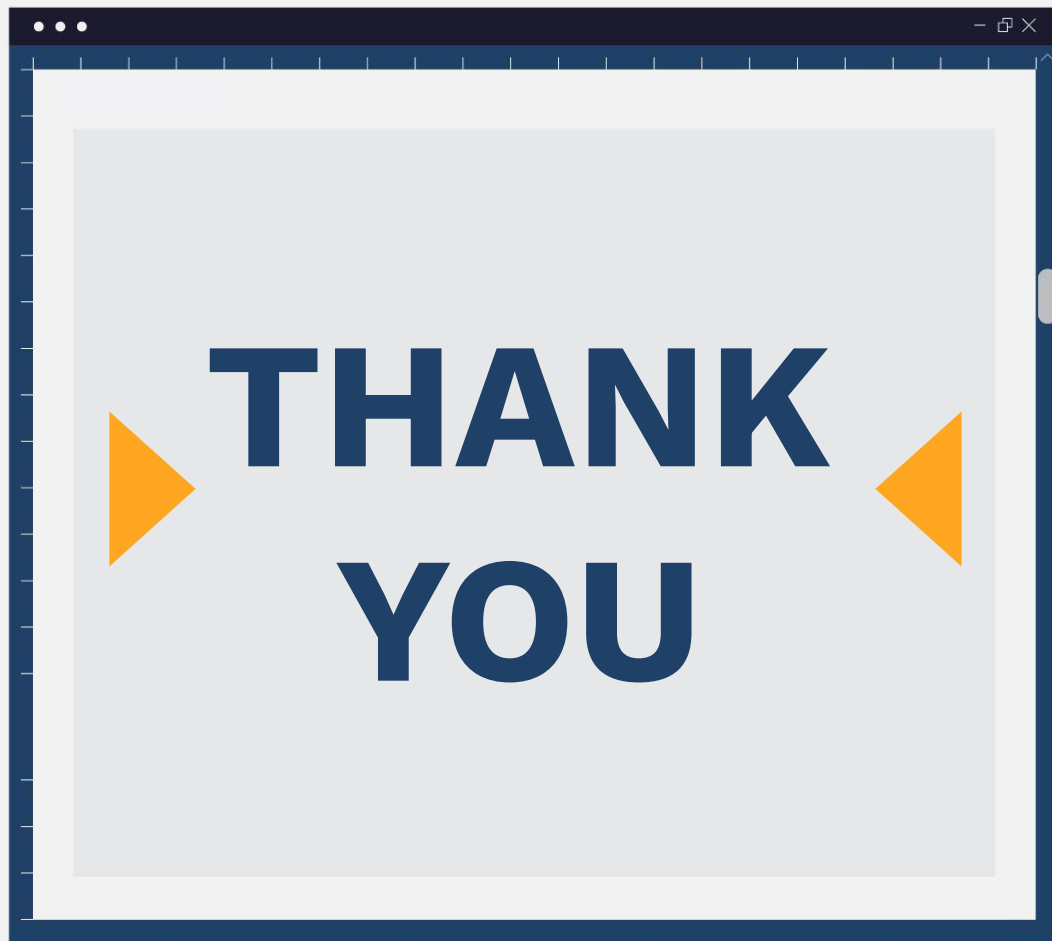
- Let us try to understand how market ecosystem works by way of an example:
 - ❑ You decide to start investing in the stock market. To do so, you first open a Demat Account with say Zerodha (DP) who also acts as your stockbroker.
 - ❑ Zerodha (DP) charges you a Demat account opening fee of Rs. 200.
 - ❑ You purchase 1 share of HDFC Bank for Rs. 1500 on NSE via your stockbroker.
 - ❑ Your stockbroker i.e., Zerodha charges you a brokerage fee for purchasing a share of HDFC Bank.
 - ❑ NSE Clearing Limited (Clearing House) ensures that you receive 1 share of HDFC Bank in your Demat account and the seller receives Rs. 1,500.
 - ❑ CDSL earns money by charging a transaction fee to your DP – Zerodha (Stockbroker) for the transaction executed on your behalf
 - ❑ CDSL also charges a fees to HDFC Bank for acting a depository for its shares



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