EduTap

SUMMARY SHEET

Primary and Secondary Markets (Equity Markets)

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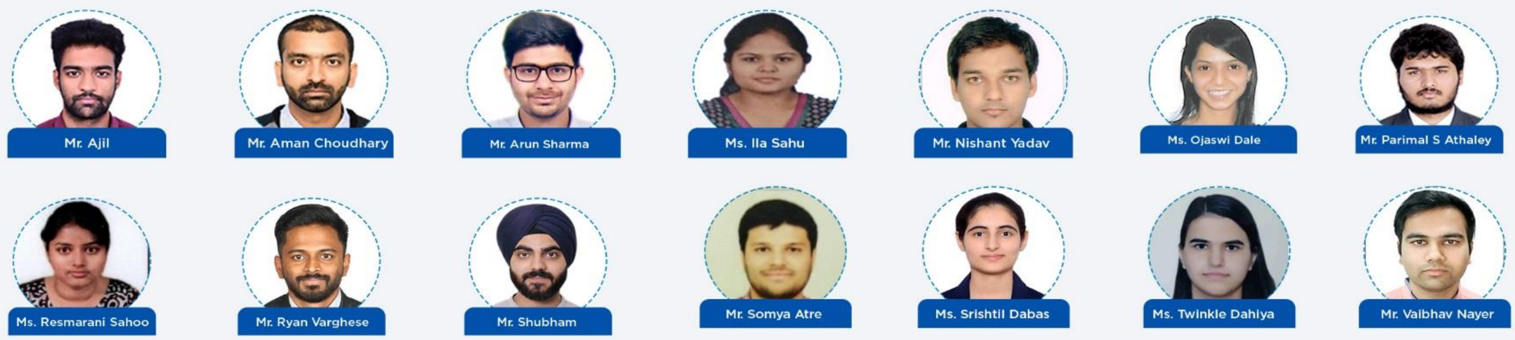
RBI Grade B 2020 - 21

198 Selections Out of 257



SEBI Grade A 2020

63 Selections Out of 80

NABARD Grade A 2020

65 Selections Out of 69

Important Points

1. This Summary Sheet shall only be used for Quick Revision after you have read the Complete Notes

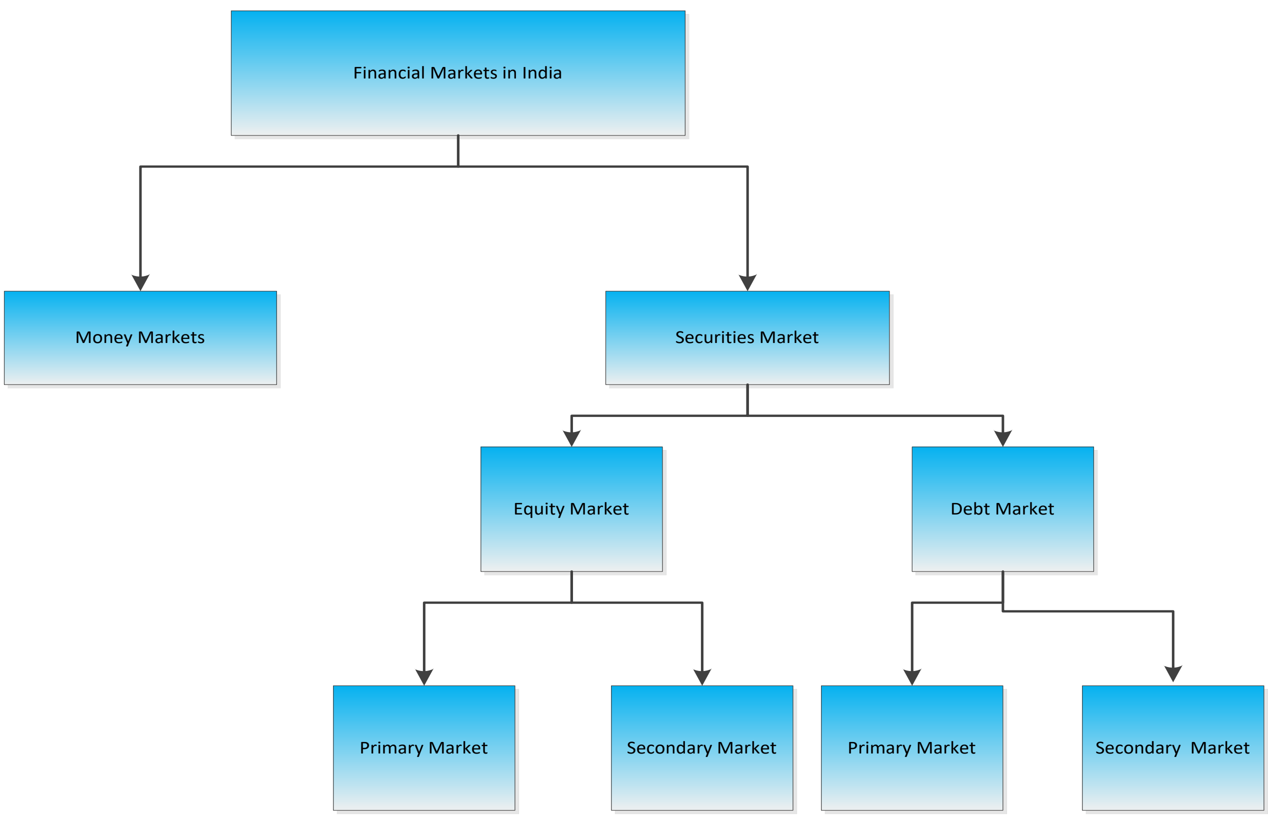
2. For Building Concepts along with examples/concept checks you should rely only on Complete Notes

3. It would be useful to go through this Summary sheet just before the exam or before any Mock Test

4. Questions in the exam are concept based and reading only summary sheets shall not be sufficient to answer all the questions

1 Summary Points

➢ **Financial Markets in India:**

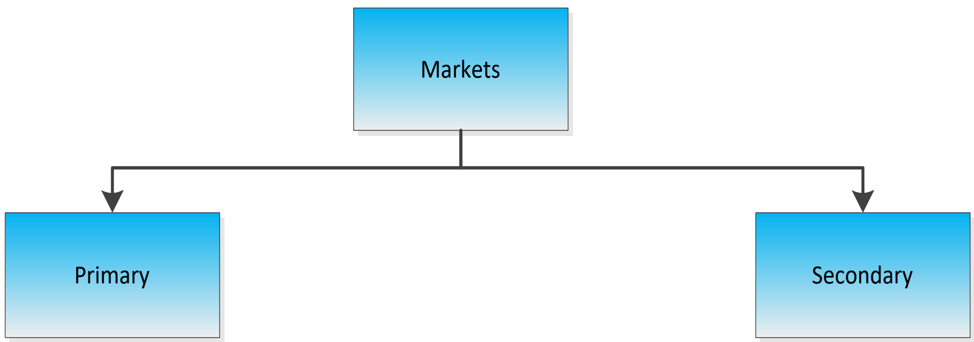


- **Equity Markets:** Refers to the market where money is raised from the public by issuing equity
- **Equity/ Stock/ Share:** Refers to share in the ownership of a company which results in claim on the company's assets and profits. **More the stocks one owns, larger is his share in the company**
- **Face Value of Stock:** Refers to the value of the stock which is printed on Stock certificate. This is generally used in distributing profits to shareholders or exercising corporate actions
- **Features of Equity Capital:**
    1. Equity capital can be provided by the Inside as well as Outside shareholders.
        - ✓ **Inside Shareholders:** These could be Promoters, Institutional Investors or Venture Capitalists who subscribe to equity in early stages of the company with their own funds
        - ✓ **Outside Shareholders:** These are the members from public, who invest in the company's equity shares at a later stage in order to fund its subsequent expansions and operations
    2. **Part Ownership:** An equity share grants the shareholders ownership of the company in proportion to the extent of their holding which is also called **stake**
    3. **Variable Return:** Equity investors are paid a periodic dividend(out of the profits), which is not pre-determined
    4. **Residual Claim: Shareholders are ranked last**(amongst government, lenders and employees and other stakeholders), both for profit sharing as well as for claiming a share of the company's assets in case of liquidation of the company's assets
    5. **Net Worth: Retained Profits** (share of profits that is not distributed to shareholders) become part of the company's reserve funds whose ownership also belongs to shareholders only. Retained profits enhances company's net worth and value of its shares
    6. **Management and Control:** Large publicly held companies are managed by their **board of directors (consisting of independent directors who represent the interest of common small shareholders as well as large shareholders with a significant shareholding)** and the management teams report to the board. All shareholders get **voting rights** which enables them to participate in important decisions of the company

