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List of Abbreviations

ABC	Additional Base Capital
B/G	Bank Guarantee
BMC	Base Minimum Capital
BSE	Bombay Stock Exchange
CDSL	Central Depositories Services Ltd.
CM	Capital Market
Co.	Company
DCA	Department of Company Affairs
DEA	Department of Economic Affairs
DP	Depository Participant
DPG	Dominant Promoter Group
DQ	Disclosed Quantity
DvP	Delivery versus Payment
FDR	Fixed Deposit Receipt
FI	Financial Institution
FII	Foreign Institutional Investors
F&O	Futures and Options
FTP	File Transfer Protocol
IFSD	Interest Free Security Deposit
IOC	Immediate or Cancel
IPF	Investor Protection Fund
ISIN	International Securities Identification Number
LTP	Last Trade Price
MBP	Market By Price
MRC	Membership Recommendation Committee
MTM	Mark To Market
NSE	National Stock Exchange
NSCCL	National Securities Clearing Corporation Limited
NSDL	National Securities Depository Ltd.
OTC	Over The Counter
NEAT	National Exchange for Automated Trading
NCFM	NSE's Certification in Financial Markets
NSCCL	National Securities Clearing Corporation Ltd.
RBI	Reserve Bank of India
RDM	Retail Debt Market
SAT	Securities Appellate Tribunal
SBTS	Screen Based Trading System
SC(R)A	Securities Contracts (Regulation) Act, 1956
SC(R)R	Securities Contracts (Regulation) Rules, 1957
SEBI	Securities and Exchange Board of India
SGF	Settlement Guarantee Fund
SRO	Self Regulatory Organisation
T+2	Second day from the trading day
TM	Trading Member

UTI	Unit Trust of India
VaR	Value at Risk
VSAT	Very Small Aperture Terminal
WDM	Wholesale Debt Market

References and suggested readings The readings suggested here are supplementary in nature and would prove to be helpful for those interested in acquiring advanced knowledge about Capital Markets.

1. Indian Securities Market: A Review - NSEIL publication
2. NSE Newsletters
3. SC(R)A, 1956 & Rules
4. SEBI Act, 1992, Rules & Regulations
5. Depository Act, 1996 & Rules
6. Rules, Regulations and Byelaws of NSEIL & NSCCL
7. www.nseindia.com
8. www.sebi.gov.in
9. www.rbi.org.in
10. www.finmin.nic.in

Distribution of weights of the Capital Market (Dealers) Module Curriculum

Chapter No.	Title	Weights (%)
1	Trading	30
2	Clearing and Settlement	25
3	Trading Membership	20
4	Legal Framework	15
5	An Overview of the Indian Securities Market	5
6	Fundamental Valuation Concepts	5

Note: Candidates are advised to refer to NSE's website: www.nseindia.com while preparing for NCFM test(s) for announcements pertaining to revisions/updations in NCFM modules or launch of new modules, if any.

CHAPTER 1

TRADING

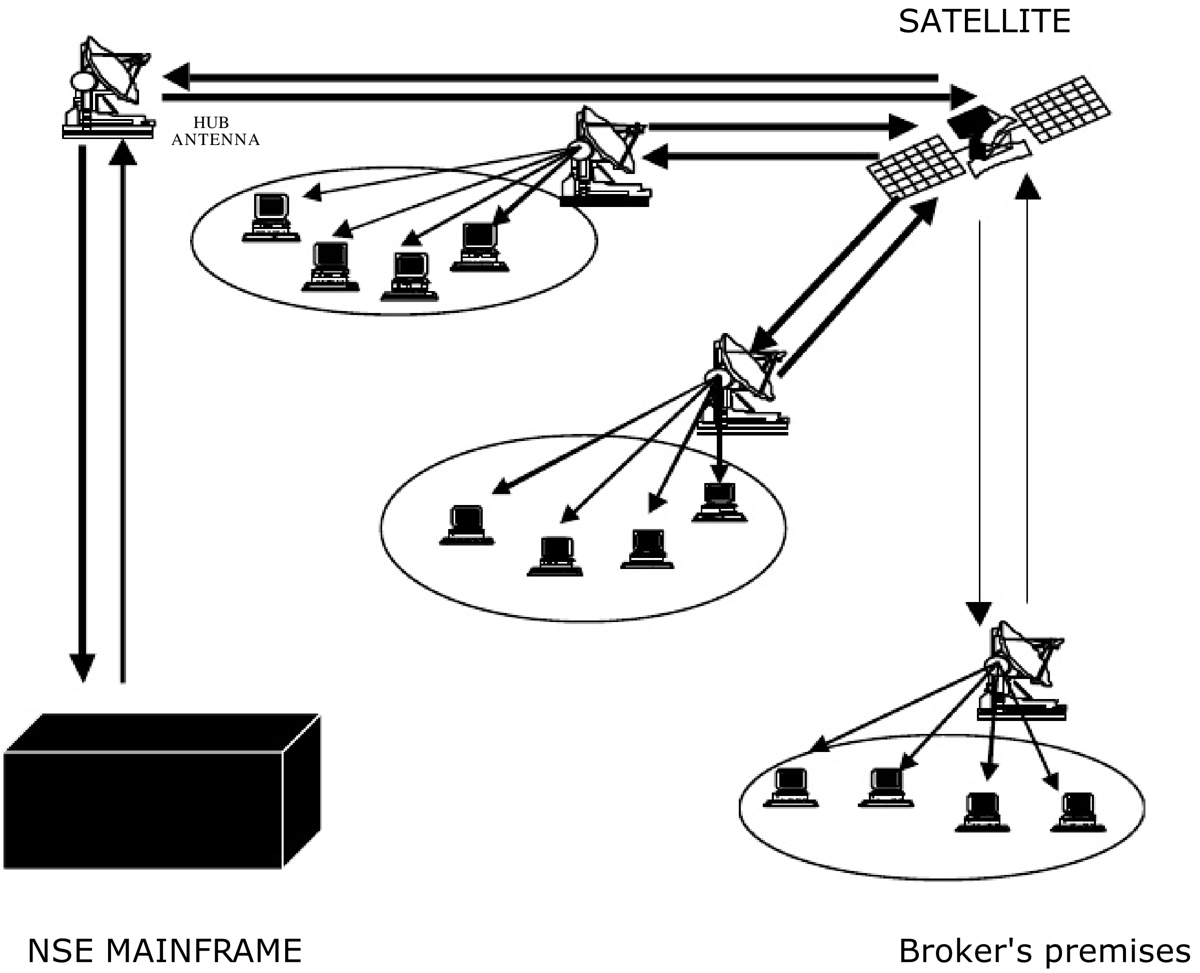
1.1 INTRODUCTION

The trading on stock exchanges in India used to take place through open outcry without use of information technology for immediate matching or recording of trades. This was time consuming and inefficient. This imposed limits on trading volumes and efficiency. In order to provide efficiency, liquidity and transparency, NSE introduced a nation-wide on-line fully-automated screen based trading system (SBTS) where a member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds a matching sale or buy order from a counter party. SBTS electronically matches orders on a strict price/time priority and hence cuts down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency. It allows faster incorporation of price sensitive information into prevailing prices, thus increasing the informational efficiency of markets. It enables market participants, irrespective of their geographical locations, to trade with one another simultaneously, improving the depth and liquidity of the market. It provides full anonymity by accepting orders, big or small, from members without revealing their identity, thus providing equal access to everybody. It also provides a perfect audit trail, which helps to resolve disputes by logging in the trade execution process in entirety. This sucked liquidity from other exchanges and in the very first year of its operation, NSE became the leading stock exchange in the country, impacting the fortunes of other exchanges and forcing them to adopt SBTS also. Today India can boast that almost 100% trading take place through electronic order matching.

Technology was used to carry the trading platform from the trading hall of stock exchanges to the premises of brokers. NSE carried the trading platform further to the PCs at the residence of investors through the Internet and to handheld devices through WAP for convenience of mobile investors. This made a huge difference in terms of equal access to investors in a geographically vast country like India.

The trading network is depicted in Figure 1.1. NSE has main computer which is connected through Very Small Aperture Terminal (VSAT) installed at its office. The main computer runs on a fault tolerant STRATUS mainframe computer at the Exchange. Brokers have terminals (identified as the PCs in the Figure 1.1) installed at their premises which are connected through VSATs/leased lines/modems.

Figure 1.1: Trading Network



An investor informs a broker to place an order on his behalf. The broker enters the order through his PC, which runs under Windows NT and sends signal to the Satellite via VSAT/leased line/modem. The signal is directed to mainframe computer at NSE via VSAT at NSE's office. A message relating to the order activity is broadcast to the respective member. The order confirmation message is immediately displayed on the PC of the broker. This order matches with the existing passive order(s), otherwise it waits for the active orders to enter the system. On order matching, a message is broadcast to the respective member.

The trading system operates on a strict price time priority. All orders received on the system are sorted with the best priced order getting the first priority for matching i.e., the best buy orders match with the best sell order. Similar priced orders are sorted on time priority basis, i.e. the one that came in early gets priority over the later one. Orders are matched automatically by the computer keeping the system transparent, objective and fair. Where an order does not find a match, it remains in the system and is displayed to the whole market, till a fresh order comes in or the earlier order is cancelled or modified. The trading system provides tremendous flexibility to the users in terms of kinds of orders that can be placed on the system. Several time-related (immediate or cancel), price-related (buy/sell limit and stop loss orders) or volume related (Disclosed Quantity) conditions can be easily built into an order. The trading system also provides complete market information on-line. The market screens at any point of time provide complete information on total order depth in a security, the five best buys and sells available in the market, the quantity traded during the day in that security, the high and the low, the last traded price, etc. Investors can also know the fate of the orders almost as soon as they are placed with the trading members. Thus the NEAT system provides an Open Electronic Consolidated Limit Order Book (OECLOB). Limit orders are orders to buy or sell shares at a stated quantity and stated price. If the price quantity conditions do not match, the limit order will not be executed. The term 'limit order book' refers to the fact that only limit orders are stored in the book and all market orders are crossed against the limit orders sitting in the book. Since the order book is visible to all market participants, it is termed as an 'Open Book'.

1.2 NEAT SYSTEM

The NEAT system supports an order driven market, wherein orders match on the basis of time and price priority. All quantity fields are in units and prices are quoted in Indian Rupees. The regular lot size and tick size for various securities traded is notified by the Exchange from time to time.

1.3 MARKET TYPES

The Capital Market system has four types of market.

1.3.1 Normal Market

Normal market consists of various book types wherein orders are segregated as Regular Lot Orders, Special Term Orders, Negotiated Trade Orders and Stop Loss Orders depending on their order attributes.

1.3.2 Odd Lot Market

The odd lot market facility is used for the Limited Physical Market. The main features of the Limited Physical Market are detailed in a separate section (1.14).

1.3.3 Retdebt Market

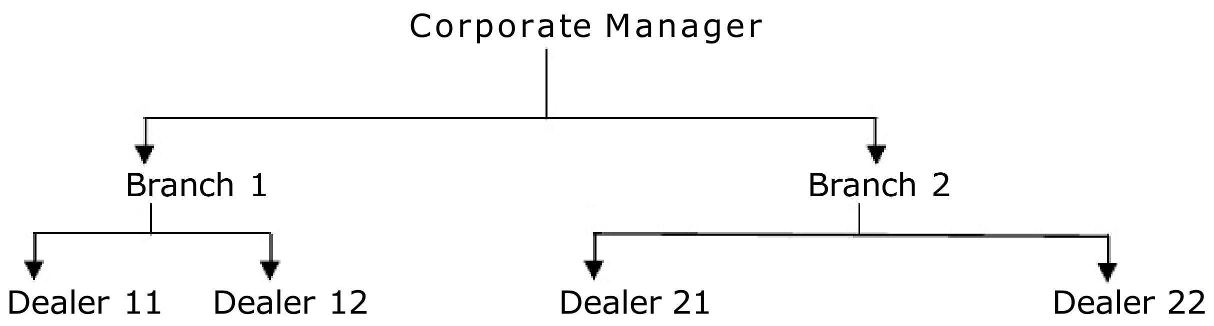
The RETDEBT market facility on the NEAT system of capital market segment is used for transactions in Retail Debt Market session. Trading in Retail Detail Market takes place in the same manner as in equities (capital market) segment. The main features of this market are detailed in a separate section (1.15) on RETDEBT market.

1.3.4 Auction Market

In the Auction market, auctions are initiated by the Exchange on behalf of trading members for settlement related reasons. The main features of this market are detailed in a separate section (1.13) on auction.

1.4 CORPORATE HIERARCHY

The trading member has the facility of defining a hierarchy amongst its users of the NEAT system. This hierarchy comprises:



The users of the trading system can logon as either of the user type. The significance of each type is explained below:

Corporate Manager: The corporate manager is a term assigned to a user placed at the highest level in a trading firm. Such a user receives the End of Day reports for all branches of the trading member. The facility to set Branch Order Value Limits and User Order Value Limits is available to the corporate manager. Corporate Manager can view outstanding order and trade of all users of the trading member. He can cancel/modify outstanding order of all user of the trading member.

Branch Manager: The branch manager is a term assigned to a user who is placed under the corporate manager. The branch manager receives End of

Day reports for all the dealers under that branch. The branch manager can set user order value limit for each of his branch. Branch Manager can view outstanding order and trade of all users of his branch. He can cancel/modify outstanding order of all user of his branch.

Dealer: Dealers are users at the lower most level of the hierarchy. A dealer can view and perform order and trade related activities only for oneself and does not have access to information on other dealers under either the same branch or other branches.

1.5 LOCAL DATABASE

The Local Database provides faster response time to users. All inquiries made by a user for own orders/trades are serviced through the local database. If however, a corporate manager/branch manager makes inquiries for orders of any dealer/branch manager of the trading firm, then the inquiry is serviced by the host. The data stored in the local database include system messages, security related information and order/trade related data of the user.

1.6 MARKET PHASES

The system is normally made available for trading on all days except Saturdays, Sundays and other holidays. Holidays are declared by the exchange from time to time. A trading day typically consists of a number of discrete stages as explained in the subsequent section.

1.6.1 Opening

The trading member can carry out the following activities after login to the NEAT system and before the market opens for trading:

(i) Set up Market Watch (the securities which the user would like to view on the screen)

(ii) Viewing Inquiry screens.

At the point of time when the market is opening for trading, the trading member cannot login to the system. A message 'Market status is changing. Cannot logon for sometime' is displayed. If the member is already logged in, he cannot perform trading activities till market is opened.

1.6.2 Open Phase

The open period indicates the commencement of trading activity. To signify the start of trading, a message is sent to all the trader workstations. The market open time for different markets is notified by the Exchange to all the trading members. Order entry is allowed when all the securities have been opened. During this phase, orders are matched on a continuous basis. Trading in all the instruments is allowed unless they are specifically prohibited by the exchange. The activities that are allowed at this stage are Inquiry, Order Entry, Order Modification, Order Cancellation (including quick order cancellation) Order Matching and trade cancellation.

1.6.3 Market Close

When the market closes, trading in all instruments for that market comes to an end. A message to this effect is sent to all trading members. No further orders are accepted, but the user is permitted to perform activities like inquiries and trade cancellation.

1.6.4 Surcon

Surveillance and Control (SURCON) is that period after market close during which, the users have inquiry access only. After the end of SURCON period, the system processes the data for making the system available for the next trading day. When the system starts processing data, the interactive connection with the NEAT system is lost and the message to that effect is displayed at the trader workstation.

1.7 LOGGING ON

On starting NEAT application, the logon screen appears with the following detail:

a) User ID
b) Trading Member ID
c) Password
d) New Password

In order to sign on to the system, the user must specify a valid User ID, Trading Member ID and the corresponding password. A valid combination of User ID, Trading Member ID and the password is needed to access the system.

a) User ID

Each trading member can have more than one user. The number of users allowed for each trading member is notified by the Exchange from time to time. Each user of a trading member must be registered with the exchange and is assigned an unique user id.

b) Trading Member ID

The Exchange assigns a trading member id to each trading member. The trading member id is unique and functions as a reference for all orders/trades of different users. This id is common for all the users of a particular trading member. The trading member id and user ids form a unique and valid combination.

It is the responsibility of the trading member to maintain adequate control over the persons having access to user ids. The trading member should request the Exchange for changes in user id user names especially when there are changes in the users who are dealing on behalf of the trading member.

c) Password

When a user logs in for the first time, he has to enter the default password 'NEATCM' provided by the Exchange. On entering this password, the system requests the user to enter a new password in the `New Password' field. On entering the new password, the system requests for confirmation of this new password. This new password is known to the user only.

The password should contain minimum of six characters and maximum of eight characters in length. A combination of characters and numbers is allowed in the password. The password can be changed if the user desires so and a new password can be entered. The new password must be different from the old password. Password appears in the encrypted form and thus complete secrecy is maintained. The system ensures the change in password for all users (password expiry period is parameterised by the Exchange). The user can logon by entering a new password as per the procedure outlined above. In the event of the user forgetting his password, the trading member is required to inform the Exchange in writing with a request to reset the password. The user password is reset to the default password set by the Exchange. The user can log on, on entering a new password as per the procedure outlined above.

If three attempts are made by a user to log on with an incorrect password, then that user is automatically disabled. In case of such an event, the trading member makes a written request to the exchange for resetting of password. The user password is reset to the default password set by the Exchange. The user can log on, on by entering a new password as per the procedure outlined above.

Earlier, it was possible for the members having VSATs at more than one location to use the allotted user ids interchangeably from either location. This gives rise to various systems security related problems. To reduce such potential risks associated with the member's workstation, the Exchange assigns user id to a specific location. On account of it, whenever a user attempts to log on to the trader workstation, the system checks for a valid location for that user id in the database at the host end.

In case there is a mismatch between the user id and corresponding VSAT id, the message is flashed on the log on screen, 'You are trying to sign on from a different location. Sign on is not allowed'. Members connected through leased lines, high speed dial up modems are also checked for the local address of their trading terminals and the corresponding user ids. In case of mismatch between the two the message 'You are trying to sign on from a different location. Sign on is not allowed' is flashed on the log on screen. Members maybe allowed logging in from different VSAT ids only on specific written requests, which may be verified by the Exchange with reference to the problem specified.

1.8 LOG OFF/ EXIT FROM THE APPLICATION

One can exit from the application as and when one desires before the surcon period. On invoking the log off screen, the following options are displayed to the user:

a) Permanent sign off,
b) Temporary sign off, and
c) Exit

a) Permanent Sign Off

As the name suggests, a user can log off permanently from the trading system by selecting this option. The user is logged off and the log on screen appears.

b) Temporary Sign Off

Temporary sign off is a useful feature that allows the user to disallow the use of the trading software without actually logging off. During a temporary sign-off period, the application continues to receive all market updates in the background. However, the user cannot enter orders or make inquiries. This allows the user to leave the trading system temporarily inactive and prevents unauthorized access to the system. On selecting the temporary sign off option, a password entry screen is displayed. The use of the NEAT system is enabled on entering the correct password. The temporary sign off is automatically activated when the user is inactive for a period of 5 minutes.

The user has to enter the password to resume activities. If three attempts are made to sign on with an incorrect password, the user is permanently logged off. In this case the user has to log on again.

c) Exit

On selection of this option, the user comes out of sign off screen.

1.9 NEAT SCREEN

The Trader Workstation screen of the trading member is divided into the following windows:

(a) Title bar: It displays trading system name i.e. NEAT, the date and the current time.

(b) Ticker Window: The ticker displays information of all trades in the system as and when it takes place. The user has the option of selecting the securities that should appear in the ticker. Securities in ticker can be selected for each market type. On the extreme right hand of the ticker is the on-line index window that displays the current index value of NSE indices namely S&P CNX Nifty, S&P CNX Defty, CNX Nifty Junior, S&P CNX500, CNX Midcap, CNX IT, Bank Nifty, CNX 100 and Nifty Midcap 50. The user can scroll within these indices and view the index values respectively. Index point change with reference to the previous close is displayed along with the current index value. The difference between the previous close index value and the current index value becomes zero when the Nifty closing index is computed for the day.

The ticker window displays securities capital market segments. The ticker selection facility is confined to the securities of capital market segment only. The first ticker window, by default, displays all the derivatives contracts traded in the Futures and Options segment.

(c) Tool Bar: The toolbar has functional buttons which can be used with the mouse for quick access to various functions such as Buy Order Entry, Sell Order Entry, Market By Price (MBP), Previous Trades (PT), Outstanding Order (OO), Activity Log (AL), Order Status (OS), Market Watch (MW), Snap Quote (SQ), Market Movement (MM), Market Inquiry (MI), Auction Inquiry (AI), Order Modification (OM), Order Cancellation (OCXL), Security List, Net Position, Online Backup, Supplementary Menu, Index Inquiry, Index Broadcast and Help. All these functions are also accessible through the keyboard.

(d) Market Watch Window: The Market Watch window is the main area of focus for a trading member. This screen allows continuous monitoring of the securities that are of specific interest to the user. It displays trading information for the selected securities.

(e) Inquiry Window: This screen enables the user to view information such as Market By Price (MBP), Previous Trades (PT), Outstanding Orders (OO), Activity Log (AL) and so on. Relevant information for the selected security can be viewed.

(f) Snap Quote: The snap quote feature allows a trading member to get instantaneous market information on any desired security. This is normally used for securities that are not already set in the Market Watch window. The information presented is the same as that of the Marker Watch window.

(g) Order/Trade Window: This window enables the user to enter/modify/cancel orders and for also to send request for trade cancellation and modification.

(h) Message Window: This enables the user to view messages broadcast by the Exchange such as corporate actions, any market news, auctions related information etc. and other messages like order confirmation, order modification, order cancellation, orders which have resulted in quantity freezes/price freezes and the Exchange action on them, trade confirmation, trade cancellation/modification requests and Exchange action on them, name and time when the user logs in/logs off from the system, messages specific to the trading member, etc. These messages appear as and when the event takes place in a chronological order.

1.10 INVOKING AN INQUIRY SCREEN

All Inquiry screens have a selection where the security viewed can be selected. The screen shows the details of the security selected for that inquiry. The details for each inquiry screens are discussed further in this chapter.

1.10.1 Market Watch

The Market Watch window is the third window from the top of the screen that is always visible to the user. The Market Watch is the focal area for users. The purpose of Market Watch is to setup and view trading details of securities that are of interest to users. For each security in the Market Watch, market information is dynamically updated.

Market Information Displayed: The one line market information displayed in the market watch screen is for current best price orders available in the Regular Lot book. For each security the following information is displayed:

a) the corporate action indicator "Ex/Cum"
b) the total buy order quantity available at best buy price
c) best buy price
d) best sell price
e) total sell order quantity available at best sell price
f) the last traded price
g) the last trade price change indicator and
h) the no delivery period indicator "ND"

If the security is suspended, 'SUSPENDED' appears in front of the security. If a question mark (?) appears on the extreme right hand corner for a security, it indicates that the information being displayed is not the latest and the system will dynamically update it.

Information Update: In the Market Watch screen, changes in the best price and quantities are highlighted on a dynamic basis (in all pages of Market Watch). For example, if the best price changes as a result of a new order in the market, the new details are immediately displayed. The changed details are highlighted with a change of colour for a few seconds to signify that a change has occurred. The blue colour indicates that price/quantities have improved, while the red colour indicates that the price/quantities have worsened.

If the last traded price is better than the previous last traded price then the indicator `+' appears or if the last traded price is worse than the previous last traded price then the indicator `-' appears. If there is no change in the last traded price, no indicator is displayed.

The list of securities that are available for trading on Capital Market segment is available in the Security List box. The user has the option to setup securities directly from the Security List without typing a single character on the market watch screen. This is a quick facility to setup securities. If the user tries to setup a security which is already present in the market watch one gets a message that the security is already setup. The user also has the option to add and delete the security set up in the market watch screen as many times as one desires. The user can print the contents of the Market Watch setup by the user. The user can either print the Market Watch on display or the Full Market Watch.