Equity Financing over Debt Financing	Investing in Equity over Debt
Advantages: I. Equity capital doesn't have any obligation to be returned back to the investor unlike Debt capital II. No obligation to pay interest or dividends regularly	**Advantages:** I. Possibility of higher returns over Debt investment

Disadvantages:	Disadvantages:
I. Dilutes ownership of business II. Promoters get less control and management of company's operations due to investor rights III. Comply with Stock Exchange norms IV. Pressure to make profits	I. Risking investment II. No guaranteed return III. Possibility of low or no returns too

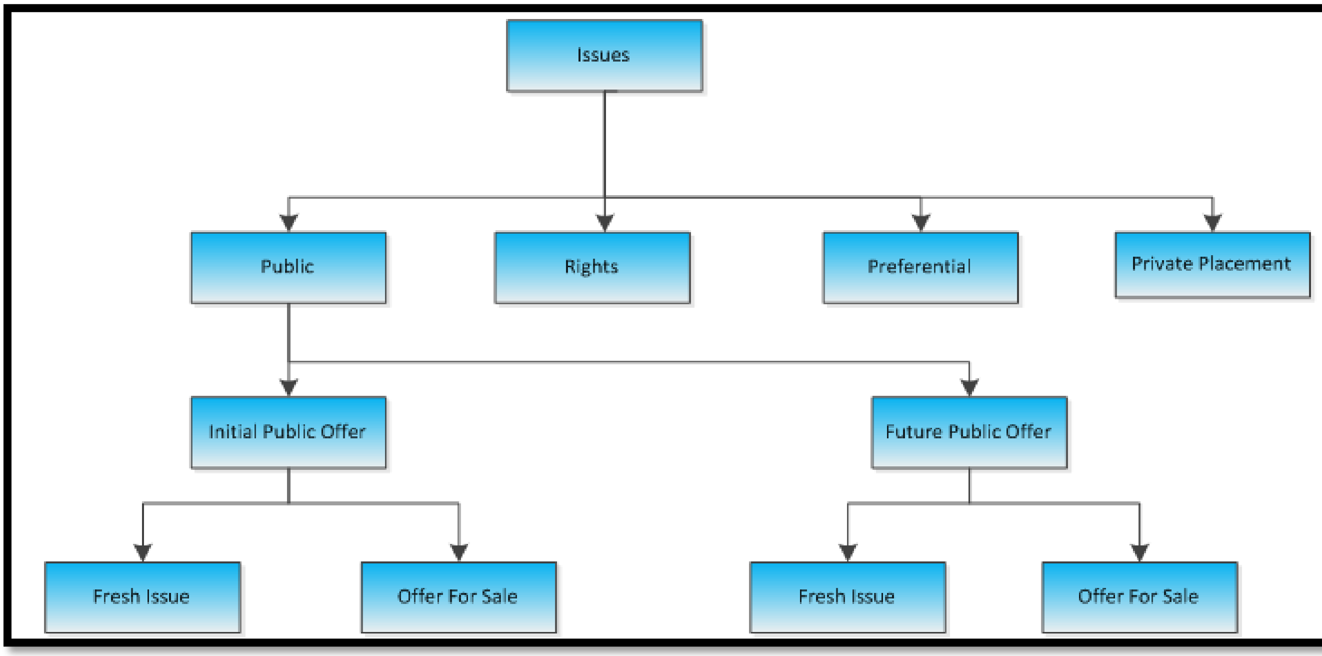
- **Two Types of Markets:**



- **Primary Market:** When Company directly issues shares to people or certain private individuals
- **Secondary Market:** Refers to the market where one person buy/sell shares from another person

- **Functions of Primary Markets:**
  1. **Tap larger markets for capital:** Enables tapping a larger market for its capital requirements and shift from the known sources of funding (i.e. from its promoters, interested parties, banks and such close-knit arrangements) to the new investors who can potentially subscribe to the company's capital
  2. Price of the stock is determined by the demand and supply in the market which **fosters competition**
  3. Helps to **diversify ownership** and in turn strengthens governance norms
  4. To raise capital for new company, a company has to meet higher standards of disclosure and transparency which leads to **better disclosure**
  5. Allocation to substantial number of people, **improves the Liquidity** of the share

- **Offerings in the Primary Market**



- Future Public offer is also known as Further Public Offer or Follow on Public Offer
- **Public Issue:** This issue is for **retail investors to buy the shares** of the company. These are of two types:
  1. **Initial Public Offer (IPO):** Refers to when an unlisted company decides to go public for the first time. The price band for the shares is decided through the process of bidding
  2. **Further Public Offer (FPO):** Refers to already listed company which generates the funds from the public for its expansion by issuing more shares
     - ✓ **Fresh Issue:** Refers to the shares freshly issued by the company in which the stake of promoters decreases from their earlier stake
     - ✓ **Offer for Sale:** Refers to sale of shares by the promoters (large shareholders) to the public where the money collected from sale is pocketed by promoters due to which overall shares of the company remains constant
  3. **Rights Issue:** As per the Company's Act, a company which wants to raise more capital through an issue of shares must first offer them to the existing shareholders to prevent them from dilution of holdings. Such an offer of shares is called a rights issue
     - ✓ When Investors choose to decline the offer or sell their entitlement to other investor then it is called **renouncing the rights.** These rights are also separately traded on stock exchange
  4. **Preferential Issue:** Refers to when the stocks are issued to parties who are given some preference over common shareholders
     - ✓ Preferred shareholders are **usually guaranteed** a fixed dividend forever if the company has sufficient profits. Dividend to common shareholders is paid even after paying the preference shareholders

- ✓ In the event of liquidation, preferred shareholders are paid off before the common shareholder. **The order in which Equity Holders, Debt Holders and Preference shareholders are returned the money in case of liquidation is -> Debt Holders are given the first priority, then preference shareholders and then Equity Shareholders**
- ✓ Do not offer voting rights or a right over the assets of the company except in certain cases. Preference shareholders (of the particular class) have right to vote On ALL resolutions of the company where the dividend in respect of a class of preference shares has not been paid for **a period of two years** or more
- ✓ Are usually not listed and there is not much scope for capital appreciation
- ✓ <u>**Types of Preference Shares**</u>
  1. **CONVERTIBLE AND NON-CONVERTIBLE**: Convertible Preference shares possess an option or right whereby they can be converted into an ordinary equity share at some agreed terms and conditions whereas in non-convertible preference shares, there is no option to convert convertible preference shares to equity.
  2. **REDEEMABLE AND IRREDEEMABLE**: Redeemable preference shares have a maturity date on which date the company will repay the capital amount to and discontinue the dividend payment thereon. Irredeemable preference shares do not have a maturity date
  3. **PARTICIPATING AND NON-PARTICIPATING**: Participating preference shares are a unique type of preference shares which has an additional benefit of participating in profits of the company apart from the fixed dividend. They are given higher dividend than the fixed dividend as per agreement between the issuer and the investor. Whereas, in non-participating preference shares, shareholders do not have a share in the extra earnings or surplus assets during the liquidation of a company.
  4. **CUMULATIVE AND NON-CUMULATIVE PREFERENCE**: For non-cumulative preference shares, a company can skip dividend in the year, the company has incurred losses. If the shares are cumulative preference shares, the dividends are cumulated and therefore paid when the company makes the profit.

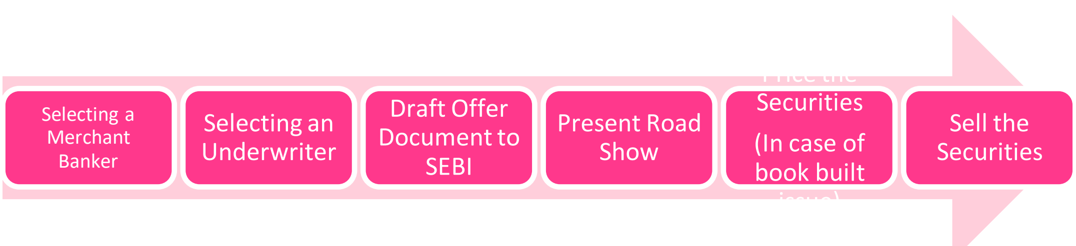
<u>**Regulations Related to Preference issues**</u>

Preference shares can be issued for a **maximum period of 20 years** from the date of their issue. In case of company involved in infrastructure projects, the maximum period is 30 years but from in this case, from 21st year every year at least 10% shares shall be redeemed

2. **Private Placement:** Refers to offer made by a company to a select group of investors such as financial institutions, banks and mutual funds. As per Companies Act of 2013, **if an offer to subscribe to securities is made to not more than 200 persons is called private placement of securities**

3. **QIP (Qualified Institutional Placement):** A special type of private placement is called QIP. This can be only made by already listed companies. This is the speedy method of private placement whereby a listed company can issue shares or convertible securities to a select group of investors. But unlike in an IPO or an FPO (further public offer), only institutions or qualified institutional buyers (QIBs) can participate in a QIP issuance. The high speed under QIP is possible because there are few rules to follow. The reason for few rules is that QIBs are institutions with expertise and financial power that allows them to evaluate and participate in capital markets, at that level, without the legal assurances of a follow-on public offer (FPO). The QIP allows an Indian-listed company to raise capital from domestic markets without the need to submit any pre-issue filings to market regulator. Only a placement document with the stock exchanges, which only has details of the issue is required. Regulations under QIPs are as given below
    - ✓ The market regulator has stated that there should be at **least two QIBs** if the issue size is **< 250 crore**, and **at least five investors if the size is > than 250 crores**
    - ✓ A single investor cannot be allotted more than 50% of the issue
    - ✓ Shares in QIP cannot be issued to promoters or parties related to promotors

- **Depository receipts (DRs)** are financial instruments that represent shares of a local company issued in foreign currency that are listed and traded on a stock exchange outside the country. DRs gives investors **the right to dividends and capital appreciation** from the underlying shares, **but not the voting rights.**
    1. **American Depository Receipts (ADRs)**: DRs listed on a stock exchange in the USA such as the New York Stock Exchange (NYSE)
    2. **Global Depository Receipts (GDRs):** The DRs are listed on a stock exchange outside the US
    3. **Indian Depository Receipts (IDRs):** DRs are issued in India and listed on Indian stock exchanges with foreign stocks as underlying shares
    4. **Sponsored issue:** When existing shareholders of a company agree to offer their shares for conversion into DRs in which case shares gets acquired and delivered to the local custodian of the depository bank
- **IPO Process:**



I. **Selecting Merchant Banker(issue managers, investment bankers, or lead managers):** Acts as manager, consultant, adviser or corporate advisory in relation to issue management and manages the entire issue process

II. **Selecting Underwriter:** Assembles **syndicate** (a group of brokerage firms that commit to sell a certain percentage of the offering) to manage the large offerings

III. **Draft offer Document to SEBI**: Any company making a public issue or a listed company making a rights issue of a value of more than **50 Lakh** is required to file a draft offer document with SEBI for its observations. The draft offer documents are filed with SEBI, **at least twenty-one days prior to the filing of the offer document with Registrar of Companies/Stock Exchanges**. There is no requirement of filing any offer document/notice to SEBI in the case of preferential allotment and QIP. The final offer document is called prospectus which is to be filed with Registrar. No prospectus shall be valid if it is issued more than **ninety days** after the date on which a copy thereof is delivered to the Registrar. There are various types of Prospectuses that are discussed below

a. **Red Herring Prospectus**: There are ways of coming out with IPO – fixed Price and Book Building. In case of book building issue, complete particulars about the number of securities, the price of the securities are not known. Red herring prospectus is the prospectus for book building issue which lacks the complete particulars about the number of securities, the price of the securities to be issues because these details are known only later once the issue has been subscribed. A company may issue a red herring prospectus **prior to the issue of prospectus** when it is proposing to make an offer of securities. It must file this prospectus with the Registrar **at least three days** prior to the opening of the subscription list and the offer. The final prospectus can be issued later once the number of securities and issue price is clear

b. **Shelf Prospectus**: **When a shelf prospectus is issued then the issuer does not need to issue a separate prospectus for each offering, he can offer or sell securities without issuing any further prospectus**. The prospectus shall prescribe the validity period of the prospectus and it should not be exceeding **one year**. This period commences from the opening date of the first offer of the securities. During the validity period, each time it comes up with an offer, the company shall file an **INFORMATION MEMORANDUM ONE MONTH** prior to the subsequent offer. The information memorandum shall contain all material facts relating to changes in the financial position of the company as have occurred between the previous offer of securities and the succeeding offer of securities

c. **Abridged Prospectus**: The abridged prospectus is a **summary of a prospectus** filed before the registrar.It contains all the useful and materialistic information so that the investor can take a rational decision and it also reduces the cost of public issue of the capital as it is a short form of a prospectus. Company needs to **attach** it along **with every application form** for purchase of securities

d. **Letter of Offer:** In case of rights issue the offer, document is called letter of offer

IV. **Print Prospectus (Red Herring):** It is basically the first version of the preliminary prospectus to seek interest in the IPO from potential investors mentioning estimated range of share price

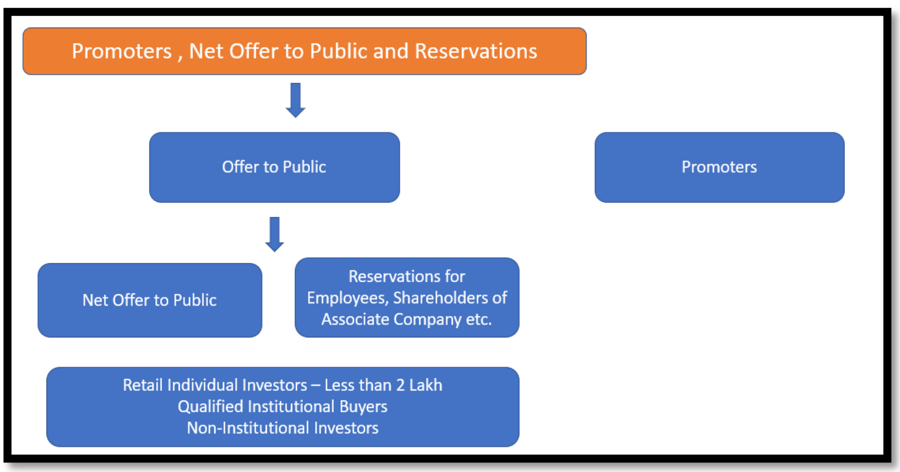
V. **Roadshow:** Event where the company's management team travels and makes live representations to seek interest for IPO from large potential investors

VI. **Pricing Securities:** After knowing demand for the IPO, the company and underwriters determine the share price of the company's stock which forms part of the final prospectus

VII. **Selling Securities:** Finally, the underwriters and others involved in the IPO decide number of shares to be received by each investor