Market Watch Download: A user has to set up securities after the first download of the software. After setting up the market watch, it is suggested that the user should log out normally. This will help the user to save the freshly set up market watch securities in a file. If at any given time, when the user has freshly set up a few securities and encounters an abnormal exit, the newly set up securities are not saved and the user may have to repeat the process of setting up securities. The Market Watch setup is carried over to subsequent days, thus averting the need to set up the Market Watch on daily basis. During the logon stage, the relevant Market Watch details are downloaded from the trading system. The message displayed is `Market Watch download is in progress'. The time taken for the Market Watch download depends on the number of securities set up.

Special Features of Market Watch screen

a) One of the best features of this software is that the user has the facility to set up 500 securities in the market watch. The user can set up a maximum of 30 securities in one page of the market watch screen.

b) The details of the current position in the Market Watch defaults in the order entry screen and the inquiry selection screen. It is therefore possible to do quick order entries and inquiries using this feature. The default details can also be overwritten.

c) Market Watch setup can be sorted alphabetically.

d) An indicator for corporate actions for a security is another feature in market watch. The indicators are as follows:
'XD' - ex-dividend
'XB' - ex-bonus
'XI' - ex-interest
'XR' - ex-rights
'CD' - cum-dividend
'CR' - cum-rights
'CB' - cum-bonus
'CI' - cum-interest
'C*' - in case of more than one of CD, CR, CB, CI
'X*' - in case of more than one of XD, XR, XB, XI

e) The ex indicator in the market watch screen appears till the end of no delivery period in which the security goes ex benefit. In case, a security goes ex benefit without having any no delivery period, ex indicator is displayed only on the ex day.

1.10.2 Security Descriptor

The following information is displayed in the Security Descriptor - Security Name, Book Closure Start and End Dates, Ex-Date, No-Delivery Start and End Dates, Tick Size, Rating and Remarks. The label DPR i.e. Daily Price Range displays the permissible price band for a security for the current trading day.

1.10.3 Market by Price

The purpose of Market by Price (MBP) is to enable the user to view outstanding orders in the market aggregated at each price and are displayed in order of best prices.

The fields that are available on the selection screen are Symbol, Series and Book Type. The options available in the book type field are Regular Lot and RETDEBT.

The detailed MBP screen is split into First Line, Detail Line and Summary Line. The first line displays Market Type, Symbol, Series, Total Traded Quantity, Highest Trade Price, Lowest Trade Price, Last Trade Price, % Change in LTP from Previous Day Close and Average Traded Price. The detail line displays Number of Buy Orders, Total Buy Order Quantity at that price, Buy Order Price, Sell Order Price, Total Sell Order Quantity at that price and Number of Sell Orders. The summary line displays Total Buy Order Quantity and Total Sell Order Quantity. For special term orders, the terms are not reflected in the MBP screen. Buy orders are displayed on the left side of the window and sell orders on the right. The orders appear in a price/time priority with the "best priced" order at the top. When any Regular Lot information, currently displayed on the window, is changed (for example as the result of a trade), this information is automatically reflected in the MBP i.e. dynamic updation of MBP screen is present.

All buyback orders are identified by an '*' in the MBP screen. In case a buyback order appears in the best orders in the MBP an '*' will precede such an order record. In addition, an '*' will appear against the 'Total Buy' field in the MBP. Similarly if a buyback order price is among the best five prices in the order book an '*' will appear against the appropriate price and also in the 'Total Buy' field. In case a buyback order is present in the order book but does not appear in the MBP, an '*' will precede the 'Total Buy' field in the MBP screen.

Special Features of MBP

1) Regular lot & special term orders can be viewed in the MBP.
2) The status of a security is indicated in this screen. 'P' indicates that the security is in the pre-open phase and 'S' indicates that the security is suspended.
3) The percentage change for last trade price with respect to previous day's closing price and the average trade price of the security in the given market are the additional fields in the screen.
4) No untriggered stop-loss order will be displayed on the MBP screen.
5) Only orders for the best 5 prices, information is displayed.

1.10.4 Previous Trades

The purpose of this window is to provide security-wise information to users for own trades. The fields that are available on the selection screen are Symbol, Series, Market type, Auction Number, Trading Member Id, Branch Id, Dealer, CLI and Time. The options available in the Market type field are Normal Market, RETDEBT, Odd Lot and Auction. If the user selects the option to view Auction Market trade details, the auction number has to be compulsorily entered. The Corporate Manager can view all the trades for all branches or for a specific branch. Under the specific branch, the user can view trade details for a specific dealer or for all dealers. The Branch Manager can view all details under that branch i.e. all previous trades for all dealers and for all clients or for all dealers or for a specific dealer. The dealer can view previous trades for own user id only. The user can select the previous trades up to a particular time period, by entering the relevant time in the time field.

The detailed Previous Trade screen information is split into First Line, Detail Line and Summary Line. The first line displays Market Type, Symbol, Series, Last Trade Price, Last Trade Quantity, Last Trade Time and Total Traded Quantity. The detail line contains Buy/Sell Indicator, PRO/CLI indicator (where P – PRO and C - CLI), Order Number, Trade Number, Trade Quantity, Trade Price and Trade Time. The summary line contains Total Number of Buy Trades, Total Buy Quantity Traded, Total Buy Traded Value, Average Buy Traded Price, Total Number of Sell Trades, Total Sell Quantity Traded, Total Sell Traded Value and Average Sell Traded Price. Previous Trade Screen displays the client account number also.

Trades are displayed in a reverse chronological order. First all buy trades are displayed and then sell trades are displayed.

Special Features of Previous Trades

(a) Trade cancellation can be requested from the Previous Trade screen. This facility is available only for member’s own trades. The Corporate Manager can request for trade cancellation for any branch or any dealer. The Branch Manager can request for trade cancellation for any dealer under that branch. The dealer can request for trade cancellation only for trades under that user id.

(b) Trade modification can be requested from the Previous Trade screen. The user can request the Exchange to modify only the trade quantity field. Moreover, the new quantity requested must be lower than the original trade quantity. Currently trade modification facility is not enabled.

1.10.5 Outstanding Orders

The purpose of Outstanding Orders (OO) is to enable the user to view the outstanding orders for a security. An outstanding order is an order that has been entered by the user, but which has not yet been completely traded or cancelled. The user is permitted to see his own orders.

The fields which are available on the selection screen are Symbol, Series, Book type, Auction Number, Branch Id, Dealer, PRO/CLI and Time. The options available in the Book type field are Regular Lot, RETDEBT, Odd Lot, Negotiated Trade, Stop Loss and Auction. If the user selects the option to view Auction Market trade details, the Auction Number has to be compulsorily entered.

The corporate manager can view all the OO for all branches or for a specific branch. Under the specific branch, the user can view OO details for a specific dealer or for all dealers. Similarly it is possible to view all OO for a particular client or for all clients under a dealer. The Branch Manager can view all OO details under that Branch i.e. all OO for all dealers and for all clients or for all dealers or for a specific dealer. The dealer can view OO for own user id only.

The detailed outstanding orders screen is split into First Line and Detail Line. The first line contains Symbol, Series, Market Type, Security Status, Label, Current Time and Current Date. The detail line contains Book Type, User Id, Client A/C Number, Order Number, Order Quantity Pending and Order Price.

The orders are listed on the basis of price/time priority. The orders are displayed in order of Regular Lot orders and then Stop Loss orders. Outstanding order screen is not dynamically updated, but the user has option to refresh the OO screen by reinvoking the inquiry.

Special Features of Outstanding Orders

(a) The user can modify orders from the outstanding orders screen.
(b) The user can cancel orders from the outstanding orders screen.
(c) The user can view status of a particular order from the outstanding orders screen.

1.10.6 Activity Log

The Activity Log (AL) shows all the activities that have been performed on any order belonging to that user. These activities include order modification/cancellation, partial/full trade, trade modification/cancellation. It displays information of only those orders in which some activity has taken place. It does not display those orders on which no activity has taken place.

The fields that are available on the selection screen are Symbol, Series, Market Type, Branch Id, Dealer, PRO/CLI and Client Account Number. The Symbol, Series and Market Type fields are compulsory. The options available in the Market Type field are Normal Market, RETDEBT, Odd Lot and Auction.

The detailed AL screen is split into first line and detail line. The first line displays Market Type, Symbol, Series, Current Time and Current Date. The detail line contains User Id, Order Number, PRO/CLI indicator (where P-PRO, C-CLI), Buy/Sell Indicator, Order quantity, Order price, Order Terms/Trade Number, Disclosed Quantity, MF Indicator, MF Quantity, Activity Indicator and Activity Time. One line appears for each activity that has taken place today. For example, if a buy order is traded against three separate sell orders, then the activity log for the buy order shows three separate lines and the original order details.

The following activities are displayed:

- B For buy orders, this indicates a match.
- S For sell orders, this indicates a match.
- OC This indicates an order was cancelled.
- OM This indicates an order was modified. The details displayed are the order after it was modified.
- TC For both buy and sell orders this indicates that a trade involving this order was cancelled.
- TM For both buy and sell orders this indicates that a trade involving this order was modified.

Special terms associated with the order are displayed to help identify the order.

Special Features of Activity Log

(a) The AL gives details of all activities on chronological orders.
(b) Within the order number, the details appear with the oldest activity first and the latest last.
(c) The activity consists only of orders entered by the requesting trading member.
(d) This inquiry option is not available to users in inquiry mode.

1.10.7 Order Status

The purpose of the Order Status (OS) is to look into the status of one of dealer's own specific orders. The screen provides the current status of orders and other order details. The order status screen is not dynamically updated. In case the order is traded, the trade details are also displayed. In case of multiple trades the display is scrolled.

To view the status of a particular order, enter the order number for which the order status is to be viewed in the selection screen of OS. The first part of the order number (i.e. today's date) is defaulted. The user has to enter the second part of the order number. If the user does not know the order number, then the user can position the highlight bar on the desired order on the Outstanding Order screen and then invoke the OS screen. The order number is directly defaulted in the Order Status selection screen.

The detailed OS screen is divided into three parts. The first part covers order related information, the second part covers the trade related information if the order has resulted in a trade and the third part gives summary details.

The first part details are in two lines. The first line gives Book Type, Symbol, Series, Order Number, Type (Buy/Sell), Total Order Quantity, Order Price, PRO/CLI, Client A/C Number and Participant Id. The second line gives Disclosed Quantity, MF/AON Indicator, MF Quantity, Trigger Price, Day, Indicator 1 (Order Modified - MOD), Indicator 2 (Order Cancelled - CXL) and Indicator 3 (Order Traded - TRD). The second part details are Trade Quantity, Trade Price, Trade Time and Trade Number. The third part details are Quantity Traded Today and Balance Quantity (remaining quantity).

Special Features of Order Status

(a) The OS provides the user the current status of the order i.e. whether order has been modified, order was cancelled, order was traded, order has been partially traded on the previous day.
(b) It shows all the order details. It also shows the trade details for each trade done against this order.
(c) The data is presented in chronological order. One line appears for each activity that has taken place today.
(d) The dealer can view order status of orders entered under that Dealer Id only.
(e) This Inquiry option is not available to Users in Inquiry mode.

1.10.8 Snap Quote

The Snap Quote is a feature available in the system to get instantaneous market information on a desired security. This is normally used for a security that is not setup in the Market Watch window. The information displayed for the set up security is same as that in Market Watch window i.e. Corporate action indicator 'Ex/Cum', the total buy order quantity, best buy price, best sell price, total sell order quantity, last traded price, last trade price change indicator and the no delivery indicator 'ND'.
The Snap Quote is displayed for the time specified by the Exchange from time to time. The display position of Snap Quote is reserved and no other information overlaps it. A user can therefore simultaneously view a regular inquiry (e.g. MBP) and the Snap Quote display.

1.10.9 Market Movement

The purpose of the Market Movement screen is to provide information to the user regarding the movement of a security for the current day. This inquiry gives the snap shot for a particular security for a time interval as parameterised by the Exchange. The fields that are available on the selection screen are Symbol, Series and Market type. The user can select the Market Type as Normal Market, RETDEBT and Odd Lot market.

The detailed output screen is given in two parts. The first part gives information regarding the security for the entire day namely Symbol, Series, Market Type, Total Buy Order Quantity, Total Sell Order Quantity, Total Traded Quantity, High Price, Low Price, Open Price and Last Traded Price. The second part gives information for a particular time interval namely Time Interval, Buy Order Quantity, Sell Order Quantity, Traded Quantity, High Price and Low Price.

The user can save the Market Movement screen by specifying the directory and file name to save the information. This file can be viewed in MSDOS editor.

Special Features of Market Movement

(a) The Market Movement screen provides information to the user regarding the movement of a security for the current day on orders/trades done today.

(b) The information displayed is from the time the market was opened today and in chronological sequence.

1.10.10 Market Inquiry

The purpose of the Market Inquiry is to enable the user to view the market statistics, for a particular market, for a security. It also displays the open price and previous close price for a security.

The fields that are available on the selection screen are Symbol, Series and Market type. The user can select market type as Normal, RETDEBT and Odd Lot.

The detailed output screen is given in two parts. The first line displays Symbol, Series, Security Status, Corporate Actions Indicator 1, Corporate Actions Indicator 2, Corporate Actions Indicator 3, Total Traded Quantity, 52 Week High and 52 Week Low. The second line displays Closing Price, Opening Price, High Price, Low Price, Last Traded Price and Net change from closing price. The third line displays Last Traded Quantity, Last Traded Time and Last

Traded Date. The fourth line displays Best Buy Order Quantity, Best Buy Order Price, Best Sell Order Price and Best Sell Order Quantity.

Special Features of Market Inquiry

(a) This screen is not dynamically updated. It displays the security status of the security selected. "S" indicates that the security is suspended, "P" indicates that the security is in pre open (only for normal market) and in absence of the above indicators the security is open for trading.

(b) An indicator for corporate actions for a security is displayed on the screen. The indicators are as follows:

"CD" = cum-dividend	"XD" = ex-dividend
"CR" = cum-rights	"XR" = ex-rights
"CB" = cum-bonus	"XB" = ex-bonus
"CI" = cum-interest	"XI" = ex-interest

(c) The net change indicator for last trade price with respect to the previous day's closing price and the net change percentage for the last trade price with respect to the previous day's closing price are displayed.

(d) The base price of a security for the day is equal to the previous day's closing price of the security in normal circumstances. Thus, in the market inquiry screen the field indicating the closing price also gives the base price for the day.

(e) If the base price is manually changed (due to a corporate action) then the market inquiry will not display the new base price in the closing price field.

1.10.11 Auction Inquiry

The purpose of Auction Inquiry (AI) is to enable the users to view the auction activities for the current trading day. This window displays information about auctions currently going on and auctions that have been completed.

The detailed line in the auction inquiry screen displays No. - Serial Number, St. - Status of the auction security, Type - Buy/Sell auction, Symbol, Series, Best Buy Qty, Best Buy Price, Best Sell Price, Best Sell Qty, Auction Qty, Auction Price and Settlement Period.

The following are the different status displayed for an auction security:

S - Auction is in Solicitor Period
M - System is matching the orders
F - Auction is over
X - Auction is deleted
P - Auction is pending and yet to begin.

The user can view the auction details of a security setup in the market watch, by invoking the auction inquiry screen after highlighting the auction security. To view the auction details for all the securities, the user should blank out the contents of all the fields in the auction inquiry selection screen. To view the auctions after a particular number, the user should blank out the contents in Symbol & Series field and enter the number in the auction number field on the selection screen. The auction inquiry screen then displays all auctions from that number onwards. This window is dynamically updated.

1.10.12 Security/Portfolio List

This is a facility for the user for setting up the securities in the market watch screen. This screen is also has a new facility of allowing the user to setup his own portfolio.

Security List: The user can select securities based on Symbol, Series, Instrument Type and Market Type. A blank/partial search for Symbol and Series is also possible. The Symbol, Series, Market Type and Security Name are displayed based on the selection criteria. The user can also print the selected securities.

Portfolio List: Once the security is selected, the same can be used for setting up a portfolio. The user can give a name to the list so selected. The existing portfolio can be modified and/or removed. The user can also set-up a particular portfolio in market watch. Portfolio created can be used for basket order entry also. Order files can be generated based on the portfolio created using basket trading option.

1.10.13 Multiple Index Broadcast and Graph

This screen displays information of NSE indices namely S&P CNX Nifty, S&P CNX Defty, CNX Nifty Junior, S&P CNX 500 and CNX Midcap CNX IT, Bank Nifty and CNX 100. The indices are labeled vertically and the information is displayed against each index horizontally. The data displayed for each index is as follows:

- Current Index
- High Index
- Low Index
- Open Index
- Close Index
- % change in Current Index (w.r.t. previous close index)
- 52 week High
- 52 week low

- Up Moves
- Down Moves
- Market Capitalisation (in Rs. Lakh)

Index Graph displays all the indices on a real time basis to the market.

1.10.14 Online Backup

On Line Backup is a facility that the user can invoke to take a backup of all order and trade related information for the user. The information available is for the current day only.

On the selection screen the user can select the various fields on which the output will be filtered. The fields that can be filtered are CLI, Market Type, Book Type, Symbol, Series, Instrument Type, Date, Time, Order Indicator,

Trade Indicator, Buy/Sell Indicator, Order Numbers and Trade Numbers

The user is provided the option to copy the files to any drive of the computer or on a floppy diskette. This utility generates two ASCII files namely Order.txt and Trade.txt. The user can specify any filename for Orders and Trades. This utility will help the user to generate the Contract Notes. The user is requested to take backup first on the C:\drive and subsequently copy to A:\drive to avoid overloading PC capacity and abnormal log-off.

1.10.15 Basket Trading

The purpose of Basket Trading is to provide NEAT users with a facility to create offline order entry file for a selected portfolio. On inputting the value, the orders are created for the selected portfolio of securities according to the ratios of their market capitalisations. An icon has been provided in the Toolbar which can be selected by the mouse to invoke the functionality.

In the Basket Trading functionality, the User First Selects a Portfolio from combo box. The Portfolio in the combo box is user defined portfolios (which can be created or edited from the Security List screen which is an existing functionality). All Users defined Portfolios are automatically loaded in to the combo box. The User then allocates an amount to the portfolio by mentioning the amount in the 'Amount' edit box. The amount entered is in lakh and must be less than or equal to Rs. 3000 lakh. If the amount entered is not sufficient to buy/sell a complete basket, a message "Insufficient amount for creating the basket" is displayed. Then, the User mentions whether he wants to buy or sell the Portfolio by selecting a choice from BUY/SELL combo box. The User has to mention the name of offline order file which would be generated. The Output Offline order file is always generated in the Basket directory of the current selected login drive. If a file with the given name already exists then it asks for overwriting the old file. A Reverse File with the same name is also generated in 'R_Basket' directory of the current login drive. The Reverse File contains reverse order (if user has selected buy then it contains sell orders and vice-versa). The user can mention order's duration (IOC or day) by selecting from a check box. The User can also specify PRO/CLI orders by selecting from the combo box. In case of CLI orders it is compulsory to mention the account number in the edit box. The Participant name can be mentioned. If mentioned it is verified whether it is a valid participant or not.

The amount mentioned in the 'Amount Edit' Box is divided among the securities of the portfolio, depending on their current market capitalisation, and the amount allocated per security is used to calculate the number of shares to be bought / sold for that security which is reflected in the offline order file. The number of shares is rounded off to the nearest integer. If the basket contains any security whose regular lot is not one, then the file will need to be corrected by the user to accommodate shares in tradable lots. If the portfolio contains a security which is suspended/not eligible in the chosen market then an error message is displayed on the screen.

All the orders generated through the offline order file are priced at the available market price.

Quantity of shares of a particular security in portfolio are calculated as under:

$$\text{Number of Shares of a security in portfolio} = \frac{\text{Amount * Issued Capital for the security}}{\text{Current Portfolio Capitalisation}}$$

where

Current Portfolio Capitalisation = Summation [Last Traded Price (Previous close if not traded) * Number of Issued shares]

In case at the time of generating the basket if any of the constituents are not traded, the weightage of the security in the basket is determined using the previous close price. This price may become irrelevant if there has been a corporate action in the security for the day and the same has not yet been traded before generation of the file. Similarly, basket facility will not be available for a new listed security till the time it is traded.

1.10.16 Buy Back Trades

As per SEBI Notification, dated 14 November, 1998, buyback of securities is permitted in the Secondary Market. This is termed as 'Buy-Back from the Open Market'. In the open market, buyback of shares is permitted through Stock Exchanges having electronic trading facility and such buyback orders are required to be identified upfront in the electronic trading screen as buyback orders.

The purpose of Buy Back Trade functionality is to give information to the market about the buy back trades executed from the start of the buy back period till current trading date in the securities whose buyback period is currently on. It provides information about Symbol, Series, Day's high price, Day's Low Price, Day's Weighted Average Price, Day's Volume, Total Volume, Highest/Lowest/Weighted Average Prices till previous day, Buy Back Start & End date.

The Buyback Trade functionality provides users with the information about the buyback trades going in various securities. The front screen shows Symbol, Series, Low price (Today), High price (Today), Weightage. Average price, Volume (Today) and Previous day Volume.

The user after selecting a particular row from the buyback list box can view further information viz. Symbol, Series, Start date, End date, Total Traded Qty (Till date), Previous High price, Previous Low price and Wt avg. Price till date of buyback scheme. The Buyback broadcast updates the information.

1.10.17 Supplementary Functions

This section discusses certain supplementary functions of NEAT such as Branch Order Value Limit, Most Active Securities, Colour Selection, Report Selection, Net Position and Print System Message.

The supplementary menu list box has the following options:

- Report Selection
- Full Message Display
- Colour Selection
- Print System Message ON/OFF
- Print Order/Trade Confirmation Slips On/Off
- Ticker Selection
- Market Movement
- Most Active Securities
- Index Inquiry
- Offline Order Entry
  Order Limits
- SQUVL
- Order Attribute Selection
- Reprint Order/Trade Confirmation Slip
- Branch Order Value Limit
- Net Position and Net Position Backup
- Online Backup
- One line/Tabular Slips
- User Order Value Limit
- Client Master Maintenance
- Index Trading

- Reverse Basket on traded quantity
- Reset User id
- About

Report Selection

Report selection window allows the user (corporate manager and branch manager) to specify the number of copies to be printed for each report. The user can update the number of copies for a report. The Report Selection screen allows the user (Corporate manager and Branch Manager only) to specify the number of copies to be printed for each report. All the reports are generated at the end of day. Once the reports are printed, the Report Selection screen shows the date and the time the reports were printed. The user can request for reprinting any of the reports.

The reports that are available to the trading member are Open Order Today, Order Log, Trades Done Today, Market Statistics and Market Indices.

Open Order: This report gives details for all dealers belonging to the trading member that are currently outstanding or unmatched orders. Regular lot, special terms, odd lot and stop loss outstanding orders are presented in this report.
Order Log: The purpose of this report is to give the activity log of the orders for the dealers belonging to a trading member. This report shows Orders placed today, Orders modified today, Orders canceled and Orders deleted by the system. This report shows the activity log for the orders of a trading member. It shows the details of the orders which are entered today, modified today, canceled by the dealer today. For order modification, the modified order details are shown for each modification done.
Trades Done Today: The purpose of this report is to show the details of the trading activity by the trading member. This report gives details of trades done today for all dealers belonging to the trading member firm. The report has details for all the types of trades i.e. Normal market trade, Odd Lot trade, RETDEBT trade and Auction trade.
Market Statistics: The purpose of this report is to show the market statistics of that trading day. This report gives details related to all the securities traded on that day for all markets. A separate Market Indices Report is also disseminated to members which contains details regarding the Open, High, Low, Close, Previous Close and % change over the Previous Close of S&P CNX Nifty, S&P CNX Defty, CNX Nifty Junior, S&P CNX500, CNX Midcap, CNX IT, Bank Nifty, CNX 100 and Nifty Midcap 50 indices.

Full Message Display

This option enables the display of all the system messages right from the start of the Opening Phase. It is also possible to filter the messages depending on the message code, symbol, series, PRO/CLI, Client, date and time. The system messages can be printed, if needed.

Message area contains user id for order and trade confirmation\modification\ cancellation and rejection. The trade confirmation\modification\cancellation messages displayed in the message area will contain the corresponding remarks entered during the order entry.

The user can filter, print and save messages. In the message filtering screen the message code by default shows All. The user has the option to select the desired message code on which the messages can be filtered. The messages can also be filtered on Symbol, Series, Trading member Code, PRO/CLI/ ALL, Client A/C Number, Date and Time fields.

In case the user desires to filter messages for trading member's own order/trade related messages, 'PRO' has to be specified with the trading member code defaulting in the 'Client Account' field. In case the user desires to filter messages for a particular client, 'CLI' has to be specified with the client account code in the 'Client Account' field. In case the user desires to view all messages, 'All' has to be specified and the 'Client Account' field should be blank. The message filter displays 'All' by default when the user invokes the full message display screen.

Message area will contain the machine number along with the message specifying from which machine the message have been generated. An extra filter code has been provided in the message area to filter messages on the machine number parameter.

The messages are filtered as per the selection criteria. The message codes on which the selection can be made are:

Message Code	Description of Messages Selected
ALL	All messages
AUC	Auction order/trade messages
AUI	Auction initiation messages
LIS	All listing related messages
ORD	Order Related messages
OTH	Miscellaneous
SPD	Security Suspension/De-suspension
SYS	System Messages
TRD	Trades

The full message display and filtered messages can be printed by invoking the print command by ensuring that the printer is online. The user can save messages by invoking the Save option on the Full Message Display screen and by specifying the directory and file name in the pop up box. Here an option is available to the user to both specify the directory and file name to save messages, or to choose the default directory i.e. nsecm\user directory. This file can be viewed in MS-DOS editor.

Colour Selection

The user can customise the colours for various inquiry and other trader workstation screens as per choice. The background and the foreground colours can be selected by invoking the Colour Selection option. The following is displayed on the colour selection listbox:

List of Screens: Lists all the screens in NEAT system. The user has the option of changing both the foreground and the background colours of any screen.

Display Window: Displays the screen with the changed colours. To change the colour of a particular screen, the user has to position the highlight bar on the desired screen and select any one of the sixteen colour buttons. The change in the colour can be seen in the Display window. The user can reset the colour to default setting by selecting the Default option. It is to be noted that the user cannot select the same colour for foreground of an inquiry screen.

Print System Messages On/Off

The 'Print System Messages ON/OFF' enables/disables printing of the system messages as and when they appear in the messages window. By default the option is set to `OFF'. The user can change the On/Off position by pressing the space bar. The current mode (On/Off) is displayed for this option on the Supplementary Menu screen itself.

Print Order/Trade Confirmation Slips On/Off

The 'Print Order/Trade Confirmation ON/OFF' enables/disables printing of the order/trade slips. By default the option is set to `OFF'. The user can change the On/Off position by pressing the space bar. The current mode (On/Off) is displayed for this option on the Supplementary Menu screen itself.

Ticker Selection

The ticker selection screen allows the user to set up the securities that should appear in the user's ticker window. All the securities available in the system for a particular market are displayed. If a security is deleted from the system, it is also removed from the ticker selection display. The selection of securities can be done for each market separately. The user can select one or all security type for display.

Market Movement

The purpose of the Market Movement screen is to provide information to the User regarding the movement of a security for the current day. This inquiry gives the snap shot for a particular security for a time interval as parameterised by the Exchange.

Most Active Securities

This screen displays the details of the most active securities based on the total traded value during the day. The number `N' is parameterised by the Exchange. The information provided on this screen is not dynamically updated. However, the user can get the latest information by refreshing the screen.

Index Inquiry

Index Inquiry gives information on Previous Close, Open, High, Low and Current Index values of S&P CNX Nifty at the time of invoking this inquiry screen. This screen displays information of S&P CNX Nifty as of the time the screen was invoked on the current trading day. The data displayed is as follows:

- 52 week High
- 52 week Low
- Closing Index
- Opening Index
- High Index
- Low Index
- Current Index
- Net Change
- % Change

At the end of day after market closure the Previous Close field will display current day's closing index value. The user requires to refresh the details of the screen by re-invoking the screen.

Offline Order Entry

A facility 'Offline Order Entry' has been incorporated in the trading software where the user can generate order file in a specific format outside the trading system and upload the file in the system by invoking this facility. The user has to specify the exact file location that can be a hard disk drive or a floppy drive. The status of the orders so uploaded is recorded in last two fields of the same file. Once the order processing is complete, the user can open the same file in MS-DOS editor. If the system assigns an order number, the same is written against the record. In case of any error(s), the corresponding error code is written against the record. Offline order entry is also available for RETDEBT market.

The user has to specify the relevant order file name in the Offline Order Entry pop-up box and then initiate the upload process. The user can also interrupt the injection of the orders. It should be noted that the file has to be in the format as specified by the Exchange. The offline order entry facility accepts comma separated file structure (file saved as *.csv where * is the file name).

Order Limits

Order limits is a facility to enable the user to specify maximum value per order and maximum quantity per order that can be entered from the trader workstation. At the time of order entry and order modification this limit is checked by the system. Order limits are set by individual users and are provided as safety measure against any inadvertent error during data entry while entering orders.

For a user logging in for the first time, order limits are specified as unlimited by default. In case specific value/quantity is to be specified, data has to be entered in the respective input fields namely 'Order Value (in lakh)' & 'Order Quantity'. In case unlimited is to be specified, the checkbox allows the user to set 'Unlimited' as his limit.

The order limits can be modified during market hours. When the user modifies these limits, a message 'Max. Value/Qty for one order has been set to Rs.......Lakh/......' is displayed on the message window screen. When the user sets the limit as unlimited, a message 'Max. Value/Qty for one order has been set to unlimited' is displayed on the message window screen. While modifying the values if either of the input fields is left blank, the dealer gets an error message, either 'Quantity Limit not Entered' or 'Value Limit not Entered' respectively. In case the user tries to modify without entering any new values, a message 'Values not changed' is displayed.

Whenever the user places an order, the order values are validated against these values to confine the checking to the trader workstation. In case the user enters an order that exceeds the specified quantity limit, a message 'Order quantity entered exceeds the order limit quantity' is displayed. In case the user enters an order which exceeds specified order value (order price x order quantity) a message 'Order value exceeds order value limit' is displayed. The quantity check is always done prior to order value check. Only if both values are not exceeded, the order is sent to the system for further processing. In case of a market order if the order quantity exceeds the order quantity limit, the checking is done at the trader workstation itself as in the case of priced orders. However, for order value check, the check is performed by the Host.

Market Price protection functionality: This functionality gives an option to a Trader to limit the risk of a market order, within a pre-set percentage of the Last Trade Price (LTP).The pre-set Market price protection percentage is by default set to 5% of the LTP. The users can change the pre-set Market price protection percentage from the Order Limit Screen which can be invoked from the Supplementary Menu. The set percentage will be applicable till the Ntreltdr EXE is re-inflated.

At the time of order entry, the user can check the cursor is in the price field. In case of a buy order, the price value shown is taken as the default price, which is greater than LTP by a pre-set percentage. In case of a sell order the default value will be lesser than the LTP by a pre set percentage. The time condition in both cases will automatically change to IOC. The user has the option to change any of the fields. Since the calculations are based on LTP if broadcast for the security is not received, the default value will be 'MARKET'.

Security wise User Order Quantity Limit & SUOQL Bulk Upload

The trading system has a facility for setting up Branch Order Value Limit (BOVL) and User Order Value Limit (UOVL). The Corporate Manager (CM) can set up BOVL for each branch and UOVL for all the users (dealers and BMs) under him. The Branch Manager (BM) can set the UOVL of the dealers in his branch. Sum of the UOVLs of all the users under a particular branch cannot exceed BOVL, set by the CM. While this enables the CM and BM to restrict the total value of order entered by the users, it is not possible to restrict buying or selling in specific securities.

An additional facility for setting up Security wise User wise Order Quantity Limits (SUOQL) for buy and/or sell has been provided. This function will be available only to the NEAT users. Salient features of the functionality are given below:

(1) The CM is allowed to set the SUOQL separately for buy and sell orders for each security for all the BMs and Dealers (except inquiry only users) under him including himself.
(2) A view only facility is given to the BM for his own limit and the dealers under him.
(3) View only facility is given to the dealer for his own limit.
(4) For the newly added user or security the SUOQLs record is not to be added by default (i.e. No SUOQL will be set for new security or user).
(5) It is possible to modify the SUOQL anytime during trading hours and it should not be set less than the used limit for that security.
(6) The used limit field is displayed for buy and sell separately for each security.
(7) Any activity like order modification or cancellation is reflected in used limit figure for the respective security and respective side.

(8) This limit is applicable for a symbol across all series, across all the markets.
(9) The set value is not less than zero.
(10) Modification of set limits for a security is possible multiple times.
(11) SUOQL setting option is given in supplementary menu.
(12) A bulk upload facility to set the security wise buy sell limit through a csv file is provided. In case of failure to upload a particular record/s, failure message will be written in the input file in the form of an error code. The file is reusable.
(13) SUOQL bulk upload facility is not available during the market hours.
(14) After the limit is set successfully, the message will be sent to the respective CM/BM/dealer.
(15) For a symbol both buy and sell quantity can be set to unlimited.
(16) The facility to print the set SUOQL limits is provided.
(17) A facility to limit trading to the securities set up in the SUOQL is provided. If limit trading option is set for the user, the user is allowed to place orders only for symbols set in his SUOQL list by the CM. It is however possible to enable this facility without having any security in the SUOQL list, which prevents the user from entering any fresh orders.
(18) Corporate Manager is given a facility to allow or disallow a user from entering Index orders. By default all dealers are allowed to place index orders. Index orders are not validated for SUOQL limits. However, orders once entered are updated in the used limits.
(19) Set limits can be set equal to or greater than used limits.
(20) If a symbol is added/set in SUOQL list during the market hrs, previously used quantities, till that time would be taken into account.
(21) It is possible that dealer is restricted to enter order in particular security, but allowed to enter index order and that restricted security is a part of Nifty.
(22) If the order is modified by CM/BM for a respective dealer then the used limit will be updated accordingly, but in this case it can exceed the set limit.
(23) SUOQL used limit is not validated and updated for Auction orders.
Bulk upload by CM for setting SUOVL for dealers is allowed after receiving the message in the TWS after market close and in morning till cut off time set by the exchange before the market opens.

The structure of input csv file for bulk upload is as follows:

(a) User-Id
(b) Action-Type
(c) Symbol
(d) Buy Set Limit
(e) Sell Set Limit
(f) Error-Code

Order Attribute Selection

The order attribute selection enables user to set default parameters for two fields – PRO/CLI and Custodial Participant id fields in the order entry screens. The selection screen provides a facility whereby users can select or deselect required options. The PRO/CLI and custodial participant id options as selected by the user is available in the order entry screen. In case the user deselects all options for PRO/CLI the following error message is displayed "Either PRO or CLI must be selected". If a member sets the default option in the PRO/CLI field as 'PRO', then each time the order entry screen is invoked, 'PRO' will be displayed and 'CLI' will not be available to the user for order entry. If a member selects 'PRO' and 'CLI', then each time the order entry screen is invoked, 'PRO' and 'CLI' will be available to the user for order entry. Similarly, if a member selects 'NCIT' in the custodial participant field, only 'NCIT' will be displayed on invoking the order entry screen. If a member selects broker id as default option in the custodial participant field, then only the broker id will be displayed in the order entry screen.

By default this screen has all the options marked for display in the order entry screen. Options can be changed during trading hours. However, if a user exits the NEAT application and logs in again, the required parameters will have to be selected again for order entry.

The users have been provided with a facility to set up the last entered Client account number, Participant & remarks fields in the order entry screens as the default values. These values will be taken as default till the time the fields in the order entry screens are not altered or the NEAT front end is not closed. On setting the checkboxes, the values entered in the previous order will be taken as default in the relevant fields. These fields will continue to have the default values till any one of the fields is toggled, or a different order is placed. Each of these three fields can be taken as default individually or in any desired combination.

An option has also been provided to warn the user if the account number being entered for the client is not present in the client master file. A checkbox has been provided in the Order Attribute Selection screen to enable or disable this facility. Once the User receives a warning, he has the option of entering the client account number and details in the client master and resumes order entry or skip this. In case of offline order entry, the warning is for each order in the input file. The User has the option of stopping the offline file by clicking on the Offline order entry screen and clicking on the Stop button.

Reprint Order/Trade Confirmation Slips

Although the order and trade slips for `confirmation', `modification', 'rejection' and `cancellation' slips can be printed as and when a particular operation is performed. However, the user can reprint these slips later during the trading day by using this option.

The user can select the order or trade and the type of slips i.e. confirmation, modification, cancellation or rejection. There is facility to select one or more operations for printing the slips. For example one can select 'confirmation' as well as 'modification' at a time. After the user specifies the type of slip to be printed, the start and end order/trade numbers are automatically filled. The user has to specify the range of order or trade numbers by appropriately selecting the start and the end order/trade numbers. Initially, the options have such values that all the order related slips can be printed. The start and the end order numbers contain order numbers that was entered by the user on the current day. On selecting Print option all the selected order/trade slips are printed and on selecting the Cancel option, no slips are printed.

Branch Order Value Limit Setup

The purpose of this screen is to enable corporate manager to setup a limit on order entry for each branch under the trading member firm. This option in supplementary menu is available to the user only if the user is a corporate manager. On selection, the Branch Order Value Limit Setup screen appears. To view the limit for a particular branch, the user has to select the Branch Id and the details for the branch i.e. branch name, the limit set and the used up value are displayed. The values for the branch order limit are displayed in Rs. lakhs.

To change the limit for a branch, the user has to select the 'Limited' option and enter the new limit in the 'New Limit Value'. The new limits are then updated by the system.

The corporate manager can also authorize a branch with unlimited order entry by clicking on 'Unlimited'. The user can also print the details of a branch by selecting the Print option. Viewing and modification is possible during market hours. A corporate manager can set the branch order value limit for any/all branches either before or during trading hours. Also, the corporate manager can view the set limit and the used limit any time during the trading day. Whenever the corporate manager modifies the branch order limit of any of his branches, the branch manager receives a message to that effect at his trader workstation.

Net Position and Net position Backup

The user can interactively view his net position across securities. The Net Position screen displays Symbol, Series, Buy Value (in lacs), Buy Qty, Buy Avg Price, Sell Avg Price, Sell Qty, Sell Value (in lacs), Net Qty and Net Value (in lacs). It also displays the Grand Total of Buy Value (in lacs), Buy Qty, Sell Qty, Sell Value (in lacs), Net Value (in lacs) and Net Value Mark to Market (in lacs). Net position screen displays the Net Mark to market value scrip wise as well as total net mark to market value.

The user has the option for selecting market type as Normal/RETDEBT/Odd Lot/All. The user can also select Client Type as CLI/PRO/All. The user can refresh the screen to update the Net Position and can also print the details of the Net Position screen at any point of time. Net position backup is available from the Net position screen. The User can select the fields as Symbol, Series, PRO/CLI and CLI A/c Number on which the output would be filtered. By default the output file is generated and stored as 'Netpos.txt'. The user can overwrite and specify any other file name also. The user has a option of generating the output file in any directory he wants to or on a floppy diskette.

Online Backup

On Line Backup is a facility which the User can invoke to take a backup of all order and trade related information for the User. The information available is for the current day only.

One line/ Tabular Slips

The 'One Line or Tabular slips' is used to select the format for printing confirmation slips. By default the option is set to 'One Line'. The user can change the format to 'Tabular slip' by pressing the spacebar. The current mode is displayed on the Supplementary Menu screen.

User Order Value Limit

User order value limit is the cumulative value of orders placed by the user during the day across all securities. This enables the corporate manager to set up different limits among the users depending upon the permitted user activity in single/multiple scrips. For a new user the user order value limit is set as zero by default.

Every order entry will be checked for user order value limit. A user is restricted to enter orders greater than the order value limit specified by his corporate manager. In case the user order value limit is exhausted a message "Order number.........request rejected. Used limit cannot exceed the user order value limit." is displayed on the message window screen.

Following are the main features of user order value limit functionality:

a) A corporate manager can set up branch order value limit and user order value limit for all users. A branch manager can also set up the user order value limit for the users under his branch. The corporate manager can also query for order limits of any user under the trading member firm. While the branch manager can view the user order limits of the users under his branch only.

b) User order value limits are dependent on branch order value limit. It is not possible for a corporate manager to set only branch order value limit and not assign any user order value limit. It is mandatory for the corporate manager to configure user order value limit. The branch manager may also set up the user order value limit for users under his branch.

c) If a corporate manager sets the branch order value limit as unlimited then the user order value limit can either be set unlimited or a specified limit. The cumulative value of user order value limit should not exceed the corresponding branch order value limit. Also, user order value limit cannot be set as unlimited if branch order value limit is set as specific value. In case the corporate manager tries to revise the branch order value limit to a value less than the user order value limit a message "Cumulative user limit exceeded the branch limit" is displayed on the branch order value limit screen.

d) When the corporate manager sets up the user order value limit as specified/unlimited, a message "User order value limit for user number ..... has been set to Rs. ...... lakh/unlimited" is displayed on the message window screen of the corporate manager, respective Branch Manager and the concerned user.

e) The user order value limit can be revised during trading hours.

f) The corporate manager/branch manager can also print the user order value limit details.

Example: M/s. Agre Financial Services, a trading member on the NSE, has a branch order value of Rs. 700 lakh for his Chennai branch and Rs. 650 lakh for Kolkata branch. Chennai branch has two users 'X' and 'Y' with user order value limits of Rs. 250 lakh and Rs. 300 lakh respectively. Kolkata branch has one user 'Z' with user order value limit of Rs. 350 lakh. The member applies for a new user at Chennai. What is the maximum user order value that can be set for the new user?

The maximum User Order Value limit for Chennai is
= Rs. 700 - (Rs. 250 + Rs. 300) = Rs.150 lakh

Client Master Maintenance

This facility allows the user to have a drop down list of client codes at the account field. The user can add, modify, upload or delete clients.

Index Trading

The purpose of Index Trading is to provide NEAT users with a facility of buying and selling of Indices, in terms of securities that comprises the Index. Currently, the facility is only for NIFTY securities. The users have to specify the amount, and other inputs which are sent to the host, and the host generates the orders.

Index trading screen can be invoked from Supplementary menu. Index Trading enables the users to buy or sell an Index Basket. The buying and selling of Index basket is simulated by putting orders in securities in proportion that comprises the chosen Index. The user has to first select the Index and provide the amount in the amount edit box in lakhs, which will be distributed in the securities in the chosen index. The user can specify buy/sell and also provide the PRO/CLI order attributes. The generated Buy/sell orders would carry these attributes. For orders the CLI account number is compulsory and has to be mentioned in the edit box provided along with it. The user can also provide Participant and Remarks (both optional), which would be mentioned in the generated orders.

The information provided is validated and a request message appears in the message area. If the Index buy/sell is rejected, then the rejected message follows along with appropriate error message. If Index Buy/Sell is confirmed then generated order confirmations follow carrying the order attributes (Participant, Remarks, Day/IOC).

The Host End divides the input amount mentioned in the Amount Edit Box among the securities of Index according to their weightage, and generates orders priced as market orders.

If the Index contains a security which is suspended/Not eligible in the chosen market then the index basket will not be executed.

Formula used is as follows:
Quantity of shares of a particular security of NIFTY is calculated as under:

$$\text{Number of Shares of a security in index} = \frac{\text{Amount} * \text{Issued Capital for the security}}{\text{Current Market Capitalisation of the Index}}$$

where
Current Market Capitalisation of the Index = Summation [Last Traded Price (Previous close if not traded) * Number of Issued Shares]

Reverse Basket on Traded Quantity

The Purpose of Reverse Basket Trading is to provide the users with an offline file for reversing the trades that have taken place for a basket order. This file will contain orders for different securities of the selected basket file. The Orders will be created according to the volume of trade that has taken place for that basket. This feature can also be used to monitor the current status of the basket file as the latest statuses of the orders are displayed in the list box. The functionality of creating reverse basket offline order file based on orders at the time of creating the basket will continue to be available. The new functionality is another alternative to create the reverse file based on the trades executed till the point of time.

User can invoke the functionality by selecting it from the supplementary menu. On selecting the relevant basket file the details of that file are loaded in the list box. The basket file names in the combo box are user defined file names (which can be created or edited from Basket trading Screen which is an existing functionality). All User defined basket file names are automatically loaded in to the Combo box. The User can select the basket of his choice. It is advisable to create each basket with a different name and clean up the directories regularly and not tamper with the original basket file once it has been loaded as it may give erroneous results.

On pressing the Reverse button the reverse basket file would be generated in the RTRDBASKET folder in the login drive. The file would have the same name as the basket file prefixed with a REV_. If a file with the given name already exists then it asks for overwriting the old file. The User can mention Order's duration (IOC or day) by selecting from a check box.

Reset User ID

This will facilitate the members to terminate the active session for users under the trading member. The facility has been provided to all Corporate Managers and Branch Managers. A branch manager can terminate the active session for all the users of that branch except for self. Active session of the branch manager can be terminated by the corporate manager. The session of the Corporate manager can be terminated only by the Exchange.

About

The 'About' window displays the software related version number details and copyright information.

1.11 ORDER MANAGEMENT

Order Management consists of entering orders, order modification, order cancellation and order matching.

1.11.1 Entering Orders

The trading member can enter orders in the normal market, odd lot, RETDEBT and auction market. A user can place orders in any of the above mentioned markets by invoking the respective order entry screens. After doing so, the system automatically picks up information from the last invoked screen (e.g.

Market Watch/MBP/OO/SQ and Security List). When the user invokes the order entry screen, the fields that are taken as default are Symbol, Series and Book Type.

In case of other fields, the system takes the following defaults:

Qty	:Regular lot quantity available at best price on counter side
Price	:Price of best counter order
Pro	:Trading member ID of the user
Order Duration	:Day
Disclosed quantity	:Fully Disclosed
Participant ID	:Trading member ID of the user

Active & Passive Order

When any order enters the trading system, it is an active order. It tries to find a match on the other side of the books. If it finds a match, a trade is generated. If it does not find a match, the order becomes a passive order and goes and sits in the order book.

Order Books

As and when valid orders are entered or received by the trading system, they are first numbered, time stamped and then scanned for a potential match. This means that each order has a distinctive order number and a unique time stamp on it. If a match is not found, then the orders are stored in the books as per the price/time priority. Price priority means that if two orders are entered into the system, the order having the best price gets the higher priority. Time priority means if two orders having the same price is entered, the order that is entered first gets the higher priority. Best price for a sell order is the lowest price and for a buy order, it is the highest price.

The different order books in the NEAT system are as detailed below:

(a) Regular Lot Book: An order that has no special condition associated with it is a Regular Lot order. When a dealer places this order, the system looks for a corresponding Regular Lot order existing in that market (Passive orders). If it does not find a match at the time it enters the system, the order is stacked in the Regular Lot book as a passive order. By default, the Regular Lot book appears in the order entry screen in the normal market. Buyback orders can be placed through the Regular Lot (RL) book in the Normal Market. The member can place a buyback order by specifying 'BUYBACKORD' in the Client Account field in the order entry screen. Such company buyback orders will be identified in MBP screen by an '*' (asterisk) indicator against such orders.

(b) Special Terms Book: Orders which have a special term attribute attached to it are known as special terms orders. When a special term order enters the system, it scans the orders existing in the Regular Lot book as well as Special Terms Book. Currently this facility is not available in the trading system.

(c) Stop Loss Book: Stop Loss orders are released into the market when the last traded price for that security in the normal market reaches or surpasses the trigger price. Before triggering, the order does not participate in matching and the order cannot get traded. Untriggered stop loss orders are stacked in the stop loss book. The stop loss orders can be either a market order or a limit price order. For buy SL orders, the trigger price has to be less than or equal to the limit price. Similarly, for sell SL orders, the trigger price has to be greater than or equal to the limit price.

(d) Negotiated Trade Book: Two trading members can negotiate a trade outside the Exchange. To regularise the trade each trading member has to enter the respective order in the system. To enter Negotiated Trade order details, select book type as NT. It is mandatory for the trading member to enter the counterparty trading member id. When both parties to a trade enter orders, then the request goes to the Exchange for approval. The Exchange can either approve the request or reject it. Further, the Exchange has the discretion to send either of the two orders or both the orders to the Regular Lot book so that the orders are available to the entire market. Currently this facility is not available in the trading system.