- **Registrar to the Issue:** Role of the registrar is to finalize the list of eligible allottees, ensure crediting of shares to the Demat accounts of the eligible allottees and dispatch refund orders
- **Bankers to the Issue:** Appointed in all the mandatory collection centers and by the lead merchant banker to carry out activities related to collection of application amounts, transfer of the amount to escrow accounts and dispatching refund amounts

- **Promoters and Offer to Public**



The offer is categorized as offer being made to public and offer being made to promoters. There are 3 types of investors under public - **Retail, QIBs and Non-Institutional Investor**. Under public offer some part would be reserved for Employees or Associate companies etc., the remaining part of the public offer which is not reserved is called **Net Offer to public**

Apart from public there would be promoters (kind of owners of the company). For example, Anil Ambani is a promoter in Reliance. Promoters would not be counted as public

<u>Under Offer to public there are 3 types of Investors</u>

1. **<u>Retail Investor:</u>** The one which invests less than 2 lakhs
2. **<u>QIBs:</u>** Qualified Institutional Buyers are those institutional investors who are generally perceived to possess expertise and the financial muscle to evaluate and invest in the stock markets. As per SEBI a 'Qualified Institutional Buyer' shall mean:

   a. Public financial institution as defined in section 4A of the Companies Act, 1956;
   b. Scheduled commercial banks;
   c. Mutual funds;
   d. Foreign institutional investor registered with SEBI;
   e. Multilateral and bilateral development financial institutions;
   f. Venture capital funds registered with SEBI.
   g. Foreign Venture capital investors registered with SEBI.
   h. State Industrial Development Corporations.
   i. Insurance Companies registered with the Insurance Regulatory and Development Authority (IRDA).
   j. Provident Funds with minimum corpus of Rs.25 crores
   k. Pension Funds with minimum corpus of Rs. 25 crores

   These entities are not required to be registered with SEBI as QIBs. Any entities falling under the categories specified above are considered as QIBs for participating in primary markets

3. **<u>Non-Institutional Investor:</u>** The investor which is neither a retail investor nor a QIB would be called Non-Institutional Investor

- **Types of IPO Process:**
  1. **Fixed Price**
  2. **Book Building**

- **Basic difference between Fixed Price and Book Building IPO Process**

Issue Type	Offer Price	Demand	Payment	Reservations
Fixed Price Issues	Price at which the securities are offered and would be allotted is made known in advance to the investors	Demand for the securities offered is known only after the closure of the issue	100 % Applications Supported by Blocked Amount (ASBA) We will study ASBA later	50 % of the shares offered are reserved for applications below Rs. 2 lakh and the balance for higher amount applications.
Book Building Issues	A 20 % price band is offered by the issuer within which investors are allowed to bid and the final price is determined by the issuer only after closure of the bidding.	Demand for the securities offered , and at various prices, is available on a real time basis on the BSE website during the bidding period.	100 % Applications Supported by Blocked Amount (ASBA) We will study ASBA later	We will study later

- **Auction Based Book Building (Pure Auction):** Also a type of share issuing process. Pure Auction is an additional method of book building in which the bidders would be free to bid at any price above the floor price and allotment would be on price basis and at differential prices depending on the type of investor. This method **can only be used for FPOs**

- **Application Supported by Blocked Amount (ASBA) Process:** ASBA means "Application Supported by Blocked Amount". ASBA is an application by an investor containing an authorization to **Self-Certified Syndicate Bank (SCSB) to block the application money** in the bank account, for subscribing to an issue. SCSB are nothing but the banks which have ASBA facility. If an investor is applying through ASBA, his application money shall be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalized.

  In all public issues like IPOs, FPOs and Rights Issues, issuer is mandatorily required to provide only ASBA as mode for payment and all investors (Retail, QIBs and Non- Institutional Investors) have to mandatorily apply through ASBA.

  <u>**UPI as a mode for Payment in ASBA**</u>

  In 2018 SEBI decided to offer UPI as a means for making payment for **retail investors** in the ASBA process. The idea was to further speed up the process and bring listing time from 6 days to 3 days after closure of issue. UPI is an instant payment system developed by the National Payments Corporation of India (NPCI). It allows instant transfer of money between any two person's bank accounts

- **Green Shoe Option:** It is also referred to as an **over-allotment option**. It is a mechanism to provide **post-listing price stability to an IPO**. The Green-Shoe company was the first to issue such option, hence the name. A company, which opts for Green Shoe option can allot additional shares **not exceeding 15%** of the issue size, to the general public who have subscribed to the issue. The proceeds from this additional allotment will be kept in a separate bank account and used to buy shares in the secondary markets once the shares are listed in case the price falls below the issue price. This is expected to provide support to the price of the shares

- **Safety Net Arrangement:** In such safety net arrangements, the buyers are given guarantee that in case the average price for next six months comes below issue price after listing then company will buy back the shares form those buyers at the issue price. Such safety net arrangements give buyer the confidence to invest because he is being given guarantee of buyback at issue price in case the price falls before the issue price

Such buy back or safety net arrangements shall be made available only to all original **resident retail individual allottees** limited up to a maximum of **1000 shares** per allottees

- **Anchor Investors:** These are **qualified institutional buyers** who buy a large chunk of shares a day before an IPO process opens. They help arriving at an **approximate benchmark price for share sales** and generate confidence among retail investors. The anchor investor would be a qualified institutional buyer (QIB) and an issuer can allot up to 6**0 per** cent of Quota for QIBs

- **Reverse Book Building:** It is a price discovery mechanism for companies who want to delist their shares or buy-back shares from the shareholders

- **Regulations for IPO:**

1. **Eligibility: (Private Sector Banks, Public Sector Banks, Infrastructure Company and Rights issued by the company are exempted from below entry norms)**

I. **Profitability Route**

   - **Net tangible assets of at least Rs. 3 crores** in each of the preceding 3 years of which **not more than 50% are held in monetary assets**. If more than 50 percent of the net tangible assets are held in monetary assets, the issuer has to utilize such excess monetary assets in its business or project

   - **Minimum average pre-tax operating profits of Rs. 15 crores** during the 3 most profitable years out of the immediately preceding 5 years

   - **Net worth of at least Rs.1 crore** in each of the preceding 3 years (of twelve months each)

   - The **issue size should not exceed 5 times the pre-issue net worth** as per the audited balance sheet of the last fiscal year

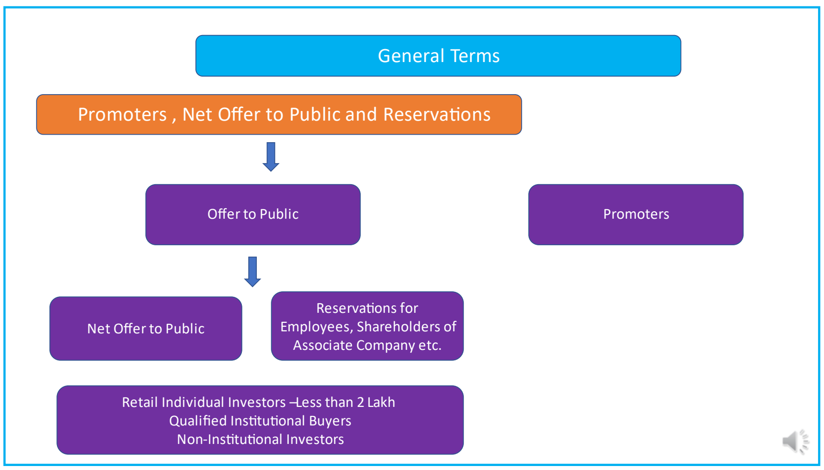
II. **QIB Route**

- Issue shall be through a **book building route**, with **at least 75 per cent** of the issue to be mandatorily allotted to the qualified institutional buyers (QIBs), failing which the money shall be refunded
- The **minimum post-issue face value capital shall be `10 crore** or there shall be compulsory market making for at least 2 years

III. **Appraisal Route**

- The 'project' is appraised and participated to the **extent of 15 per cent by FIs/scheduled commercial banks** of which at least 10 per cent comes from the appraiser(s). In addition, **at least 10 per cen**t of the issue size shall be allotted **to QIBs**, failing which the full subscription monies shall be refunded
- The minimum post-issue face value capital shall be `10 crore or there shall be a compulsory market making for at least 2 years

2. **Allocation to Net offer to Public and Promoters**



You must be remembering this diagram discussed earlier where we discussed about offer to public and promoters. We also discussed that out of offer to public, the net amount left after reservations is called Net offer to public.

In this section we shall be discussing about limits/regulations with respect to Promoters, Net offer to public

✓ **Contribution by Promoters**: In an initial public offer, the promoter's contribution shall be not less **than 20%** of the post-issue capital of the company

✓ **Minimum Offer to Public Under Net offer to Public**:

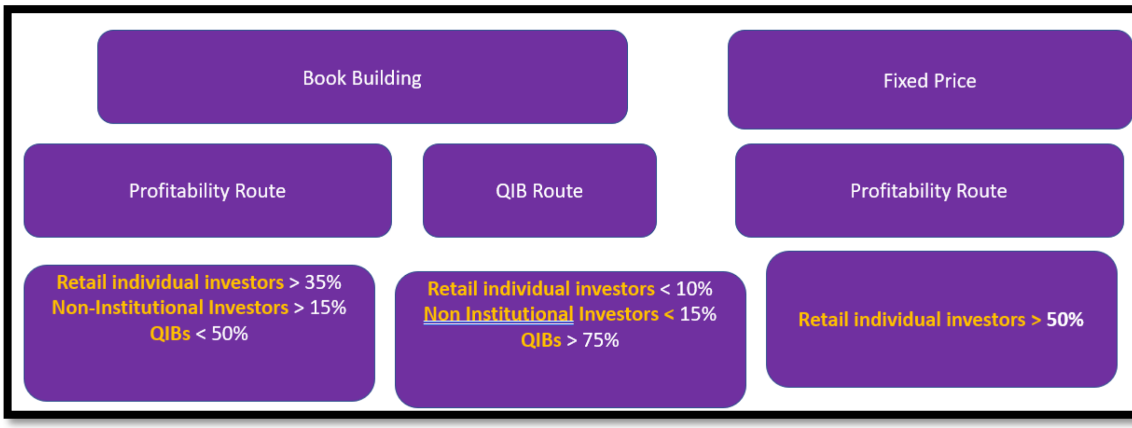
1. At least 25% of the equity shares issued by the company must be issued to the public, if the post-issue capital of the company calculated at offer price is less than or equal to Rs. 1,600 crores

2. At least 400 crores of worth of equity shares issued by the company must be issued to the public, if the post-issue capital of the company calculated at offer price is less than 4000 crores but greater than Rs. 1,600 crores
3. At least 10% of the equity shares issued by the company must be issued to the public, if the post-issue capital of the company calculated at offer price is more than 4000 crores

Provided if in point number 2 and 3, the maximum % of equity shares issued to public is below 25% then it must be brought to 25% or more within 3 years of Issuing securities

Moreover, if company is a public sector company, then such company had been given relaxation such that they can bring their shareholding to public at a level of 25% or more by 2020 which was further extended for some time

3. **Allocations and Reservations:**



4. **Subscription Period:**
   I. **Fixed price issues:** Open for a minimum of 3 and a maximum of 10 working days
   II. **Book built issues:** Open for a period between 3 to 7 days extendable by 3 days in case of a revision in price band

5. **Min Application Amount**: The amount payable on application on every security shall not be less than 25% per cent of the issue price of the security

6. **Discount to Retail Investors**: To retail individual investors under net offer to public max of 10% discount may be give

7. **Refund**: If the stated minimum subscription of 90% of the offer to public has not been subscribed or company is not able to list after the issue process, then the amount

received on application shall be returned within **4 days from closure of issue**. If entity is not able to refund with in stipulated time, then interest of 15% shall be levied.

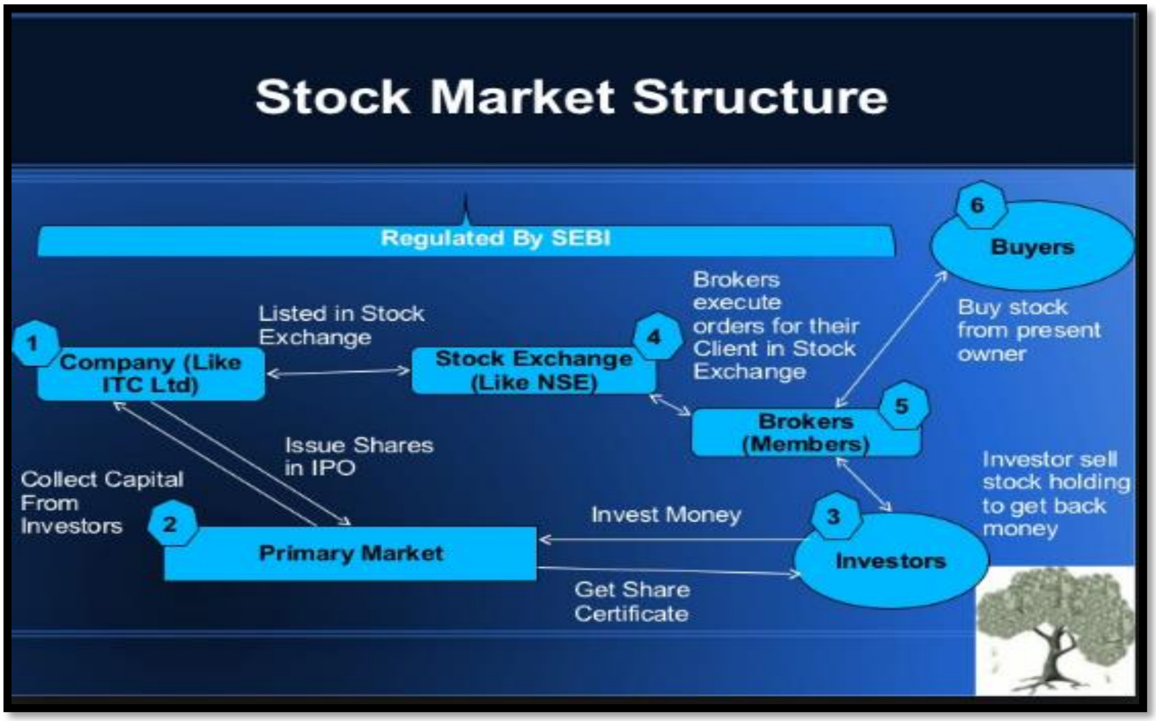
8. **Commission**: A company may pay commission to any person in connection with the subscription to its securities.
   I. **Max of 5%** in case of issue of shares
   II. **Max of 2.5%** in case of issue of debentures

9. An issue should receive subscription of a **minimum of 90%** of the net offer to the public failing which the company has to refund the entire subscription amount received
10. If issue size is more than **10 crores**, SEBI's regulations require a company making a public issue of shares to enter into an agreement with all the depositories to **dematerialize** its shares
11. Companies making a public offer of shares need to get the **credit rating (in range of 1-5, 5 being highest)** of IPO done as per SEBI regulations
12. Companies issuing IPO have to comply with all the contents that are required to be entered into the Prospectus. **Prospectus** is an offer document that contains all relevant details including price and number of shares being offered

- **Dematerialization Of Shares:** Means keeping **shares in electronic forms** and depositors are the ones who provide services or **electronic accounts to keep shares** in electronic form

- **Secondary Markets:** It is a market where the stocks issued by Company to the people, can be sold or bought between people. The price at which the transaction will take place depends on demand and supply
- **Functions of Secondary Markets:**
  1. Secondary markets provide **liquidity and marketability** to existing securities
  2. Secondary markets enable **price discovery of traded securities**. Each buy or sell transaction reflects the individual assessment of investors about the fundamental worth of the security
  3. Stock markets function as markets for **efficient governance** by facilitating **changes in corporate control**. That is, if management is inefficient, market forces will push down shares prices of underperforming companies, leading to their undervaluation