(e) Odd Lot Book: The Odd Lot book can be selected in the order entry screen in order to trade in the Odd Lot market. Order matching in this market takes place between two orders on the basis of quantity and price. To enter orders in the odd lot market, select the book type as OL.

(f) RETDEBT Order Book: RETDEBT market orders can be entered into the system by selecting the RETDEBT Order book. These orders scan only the RETDEBT Order book for potential matches. If no suitable match can be found, the order is stored in the book as a passive order. To enter orders in the RETDEBT market, select the book type as 'D'.

(g) Auction Order Book: Auction order book stores orders entered by the trading members to participate in the Exchange initiated auctions. Auction orders can be initiator orders, competitor orders and solicitor orders. For further details kindly refer to section on 'Auction'.

Symbol & Series

Securities can be taken as default values from the order entry screen from any of the inquiry screens such as MBP, OO, PT, AL, MI and SQ. In case the security is not set up in the Market Watch screen, the Security List can also be used to take the codes as default values.

Order entry in a security is not possible if that security is suspended from trading. E.g. If a security is suspended in the normal market a message "Security is suspended in the normal market" is displayed on the order entry screen. The label 'Suspended' is also displayed in the market watch screen for the setup security.

Order entry is also not possible in case the security is not eligible to trade in a particular market. E.g. If a security is not eligible to trade in the normal market a message "Security is not allowed to trade in normal market" is displayed on the order entry screen. In case the user types the symbol series incorrectly a message "Invalid symbol series" is displayed on the screen.

Quantity

When the buy/sell order entry screen is invoked, the regular lot size available at the best price on the counter side gets defaulted in the order entry screen. In case of negotiated trade or auction book is selected for display, the quantity has to be specifically mentioned by the user. Quantity mentioned should be in multiples of regular lot size for that security.

Quantity Freeze

All orders with very large quantities will receive quantity alert at member terminal. Currently, if member entered any order exceeding the lowest of the quantity given below, result in an alert which will read as "Order entered exceeds alert quantity limit. Confirm availability of adequate capital to proceed" and only after the member clicks the button 'Yes' the order will be further processed for execution.

Quantity Freeze parameters:-

- 0.5% of the issue size of the security or
- value of the order is around Rs. 2.5 crores or
- a global alert quantity limit of more than 25000 irrespective of the issue size of the security, whichever is less.

Price

Along with the regular lot quantity, the best price on the counterside is also taken as default value in the order entry screen. A user has the option to either enter the order at the default price or overwrite it with any other desired price. If a user mentions a price, it should be in multiples of the tick size for that particular security and within the day's minimum/maximum price range, otherwise the order is not accepted by the system and an order rejection message/confirmation slip is generated. For a No price band scrips, if a price outside the Operational Range is entered, the order results in a price freeze and is not accepted as a valid order till the time the Exchange approves it. All auction orders require the user to mention a price.

In case the user enters an order with a 'Market' price the order takes the last traded price in the respective market as the market price, provided no passive order exists on the same side or the counter side in that security and in that market. However, if suitable orders exist on the counter side, then the order takes the price of the counter order and a trade is generated. If an order exists on the same side but no orders exists on the counter side, then the order takes the price of the best order on that side and is stacked immediately below it. If the security has never been traded, then the market order takes the value of the base price and sits in the books as a passive order.

In case of stop loss orders, a user has the flexibility of specifying a limit price along with the trigger price. This limit price can be selected as equal to the trigger price in the price field so as to leave it with the word 'Price'. Alternatively, a user can specify a limit price as 'Market' price.

Circuit Breakers

The Exchange has implemented index-based market-wide circuit breakers in compulsory rolling settlement with effect from July 02, 2001. In addition to the circuit breakers, price bands are also applicable on individual securities.

Index-based Market-wide Circuit Breakers: The index-based market-wide circuit breaker system applies at 3 stages of the index movement, either way viz. at 10%, 15% and 20%. These circuit breakers when triggered bring about a coordinated trading halt in all equity and equity derivative markets nationwide. The market-wide circuit breakers are triggered by movement of either the BSE Sensex or the NSE S&P CNX Nifty, whichever is breached earlier.

- In case of a 10% movement of either of these indices, there would be a one-hour market halt if the movement takes place before 1:00 p.m. In case the movement takes place at or after 1:00 p.m. but before 2:30 p.m. there would be trading halt for ½ hour. In case movement takes place at or after 2:30 p.m. there will be no trading halt at the 10% level and market shall continue trading.

- In case of a 15% movement of either index, there shall be a two-hour halt if the movement takes place before 1 p.m. If the 15% trigger is reached on or after 1:00 p.m., but before 2:00 p.m., there shall be a one-hour halt. If the 15% trigger is reached on or after 2:00 p.m. the trading shall halt for remainder of the day.

- In case of a 20% movement of the index, trading shall be halted for the remainder of the day.

These percentages are translated into absolute points of index variations on a quarterly basis. At the end of each quarter, these absolute points of index variations are revised for the applicability for the next quarter. The absolute points are calculated based on closing level of index on the last day of the trading in a quarter and rounded off to the nearest 10 points in case of S&P

CNX Nifty.

Price Bands

Daily price bands are applicable on securities as below:

- Daily price bands of 2% (either way) on securities as specified by the Exchange.
- Daily price bands of 5% (either way) on securities as specified by the Exchange.
- Daily price bands of 10% (either way) on securities as specified by the Exchange.
- No price bands are applicable on: scrips on which derivative products are available or scrips included in indices on which derivative products are available. In order to prevent members from entering orders at non-genuine prices in such securities, the Exchange has fixed operating range of 20% for such securities.
- Price bands of 20% (either way) on all remaining scrips (including debentures, warrants, preference shares etc).

The price bands for the securities in the Limited Physical Market are the same as those applicable for the securities in the Normal Market. For auction

market the price bands of 20% are applicable.

There are no price bands for those securities which are available for trading in the Futures and Options segment and securities which form part of the indices on which trading is available in the Futures and Options segment.

Order Types and Conditions

The system allows the trading members to enter orders with various conditions attached to them as per their requirements. These conditions are broadly divided into Time Conditions, Quantity Conditions, Price Conditions and Other Conditions. Several combinations of the above are allowed thereby providing enormous flexibility to the users. The order types and conditions are summarised below:

a) Time Conditions

DAY: All orders entered into the system are presently considered as Day orders only.

IOC: An Immediate or Cancel (IOC) order allows the user to buy or sell a security as soon as the order is released into the system, failing which the order is cancelled from the system. Partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.

b) Quantity Conditions

DQ: An order with a Disclosed Quantity (DQ) allows the user to disclose only a portion of the order quantity to the market. For e.g. if the order quantity is 10,000 and the disclosed quantity is 2,000, then only 2,000 is released to the market. After this quantity is fully matched, a subsequent quantity of 2,000 is disclosed. Thus, totally five disclosures with the same order number are shown one after the other in the market.

c) Price Conditions

Market: Market orders are orders for which price is specified as 'MKT' at the time the order is entered. For such orders, the system determines the price.

Stop-Loss: This facility allows the user to release an order into the system, after the market price of the security reaches or crosses a threshold price called trigger price.

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

All stop loss orders are kept in a separate book (stop loss book) in the system until they are triggered.

Trigger Price: Price at which an order gets triggered from the stop loss book.

Limit Price: Price of the orders after triggering from stop loss book.

d) Other Conditions

PRO/CLI: A user can enter orders on his own account or on behalf of clients. By default, the system assumes that the user is entering orders on the trading member's own account.

The client account field is an alphanumeric field. It is mandatory to enter the client account number in the field provided in case the user enters orders on behalf of clients. The system will assign a code 'Cli' to such an order. The user cannot specify the trading member code in the client account field.

Counterparty ID: In case a negotiated trade order is entered, the system requests the user to enter the counterparty trading member id which is to be obtained by the user from the counter party itself. Currently this facility is not available in the trading system.

Participant Code: By default, the system displays the trading member id of the user in the participant field. Thus, all trades resulting from an order are to be settled by that trading member. NCIT orders can be marked by the user at the order entry level itself. Only a valid participant code can be entered. In case the participant is suspended a message to this effect is displayed to the user on the order entry screen.

Remarks: The remarks field is a description field within the order entry screen provided to incorporate any remarks to be specified by the user at the time of order entry.

1.11.2 Order Modification

All orders can be modified in the system till the time they do not get fully traded and only during market hours & preopen stage. Once an order is modified, the branch order value limit for the branch gets adjusted automatically.
Following is the corporate hierarchy for performing order modification functionality:

- A dealer can modify only the orders entered by him.
- A branch manager can modify his own orders or orders of any dealer under his branch.
- A corporate manager can modify his own orders or orders of all dealers and branch managers of the trading member firm.

However, the corporate manager/branch manager cannot modify order details such that it exceeds the branch order value limit set for the day. Order modification cannot be performed by/for a trading member who is suspended or de-activated by the Exchange for any reason.

A buyback having ‘BUYBACKORD’ in the client account field cannot be modified to any other client account. Any order modifications resulting in price shall not be allowed. The user will receive a message "CFO Request Rejected' for such modification requests.

1.11.3 Order Cancellation

Order cancellation functionality can be performed only for orders which have not been fully or partially traded (for the untraded part of partially traded orders only) and only during market hours and in preopen period.

Single Order Cancellation

Single order cancellation can be done during trading hours either by selecting the order from the outstanding order screen or from the function key provided. Order cancellation functionality is available for all book types. But the user is not allowed to cancel auction initiation and competitor orders in auction market. Order cancellation is also not allowed for those negotiated trade orders that have not resulted as an alert.

Quick Order Cancellation

Quick Order Cancellation (Cancel All) is an extension of Single Order Cancellation enabling a user to cancel multiple outstanding orders in various trading books subject to the corporate hierarchy. The different filters available for cancelling orders by using quick order cancellation facility are symbol, series, book type, branch, user, PRO/CLI, client account number and buy/sell. Quick order cancellation can be performed by invoking the function key provided and cannot be done from the outstanding orders screen. If the criteria are not found to be correct by a trading member then an error message is displayed and the focus is set on the incorrect field to enable the user to correct it. If the selection criteria are correct then a message appears on the quick order cancellation screen stating the number of buy and sell orders to be cancelled. Quick order cancellation can be done only during market hours.

Order Cancellation for Disabled Member

The Exchange suspends a member from trading due to various reasons. In case a member is suspended from trading by the Exchange, all pending orders in all books except for Negotiated Trade orders of the member are immediately cancelled by the system. A message: "Order Number .... cancelled due to suspension" is displayed at the message window screen at the trader workstation. Inquiry screens such as MBP, Market Watch and trader specific screens such as Outstanding Orders, Activity Log etc. get updated accordingly.

1.11.4 Order Matching

The buy and sell orders are matched on Book Type, Symbol, Series, Quantity and Price.

Matching Priority

The best sell order is the order with the lowest price and a best buy order is the order with the highest price. The unmatched orders are queued in the system by the following priority:

(a) By Price: A buy order with a higher price gets a higher priority and similarly, a sell order with a lower price gets a higher priority. E.g. Consider the following buy orders:
1) 100 shares @ Rs. 35 at time 9:30 a.m.
2) 500 shares @ Rs. 35.05 at time 9:43 a.m.
The second order price is greater than the first order price and therefore is the best buy order.

(b) By Time: If there is more than one order at the same price, the order entered earlier gets a higher priority. E.g. consider the following sell orders:

1) 200 shares @ Rs. 72.75 at time 9:30 a.m.

2) 300 shares @ Rs. 72.75 at time 9:35 a.m.

Both orders have the same price but they were entered in the system at different time. The first order was entered before the second order and therefore is the best sell order.

As and when valid orders are entered or received by the system, they are first numbered, time stamped and then scanned for a potential match. This means that each order has a distinctive order number and a unique time stamp on it. If a match is not found, then the orders are stored in the books as per the price/time priority.

An active buy order matches with the best passive sell order if the price of the passive sell order is less than or equal to the price of the active buy order. Similarly, an active sell order matches with the best passive buy order if the price of the passive buy order is greater than or equal to the price of the active sell order.

Regular Lot Matching

If the combined quantity of one or more matching orders on the opposite side of the regular lot book is equal to or more than the quantity of active order, the active order is completely traded.

If the combined quantity of one or more matching orders on the opposite side of the regular lot book is equal to or less than the quantity of active order, the active order is partially traded.

If after trading any quantity is left untraded, the order is added to the regular lot book in the price/time priority.

The orders with the IOC attribute try to match maximum possible quantity after they are entered. Any remaining quantity is cancelled.

The orders with DQ attribute disclose only a part of the total order quantity to the market.

An active order with disclosed condition tries to maximise the quantity as possible regardless of the disclosed quantity i.e. a single trade takes place for a quantity more than the disclosed quantity.

If an active order with the disclosed quantity cannot trade its total quantity, it is added to the regular lot book in the price/time priority. The disclosed order quantity is determined as follows:

a) If the remaining order quantity is less than or equal to the original disclosed quantity, the disclosed order quantity is set as equal to remaining order quantity.

b) If the remaining order quantity is more than the original disclosed quantity, the disclosed order quantity is set to the original disclosed quantity.

Once an order with the disclosed quantity has become a passive order, it trades only in units of disclosed quantity or less. However, if there is no other competing order with the same price, a single trade of as much quantity as possible takes place between the two orders.

When the entire disclosed order quantity is fully traded the disclosed quantity gets replenished and this continues till the entire order quantity is fully traded. Each time the disclosed quantity is replenished, the order is stamped with the current trading time and added to the regular order book as fresh order.

Stop Loss Matching

All stop loss orders entered into the system are stored in the stop loss book. These orders can contain two prices.

Trigger Price. It is the price at which the order gets triggered from the stop loss book.

Limit Price. It is the price for orders after the orders get triggered from the stop loss book. If the limit price is not specified, the trigger price is taken as the limit price for the order. The stop loss orders are prioritised in the stop loss book with the most likely order to trigger first and the least likely to trigger last. The priority is same as that of the regular lot book.

The stop loss condition is met under the following circumstances:

Sell Order - 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.

Buy 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.

When a stop loss order with IOC condition enters the system, the order is released in the market after it is triggered. Once triggered, the order scans the counter order book for a suitable match to result in a trade or else is cancelled by the system.

RETDEBT Order Matching

The rules for matching the RETDEBT orders are similar to the Regular Lot book except that RETDEBT order matching takes place only for orders in the RETDEBT order book.

Odd Lot Order Matching

Odd Lot matching takes place only for orders in Odd Lot book. There are no partial trades for an Odd Lot order i.e. each match is an exact match where the quantity of the passive order is equal to that of the active order.

Auction Matching

All auction orders are entered into the auction order book. The rules for matching of auctions are similar to that of the regular lot book except for the following points:-

a) Auction order matching takes place at the end of the solicitor period for the auction.
b) Auction matching takes place only across orders belonging to the same auction.
c) All auction trades take place at the auction price.

Validation Check

While matching orders, the system performs the following validation check: if the participant of any of the orders is 'Suspended', the trade does not go through.

1.12 TRADE MANAGEMENT

A trade is an activity in which a buy and a sell order match with each other. Matching of two orders is done automatically by the system. Whenever a trade takes place, the system sends a trade confirmation message to each of the users involved in the trade. The trade confirmation slip gets printed at the trader workstation of the user with a unique trade number. The system also broadcasts a message to the entire market through the ticker window displaying the details of the trade.

This section describes trade-related activities lke viewing the trades, trade cancellation, etc. Before the trade is effected, the system performs checks with respect to the following parameters:

a) The security in which the trade is to be effected is not suspended from operations.
b) Trading members involved in the potential trade are not suspended from operations.

Once the trade for an order entered is confirmed by the system, a message is sent to the trader workstation. The system generates a Trade Confirmation Slip that is printed on the printer of the trader workstation.

1.12.1 Trade Cancellation

The user can use trade cancellation screen for cancelling trades done during the day. If the user is a corporate manager of a trading member firm, he can request for trade cancellation for the trades of any dealer of the trading members firm and if he is a branch manager of a branch, then he can request for trade cancellation for the trades for any dealer of the branch of the trading member firm.

The user can request for trade cancellation either from the previous trades screen or by using the function key provided in the workstation. The trade cancellation request is sent to the Exchange for approval and message to that effect is displayed in the message window. The counterparty to the trade also receives the message. The counterparty then has to make similar request on the same trading day. Once both the parties to trade send the trade cancellation request, the Exchange either approves or rejects it. The message to that effect is displayed in the message window.

When a request for the trade cancellation is approved by the Exchange, the parties to trade receive a system message confirming the trade cancellation and the trade cancellation slip is printed at their respective trader workstations. If the Exchange rejects the trade cancellation request, the trade cancellation rejection slip is printed at their respective trader workstations.
If counter party to the trade does not enter a trade cancellation request the Exchange reject the trade cancellation request.

1.13 AUCTION

Auctions are initiated by the Exchange on behalf of trading members for settlement related reasons. The main reasons are Shortages, Bad Deliveries and Objections. There are three types of participants in the auction market.

(a) Initiator: The party who initiates the auction process is called an initiator.
(b) Competitor: The party who enters on the same side as of the initiator is called a competitor.
(c) Solicitor: The party who enters on the opposite side as of the initiator is called a solicitor.

The trading members can participate in the Exchange initiated auctions by entering orders as a solicitor. E.g. If the Exchange conducts a Buy-In auction, the trading members entering sell orders are called solicitors.

When the auction starts, the competitor period for that auction also starts. Competitor period is the period during which competitor order entries are allowed. Competitor orders are the orders which compete with the initiator's order i.e. if the initiator's order is a buy order, then all the buy orders for that auction other than the initiator's order are competitor orders. And if the initiator order is a sell order then all the sell orders for that auction other than the initiators order are competitor orders.
After the competitor period ends, the solicitor period for that auction starts. Solicitor period is the period during which solicitor order entries are allowed. Solicitor orders are the orders which are opposite to the initiator order i.e. if the initiator order is a buy order, then all the sell orders for that auction are solicitor orders and if the initiator order is a sell order, then all the buy orders for that auction are solicitor orders.

After the solicitor period, order matching takes place. The system calculates trading price for the auction and all possible trades for the auction are generated at the calculated trading price. After this the auction is said to be complete. Competitor period and solicitor period for any auction are set by the Exchange.

1.13.1 Entering Auction Orders

Auction order entry allows the user to enter orders into auctions that are currently running. To view the information about currently running auctions invoke 'Auction Inquiry' screen. Further one can view one's own outstanding orders for any auction by invoking 'Outstanding Order Inquiry' for auction market. All auction orders are valid for the trading day only.
The user can do auction order entry by entering 'AU' in the book type of the order entry screen. Symbol and Series that is currently selected in any of the market information windows (i.e. MW) provides the defaults in the auction order entry screen. If Auction OO is up for an auction that is either in a competitor or solicitor period, then the auction number has to be entered. All fields in the auction order entry screen except auction number and settlement days are same as normal market order entry screen. The screen also displays competitor period and solicitor period.

The defaults that are provided on the auction inquiry screen are symbol, series, auction number, settlement days and quantity (available for auction). The user can edit the default values if required. The fields in the auction order entry screen that has to be entered are PRO/CLI selection, account number (not mandatory), participant and remarks.

Solicitor period for an auction starts as soon as the auction starts. The duration of the solicitor period is set by the Exchange. The system accepts the solicitor orders in any currently running auction only if the solicitor period for that auction is in progress. Presently the trading members cannot initiate auctions in any security. They can only participate as solicitors in auctions initiated by the Exchange. In Exchange initiated auctions, the competitor period is set to zero and therefore only solicitor period is available.

Entering Solicitor Order: To enter a solicitor order invoke auction order entry screen and enter the auction number or symbol series in AUC No. (auction number) field. The AUC No. and symbol series combination is validated and if an error is encountered then an appropriate error message is displayed in the message window and the focus is set on the AUC No. When the order details are found to be correct, the system assigns a unique order number to the order and sends an order confirmation message to the trader workstation. If the solicitor period for that auction is over, the order is not accepted. Auction number for each security is displayed in the Auction Inquiry screen.

Validation of Auction Orders: Following validation checks are performed, in addition to the routine order entry validation checks, to verify initiator orders.

- If the auction market is not open for trading, the user is not allowed to enter an auction order.
- If a trading member or a participant is suspended, then no auctions can be entered for the trading member or for the participant.
- If the security is not allowed to trade in the auction market or if the security is suspended, the orders for that security are not allowed.
- If the quantity entered exceeds Warning Quantity Percentage, the system asks the user for confirmation of the order.
- Any order with a price outside the Day Min/Max range is not allowed.

Following validation checks are performed to verify the competitor and the solicitor orders:

- If a competitor order is entered, then a check is made if the auction in which order entry is desired is in the competitor period.
- If a solicitor order is entered, then a check is made if the auction in which order entry is desired is either in competitor period or solicitor period.
- The Trading Member cannot enter order for a security in which initiator order is entered against him.
- Auction order entry in auctions which are yet in a pending state or which are cancelled is prohibited.

1.13.2 Auction Order Modification

The user is not allowed to modify any auction orders.

1.13.3 Auction Order Cancellation

The user can cancel any solicitor order placed by him in any auction provided the solicitor period for that auction is not over. The order cancellation procedure is similar to that of normal market. The user can also use quick order cancellation key to cancel his outstanding auction orders.

1.13.4 Auction Order Matching

When the solicitor period for an auction is over, auction order matching starts for that auction. During this process, the system calculates the trading price for the auction based on the initiator order and the orders entered during the competitor and the solicitor period. At present for Exchange initiated auctions, the matching takes place at the respective solicitor order prices.

1.14 LIMITED PHYSICAL MARKET

Pursuant to the directive of SEBI to provide an exit route for small investors holding physical shares in securities mandated for compulsory dematerialised settlement, the Exchange has provided a facility for such trading in physical shares not exceeding 500 shares. This market segment is referred to as 'Limited Physical Market' (small window). The Limited Physical Market was introduced on June 7, 1999.

Salient Features of Limited Physical Market

- Trading is conducted in the Odd Lot market (market type 'O') with Book Type 'OL' and series 'BT'.
- Order quantities should not exceed 500 shares.
- The base price and price bands applicable in the Limited Physical Market are same as those applicable for the corresponding Normal Market on that day.
- Trading hours are the same as that of the normal market.
- Settlement for all trades are done on a trade-for-trade basis and delivery obligations arise out of each trade.
- Orders get matched when both the price and the quantity match in the buy and sell order. Orders with the same price and quantity match on time priority i.e. orders which have come into the system before will get matched first.
- Trading Members are required to ensure that shares are duly registered in the name of the investor(s) before entering orders on their behalf on a trade date.

1.15 RETDEBT MARKET (RDM)

Trading in the Retail Debt Market takes place in the same manner in which the trading takes place in the equities (Capital Market) segment. The

RETDEBT Market facility on the NEAT system of Capital Market Segment is used for entering transactions in RDM session.

Members eligible for trading in RDM segment: Trading Members who are registered members of NSE in the Capital Market segment or Wholesale Debt Market segment are allowed to trade in Retail Debt Market (RDM) subject to fulfilling the capital adequacy norms.

Trading Parameters

The trading parameters for RDM segment are as below:

Face Value	Rs. 100/-
Permitted Lot Size	10
Tick Size	Rs. 0.01
Operating Range	+/- 5%
Mkt. Type Indicator	D (RETDEBT)
Book Type	RD

Market Timings and Market Holidays: Trading in RDM segment takes place on all days of the week, except Saturdays and Sundays and holidays declared by the Exchange in advance (The holidays on the RDM segment shall be the same as those on the Equities segment). The market timings of the RDM segment are the same as the Equities segment. The Exchange may however close the market on days other than the above schedule holidays or may open the market on days originally declared as holidays. The Exchange may also extend, advance or reduce trading hours when it deems fit and necessary.

Trading System: The RETDEBT Market facility on the NEAT system of Capital Market Segment is used for entering transactions in RDM session.

The trading system features and user navigation for RETDEBT Market are described below. Further details are available on the on-line help facility of NEAT system.

(a) Setting up Securities in Market Watch – For setting up securities in the Market Watch screen, the user can enter the required details in Symbol, Series and Market Type fields.
(b) Order Entry – Buy/ Sell orders can be entered in RETDEBT Market by selecting 'RD' in the Book Type field.
(c) Quantity – Order quantity should be in multiples of Market Lot. Quantity conditions such as MF, AON and DQ are not allowed.

(d) Price - Members can enter either market orders or limit price orders. Order price for limit price orders should be in multiples of tick size.

(e) PRO/CLI – In the PRO/CLI field only 'PRO' and 'CLI' orders are allowed.

(f) Time Conditions – Members can specify time conditions as 'Day' or 'IOC'.

(g) Participant Code – A valid Participant Code can be entered in this field. Other options allowed are 'O', 'C', 'NCIT' 'INST' and the trading member's own id. Orders in book type NT and SL are not allowed.

(h) Order Cancellation/Modification – Order cancellation and modification is allowed for orders entered in the RETDEBT Market. Both Single and Quick Order Cancellation functions are available. Quick Cancellation can also be done for all securities in the RETDEBT Market by selecting the Book Type as 'RD' and other parameters as relevant.

(i) MBP - Member can query order information for the RETDEBT Market in MBP by selecting 'RETDEBT' as book type in the selection screen. Orders are stacked according to price in MBP. The high, low, last trade price, percentage change and average trade price figures are calculated with respect to trades in RETDEBT Market.

(j) Market Inquiry - Security statistics for RETDEBT market can be viewed by selecting 'RETDEBT' as market type.

(k) Outstanding Orders/Activity log/ Previous Trade - Outstanding order/ Activity log/ Previous Trade information in a particular security can be viewed for RETDEBT Market by selecting the book type 'RETDEBT' in the respective selection screens.

(l) Order and Trade Confirmation Slips - The order confirmation slip for orders entered in RETDEBT Market displays 'RD' as Book Type field. Similarly, trade confirmation slip generated for RETDEBT Market trades show 'D' in the Market Type field.

(m) Net Position – The Net Position screen displays consolidated statistics for all markets as well as separately for each market.

(n) Market Movement – Market Movement statistics for a security can be viewed by selecting market type as 'RETDEBT'.

(o) On-line Backup– In the On-line Backup function a facility is provided to select order/trades based on Market Type. Alternately, members can take a backup for all markets by selecting 'All' in the Market Type field.

(p) Full Message Display – In Full Message Display, messages can be filtered on Symbol and Series. The option to filter messages for a market type is presently not available.

(q) Offline Order Entry – This function is available for RETDEBT Market. The structure for the input file is given in the online help.

(r) Branch/User Order Value Limit - Branch/User Order Limit is applicable for a particular Branch/User for orders across all Markets.

(s) Securities Order Quantity Limit - Securities Order Quantity Limit is applicable for a particular security across all Markets.

(t) Order Limits- Order limits set by a user are applicable for a single order across all Markets.

(u) Ticker Selection – A facility is provided for filtering securities in the ticker for RETDEBT market.

(v) Reports – Trades report generated for members i.e. Trades Done, Order Log and Open Orders report, displays records in ascending order of security name. Within a security records are displayed by Market Type.

(w) Bhav Copy - Security statistics pertaining to RETDEBT Market trades are shown separately in the Market Statistics report.

Trading Cycle: Trading in Retail Debt Market is permitted under Rolling Settlement, where in each trading day is considered as a trading period and trades executed during the day are settled based on the net obligations for the day. Settlement is on a T+2 basis i.e. on the 2nd working day. For arriving at the settlement day all intervening holidays, which include bank holidays, NSE holidays, Saturdays and Sundays are excluded. Typically trades taking place on Monday are settled on Wednesday, Tuesday's trades settled on Thursday and so on.

1.16 TRADING INFORMATION DOWNLOADED TO TRADING MEMBERS

The Exchange downloads certain trading related reports and files to the trading member on a regular basis. Following is the list of reports and files downloaded to the members.

On-line Backup: The files are Trade.txt and Order.txt or file with user defined name. Member can take on-line backup of orders and trades for the current trading day only. The backup can be taken during market hours and till approximately 1 hour after the market close time. Refer to section trading for on-line backup screen.

Trader messages in Full message display: Full message area contains member's own order and trade information across all securities. It is available for current trading day only. An option to save as a text file is also provided. The trading members are required to keep copy of full message area for a period as per NSE regulations. Refer to section Full Message Display screen.

Bhav copy: Bhav copy is downloaded in \nsecmtdr\reports directory on a daily basis. It is downloaded two times after market close. First bhavcopy (Interim bhavcopy) downloaded approximately 20 minutes after the market close time. The second bhavcopy (final bhavcopy) downloaded 20 minutes after the post close market. The interim bhavcopy is overwrite by final bhavcopy. Users are advised to check for message to this effect. The files downloaded are ddmmxxxx.ms and ddmmxxxx.md where xxxx is the user id. The ms extension file is formatted txt file whereas the md extension file has bhav copy records in csv (comma separated value) format. Only the last seven bhavcopy files are stored in the reports directory. When bhav copy is broadcast, the system checks for the number of bhav copy files. If it is seven the system deletes the earliest received file and stores the current day's file.

Security Information: The nttdrldb.exe file containing security information is available to the member on the intranet in the common\ntneat directory. Members should check for date and size of the file to ensure receipt of latest file. It contains the updated security list and the latest data on corporate actions in securities. This file should be inflated by member using nttdrldb -d -o command from the root directory i.e. c:\. The new nttdrldb.exe file overwrites the previous file.

Circulars: Circulars as and when issued by NSE, are available to members on the intranet in their respective trading member directory identified by their trading member id. A message is flashed on the screen when the circular is downloaded. The circular file is ********.wri where ******** is the department and circular number.

Order/Trade slips: The order/trade slips are Confirmation/Modification/ Cancellation/Rejection slips. The trade and order slips are generated on-line. E.g. The trade confirmation is generated when a trade is executed and order slip when a member places an order. The option at the supplementary menu 'Print Trade and Order confirmation' should be set 'ON'. Members can also take print of confirmation slips at the end of the day from the reprint option in the supplementary menu. The trading members are required to keep copy of the trade confirmation slip for a period as per NSE regulations.

Reports: Once the market closes, the details of trading activities done by the user are generated as trade reports. They are downloaded on the workstation of Corporate/Branch manager. Downloaded reports are stored at the workstation as well as sent to the printer. This allows the user to reprint any report any time.

Members can request for reports after the reports are generated by the system and before the market opens for trading on the next trading day. A separate button 'Report' has been provided on the logon screen for requesting report download. After reports are generated by the Exchange, a message "Interactive reports can be taken now" is displayed on the message window in the market watch screen. The member has to then request for the reports from the logon screen by entering the user id, trading member id and password and by invoking 'Report'. A message "Downloading reports in nsecmtdr\reports directory. Please wait." is then displayed. In case of incorrect logon details a message "Invalid sign on" is displayed.

The x25 address check is also performed by the system for report download and therefore, allotted user ids cannot be used interchangeably from any other location apart from the specified location. In case a user attempts to request for reports from a location other than that specified to the user id a message "You are trying to sign on from a different location. Sign on is not allowed." is displayed at the logon screen.

At the exact time of receipt of reports a pop up box stating the report name and its receipt status appears. Check for the user id and the report receipt status for all the three reports. A message "Report downloaded successfully" is displayed. The reports are downloaded in NSECMTDR\REPORTS directory for the given trading day and user id. Members can also view their reports in MSDOS editor.

The printer must be kept on-line at the time of report request for printing reports. Reports can also printed later by invoking report requester. If a user attempts to request for reports during market hours a message "Connection to the system cannot be established. Report process may not be up on the host" is displayed.

Reports are downloaded on request only from corporate manager and branch manager. Reports are available as a spool file (printable format) and also as a data file (comma delimited format). The corporate manager receives reports with extension coo, col, ctd (printable format) and cod, cld, ctt (comma delimited format). These reports contain branch-wise details of trades and orders of all branches of the trading member and further, for all dealers of the firm. The branch manager receives reports with extension boo, bol, btd (printable format) and bod, bld, btt (comma delimited format). These reports contain dealer-wise details of trades and orders for all dealers placed under that branch. The dealers are users at the lower most level of the hierarchy. They do not have access to information on other dealers, on the same branch or other branches of the same firm and therefore, do not receive any reports. In case an inquiry user or dealer requests for report download, a message "Only Corporate and Branch Managers are allowed to request for reports" is displayed.

Trade Verification: A facility to verify trades is available on the NSE website. Using this facility, an investor who has received a contract note from a trading member of the Exchange, can check whether the trade has been executed on the Exchange.

This facility is available on the NSE website for the Capital Market segment, F & O (Derivatives) segment and Retail Debt Market segment.

Special features:

- Trade details are available for verification on the same day (i.e. T itself) after 19:00 hours IST.
- The investor needs to input minimum details of the trade viz. client code (provided by the trading member), security details (symbol and series), order number, trade number, trade quantity and price (excluding brokerage). All the above details are mandatory.
- If an identical match is found for the details provided, a confirmation along with the details of the trade are displayed to the investor. If no match is found, a message is displayed to that effect.
- Where no match is found, investors are advised to contact their trading member for clarification. For further assistance, the Investor Grievance Cell of the Exchange may be contacted.
- Trade details for the last 5 trading days would be available on the website. That is, trades executed on 'T' day, can be verified till the $T+4^{th}$ day.
- All trades can be verified.

1.17 INTERNET BROKING

SEBI Committee has approved the use of Internet as an Order Routing System (ORS) for communicating clients' orders to the exchanges through brokers. ORS enables investors to place orders with his broker and have control over the information and quotes and to hit the quote on an on-line basis. Once the broker's system receives the order, it checks the authenticity of the client electronically and then routes the order to the appropriate exchange for execution. On execution of the order, it is confirmed on real time basis. Investor receives reports on margin requirement, payments and delivery obligations through the system. His ledger and portfolio account get updated online.

NSE launched internet trading in early February 2000. It is the first stock exchange in the country to provide web-based access to investors to trade directly on the exchange. The orders originating from the PCs of the investors are routed through the Internet to the trading terminals of the designated brokers with whom they are connected and further to the exchange for trade execution. Soon after these orders get matched and result into trades, the investors get confirmation about them on their PCs through the same internet route.

1.18 WIRELESS APPLICATION PROTOCOL (WAP)

SEBI has also approved trading through wireless medium on WAP Platform. NSE.IT launched the Wireless Application Protocol (WAP) in November 2000. This provides access to its order book through the hand held devices, which use WAP technology. This serves primarily retail investors who are mobile and want to trade from any place when the market prices for stocks at their choice are attractive. Only SEBI registered members who have been granted permission by the Exchange for providing Internet based trading services can introduce the service after obtaining permission from the Exchange.

Model Questions

1. Which of the following activities the user can carry out during Open phase in the normal market on the NEAT system?
   (a) Inquiry of different screens only.
   (b) Order Entry, Order Modification and Order Cancellation only.
   (c) Both of the above
   (d) None of the above
   Ans. (c)

2. What is the purpose of 'Market Statistics' report on the NEAT system?
(a) To show the trades that was done by the trading member for the current trading day.
(b) To show the market movement information for the current trading day.
(c) To show the details related to all the securities traded on a specific day.
(d) There is no report as Market Statistics report.
Ans. (c)

3. x.25 address check is performed in the NEAT system when the user _______.
(a) logs in for the first time in the NEAT system only.
(b) logs in to the NEAT system only.
(c) requests for report download only.
(d) logs in to the NEAT system and during report download request.
Ans. (d)

4. Orders, in the 'Outstanding Orders' screen in the NEAT system, are displayed ________.
(a) on the basis of price/time priority in order of Regular Lot orders first and then Stop Loss orders
(b) on the basis of time priority
(c) in descending order of order numbers
(d) in ascending order of order numbers

Ans. (a)

5. Order entry can be carried out in RETDEBT market by selecting _______ in the book type field.
(a) BT
(b) RD
(c) RL
(d) SL
Ans. (b)

6. Auction is held in XYZ for 5,000 shares. The closing price of XYZ on that day was Rs. 155. The last traded price of XYZ on that day was Rs. 150. The price of XYZ last Friday was Rs. 151. The previous day's close price of XYZ was Rs. 160. What is the maximum allowable price at which the member can put a sell order in the auction for XYZ? (The price band applicable for auction market is +/- 20%)
(a) Rs. 192
(b) Rs. 155
(c) Rs. 150
(d) Rs. 160
Ans. (a)

Working:
Maximum price applicable in auction=Previous day's close price*price band
= Rs. 160*1.20
= Rs. 192

7. Which of the following is true about trade cancellation in the NEAT system?
(a) The user can use trade cancellation screen for canceling trades done during the day.
(b) The user can request for trade cancellation from the previous trades screen.
(c) The counterparty to the trade makes similar request on the same trading day.
(d) All of the above
Ans. (d)

8. Which of the following is false about auctions in the NEAT system?
(a) Auctions are initiated by the Exchange on behalf of trading members for settlement related reasons.
(b) If the Exchange conducts a Buy-In auction, the trading members enter sell orders as solicitor orders.
(c) If the Exchange conducts a Sell-In auction, the trading members enter buy orders as solicitor orders.
(d) The trading members can participate in the Exchange initiated auctions by entering orders as a competitor.

Ans. (d)

9. What is true about internet trades on NSEIL?
(a) NSEIL enables investors to place orders on the NEAT system directly through the internet.
(b) NSEIL enables investors to use the internet as an order routing system.
(c) NSEIL enables brokers to collect orders through the internet from clients.
(d) NSEIL uses internet in lieu of VSATs for trades in NEAT system.
Ans. (b)

10. In Limited Physical market, orders get matched when _________________ in the buy and sell order.
(a) only price is same
(b) price and quantity is same
(c) only quantity is same
(d) stop loss is specified as order condition
Ans. (b)

CHAPTER 2

CLEARING AND SETTLEMENT

2.1 INTRODUCTION

The clearing and settlement mechanism in Indian securities market has witnessed significant changes and several innovations during the last decade. These include use of the state-of-art information technology, emergence of clearing corporations to assume counterparty risk, shorter settlement cycle, dematerialisation and electronic transfer of securities, fine-tuned risk management system.

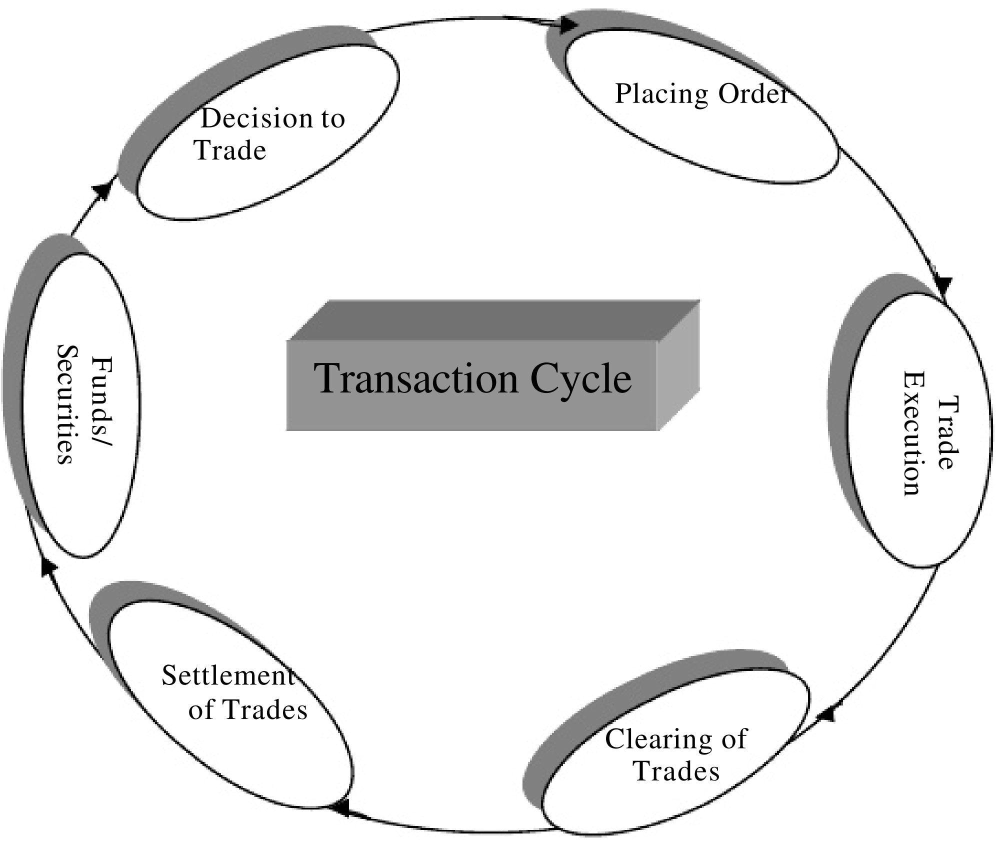
Till recently, the stock exchanges in India were following a system of account period settlement for cash market transactions. T+2 rolling settlement has now been introduced for all securities. The members receive the funds/securities in accordance with the pay-in/pay-out schedules notified by the respective exchanges. Given the growing volume of trades and market volatility, the time gap between trading and settlement gives rise to settlement risk. In recognition of this, the exchanges and their clearing corporations employ risk management practices to ensure timely settlement of trades. The regulators have also prescribed elaborate margining and capital adequacy standards to secure market integrity and protect the interests of investors. The trades are settled irrespective of default by a member and the exchange follows up with the defaulting member subsequently for recovery of his dues to the exchange. Due to setting up of the Clearing Corporation, the market has full confidence that settlements will take place on time and will be completed irrespective of possible default by isolated trading members.

Movement of securities has become almost instantaneous in the dematerialised environment. Two depositories viz., National Securities Depositories Ltd. (NSDL) and Central Depositories Services Ltd. (CDSL) provide electronic transfer of securities and more than 99% of turnover is settled in dematerialised form. All actively traded scrips are held, traded and settled in demat form. The obligations of members are downloaded to members/custodians by the clearing agency. The members/custodians make available the required securities in their pool accounts with depository participants (DPs) by the prescribed pay-in time for securities. The depository transfers the securities from the pool accounts of members/custodians to the settlement account of the clearing agency. As per the schedule determined by the clearing agency, the securities are transferred on the pay-out day by the depository from the settlement account of the clearing agency to the pool accounts of members/custodians. The pay-in and pay-out of securities is effected on the same day for all settlements.

Select banks have been empanelled by clearing agency for electronic transfer of funds. The members are required to maintain accounts with any of these banks. The members are informed electronically of their pay-in obligations of funds. The members make available required funds in their accounts with clearing banks by the prescribed pay-in day. The clearing agency forwards funds obligations file to clearing banks which, in turn, debit the accounts of members and credit the account of the clearing agency. In some cases, the clearing agency runs an electronic file to debit members' accounts with clearing banks and credit its own account. On pay-out day, the funds are transferred by the clearing banks from the account of the clearing agency to the accounts of members as per the member's obligations. In the T+2 rolling settlement, the pay-in and pay-out of funds as well as securities take place 2 working days after the trade date.

2.1.1 Transaction Cycle

Figure 2.1: Transaction cycle



A person holding assets (securities/funds), either to meet his liquidity needs or to reshuffle his holdings in response to changes in his perception about risk and return of the assets, decides to buy or sell the securities. He selects a broker and instructs him to place buy/sell order on an exchange. The order is converted to a trade as soon as it finds a matching sell/buy order. At the end of the trade cycle, the trades are netted to determine the obligations of the trading members to deliver securities/funds as per settlement schedule. Buyer/seller delivers funds/securities and receives securities/ funds and acquires ownership of the securities. A securities transaction cycle is presented in Figure 2.1.

2.1.2 Settlement Process

While NSE provides a platform for trading to its trading members, the National Securities Clearing Corporation Ltd. (NSCCL) determines the funds/securities obligations of the trading members and ensures that trading members meet their obligations. NSCCL becomes the legal counterparty to the net settlement obligations of every member. This principle is called `novation' and NSCCL is obligated to meet all settlement obligations, regardless of member defaults, without any discretion. Once a member fails on any obligations, NSCCL immediately cuts off trading and initiates recovery.

The clearing banks and depositories provide the necessary interface between the custodians/clearing members (who clear for the trading members or their own transactions) for settlement of funds/securities obligations of trading members. The core processes involved in the settlement process are:

(a) Determination of Obligation: NSCCL determines what counter-parties owe, and what counter-parties are due to receive on the settlement date. The NSCCL interposes itself as a central counterparty between the counterparties to trades and nets the positions so that a member has security wise net obligation to receive or deliver a security and has to either pay or receive funds.

(b) Pay-in of Funds and Securities: The members bring in their funds/securities to the NSCCL. They make available required securities in designated accounts with the depositories by the prescribed pay-in time. The depositories move the securities available in the accounts of members to the account of the NSCCL. Likewise members with funds obligations make available required funds in the designated accounts with clearing banks by the prescribed pay-in time. The NSCCL sends electronic instructions to the clearing banks to debit member’s accounts to the extent of payment obligations. The banks process these instructions, debit accounts of members and credit accounts of the NSCCL.

(c) Pay-out of Funds and Securities: After processing for shortages of funds/securities and arranging for movement of funds from surplus banks to deficit banks through RBI clearing, the NSCCL sends electronic instructions to the depositories/clearing banks to release pay-out of securities/funds. The depositories and clearing banks debit accounts of NSCCL and credit settlement accounts of members. Settlement is complete upon release of pay-out of funds and securities to custodians/members. The settlement process for transactions in securities in the CM segment of NSE is presented in the Figure 2.2.

(d) Risk Management: A sound risk management system is integral to an efficient settlement system. NSCCL has put in place a comprehensive risk management system, which is constantly monitored and upgraded to pre-empt market failures. It monitors the track record and performance of members and their net worth; undertakes on-line monitoring of members' positions and exposure in the market, collects margins from members and automatically disables members if the limits are breached.

2.1.3 Settlement Agencies

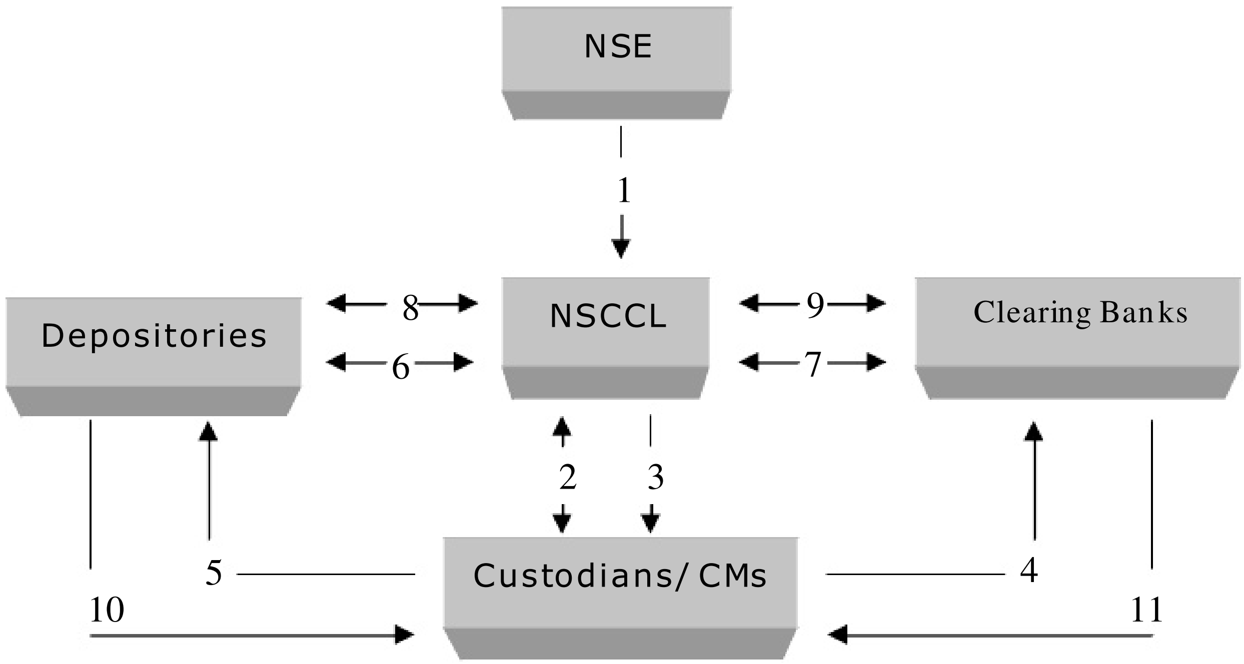
The NSCCL, with the help of clearing members, custodians, clearing banks and depositories settles the trades executed on exchanges. The roles of each of these entities are explained below:

(a) NSCCL: The NSCCL is responsible for post-trade activities of a stock exchange. Clearing and settlement of trades and risk management are its central functions. It clears all trades, determines obligations of members, arranges for pay-in of funds/securities, receives funds/securities, processes for shortages in funds/securities, arranges for pay-out of funds/securities to members, guarantees settlement, and collects and maintains margins/collateral/base capital/other funds.