- **Stock Market Structure:**

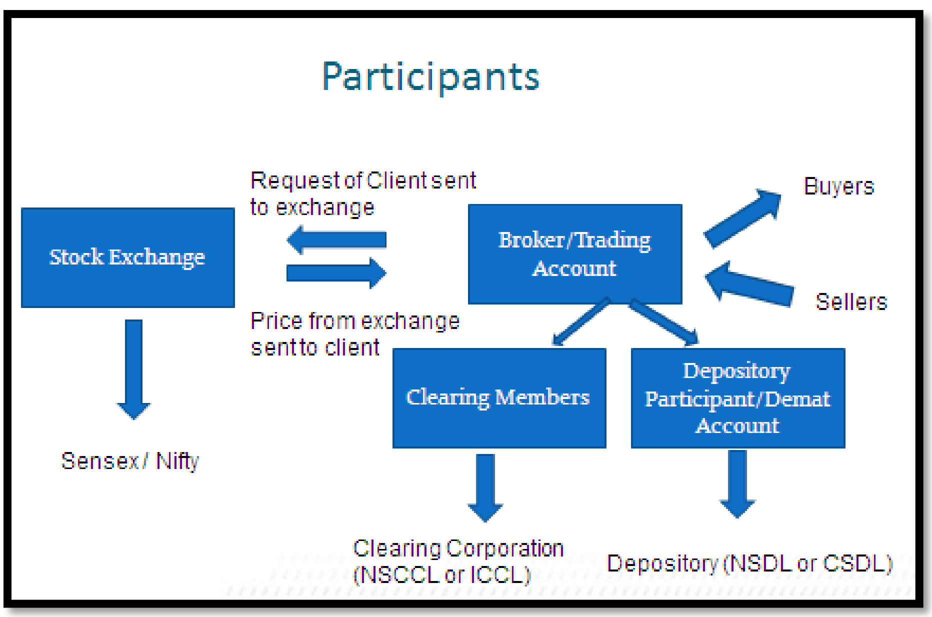


- **Stock Exchange:** It is a stock market place that facilitates buying and selling of stocks either between Company and Shareholders or between different shareholders
- **SEBI (Securities and Exchange Board of India) is the regulator of stock markets in India**
- **Stock Market Index:** In finance, a stock index, or stock market index, is an index that measures a stock market, or a subset of the stock market, that helps investors compare current price levels with past prices to calculate market performance. It is computed from the prices of selected stocks.
- **Different Stock Exchanges in India:**
  1. **BSE (Bombay Stock Exchange), set up in 1875: SENSEX (Sensitivity Index)** is the benchmark index of BSE. SENSEX comprises of **30 stocks** from different sectors such as IT, Automobile, Cement, Pharma, Electronic Goods etc. These are large, well-established and financially sound companies from main sectors. It is **first stock exchange to get recognition from SEBI.** BSE has its head office at Dalal street in Mumbai
  2. **NSE (National Stock Exchange), set up in 1992: NIFTY (National Fifty)** is the benchmark index of NSE. NIFTY comprises of **50 stocks** from different sectors such as IT, Automobile, Cement, Pharma, Electronic Goods etc. These are large, well-established and financially sound companies from main sectors. NSE is located at Bandra in Mumbai
  3. **The Calcutta Stock Exchange Ltd. (CSE)** – It has been one of the oldest stock exchanges of India. It was set up as an Association in **1908**. It has permanent recognition as stock exchange. However, the once among major stock exchanges of the country has remained inactive for several years.
  4. **Metropolitan Stock Exchange of India Ltd.** – It was formed in December 2012 and commenced trading in February 2013.

5. **India International Exchange (India INX)** – This stock exchange is a subsidiary of BSE and has been set up in the International Financial Services Centre (IFSC), Gandhinagar.
6. **NSE IFSC Ltd.** – This stock exchange is a subsidiary of NSE and has been set up in the International Financial Services Centre (IFSC), Gandhinagar
7. **OTCEI (Over the Counter Exchange of India):** Set up in 1992, to provide small and medium companies an access to the capital market for raising finance
8. **Inter-Connected Stock Exchange of India (ISE):** Stock exchange of exchanges i.e. many Regional Stock Exchanges combined together to come up with ISE
9. **15 regional stock exchanges** are located at Ahmedabad, Bangalore, Bhubaneshwar, Kolkata, Cochin, Coimbatore, Delhi, Guwahati, Indore, Jaipur, Kanpur, Ludhiana, Chennai, Pune and Vadodara. **Regulated by SEBI**
10. **MCX Stock Exchange** (MCX-SX): Started in 2013, has its flagship index **SX40** comprising **40 blue chip companies**
11. **United Stock Exchange of India Limited (USE):** The fourth currency futures exchange after BSE, NSE and MCX-SX
12. **Derivatives market there are 3 exchanges** – BSE, NSE and MCX-SX
13. **Currency derivatives there are 4 exchanges** - BSE, NSE, MCX-SX and USE

- **Demutualization of Stock Exchanges:** It is the process by which any member-owned organization can become a shareholder owned company.
  1. **Separates the ownership and control of stock exchanges** from the trading rights of its members which reduces the **conflict of interest between the exchange and the brokers** and the chances of brokers using the stock exchanges for personal gains
  2. The process seeks to **give majority control (51per cent)** of the exchange to investors who do not have trading rights

- **Participants in the Stock Market:**



1. **Stock Exchange**: A place that facilitates buying and selling of stocks either between Company and Shareholders or between different shareholders
2. **Buyers and Sellers** are the investors buying and selling on Stock Exchange
3. **Broker:** Investors can trade in the secondary markets only through brokers of a stock exchange. They bring the buyers and sellers to the stock exchange platform, to enabling trading in securities
4. **Clearing Corporation**: After the trade is executed, the buyer has a payment obligation and the seller has a delivery obligation. In order to facilitate efficient trading, the execution of trades and the settlement of obligation are separated in modern stock exchanges. This is done through **clearing corporations (also known as clearing houses).** The National Securities Clearing Corporation Ltd. (**NSCCL**) is the clearing corporation for trades done on the NSE; the Indian Clearing Corporation Ltd. (**ICCL**) is the clearinghouse for BSE
5. **Clearing Members**: Clearing Corporation appoints various members on its behalf which helps it carry out its operations.
6. **Depositories:** For a security to be eligible to trade in the secondary markets, it should be held in **electronic or dematerialized form**. **National Securities Depository Ltd (NSDL)** and **Central Depository Services Ltd (CDSL)** are the 2 depositories in India
7. **Depository Participants (DP)**: NSDL and CSDL have designated various depository participants on its behalf with whom Investors have to open Demat accounts

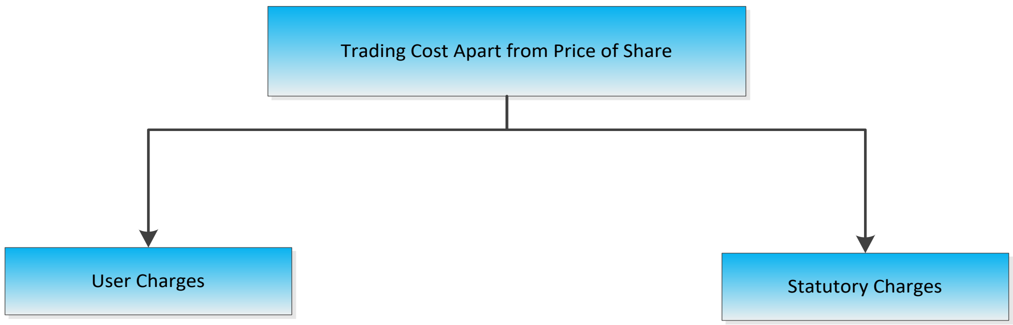
- **Contract Note:** It is a confirmation of trades in equity shares completed on a particular day by the broker mentioning details of the trade, settlement, brokerage, securities transaction tax and service tax information to the client
- **Electronic Contract Note (ECN):** These are the contract notes sent to the client by email only on the consent of the client. ECNs are required to be digitally signed, tamper-proof and password protected
- **Settlement of Trades on the Stock Market:**
    1. **Trades for Delivery / Inter-Day Trading:** Means to settle all trades taking place over a trading cycle (day = T) on the second day following the trade (day=T+2). This is also called a **rolling settlement.**