(b) Clearing Members: They are responsible for settling their obligations as determined by the NSCCL. They have to make available funds and/or securities in the designated accounts with clearing bank/depository participant, as the case may be, to meet their obligations on the settlement day. In the capital market segment, all trading members of the Exchange are required to become the Clearing Member of the Clearing Corporation.

(c) Custodians: A custodian is a person who holds for safekeeping the documentary evidence of the title to property belonging like share certificates, etc. The title to the custodian's property remains vested with the original holder, or in their nominee(s), or custodian trustee, as the case may be. In NSCCL, custodian is a clearing member but not a trading member. He settles trades assigned to him by trading members. He is required to confirm whether he is going to settle a particular trade or not. If it is confirmed, the NSCCL assigns that obligation to that custodian and the custodian is required to settle it on the settlement day. If the custodian rejects the trade, the obligation is assigned back to the trading / clearing member.

Figure 2.2: Settlement Process in CM segment of NSE



Explanations:

(1) Trade details from Exchange to NSCCL (real-time and end of day trade file).
(2) NSCCL notifies the consummated trade details to CMs/custodians who affirm back. Based on the affirmation, NSCCL applies multilateral netting and determines obligations.
(3) Download of obligation and pay-in advice of funds/securities.
(4) Instructions to clearing banks to make funds available by pay-in time.
(5) Instructions to depositories to make securities available by pay-in-time.
(6) Pay-in of securities (NSCCL advises depository to debit pool account of custodians/CMs and credit its account and depository does it).
(7) Pay-in of funds (NSCCL advises Clearing Banks to debit account of custodians/CMs and credit its account and clearing bank does it).
(8) Pay-out of securities (NSCCL advises depository to credit pool account of custodians/CMs and debit its account and depository does it).
(9) Pay-out of funds (NSCCL advises Clearing Banks to credit account of custodians/CMs and debit its account and clearing bank does it).
(10) Depository informs custodians/CMs through DPs.

(11) Clearing Banks inform custodians/CMs.

(d) Clearing Banks: Clearing banks are a key link between the clearing members and NSCCL for funds settlement. Every clearing member is required to open a dedicated settlement account with one of the clearing banks. Based on his obligation as determined through clearing, the clearing member makes funds available in the clearing account for the pay-in and receives funds in case of a pay-out. Multiple clearing banks provide advantages of competitive forces, facilitate introduction of new products viz. working capital funding, anywhere banking facilities, the option to members to settle funds through a bank, which provides the maximum services suitable to the member.

The clearing banks are required to provide the following services as a single window to all clearing members of National Securities Clearing Corporation Ltd. as also to the Clearing Corporation:

- Branch network in cities that cover bulk of the trading cum clearing members
- High level automation including electronic funds transfer (EFT) facilities
- Facilities like (a) dedicated branch facilities (b) software to interface with the Clearing Corporation (c) access to accounts information on a real time basis
- Value-added services to members such as free-of-cost funds transfer across centers etc.
- Providing working capital funds
- Stock lending facilities
- Services as Professional Clearing Members
- Services as Depository Participants
- Other Capital Market related facilities
- All other banking facilities like issuing bank guarantees / credit facilities etc.

(e) Depositories: A depository is an entity where the securities of an investor are held in electronic form. The person who holds a demat account is a beneficiary owner. In case of a joint account, the account holders will be beneficiary holders of that joint account. Depositories help in the settlement of the dematerialised securities. Each custodian/clearing member is required to maintain a clearing pool account with the depositories. He is required to make available the required securities in the designated account on settlement day. The depository runs an electronic file to transfer the securities from accounts of the custodians/clearing member to that of NSCCL. As per the schedule of allocation of securities determined by the NSCCL, the depositories transfer the securities on the pay-out day from the account of the NSCCL to those of members/custodians.

(f) Professional Clearing Member: NSCCL admits special category of members namely, professional clearing members. Professional Clearing Member (PCM) may clear and settle trades executed for their clients (individuals, institutions etc.). In such an event, the functions and responsibilities of the PCM would be similar to Custodians. PCMs may also undertake clearing and settlement responsibility for trading members. In such a case, the PCM would settle the trades carried out by the trading members connected to them. The onus for settling the trade would be thus on the PCM and not the trading member. A PCM has no trading rights but has only clearing rights, i.e. he just clears the trades of his associate trading members and institutional clients.

2.1.4 Risks in Settlement

The following two kinds of risks are inherent in a settlement system:

(1) Counterparty Risk: This arises if parties do not discharge their obligations fully when due or at any time thereafter. This has two components, namely replacement cost risk prior to settlement and principal risk during settlement. (a) The replacement cost risk arises from the failure of one of the parties to transaction. While the non-defaulting party tries to replace the original transaction at current prices, he loses the profit that has accrued on the transaction between the date of original transaction and date of replacement transaction. The seller/buyer of the security loses this unrealised profit if the current price is below/above the transaction price. Both parties encounter this risk as prices are uncertain. It has been reduced by reducing time gap between transaction and settlement and by legally binding netting systems. (b) The principal risk arises if a party discharges his obligations but the counterparty defaults. The seller/buyer of the security suffers this risk when he delivers/makes payment, but does not receive payment/delivery. This risk can be eliminated by delivery vs. payment mechanism which ensures delivery only against payment. This has been reduced by having a central counterparty (NSCCL) which becomes the buyer to every seller and the seller to every buyer. A variant of counterparty risk is liquidity risk which arises if one of the parties to transaction does not settle on the settlement date, but later. The seller/buyer who does not receive payment/delivery when due, may have to borrow funds/securities to complete his payment/delivery obligations. Another variant is the third party risk which arises if the parties to trade are permitted or required to use the services of a third party which fails to perform. For example, the failure of a clearing bank which helps in payment can disrupt settlement. This risk is reduced by allowing parties to have accounts with multiple banks. Similarly, the users of custodial services face risk if the concerned custodian becomes insolvent, acts negligently, etc.

(2) System Risk: This comprises of operational, legal and systemic risks. The operational risk arises from possible operational failures such as errors, fraud, outages etc. The legal risk arises if the laws or regulations do not support enforcement of settlement obligations or are uncertain. Systemic risk arises when failure of one of the parties to discharge his obligations leads to failure by other parties. The domino effect of successive failures can cause a failure of the settlement system. These risks have been contained by enforcement of an elaborate margining and capital adequacy standards to secure market integrity, settlement guarantee funds to provide counter-party guarantee, legal backing for settlement activities and business continuity plan, etc.

2.2 SETTLEMENT CYCLE

At the end of each trading day, concluded or locked-in trades are received from NSE by NSCCL. NSCCL determines the cumulative obligations of each member and electronically transfers the data to Clearing Members (CMs). All trades concluded during a particular trading period are settled together. A multilateral netting procedure is adopted to determine the net settlement obligations (delivery/receipt positions) of CMs. NSCCL then allocates or assigns delivery of securities inter se the members to arrive at the delivery and receipt obligation of funds and securities by each member. On the securities pay-in day, delivering members are required to bring in securities to NSCCL. On pay out day the securities are delivered to the respective receiving members. Settlement is deemed to be complete upon declaration and release of pay-out of funds and securities. Exceptions may arise because of short delivery of securities by CMs, bad deliv eries or company objections on the pay-out day.

NSCCL identifies short deliveries and conducts a buying-in auction on the day after the pay-out day through the NSE trading system. The delivering CM is debited by an amount equivalent to the securities not delivered and valued at a valuation price (the closing price as announced by NSE on the day previous to the day of the valuation). If the buy-in auction price is more than the valuation price, the CM is required to make good the difference. All shortages not bought-in are deemed closed out at the highest price between the first day of the trading period till the day of squaring off or closing price on the auction day plus 20%, whichever is higher. This amount is credited to the receiving member's account on the auction pay-out day.

Bad Deliveries (in case of physical settlement)

Bad deliveries (deliveries which are prima facie defective) are required to be reported to the clearing house within two days from the receipt of documents. The delivering member is required to rectify these within two days. Un-rectified bad deliveries are assigned to auction on the next day.

Company Objections (in case of physical settlement)

Company objections arise when, on lodgment of the securities with the company/ Share Transfer Agent (STA) for transfer, which are returned due to signature mismatch or for any other reason for which the transfer of security cannot be effected. The original selling CM is normally responsible for rectifying/replacing defective documents to the receiving CM as per pre-notified schedule. The CM on whom company objection is lodged has an opportunity to withdraw the objection if the objection is not valid or the documents are incomplete (i.e. not as required under guideline No.100 or 109 of SEBI Good/Bad delivery guidelines), within 7 days of lodgement against him. If the CM is unable to rectify/replace defective documents on or before 21 days, NSCCL conducts a buying-in auction for the non-rectified part of defective document on the next auction day through the trading system of NSE. All objections, which are not bought-in, are deemed closed out on the auction day at the closing price on the auction day plus 20%. This amount is credited to the receiving member's account on the auction pay-out day.

With effect from April 1, 2003 the settlement cycle has been further reduced from T+3 to T+2.

Normal Market

The trades executed each trading day are considered as a trading period and trades executed during the day are settled based on the net obligations for the day.

At NSE, trades in rolling settlement are settled on a T+2 basis i.e. on the 2nd working day. Typically trades taking place on Monday are settled on Wednesday, Tuesday's trades settled on Thursday and so on.

A tabular representation of the settlement cycle for rolling settlement is given below:

	Activity	Day
Trading	Rolling Settlement Trading	T
Clearing	Custodial Confirmation	T+1 working days
	Delivery Generation	T+1 working days
Settlement	Securities and Funds pay in	T+2 working days
	Securities and Funds pay out	T+2 working days
	Valuation of shortages based on closing prices	at T+1 closing prices
Post Settlement	Auction	T+3 working days
	Bad Delivery Reporting	T+4 working days
	Auction settlement	T+5 working days
	Rectified bad delivery pay-in and pay-out	T+6 working days
	Re-bad delivery reporting and pickup	T+8 working days
	Close out of re-bad delivery and funds pay-in & pay-out	T+9 working days

Limited Physical Market

Settlement for trades is done on a trade-for-trade basis and delivery obligations arise out of each trade.

Salient features of Limited Physical Market settlement are:

- Delivery of shares in street name and market delivery (clients holding physical shares purchased from the secondary market) is treated as bad delivery. The shares standing in the name of individuals/HUF only would constitute good delivery. The selling/delivering member must necessarily be the introducing member.
- Any delivery of shares which bears the last transfer date on or after the introduction of the security for trading in the LP market is construed as bad delivery.
- Any delivery in excess of 500 shares is marked as short and such deliveries are compulsorily closed-out.
- Shortages, if any, are compulsorily closed-out at 20% over the actual traded price. Unrectified bad delivery and re-bad delivery are compulsorily closed-out at 20% over the actual traded price.

- All deliveries are compulsorily be required to be attested by the introducing/ delivering member.
- The buyer must compulsorily send the securities for transfer and dematerialisation, latest within 3 months from the date of pay-out.
- Company objections arising out of such trading and settlement in this market are reported in the same manner as is currently being done for normal market segment. However securities would be accepted as valid company objection, only if the securities are lodged for transfer within 3 months from the date of pay-out.

The settlement cycle for this segment is same as for the rolling settlement viz:

	Activity	Day
Trading	Rolling Settlement Trading	T
Clearing	Custodial Confirmation	T+1 working days
	Delivery Generation	T+1 working days
Settlement	Securities and Funds pay in	T+2 working days
	Securities and Funds pay out	T+2 working days
Post Settlement	Assigning of shortages for close out	T+3 working days
	Reporting and pick-up of bad delivery	T+4 working days
	Close out of shortages	T+5 working days
	Replacement of bad delivery	T+6 working days
	Reporting of re-bad and pick-up	T+8 working days
	Close out of re-bad delivery	T+9 working days

Inter Institutional Segment

Trading in this market segment is available for 'institutional investors' only. In order to ensure that the overall FII limits are not violated, selling in this segment is restricted to FII clients. Buying is restricted to Institutional clients.
Members are required to enter the custodian participant code at the time of order entry and to ensure that the selling/buying restrictions are strictly adhered to. A sale order entered by trading members on behalf of non FII clients or a buy order entered by trading members on behalf of non institutional (FII, FI, Banks, Mutual Funds & Insurance Co’s) clients, shall be deemed to be invalid. The member entering the invalid order shall further be liable for disciplinary action, which may include penalties, penal action, withdrawal of trading facilities, suspension etc.

Deals executed in this segment are cleared on a T+2 rolling basis. Settlement of all transactions is compulsorily in demat mode only.

The settlement cycle for this segment is shown below:

	Activity	Day
Trading	Rolling Settlement Trading	T
Clearing	Custodial Confirmation	T+1 working days
	Delivery Generation	T+1 working days
Settlement	Securities and Funds pay in	T+2 working days
	Securities and Funds pay out	T+2 working days
	Valuation of shortages based on closing prices	at T+1 closing prices
Post Settlement	Close out	T+2 working days

2.3 SECURITIES SETTLEMENT

The securities obligations of members are downloaded to members/custodians by NSCCL after the end of the trading day. The members/custodians deliver the securities to the Clearing House on the pay-in day in case of physical settlement and make available the required securities in the pool accounts with the depository participants in case of dematerialised securities. Members are required to open accounts with depository participants of both the depositories, NSDL and CDSL. Delivering members are required to deliver all documents to the Clearing House (in case of physical settlement) between 9:30 a.m. and 10:30 a.m. on the settlement day. Receiving members are required to collect the documents from the Clearing House between 2:00 p.m. and 2:30 p.m.

In case of dematerialised settlement, the members receive their obligation by 2.30 pm on T + 1 day. The members need to arrange for the securities as per their obligations and give instructions by 10.30 am on the pay-in day. In case of NSDL the members need to give instructions to move the securities to the settlement account of NSCCL, whereas in case of CDSL the members need to ensure that the necessary quantity of securities are available in their pool account. The members need to ensure that the settlement number and type are correctly entered to avoid any defaults. Pursuant to SEBI directive (vide its circular SMDRP/Policy/Cir-05/2001 dated February 1, 2001) NSCCL has introduced a settlement system for direct delivery of securities to the investors accounts with effect from April 2, 2001.

Direct Payout to Investors

SEBI vide its circular no.SMDRP/Policy/Cir-05/2001 dated February 1, 2001 had directed stock exchanges to introduce a settlement system for direct delivery of securities to the investors accounts with effect from April 2, 2001. Accordingly, NSCCL has introduced the facility of direct payout to clients' account on both the depositories. It ascertains from each clearing member, the beneficiary account details of their respective clients who are due to receive pay out of securities. NSCCL has provided its members with a front-end for creating the file through which the information is provided to NSCCL. Based on the information received from members, the Clearing Corporation sends payout instructions to the depositories, so that the client receives the pay out of securities directly to their accounts on the pay-out day. The client receives payout to the extent of instructions received from the respective clearing members. To the extent of instruction not received, the securities are credited to the CM pool account of the member.

Salient features of Direct Payout to Investors

- Clearing members are required to provide a file to NSCCL for effecting pay out to investors' accounts for a particular settlement type, settlement number and delivery type. The file is to be provided as per the structure specified by NSCCL.
- Clearing members are provided with an application in the clearing front end for the purpose of capturing the requisite data and generating the file. This front end is a part of the Clearing Front End Version 4.2, which is available on the extranet in the 'common/clearing' directory.
- The time limit for submission of files is up to 9.30.am on the pay out day
- The files are uploaded by NSCCL in its system and returned with the indication of the success/rejection of the file and the records. This is purely a validation of the correctness of the file and record formats.
- Clearing members shall provide details of beneficiary account of the clients of the trading members in any one of the depositories.
- Credit to the accounts of various constituents (i.e. client account and CM Pool / CM Clearing account) would be in the same order as specified by the clearing member in the file given to NSCCL.
- If for any client account record, the quantity requested for direct payout is more than the balance available for pay out to the clearing member in that depository, the quantity available in that depository shall only be directly credited to members settlement account in that depository.

If the member receives entire shares in NSDL the same will be transferred to members pool account in NSDL.

- In the following situations, the pay out shall be credited to CM Pool / Clearing account of the clearing members :
  - (a) Where the clearing members fail to provide the details of the beneficiary account or where the credit to the beneficiary accounts of the clients fail, or any account whatsoever
  - (b) The remaining quantity received from other depository as pay out shall be credited to the CM Pool / Clearing account of the clearing member with the respective depositories
- If the member's client has not paid the dues to the member for the said securities or for any other reason, the member has valid justification not to release the payout of a client direct in such a situation the member may not be giving the beneficiary account details of such client's in the file. In case the investor has paid the dues for delivery of securities and there is no valid justification for not releasing pay-out directly to the client, the member has to provide the details of its clients beneficiary account so that direct credit can be given to the client.

2.4 FUNDS SETTLEMENT

Currently, NSCCL offers settlement of funds through 13 clearing banks namely Canara Bank, HDFC Bank, Indusind Bank, ICICI Bank, Bank of India, UTI Bank, IDBI Bank, Standard Chartered Bank, HSBC Ltd., Kotak Mahindra Bank, State Bank of India, Union Bank of India, Citibank NA. Every Clearing Member is required to maintain and operate a clearing account with any one of the empanelled clearing banks at the designated clearing bank branches. The clearing account is to be used exclusively for clearing & settlement operations.

Clearing Account:

Every Clearing Member is required to maintain and operate a clearing account with any one of the empanelled clearing banks at the designated clearing bank branches. The clearing account is to be used exclusively for clearing operations i.e., for settling funds and other obligations to the Clearing Corporation including payments of margins and penal charges. Clearing Members are required to authorise the Clearing Bank to access their clearing account for debiting and crediting their accounts, reporting of balances and other information as may be required by NSCCL from time to time as per the specified format. The Clearing Bank will debit/ credit the clearing account of clearing members as per instructions received from the Clearing Corporation. A Clearing member can deposit funds into this account in any form, but can withdraw funds from this account only in self-name.

Change in Clearing Bank:

In case a Clearing Member wishes to shift a clearing account from one designated Clearing Bank to another, the procedure is as follows:

(1) The CM clearing member while requesting the Clearing Corporation for a change in the clearing bank account shall either

- Furnish the no objection certificate (NOC) received by the member from the existing clearing bank for shifting of account, or
- In case no response was received by the clearing member from the existing clearing bank in respect of the NOC request even after a minimum waiting period of a fortnight, a declaration to the above effect along with an acknowledged copy of the NOC request made by the member to the existing clearing bank.

(2) The Clearing Corporation would thereon issue a letter of introduction to the other designated clearing bank.

(3) On opening the account with the other designated clearing bank, the clearing member shall submit to the Clearing Corporation the account particulars issued by the bank and also the acknowledged copy of the letter issued by the clearing member to the clearing bank.

(4) The Clearing Corporation shall thereon communicate the date from which the new clearing account will be operational and also the date after which the existing clearing account may be closed by the clearing member.

Funds settlement:

Members are informed of their funds obligation for various settlements through the daily clearing data download. The daily funds statement gives date-wise details of each debit/ credit transaction in the member's clearing account whereas the summary statement summarises the same information for a quick reference.
The member account may be debited for various types of transactions on a daily basis. The member is required to ensure that adequate funds are available in the clearing account towards all obligations, on the scheduled date and time. The member can refer to his various obligation statements and provide for funds accordingly. To ensure timely fulfillment of funds

obligations, members may avail of the facility of standing instructions to transfer the requisite amount from some other account to the clearing account or a Temporary Overdraft facility from the bank. In case the member has availed such a facility, the member may furnish details of his obligation to the bank to ensure timely transfer of funds towards the same to avoid inconvenience. The member with a funds pay-in obligation is required to have clear funds in his account on or before 11.00 a.m. on the scheduled pay-in day. The payout of funds is credited to the clearing account of the members on or after 1.30 p.m. on the scheduled payout day.

Funds shortages

In pursuance of chapter IV of the Byelaws of the NSCCL and Regulations framed there under, all clearing members are requested to note that on account of settlement funds shortages trading may not be permitted and securities payout withheld as per the norm in place from time to time -

Penal Charges

Penalties are charged to members for:

(a) failure to fulfil their funds obligations
(b) failure to fulfil their securities deliverable obligations
(c) Gross Exposure & Turnover Violations
(d) Margin Shortages
(e) Security Deposit Shortages
(f) Other violations in respect of client code modifications, non-confirmation of custodial trades, company objections reported against the members' etc.

2.5 SHORTAGES HANDLING

On the securities pay-in day, NSCCL identifies short deliveries and the respective clearing member is debited by an amount equivalent to the securities not delivered by him and valued at a valuation price. This is called a valuation debit. A valuation debit is also conducted for bad delivery by clearing members.

NSCCL conducts a buying-in auction for security shortages on the day after the pay-out day through the NSE trading system. If the buy-in auction price is more than the valuation price, the member is required to make good the difference.

2.5.1 Valuation Prices

Valuation prices at which valuation debits are conducted are calculated as below:

Valuation Price for failure to deliver for Regular Market Deals, Depository Deals:

The valuation price for securities which were not delivered on the settlement day for securities, shall be the closing price of such securities, on the immediate trading day preceding the pay-in day for the securities unless prescribed otherwise from time to time by the relevant authority.

Valuation Price for failure to deliver for Limited Physical Market:

The valuation price for securities which were not delivered on the settlement day for securities, shall be the closing price of such securities, on the immediate trading day preceding the pay-in day for the securities unless prescribed otherwise from time to time by the relevant authority.

Valuation Price for Bad Delivery for Regular Market Deals:

The valuation price for securities which constitute bad deliveries, shall be the closing price of such securities, on the immediate trading day preceding the bad delivery rectification day for the securities unless prescribed otherwise from time to time by the relevant authority.

Valuation Price for Bad Delivery for Limited Physical Market:

The valuation price for securities which constitute bad deliveries, shall be the closing price of such securities, on the immediate trading day preceding the bad delivery rectification day for the securities unless prescribed otherwise from time to time by the relevant authority.

2.5.2 Close-out Procedures

All shortages not bought-in are deemed closed out at the highest price between the first day of the trading period till the day of squaring off or closing price on the auction day plus 10%/20% (as the case may be). This amount is credited to the receiving member's account on the auction pay-out day.

For Regular Market, Depository Deals:

- In the case of failure to give delivery : At the highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 20% above the closing price on the auction day, whichever is higher.
- In cases of securities having corporate actions all cases of short delivery of cum transactions which cannot be auctioned on cum basis or where the cum basis auction pay out is after the book closure/record date, would be compulsory closed out. For compulsory close out, the following formula shall be applicable:
  - Higher of 10% above the closing price of the security in Normal Market on the auction day

  OR
  - The highest traded price from first trading day of the settlement till the auction day.
- In the case of non rectification/replacement for bad delivery: At the highest price prevailing in the NSE from the first day of the relevant trading period till the day of the closing out or 20% above the official closing price on the auction day, whichever is higher.
- In the case of non rectification/replacement for objection cases: At 20% above the official closing price on the auction day.

For Limited Physical Market Deals:

- In the case of failure to give delivery : At 20% over the actual trade price
- In the case of non rectification/replacement for bad delivery: 20% over the actual trade price
- In the case of non rectification/replacement for objection cases: At 20% above the official closing price in Regular Market on the auction day.

Auction Market:

- In the case of auction non delivery: When the auction seller fails to deliver in part or full on auction pay-in day, the deal will be squared up at the highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 20% over the official closing price on the close out day whichever is higher and will be charged to the auction seller unless otherwise specified.
- In the case of an auction bad delivery: An auction delivery reported as bad delivery shall be squared up at the highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 10% over the official closing price on the close out day, whichever is higher and will be charged to the auction seller unless otherwise specified.

Rectified/ Replaced bad deliveries reported as bad delivery (Rebad delivery):

- For Regular Market Deals: At the highest price prevailing in the NSE from the first day of the relevant trading period till the day of the closing out or 10% above the official closing price on the auction day whichever is higher.
- For Limited Physical Deals: Rectified / replaced shares reported as bad delivery (Rebad delivery) shall be squared up at 10% over the actual trade price

Company objection cases reported as bad delivery:

Rectified /replaced company objection reported as bad delivery shall be squared up at 10% above the official closing price on the auction day.

Close out price for deleted security:

Security for which trading has been discontinued on the Exchange (hereinafter referred to as deleted security), close out shall be at 20 % over the official closing price on the last traded day of the 'deleted security' on the Exchange.

Deleted security on account of payment of additional call money:

In the case of securities for which trading has been discontinued on the Exchange on account of payment of additional call money (deleted security), the security where the respective call money has been paid (new security) will be considered to arrive at the closing price.

Company objections received in the 'deleted security' will be required to be reported in the 'new security' symbol / series. In case the 'new security' is not available for the reason of such security not being introduced for trading on the Exchange/trading being discontinued on the Exchange, company objections will be required to be reported in the 'deleted security' and closing price for such deleted security will be at 20 % over the official closing price on the last traded day of the 'deleted security' on the Exchange.

Deleted security on account of payment of redemption:

In the case of securities for which trading has been discontinued on the Exchange on account of redemption (deleted security), the security (with the new face value after redemption) introduced for trading by the Exchange (new security) will be considered to arrive at the closing price.

Company objections received in the 'deleted security' will be required to be reported in the new security symbol / series and members will be entitled to claim redemption amount as corporate benefit.

In case the 'new security' is not available for the reason of such security not being introduced for trading on the Exchange / trading being discontinued on the Exchange on account of full redemption, company objections will be required to be reported in the 'deleted security' and closing price for such deleted security will be at 20 % over the official closing price on the last traded day of the 'deleted security' on the Exchange.

Deleted security on account of merger / amalgamation / hive off / scheme of restructuring:

In the case of securities for which trading has been discontinued on the Exchange on account of merger / amalgamation/ scheme of restructuring ('deleted security'), the security with which the deleted security is merged / amalgamated / hived off / restructured into ('new security') will be considered to arrive at the closing price. Closing price for such 'deleted security' will be the official closing price of the new security on the auction day prevalent on the Exchange. In case where the price of the 'new security' is not available for the reason of such security not being traded on the Exchange, the closing price for such deleted security will be at 20 % over the official closing price on the last traded day of 'deleted security' on the Exchange. In case, where more than one security ('additional securities') is being given by the company in lieu of the 'deleted security', the claim of company objection lodged for such 'deleted security' shall be settled as follows:

(i) if such 'additional securities' are traded on the Exchange, in the ratio in which they have been issued by the company.

(ii) If any one or more of these 'additional securities' are not traded on any Stock Exchange, no claim shall arise, for such security not traded.

(iii) If any one or more of these 'additional securities' are not traded on the Exchange but traded on some other Stock Exchanges, the relevant closing price of such securities shall be the closing price on the Regional Exchange, to be notified by NSCCL.

Close out price for bonds:

- In case of failure to give delivery, non rectification/replacement of bad delivery, rectified/replaced bad delivery subsequently reported as re-bad, auction non-delivery, and auction delivery reported as bad delivery, closing out price will be the highest rate prevailing on the Exchange from the first day of the relevant trading period till the day of closing out or 5% over the official closing price on the auction day, whichever is higher.

- In case of non rectification / replacement of company objection and rectified/replaced company objections reported as bad delivery, closing price will be 5% over the official closing price on the auction day.

2.6 RISK CONTAINMENT MEASURES

A sound risk management system is integral to/pre-requisite for an efficient clearing and settlement system. The National Securities Clearing Corporation Ltd. (NSCCL), a wholly owned subsidiary of NSE, was incorporated in August 1995. It was set up to bring and sustain confidence in clearing and settlement of securities; to promote and maintain, short and consistent settlement cycles; to provide counter-party risk guarantee, and to operate a tight risk containment system. NSCCL commenced clearing operations in April 1996.

NSCCL ensures that trading members' obligations are commensurate with their net worth. In recognition of the fact that market integrity is the essence of any financial market and believing in the philosophy that prevention is better than cure, NSCCL has put in place a comprehensive risk management system which is constantly monitored and upgraded to pre-empt market failures.

Risk containment measures include capital adequacy requirements of members, monitoring of member performance and track record, stringent margin requirements, position limits based on capital, online monitoring of member positions and automatic disablement from trading when limits are breached.

To safeguard the interest of the investors, NSE administers an effective market surveillance system to curb excessive volatility, detect and prevent price manipulation and follows a system of price bands. Further, the exchange maintains strict surveillance over market activities in liquid and volatile securities.

2.6.1 Capital Adequacy Requirements

The core of the risk management is the liquid assets deposited by members with the exchange / clearing corporation. The trading members are required to provide liquid assets which adequately cover various margins & base minimum capital requirements. Liquid assets of the member include their Initial membership deposits including the security deposits. Members may provide additional collateral deposit towards liquid assets, over and above their minimum membership deposit requirements.

The acceptable forms of capital towards liquid assets and the applicable haircuts are listed below:

1. Cash Equivalents: Cash, Bank Fixed Deposits with approved custodians, Bank Guarantees from approved banks, Government Securities with 10% haircut, Units of liquid mutual funds or government securities mutual funds with 10% haircut.

2. Other Liquid assets:

(i) Liquid (Group I) Equity Shares in demat form, as specified by NSCCL from time to time deposited with approved Custodians. Haircuts applied are equivalent to the VaR margin for the respective securities

(ii) Mutual fund units other than those listed under cash equivalents decided by NSCCL from time to time. Haircut equivalent to the VaR margin for the units computed using the traded price if available, or else, using the NAV of the unit treating it as a liquid security.

Capital Adequacy Norms for Membership on NSE

(Rs. in lakh)

Particulars (all values in Rs. Lakh)	CM and F&O segment	CM, WDM and F&O segment
Net worth [1]	100	200
Interest free security deposit (IFSD) [2]	125	275
Collateral security deposit (CSD) [3]	25	25
Annual subscription	1	2

1: No additional networth is required for self clearing members. However, a networth of Rs. 300 Lakh is required for TM-CM and PCM.

2 & 3: Additional Rs. 25 Lakh is required for clearing memberships (SCM, TM-CM). In addition, the clearing member is required to bring in IFSD of Rs. 2 Lakh and CSD of Rs. 8 Lakh per trading member he undertakes to clear and settle.

Additional Base Capital

Members may provide additional margin/collateral deposit (additional base capital) to NSCCL, over and above their minimum deposit requirements (base capital), towards margins and/ or exposure / turnover limits. Members may submit such deposits in any one form or combination of the following forms:

- Cash
- Fixed Deposit Receipts (FDRs) issued by approved banks and deposited with approved Custodians or NSCCL
- Bank Guarantee in favour of NSCCL from approved banks in the specified format. If a Bank guarantee is submitted from bank, whose networth is above Rs.500 crores, then the same is considered as cash component and all other Bank guarantees will be considered as non-cash component as per past procedures.
- Approved securities in demat form deposited with approved Custodians.
- Government Securities, the haircut for the Government Securities shall be 10%.
- Units of the schemes of liquid mutual funds or government securities mutual funds. The haircuts for units of liquid funds or government securities mutual funds shall be 10% of Net Asset Value (NAV). Units of all Mutual Funds schemes except Liquid Mutual Funds and Government Securities Mutual Funds (in demat) are eligible security for the purpose of non-cash component of additional capital and margin.
- All Additional Base Capital (ABC) given in the form of cash / FDR/BG's from approved Banks (hereinafter referred to as 'Cash Component') should be atleast 50% of the capital in respect of every trading member. Incase where non - cash component is more than 50 % of the total capital, the excess non-cash component is ignored for the purpose margins requirements.

2.6.2 Margins

Margins form a key part of the risk management system. In the stock markets there is always an uncertainty in the movement of share prices. This uncertainty leads to risk which is addressed by margining system of stock markets. Let us understand the concept of margins with the help of a following example.

Example: Suppose an investor, purchases 1000 shares of 'xyz' company at Rs.100/- on January 1, 2008. Investor has to give the purchase amount of Rs.1,00,000/- (1000 x 100) to his broker on or before January 2, 2008. Broker, in turn, has to give this money to stock exchange on January 3, 2008. There is always a small chance that the investor may not be able to bring the required money by required date. As an advance for buying the shares, investor is required to pay a portion of the total amount of Rs.1,00,000/- to the broker at the time of placing the buy order. Stock exchange in turn collects similar amount from the broker upon execution of the order. This initial token payment is called margin. It is important to remember that for every buyer there is a seller and if the buyer does not bring the money, seller may not get his / her money and vice versa. Therefore, margin is levied on the seller also to ensure that he / she gives the 100 shares sold to the broker who in turn gives it to the stock exchange.

In the above example, assume that margin was 15%. That is investor has to give Rs.15,000/-(15% of Rs.1,00,000/) to the broker before buying. Now suppose that investor bought the shares at 11 am on January 1, 2008. Assume that by the end of the day price of the share falls by Rs.25/-. That is total value of the shares has come down to Rs.75,000/-. That is buyer has suffered a notional loss of Rs.25,000/-. In our example buyer has paid Rs.15,000/- as margin but the notional loss, because of fall in price, is Rs.25,000/-. That is notional loss is more than the margin given.

In such a situation, the buyer may not want to pay Rs.1,00,000/- for the shares whose value has come down to Rs.75,000/-. Similarly, if the price has gone up by Rs.25/-, the seller may not want to give the shares at Rs.1,00,000/-. To ensure that both buyers and sellers fulfill their obligations irrespective of price movements, notional losses are also need to be collected.

Prices of shares keep on moving every day. Margins ensure that buyers bring money and sellers bring shares to complete their obligations even though the prices have moved down or up.

IMPOSITION OF MARGINS

For imposition of margins, the stocks are categorized on basis of their trading frequency and impact cost. The criteria for categorization of stocks for imposition of margins is mentioned below:
The securities are classified into three groups based on their liquidity.

- The Stocks which have traded atleast 80% of the days for the previous six months constitute Group I (Liquid Securities) and Group II (Less Liquid Securities). Out of the scrips identified above, the scrips having mean impact cost of less than or equal to 1% are categorized under Group I and the scrips where the impact cost is more than 1, are categorized under Group II. The remaining stocks are classified into Group III (Illiquid Securities).
- The impact cost is calculated on the 15th of each month on a rolling basis considering the order book snapshots of the previous six months. On the basis of the impact cost so calculated, the scrips are moved from one group to another group from the 1st of the next month.

Group	Trading frequency (over the previous six months*)	Impact Cost (over the previous six months*)
Liquid Securities (Group I)	At least 80 % of the days	Less than or equal to 1 %
Less Liquid Securities (Group II)	At least 80 % of the days	More than 1 %.
Illiquid Securities (Group III)	Less tha 80 % of the days	N/A

* For securities that have been listed for less than 6 months, the trading frequency and the impact cost is computed using the history of the scrip.

Categorisation of newly listed securities

- For the first month and till the time of monthly review a newly listed security is categorised in that Group where the market capitalization of the newly listed security exceeds or equals the market capitalization of 80% of the securities in that particular group. Subsequently, after one month, whenever the next monthly review is carried out, the actual trading frequency and impact cost of the security is computed, to determine the liquidity categorization of the security.
- In case any corporate action results in a change in ISIN, then the securities bearing the new ISIN is treated as newly listed security for group categorization.

Let us deal with this aspect in more detail while exploring different types of margins.

Daily margins payable by the trading members in the Cash market consists of the following:

1) Value at Risk (VaR) margin
2) Extreme Loss Margin
3) Mark to Market Margin

The margins are computed at client level. A member entering an order, needs to enter the client code. Based on this information, margin is computed at the client level, which will be payable by the trading members on upfront basis. Let us see in details what is meant by these margins.

Value at Risk Margin

VaR is a single number, which encapsulates whole information about the risk in a portfolio. It measures potential loss from an unlikely adverse event in a normal market environment. It involves using historical data on market prices and rates, the current portfolio positions, and models (e.g., option models, bond models) for pricing those positions. These inputs are then combined in different ways, depending on the method, to derive an estimate of a particular percentile of the loss distribution, typically the 99th percentile loss.

Computation of VaR Margin

VaR Margin is a margin intended to cover the largest loss that can be encountered on 99% of the days (99% Value at Risk). For liquid securities, the margin covers one-day losses while for illiquid securities; it covers three-day losses so as to allow the clearing corporation to liquidate the position over three days. This leads to a scaling factor of square root of three for illiquid securities.

For liquid securities, the VaR margins are based only on the volatility of the security while for other securities, the volatility of the market index is also used in the computation.

Computation of the VaR margin requires the following definitions:

Security sigma means the volatility of the security computed as at the end of the previous trading day. The computation uses the exponentially weighted moving average method applied to daily returns in the same manner as in the derivatives market.

Security VaR means the higher of 7.5% or 3.5 security sigmas.

Index sigma means the daily volatility of the market index (S&P CNX Nifty or BSE Sensex) computed as at the end of the previous trading day. The computation uses the exponentially weighted moving average method applied to daily returns in the same manner as in the derivatives market.

Index VaR means the higher of 5% or 3 index sigmas. The higher of the Sensex VaR or Nifty VaR would be used for this purpose.

The VaR Margins are specified as follows for different groups of securities:

Liquidity Categorization	One-Day VaR	Scaling factor for illiquidity	VaR Margin
Liquid Securities (Group I)	Security VaR	1.00	Security VaR
Less Liquid Securities (Group II)	Higher of Security VaR and three times Index VaR	1.73 (square root of 3.00)	Higher of 1.73 times Security VaR and 5.20 times Index VaR
Illiquid Securities (Group III)	Five times Index VaR	1.73 (square root of 3.00)	8.66 times Index VaR

All securities are classified into three groups for the purpose of VaR margin as discussed above.

For the securities listed in Group I, scrip wise daily volatility calculated using the exponentially weighted moving average methodology is applied to daily returns. The scrip wise daily VaR would be 3.5 times the volatility so calculated subject to a minimum of 7.5%. For the securities listed in Group II, the VaR margin is higher of scrip VaR (3.5 sigma) or three times the index VaR, and it shall be scaled up by root 3. For the securities listed in Group III, the VaR margin would be equal to five times the index VaR and scaled up by root 3.

Upfront margin rates (VaR margin + Extreme Loss Margin) applicable for all securities in Trade for Trade- Surveillance (TFTS) shall be 100 %.

VaR margin rate for a security constitutes the following:

Value at Risk (VaR) based margin, which is arrived at, based on the methods stated above. The index VaR, for the purpose, would be the higher of the daily Index VaR based on S&P CNX NIFTY or BSE SENSEX. The index VaR would be subject to a minimum of 5%.

Security specific Margin: NSCCL may stipulate security specific margins for the securities from time to time.

The VaR margin rate computed as mentioned above will be charged on the net outstanding position (buy value-sell) of the respective clients on the respective securities across all open settlements. There would be no netting off of positions across different settlements. The net position at a client level for a member are arrived at and thereafter, it is grossed across all the clients including proprietary position to arrive at the gross open position.

For example, in case of a member, if client A has a buy position of 1000 in a security and client B has a sell position of 1000 in the same security, the net position of the member in the security would be taken as 2000. The buy position of client A and sell position of client B in the same security would not be netted. It would be summed up to arrive at the member's open position for the purpose of margin calculation.

Collection of VaR Margin:

The VaR margin is collected on an upfront basis by adjusting against the total liquid assets of the member at the time of trade. The VaR margin is collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including its proprietary position. For this purpose, there would be no netting of positions across different settlements.

Upfront margin rates (VaR margin + Extreme Loss Margin) applicable for all securities in Trade for Trade- Surveillance (TFTS) shall be 100 %. The Intra-day VAR files shall be generated based on the prices at 11.00 a.m., 12.30 p.m., 2.00 p.m., and 3.30 p.m. everyday. Such intra-day VAR files shall be used for margining of intra-day member positions. In addition to the above, a VAR file at end of day and begin of day shall be provided. and the same is applicable on the positions for next trading day

Mark-to-Market Margin

Mark to market loss is calculated by marking each transaction in security to the closing price of the security at the end of trading. In case the security has not been traded on a particular day, the latest available closing price at the NSE is to be considered as the closing price. In case the net outstanding position in any security is nil, the difference between the buy and sell values is considered as notional loss for the purpose of calculating the mark to market margin payable.

The mark to market margin (MTM) is collected from the member before the start of the trading of the next day. The MTM margin is collected/adjusted from/against the cash/cash equivalent component of the liquid net worth deposited with the Exchange.

The MTM margin is collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including its proprietary position. For this purpose, the position of a client would be netted across its various securities and the positions of all the clients of a broker would be grossed.

There would be no netting off of the positions and setoff against MTM profits across two rolling settlements i.e. T day and T-1 day. However, for computation of MTM profits/losses for the day, netting or setoff against MTM profits would be permitted.

In case of Trade for Trade Segment (TFT segment) each trade is marked to market based on the closing price of that security. The MTM margin so collected is released on completion of pay-in of the settlement.

Lets us understand the MTM computation with the help of the following example:

Client	Security	T-1 day	T day	Total profit/ loss of Client	MTM for broker
Client A	Security X	800	300		
	Security Y	-500	-1200		
	Total	300	-900	-900	
Client B	Security Z	700	-400		
	Security W	-1000	800		
	Total	-300	400	-300	
Client C	Security X	1000	500		
	Security Z	-1500	-800		
	Total	-500	-300	-800	
Client D	Security Y	700	-200		
	Security R	-300	800		
	Total	400	600	1000	
Member					-2000

For a Client A, his MTM profit/ loss would be calculated separately for his positions on T-1 and T day (two different rolling settlements). For the same day positions of the client, his losses in some securities can be set off/netted against profits of some other securities. Thus, we would arrive at the MTM loss/profit figures of the two different days T and T-1. These two figures cannot be netted.

Any loss will have to be collected and same will not be setoff against profit arising out of positions of the other day.

Thus, as stated above MTM profits / losses would be computed for each of the clients; Client A, Client B, Client C etc. As regards collection of margin from the broker, the MTM would be grossed across all the clients i.e. no setoff of loss of one client with the profit of another client. In other words, only the losses will be added to give the total MTM loss that the broker has to deposit with the exchange.

In this example, the broker has to deposit MTM Margin of Rs 2000.

Extreme Loss Margin

The Extreme Loss Margin for any security is higher of:

1. 5%, or

2. 1.5 times the standard deviation of daily logarithmic returns of the security price in the last six months. This computation is done at the end of each month by taking the price data on a rolling basis for the past six months and the resulting value is applicable for the next month.

The Extreme Loss Margin is collected/ adjusted against the total liquid assets of the member on a real time basis.

The Extreme Loss Margin is collected on the gross open position of the member. The gross open position for this purpose would mean the gross of all net positions across all the clients of a member including its proprietary position.

There would be no netting off of positions across different settlements. The Extreme Loss Margin collected is released on completion of pay-in of the settlement.

Margin Shortfall

In case of any shortfall in margin:

- The members are not permitted to trade with immediate effect.
- Penalty for margin violation

Penalty applicable for margin violation is levied on a monthly basis based on slabs as mentioned below:

Instances of Disablement	Penalty to be levied
1st instance	0.07% per day
2nd to 5th instance of disablement	0.07% per day +Rs.5000/- per instance from 2nd to 5th instance
6th to 10th instance of disablement	0.07% per day+ Rs. 20000 (for 2nd to 5th instance) +Rs.10000/- per instance from 6th to 10th instance
11th instance onwards	0.07% per day +Rs. 70,000/- (for 2nd to 10th instance) +Rs.10000/- per instance from 11th instance onwards. Additionally, the member will be referred to the Disciplinary Action Committee for suitable action

Instances as mentioned above refer to all disablements during market hours in a calendar month. The penal charge of 0.07% per day is applicable on all disablements due to margin violation anytime during the day.

Margins for institutional deals:

Institutional businesses i.e., transactions done by all institutional investors shall be margined in the capital market segment from T+1 day subsequent to confirmation of the transactions by the custodians. For this purpose, institutional investors shall include:

- Foreign Institutional Investors registered with SEBI. (FII)
- Mutual Funds registered with SEBI. (MF)
- Public Financial Institutions as defined under Section 4A of the Companies Act, 1956. (DFI)

- Banks, i.e., a banking company as defined under Section 5(1)(c) of the Banking Regulations Act, 1949. (BNK)
- Insurance companies registered with IRDA. (INS)

Levy of margins:

- Institutional transactions shall be identified by the use of the participant code at the time of order entry.
- In respect of institutional transactions confirmed by the custodians the margins shall be levied on the custodians
- In respect of institutional transactions rejected/not accepted by the custodians the margins shall be levied on the members who have executed the transactions
- The margins shall be computed and levied at a client (Custodial Participant code) level in respect of institutional transactions and collected from the custodians/members
- Reporting and other procedures regarding Institution transactions shall continue as per the current procedure.

Retail Professional Clearing Member:

In case of transactions which are to be settled by Retail Professional Clearing Members (PCM), all the trades with PCM code shall be included in the trading member's positions till the same are confirmed by the PCM. Margins shall be collected from respective trading members until confirmation of trades by PCM.

On confirmation of trades by PCM, such trades will be reduced from the positions of trading member and included in the positions of PCM. The PCM shall then be liable to pay margins on the same.

Exemption upon early pay-in of securities

In cases where early pay-in of securities is made prior to the securities pay-in, such positions for which early pay-in (EPI) of securities is made shall be exempt from margins. The EPI of securities would be allocated to clients having net deliverable position, on a random basis unless specific client details are provided by the member/ custodian. However, member/ custodian shall ensure to pass on appropriate early pay-in benefit of margin to the relevant clients. Additionally, member/custodian can specify the clients to whom the early pay-in may be allocated.

Exemption upon early pay-in of funds

In cases where early pay-in of funds is made prior to the funds pay-in, such positions for which early pay-in (EPI) of funds is made shall be exempt from margins based on the client details provided by the member/ custodian. Early pay-in of funds specified by the member/custodians for a specific client and for a settlement shall be allocated against the securities in the descending order of the net buy value of outstanding position of the client.

2.6.3 On-Line Exposure Monitoring

NSCCL has put in place an on-line monitoring and surveillance system whereby exposure of the members is monitored on a real time basis. A system of alerts has been built in so that both the member and NSCCL are alerted as per pre-set levels (reaching 70%, 85%, 90%, 95% and 100%) when the members approach their allowable limits. The system enables NSSCL to further check the micro-details of members' positions, if required and take pro-active action.

The on-line surveillance mechanism also generates various alerts/reports on any price/volume movement of securities not in line with past trends/patterns. For this purpose the exchange maintains various databases to generate alerts. Alerts are scrutinised and if necessary taken up for follow up action. Open positions of securities are also analysed. Besides this, rumors in the print media are tracked and where they are price sensitive, companies are contacted for verification. Replies received are informed to the members and the public.