        Important Note: Starting Feb 2022 SEBI has started implementing T+1 Settlement cycle in a phased manner. T+1 (trading+1day) means settlement of equity transactions with in 1 day of the trade being done. In the phased implementation, they are starting with bottom 100 stocks in terms of market value, from February 25, 2022. i.e., Bottom 100 stocks in terms of market value will get settled in T+1 manner. Thereafter, 500 more stocks will be added based on the same market value criteria from the last Friday of March 2022 and every following month

    2. **Squaring off a trade / Intra-Day Trading:** Means when traders buy or sell a share on a trading day and reverse their trade before the market closes on the same day
        - **Squaring off buy position** means first buying at the start of the trading session in a day and then selling the same amount of shares on the same day before the trading session ends

- **Squaring off sell position** means first selling at the start of the trading session in a day and then buying the same amount of shares on the same day before the trading session ends
- In Squaring off trade, no deliveries of stocks are made in the Demat account and only the net profit or loss is deducted from the account

- **Trading Costs:** All trading transactions on a stock exchange involve costs, in addition to the price paid for purchasing shares. These additional costs are called trading costs



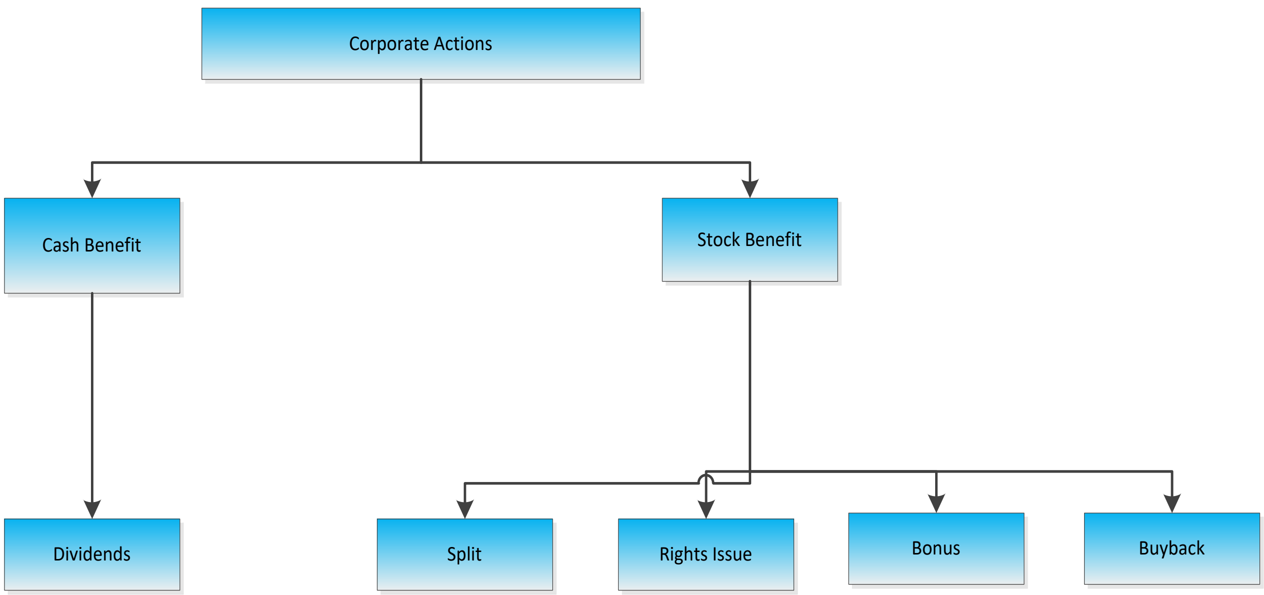
- **User Charges:** Investors pay user charges for using the infrastructure of brokers, stock exchanges, and depositories.
    1. The commission charged by brokers is known as **brokerage**.
    2. Stock exchanges take exchange **transaction charges** from investors.
    3. Depositories charge DPs, who in turn **charge investors for the demat transactions**.
- **Statutory Charges: The statutory charges imposed on trading are**
    1. **GST: GST is implied by government**
    2. **SEBI's turnover tax**: SEBI imposes a turnover tax **at the rate of 0.00015%** of turnover in case of equity trading
    3. **Securities Transaction Tax**: Securities Transaction Tax (STT) is a tax being levied on all transactions done on the stock exchanges at rates prescribed by the Central Government from time to time. STT came into effect from October 1, 2004. STT was reduced to **0.1 per cent** on **cash delivery transactions** in the annual budget 2013-14.

- **Types of Investors in Stock Markets:**
    1. **Traders:** Are the ones who trade for brief period of time usually 1 week to 3 months
    2. **Retail Investors:** Are the one who invest individually and in relatively lesser amounts (at the time of subscription or bidding for shares or securities in IPO, one should not be bidding for more than **Rs 2 Lakh** worth of securities) more than that come under **High Net Worth Individuals(HNI).**

3. **Institutional Investors:** Are corporate entities who invest in large amounts. They are classified as **Domestic Institutional investors (DIIs) or Foreign Institutional investors (FIIs)**

- **Blue Chip Stocks**: Stocks of large companies that have good business model and can generate long term profits
- **Market Value**: Market Value is the Value at which shares are traded in the market which is decided by demand and supply
- **Market capitalization:** It is the sum of the market value of all the stocks included in the index. The market value is derived by **multiplying the price of the share by the number of equity shares out-standing.** There are two ways to find it,
    1. **Full Market Capitalization Method**: In this case the market capitalization is found out by total number of Shares * Price of Each Share
    2. **Free-Float Market Capitalization**: Shares which are not free float **such as shares held by government or promoters or locked under Employees Stock Option are excluded** while calculating market capitalization. So, market capitalization is found out by number of free float shares* Price of each share
- **Liquidity:** It is the ability to buy or sell a scrip at a price close to the current market price
- **Large-Cap Company Stocks:** According to SEBI's rules, all companies that are listed on the stock exchanges are ranked based on their market cap. **And the top 100 companies are categorized as large cap companies**. The market cap of these companies is generally significantly high, coming in at around Rs. 20,000 crores or more
- **Mid-Cap Company Stocks: As per SEBI's classification, the companies ranked from 101 to 250 in terms of market capitalization are known as mid-cap companies**. Their market cap generally tends to range from Rs. 5,000 to Rs. 20,000 crores
- **Small Cap Stocks**: SEBI's rules state that all the companies **that are ranked from the 251st position onwards in terms of market cap are automatically categorized as small-cap companies**. In terms of market cap, these companies generally come in below Rs. 5,000 crores
- **Bulls** are the optimistic people who believe the market would go up or price of share would increase
- **Bears** are the pessimistic people who believe market would go down or price of share would decrease
- **Investor Protection Fund (IPF)** is maintained by NSE for investor claims/ payments arising out of non-payment/non- receipt of securities to the investor from the trading member who has been declared a defaulter. The maximum amount of claim payable from the IPF to the investor is Rs. 25 Lakhs
- **Compulsory Delisting:** A stock exchange may compulsorily delist the shares of a listed company under certain circumstances such as non-compliance of the regulations defined by the exchange or market regulator
- **Voluntarily Delisting:** Companies can get delisted from all stock exchanges voluntarily following the substantial acquisition of shares. For this, the companies need to obtain prior approval of the holders of the securities sought to be delisted, by a special resolution at a General Meeting of the company

- **Dual Listing: Not allowed in India**. It allows a company to be listed on **stock exchanges of two countries**. This enables an investor to buy/sell shares in one country and sell/buy them in another country where they are listed
- **Turnover ratio**: It equals the total value of domestic shares traded divided by market capitalization
- **Value traded ratio**: It equals the total value of domestic shares traded on the major stock exchanges divided by the gross domestic product (GDP)
- The value traded ratio captures trading relative to the size of the economy, while the turnover ratio measures trading relative to the size of the market
- **Badla or Carry Forward Deals:** Started by BSE, it is the postponement of the delivery of or payment for the purchase of securities from one settlement period to another
- **Corporate Actions:**



- **Dividends:** Are issued out of profits to the shareholders and are always announced on the face value. The amount of Dividend to be issued is decided by the board of directors and approved by the shareholders. Example, If a person has 20 shares then in case of 100% dividend, person would get 10*20 = Rs. 200 as dividend
- **Dividend Yield: Dividend/Price of share**. It means how much return one gets annually in form of a dividend
- **Split:** A stock split is a decision by the company's board of directors to increase the number of shares by issuing more shares to current shareholders. Example, if a company had 10 million shares outstanding before the split, it will have 20 million shares outstanding after a 2-for-1 split. **A stock's price is also affected by a stock split but the market capitalization remains constant.**

- **Rights Issues:** It is an invitation to existing shareholders to purchase additional new shares in the company. Such rights give the shareholders the right to purchase new shares at a discount to the market price on a stated future date.
- **Example:** You own 1,000 shares in Wobble Telecom, each of which is worth 5.50. Wobble announces a rights offering, in which it plans to raise 30 million by issuing 10 million shares to existing investors at a price of 3 each. The issue is a 3:10 rights issue. You can (1) subscribe to the rights issue in full, (2) ignore your rights or (3) sell the rights to someone else
    1. ***Take up the rights to purchase in full:*** As you hold 1,000 shares, you can buy up to 300 new shares (three shares for every 10 you already own) at this discounted price of $3, giving a total price of $900

1,000 existing shares at 5.50	5,500
300 new shares for cash at 3	900
Value of 1,300 shares	6,400
Ex-rights value per share	4.92 ($6,400.00/1,300 shares)

       Hence, the value of each of your existing shares will decline from 5.50 to 4.92

    2. **Ignore the Issue:** If you choose to do nothing, your shareholding will be diluted due to the extra shares issued
    3. **Sell your rights to other investors:** The price at which rights can be sold can be calculated by taking the value of stock post the issue and subtracting the rights issue price. In this case it would be, 4.92-3 = 1.92. Since you have got rights for 300 shares so the total value becomes 1.92 * 300 = 576
- **Bonus Issue /Scrip Issue /Capitalization Issue:** It is an offer of free additional shares to existing shareholders. Example, 3:2 bonus issue entitles each shareholder 3 shares for every 2 they hold before the issue. **Stock price adjusts in the same ratio after the bonus issue but market capitalization remains same**
- **In stock split, the face value also decreases in the same ratio where as in Bonus shares the face value remains the same**
- **Buy Back Shares:** The purchase by a company of its outstanding shares that reduces the number of its shares in the open market. A company does buyback of shares from its cash reserves to pay back to the investors.
    1. **Buyback is at price more than market price**
    2. Due to buyback, profits when distributed will result in higher amount per share
    3. **Results in lower P/E** as once the number of shares is reduced then Earning per share increases and hence P/E decreases
- **Record Date:** The date on which all those who are on record as shareholders of a company get the benefit of corporate actions of that company

- **Ex-Price**: It is the price once the corporate action has happened on the stock
- **Risk Management in Stock Markets:**
  1. **Circuit Breakers:** Bring about a halt/suspension in trading, automatically for a specified period to contain excessive volatility in the prices and in this way helps to control panic. The BSE and the NSE implement the **index-based** market-wide circuit breaker system on a quarterly basis
  2. **DMA (Direct Market Access):** SEBI allowed institutional clients such as foreign institutional investors (FIIs), mutual funds and insurance companies in April 2008 to directly execute their buy-and-sell orders without any manual intervention by their brokers. This allows,
     I. **The secrecy of the orders** done by institutional investors as the orders are routed directly through the computer system
     II. **Faster execution of orders** with a minimal risk of errors
     III. Enables **algorithmic trading(**a software program built on certain mathematical models, which enables traders to detect an arbitrage opportunity between the cash and the futures market and place orders on exchanges in real time**)**
  3. **Bulk Deal:** Constitutes all transactions in a scrip (on an exchange) where the total quantity of shares bought/sold is **more than 0.5 per cent of the number of equity shares** of the company listed on the exchange
  4. **Block Deal:** It is a trade with a minimum quantity of Rs. 10 Crore executed through a during a "Block Deal" window from 8:45 to 9:00 a.m. or 2:05 p.m. to 2:20 p.m.

- **Measures to boost liquidity in Secondary Markets:**
  1. **Investment by FII's in India:** There are three routes through which FIIs can invest in the Indian stock market,
     I. In the **direct route**, the foreign entity applies to the SEBI for registration as FII
     II. Through **FII sub-accounts**, any person resident outside India, on whose behalf investments are proposed to be made in India by a foreign institutional investor and who is registered as a sub-account under SEBI (FII) regulations
     III. Through **Participatory notes (P-notes),** overseas derivative instruments issued by SEBI-registered FII to foreign investors for trading in the Indian stock market. These derivative instruments derive value from underlying securities such as equity and equity-linked instruments
  2. **Stock Lending and Borrowing:** It is a system in which traders borrow shares that they do not own or lend the stocks that they own but do not intend to sell immediately.
     I. **SLB Transaction** works just like loan at a rate of interest and tenure that tis fixed between 2 parties entering the transaction
     II. Only stocks in the **futures and options** market can be borrowed or lent
     III. The difference between the selling and buying price, minus the interest rate (and other costs) is the trader's profit
     IV. Stocks are lent by long-term investors like HNIs who own large number of shares that they do not intend to sell in near future

3. **Straight-through Processing (STP):** It is a mechanism that automates the end-to-end processing of transactions of the financial instruments. It electronically captures and processes transactions in 1 pass, from the point of first 'deal' to final settlement
4. **Margin Trading:** Allows an investor to invest more than his financial capacity by providing only a part of the funds for the deal. The balance funding comes from banks in the form of borrowing. It is a form of leveraged trading

- **Regulatory Legislations:**
  1. **Capital Issues (Control) Act, 1947**: The Act had its origin during the war in 1943 when the objective was to channel resources to support *the war effort.* The Act was repealed in 1992
  2. **SEBI Act, 1992:** The SEBI Act, 1992 was enacted to empower SEBI with statutory powers for **(a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market**
  3. **Securities Contracts (Regulation) Act, 1956:** It gives Central Government regulatory jurisdiction over (a**) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges**
  4. **Depositories Act, 1996**: The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy and security by (**a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerializing the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form**
  5. **Prevention of Money Laundering Act, 2002:** The primary objective of the Act is to prevent money-laundering and to provide for confiscation of property derived from or involved in money-laundering.
     I. **Money-Laundering:** Process of making illegally-gained proceeds appear legal
- The responsibility for regulating the securities market is shared by Department of Economic Affairs (DEA), Department of Company Affairs (DCA), Reserve Bank of India (RBI) and SEBI
- The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal (SAT)
- The powers in respect of the contracts for sale and purchase of securities, gold related securities, money market securities and securities derived from these securities and ready forward contracts in debt securities are exercised concurrently by RBI
- Most of the powers under the SCRA are exercisable by DEA while a few others by SEBI
- The SEBI Act and the Depositories Act are mostly administered by SEBI