2.6.4 Off-line Monitoring

Off-line surveillance activity consists of inspections and investigations. As per regulatory requirement, a minimum of 20% of the active trading members are to be inspected every year to verify the level of compliance with various rules, byelaws and regulations of the Exchange. Usually, inspection of more members than the regulatory requirement is undertaken every year. The inspection verifies if investor interests are being compromised in the conduct of business by the members. The investigation is based on various alerts, which require further analysis. If further analysis reveals any suspicion of irregular activity which deviates from the past trends/patterns and concentration of trading at NSE at the member level, then a more detailed investigation is undertaken. If the detailed investigation establishes any irregular activity, then disciplinary action is initiated against the member. If the investigation suggests suspicions of possible irregular activity across exchanges and/or possible involvement of clients, then the same is informed to SEBI.

2.6.5 Index-based Market-wide Circuit Breakers/ Price Bands for Securities

An index based market-wide circuit breaker system applies at three stages of the index movement either way at 10%, 15% and 20%. These circuit breakers bring about a coordinated trading halt in trading on all equity and equity derivatives markets across the country. The breakers are triggered by movements in either Nifty 50 or Sensex, whichever is breached earlier.

- In case of a 10% movement in either of these indices, there would be a one-hour market halt if the movement takes place before 1:00 p.m. In case the movement takes place at or after 1:00 p.m. but before 2:30 p.m. there would be trading halt for ½ hour. In case movement takes place at or after 2:30 p.m. there will be no trading halt at the 10% level and market would continue trading.
- In case of a 15% movement of either index, there should be a two-hour halt if the movement takes place before 1 p.m. If the 15% trigger is reached on or after 1:00 p.m. but before 2:00 p.m., there should be a one-hour halt. If the 15% trigger is reached on or after 2:00 p.m. the trading should halt for remainder of the day.
- In case of a 20% movement of the index, trading should be halted for the remainder of the day.

NSE may suo moto cancel the orders in the absence of any immediate confirmation from the members that these orders are genuine or for any other reason as it may deem fit. The Exchange views entries of non-genuine orders with utmost seriousness as this has market –wide repercussion. As an additional measure of safety, individual scrip-wise price bands have been fixed as below:

Daily price bands of 2% (either way) on a set of specified securities

Daily price bands of 5% (either way) on a set of specified securities

Daily price bands of 10% (either way) on a set of specified securities

Price bands of 20% (either way) on all the remaining securities (including debentures, warrants, preference shares etc. which are traded on CM segment of NSE),

No price bands are applicable on scrip on which derivative products are available or scrips included in indices on which derivative products are available. However in order to prevent members from entering orders at non-genuine prices in such securities, the Exchange has fixed operating range of 20% for such securities.

The price bands for the securities in the Limited Physical Market are the same as those applicable for the securities in the Normal Market. For Auction market the price bands of 20% are applicable.

2.6.6 Settlement Guarantee Mechanism

NSCCL assumes the counter party risk of each member and guarantees financial settlement. Counter party risk is guaranteed through a fine tuned risk management system and an innovative method of on-line position monitoring and automatic disablement. A large Settlement Guarantee Fund provides the cushion for any residual risk. In the event of failure of a trading member to meet settlement obligations or committing default, the Fund is utilized to the extent required for successful completion of the settlement. This has eliminated counter party risk of trading on the Exchange. The market has now full confidence that settlements will take place in time and will be completed irrespective of possible default by isolated trading members. The concept of guaranteed settlements has completely changed the way market safety is perceived.

The Settlement Guarantee Fund is an important element in facilitating the settlement process. The Fund operates like a self-insurance mechanism and is funded through the contributions made by trading members, transaction charges, penalty amounts, fines etc. recovered by NSCCL.

A part of the cash deposit and the entire security deposit of every clearing member with the Exchange has been converted into an initial contribution towards the Settlement Guarantee Fund, as indicated below:

Equity Segment

Type of Member	Cash Deposit (Rs. Lakh)	Security Deposit in the form of Bank FDR/ guarantee or securities (Rs. Lakh)
Individual/ partnership firms	6.00	17.50
Corporates	9.00	25.00

There is a provision that as and when volumes of business increase, members may be required to make additional contributions allowing the fund to grow alongwith the market volumes.

2.6.7 No-delivery Period

Whenever a book closure or a record date is announced by a company, the exchange sets up a 'no-delivery period for that security. During this period, trading is permitted in the security. However, these trades are settled only after the no delivery period is over. This is done to ensure that the investor's entitlement for the corporate benefits is clearly determined.

2.7 INTERNATIONAL SECURITIES IDENTIFICATION NUMBER

SEBI being the National Numbering Agency for India has permitted NSDL to allot International Securities Identification Number (ISIN) for demat shares. While allotting ISINs, NSDL observes that:

(i) The ISINs allotted by NSDL does not at any point of time breach the uniqueness of ISIN of physical form for the same security.

(ii) ISIN for a security is allotted only when the security is admitted to NSDL or on receipt of request for ISIN from CDSL.

(iii) The numbering system is simple.

(iv) The numbering system of ISIN is in compliance with the structure of ISIN adopted by SEBI.

Numbering System of ISIN: The numbering structure for securities in NSDL is of 12 digit alpha numeric string. The first two characters represent country code i.e. IN (in accordance with ISO 3166). The third character represents the Issuer Type as detailed in Table 2.2.

Table 2.2: Issuers Type

Issuer Type	Code allotted
Central Government	A
State Government	B
Municipal Corporation	C
Union Territories	D
Company, Statutory Corporation, Banking Company	E
Mutual Funds including UTI	F

Note :- ISINs for Goverment Securities (Gsec) i.e. loans raised by Central and State Government are allotted by Reserve Bank of India (RBI).

The list may be expanded as per need. Maximum issuer types can be 35 (A to Z and 0 to 8. The partly paid up shares are identified by 9). The next 4 characters (fourth to seventh character) represent company identity of which first 3 characters are numeric and fourth character is alpha character. The numbering begins with '001A' and continues till '999A' and proceeds to '001B'. The next two characters (the eight and ninth characters) represent security type for a given issuer. Both the characters are numeric. The next two characters (the tenth and eleventh characters) are serially issued for each security of the issuer entering the system. Last digit is check digit.

The security types are planned which may be expanded as per the need as detailed in Table 2.3.

Table 2.3: Security Types

Security type	Code
Equity Share	01
Postal Savings Scheme	02
Preferential Shares	03
Bond	04
Deep Discount Bond	05
–Floating Rate Bond	06
Commercial Paper	07
Step Discount Bond	08
Regular Return Bond	09
Certificate of Deposit	10
Securitised Instruments	11
Debenture	12
Units	13
Government Securities	14
Warrants	15
Commodities	16
RBI Relief Bonds	17

2.8 DEMATERIALISATION AND ELECTRONIC TRANSFER OF SECURITIES

Traditionally, settlement system on Indian stock exchanges gave rise to settlement risk due to the time that elapsed before trades were settled by physical movement of certificates. There were two aspects: First relating to settlement of trade in stock exchanges by delivery of shares by the seller and payment by the buyer. The stock exchange aggregated trades over a period of time and carried out net settlement through the physical delivery of securities. The process of physically moving the securities from the seller to his broker to Clearing Corporation to the buyer's broker and finally to the buyer took time with the risk of delay somewhere along the chain. The second aspect related to transfer of shares in favour of the purchaser by the issuer. This system of transfer of ownership was grossly inefficient as every transfer involved the physical movement of paper securities to the issuer for registration, with the change of ownership being evidenced by an endorsement on the security certificate. In many cases the process of transfer took much longer than the two months as stipulated in the Companies Act, and a significant proportion of transactions wound up as bad delivery due to faulty compliance of paper work. Theft, mutilation of certificates and other irregularities were rampant, and in addition the issuer had the right to refuse the transfer of a security. Thus the buyer did not get good title of the securities after parting with good money. All this added to the costs and delays in settlement, restricted liquidity and made investor grievance redressal time-consuming and at times intractable.

To obviate these problems, the Depositories Act, 1996 was passed to provide 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 all companies whether listed or unlisted, 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.

In order to streamline both the stages of settlement process, the Depositories Act envisages transfer of ownership of securities electronically by book entry without making the securities move from person to person. The Act has made the securities of all companies whether listed or unlisted, freely transferable by restricting the company's right to use discretion in effecting the transfer of securities, and dispensing with the transfer deed and other procedural requirements under the Companies Act.

A depository holds securities in dematerialised form. It maintains ownership records of securities and effects transfer of ownership through book entry. By fiction of law, it is the registered owner of the securities held with it with the limited purpose of effecting transfer of ownership at the behest of the owner. The name of the depository appears in the records of the issuer as registered owner of securities. The name of actual owner appears in the records of the depository as beneficial owner. The beneficial owner has all the rights and liabilities associated with the securities. The owner of securities intending to avail of depository services opens an account with a depository through a depository participant (DP). The securities are transferred from one account to another through book entry only on the instructions of the beneficial owner.

In order to promote dematerialisation of securities, NSE joined hands with leading financial institutions to establish the National Securities Depository Ltd. (NSDL), the first depository in the country, with the objective of enhancing the efficiency in settlement systems as also to reduce the menace of fake/forged and stolen securities. This has ushered in an era of dematerialised trading and settlement. SEBI has made dematerialised settlement mandatory in an ever-increasing number of securities in a phased manner, thus bringing about an increase in the proportion of shares delivered in dematerialised form. The settlement of trades on stock exchanges is almost 100 % in demat form.

CDSL was set up in February, 1999 to provide depository services. All leading stock exchanges like the National Stock Exchange, Calcutta Stock Exchange, Delhi Stock Exchange, The Stock Exchange, Ahmedabad, etc have established connectivity with CDSL.

2.9 INVESTOR PROTECTION FUND

Investor Protection Fund (IPF) has been set up as a trust under Bombay Public Trust Act, 1950 under the name and style of National Stock Exchange Investor Protection Fund Trust and is administered by the Trustees. The IPF is maintained by NSE to make good investor claims, which may arise out of non-settlement of obligations by the trading member, who has been declared defaulter / expelled, in respect of trades executed on the Exchange. The IPF is utilised to settle claims of such investors where the trading member through whom the investor has dealt has been declared a defaulter or expelled by the Exchange. Payments out of the IPF may include claims arising on account of non payment of funds by the defaulter /expelled member or non receipt of securities purchased by the investor through the trading member who has been declared a defaulter/expelled member .

Quantum of Compensation: The maximum amount of claim payable from the IPF to the investor is Rs. 11 lakh.

Procedure for filing claims: A notice is published in widely circulated daily newspapers notifying the trading member who has been declared defaulter/expelled member. Claims against the defaulter/expelled member specified in the notice are required to be made, on or before three months from the date of such notice. The claimant is required to submit the requisite documents/details in substantiation of his claim. The admissibility of the claim is decided by the Defaulters' Committee which recommends the payment of the admissible amount out of the Investor Protection Fund in case of insufficient assets in respect of the defaulter /expelled member vesting in the Exchange. Both the Committee and the Trustees may at any time and from time to time require any person to produce and deliver any documents or statements of evidence necessary to support any claim made or necessary for the purpose of establishing his claim. In default of delivery of such documents, the Committee and the Trustees may disallow (wholly or partly) any claim made by him.

On recommendation by the Defaulters' Committee, the Trustees, if satisfied that the default on which the claim is founded was actually committed, may admit the claim and act accordingly. The Trustees have an absolute discretion as regards the mode and method of assessing the nature of the claims including their genuineness and at their discretion may accept, reject or partially grant or allow claims and make payment thereof subject to the limits mentioned above The Trustees in disallowing (whether wholly or partly) a claim for compensation shall serve notice of such disallowance on the claimant.

2.10 CLEARING SOFTWARE – DATA AND REPORTS DOWNLOAD

NSCCL downloads the data for the day in a consolidated file, which is a DAT file. The DAT file contains data regarding trades, obligations, deliveries, auctions, corporate actions and valuation prices for the day. It is generated and downloaded to members through V-SAT into their PC's directly. The file is downloaded to C:\CMCLRG\DNLD by 8.00 p.m. every day. The DAT files are also available on the EXTRANET in the folder/member/clearing.

The clearing software provides a number of reports useful for the trading member.

2.10.1 Obligation Reports

For all the types of Obligations Reports described below, the member has to select settlement type, settlement number, and trade date for which the report is needed.

1) Daily Obligation Statement: This report contains obligations of a Clearing Member (computed after segregation of the custodial trades for Trading Members). This is a daily report which is downloaded at the end of the trading day to each Clearing Member. This report provides security-wise information on:

   (a) Daily purchases and sales and their value.
   (b) Cumulative purchases and sales, and their value for the trading period.

(c) Cumulative net purchases or net sales and their value for the trading period.

2) Daily Obligation Statement of No-Delivery Securities: This report is for the securities in No-Delivery. This report provides daily as well as cumulative purchase and sale position of Clearing Member for securities in no-delivery across the trading periods. At the end of the No-Delivery period, these securities get added to the obligation statement of the next settlement. This report also gives information on No-Delivery period for a security and the settlement number in which it has to be settled.

3) Daily Obligation Statement of Custodial Trades: This report contains information on trades done by members on behalf of custodial clients which are to be settled by the custodians.

4) Daily Obligation Statement of No-Delivery Custodial Trades: This report contains information on trades done by members for securities in no-delivery on behalf of custodial clients which are to be settled by the custodians.

5) Final Settlement Obligations Statement: At the end of the trading period, members receive Settlement Obligation Statement for funds and securities. This report indicates the net obligation to deliver or receive for each security in which he has had dealings and net obligation to pay or receive funds.

6) Final Settlement Obligations Statement of Custodial Trades: The member also receives Custodian-wise Settlement Obligations arising through the trades entered by the member on behalf of the custodial participants.

2.10.2 Custodial Trade Reports

1) Custodial Trade Pending Confirmation: This report contains information of all Custodial trades which are not confirmed by the Custodians as of the day of the report (within the Confirmation Window).

2) Trades Rejected by Custodian: This report contains all the trades that have been rejected by the custodian.

3) Trades Change Statement: All the trades reverted to a Trading Member or vice-versa are displayed in this report.

4) Security-wise daily trades statement for CP: This report gives the statement of all the securities traded by the trading member for the respective Custodial participants.

5) Security-wise daily trades statement for CP (No delivery): This report gives the statement of all the securities which are in no deliveries and traded by the Clearing Member for the respective Custodial participants.

6) Member-wise daily trades statement for CP: This report gives the statement of all the securities traded by the trading member for the respective Custodial participants.

7) Security-wise final trades statement for CP: This report gives the statement of all the securities traded by the trading member for the respective Custodial participants and for the given settlement type and settlement number.

2.10.3 Deliveries Reports

1) Final Delivery Statement: After allocation, the NSECM Clearing System generates Trading Member-wise delivery statement. This delivery statement is security-wise. The statement provides information on delivering centre, receiving centre, number of shares to deliver for each security and also the code of the receiving entity.

2) Delivery Slip: It gives the details of delivering centre, receiving centre, quantity of shares to be delivered, quantity of shares delivered, quantity short and number of certificates.

3) Delivery Details Statement: This report gives a facility to list delivering centre, receiving centre, all Certificate Numbers and DNR Numbers for deliveries of the delivering Clearing Members.

4) Security Shortage Statement: The Security Shortage Statement lists down the shortage in the delivery of the securities as compared to the Clearing Members obligation of securities pay-in. The details given in the list contain the delivering centre, receiving centre, delivery number against which securities are delivered short, the security, the quantity of shares delivered short, the Valuation price and the amount to be debited to the delivering members account for the quantity of shares delivered short, the receipt number and the counter party receiving members name/code.

2.10.4 Receipts Reports

Final Receipt Statement: This statement provides information security-wise on receiving centre, delivering centre, the number of shares to receive, the code and the name of the delivering Trading Member. The report gives the break up of quantity of shares received in electronic form and physical form.

2.10.5 Bad Deliveries Reports

(1) Unrectified Bad Delivery Statement: This report contains the list of deliveries reported as bad against a delivering member and not rectified by the trading member. The details given in the list contain the delivering centre, receiving centre, delivery number for which the shares are not rectified, the security, the quantity of shares not rectified, the Valuation price and the amount to be debited to the delivering members account for the quantity of shares not rectified, the receipt number, the counter party receiving members name/code and the reason code of bad delivery.

(2) Bad Deliveries to be Rectified Statement: This report contains the details of Bad Deliveries which have to be rectified by the delivering member. The report outlines the delivering centre, receiving centre, delivery number, the security, the quantity of shares reported as bad to be rectified, the reason code for bad delivery, the counter party receiving member name and code and the receipt number.

(3) Rectified Bad Delivery Pay-out Statement: The Rectified Bad Delivery Pay-out Statement gives the receiving centre, delivering centre, list of the deliveries reported as bad by the receiving member and whether subsequently they have been rectified by the delivering member. It gives the status of which bad deliveries reported by the trading member have been rectified (in electronic and/or in physical form) and which have not been rectified.

2.10.6 Funds Reports

Two Funds Reports are being provided through the clearing software i.e., Daily Funds Summary Statement and Daily Funds Statement.
Daily funds summary statement provides details about the transactions effected in the trading members clearing account at the Clearing Bank. This statement is similar to the Bank statement provided by the Clearing Bank. The debit appearing in the summary statement is equal to the withdrawals as per the bank statement and the credit is equal to the deposits as per the bank statement.

Daily funds statement provides the break-up for each debit and credit appearing in the Daily funds summary statement. Both the reports are downloaded on a daily basis after the debits/credits have been effected by the clearing bank.

2.10.7 Auction Reports

1) Auction Square Up Debit Statement: This report gives details of unauctioned deliveries that are squared-up by the Exchange. The report is to be printed by the defaulting member on whose behalf the auction is conducted.

2) Auction Square Up Credit Statement: This report gives details of unauctioned deliveries that are squared-up by the Exchange. This report is to be printed by the receiving member. This report is downloaded at the end of the auction trading day.

3) Auction Difference Statement: This report gives details of the auctioned deliveries for which the valuation price exceeds the auction traded price. This report is to be printed by the defaulting member (a member who has delivered short or not rectified a bad delivery). This report is downloaded at the end of the auction trading day.

2.10.8 Objections Reports

1) Objection to be Rectified Statement: The Objection to be Rectified Statement lists down all the objections that have been reported against or reported by a trading member in a particular reporting period. The report contains details such as Objection number, security symbol and series, objection quantity and face value under objection, the counterparty introducing / reporting member code, reason for objection and the original stamp amount paid by the buyer at the time of lodgements with the company.

2) Second Time Objections Statement: This Statement is similar to the Objection to be rectified statement except that the report is to be printed for second time objections. All the details contained in the above report are also printed in the second time objection statement for rectified / replaced objections again reported as under objections.

3) Rectification Pay-in Date Change Statement: The rectification pay-in date of an objection can change due to various reasons such as the rectification pay-in / pay-out date being near the book closure start date / record date. As a result the objection settlement to which the objection is assigned changes. The Rectification Pay-in Date change statement contain the details of all the objections whose rectifications have been changed(added) to the specified objection settlement and also the details of the objections whose rectifications have been moved away (deleted) from the specified objection settlement. The report contains the details of whether the rectification has been changed to

the settlement or away from the settlement, Objection number, delivery number, original rectification pay-in date and the original objection settlement, revised rectification pay-in date and the revised objection settlement, security symbol and series, objection quantity, receiving/introducing member code and name and the receipt number.

4) Objections Withdrawal Statement: Objections can be withdrawn by either the clearing house or the trading member for various reasons. The objection can be withdrawn due to wrong reporting in the 6-C format, incomplete company objection memo, etc. The Objection withdrawal statement gives details of the objections withdrawn. This report gives detail of the part as well as full withdrawal of quantity of shares under objections. The Objections Withdrawal Statement contains details such as objection number, objection settlement type and number, rectification pay-in date, symbol and series, face value and the quantity of shares reported under objections, withdrawal quantity, date of withdrawal, reason code for withdrawal, introducing/ receiving member code and name and the reason code for objection.

5) Objections Status Statement: The Objection Status Statement details of the history of objection from reporting to rectification and further whether the objection is auctioned / squared off is printed. The details contained in the report include the objection number, delivery number, security symbol and series, quantity under objection, quantity replaced or rectified, face value of replaced quantity, unrectified quantity, auction settlement number in which the unrectified quantity will be auctioned/ squared off, break up of the shares to be auctioned and the shares to be squared off.

6) Objections Unrectified Statement: This report is to be printed after the date of rectification pay-in for the objection settlement. The objections unrectified statement gives details about the objections unrectified by the trading member in case of objections where he is the introducing member. The statement also contains details of the unrectified objections in cases where the trading member has reported the objections. The report includes details such as objection number, delivery number, security symbol and series, objection quantity and reported face value, unrectified quantity and the replacement face value, receipt number, introducing / receiving member code and name.

7) Objections Returned As Bad Delivery Statement: The objections rectified returned as bad delivery statement gives details of the objection cases for which the rectification / replacement of objection is reported as bad delivery. The report contains details such as objection number, delivery number, security symbol and series, rectified / replaced quantity, quantity of shares reported as bad delivery, and

Introducing member / receiving member code and name. The report can be printed for objection cases where the trading member is the introducing member as well as for cases where the trading member is the receiving member.

8) Stamp Duty Payable Report: The stamp duty payable report is provided to inform the trading members about the stamp duty payable/ receivable in case of objections. The report includes information about the objection number, delivery / receipt number, security symbol and series, objection quantity, original stamp amount paid by the investor / trading member reporting the objection, quantity rectified, quantity unrectified, stamp amount payable / receivable, stamp amount paid / received, receiving / introducing member code and name, receipt / delivery number and the status of payment (paid or pending). The stamp amount payable / receivable includes the differential amount in case of shares rectified i.e. the stamp amount calculated at the present consideration rate minus the original amount paid for the proportionate quantity of shares rectified and in case of remaining shares i.e. objection quantity minus rectified quantity, the amount of stamp calculated at the present consideration rate for the remaining shares.

9) Objection Settlement Schedule Statement: The objection settlement schedule statement gives the dates for the reporting - rectification cycle of the objection settlements. The report contains the objection settlement number, reporting date, date of pickup by the introducing member for rectifying the objections, rectification pay-in date, and the rectification pay-out date.

2.10.9 Margin Reports

1) Member-wise Daily Margin Payable Statement: This report contains daily margin amount payable by the members. This is a daily report which is downloaded at the end of the trading day to each trading member. This report provides information on the calculated margin amount, collateral amount, amount paid till date and calculated value of cash margin payable (+)/receivable (-).

2) Memberwise Margin Payment Status Report: This report contains the margin payment status of the member. This is a daily report which is downloaded at the end of the trading day to each trading member. This report provides information on the margin due date, cash margin pay-in (+)/pay-out (-), amount transacted and amount short.

2.10.10 Securities Reports

1) Securities Delivered Statement: This statement provides information on delivering centre, total number of shares to deliver for each security, quantity delivered and quantity of shares delivered short.

2) Securities Received Statement: This statement provides information on delivering centre, total number of shares to receive for each security, quantity received and quantity received short.

2.10.11 Miscellaneous Reports

1) No Delivery Securities Statement: This report gives a listing of all the securities in no delivery for a particular settlement type and settlement number. The details outlined in this report are the security symbol and series, the no delivery start date, the no delivery end date and the settlement type and the settlement number in which the trades during the no delivery period will be settled.

2) Corporate action statement: This report gives the statement of the corporate actions falling between the dates entered by the user (i.e. dividend, AGM, book closure date, record date etc.).

3) Mode of Settlement Report for Securities: This report will display information regarding Security Settlement Mode for a particular settlement type and number. The clearing member has to enter settlement type and number.

The following reports are available on EXTRANET:

- Securitywise Demat Delivery Statement (DFDS): This report provides details of the electronic shares delivered by a member as securities pay-in for various settlements for the given settlement date. The report is sorted on Settlement Type/Settlement Number/Delivery Type/Symbol/Series/ISIN. In case the member has delivered the shares through CDSL, the report provides the 'Depository transaction number' for the corresponding pay-in.

- Securitywise Demat Receipt Statement (DFRS): This report provides details of the electronic shares received by a member as securities pay-out for various settlements for the given settlement date. The report is sorted on Settlement Type/Settlement Number/Delivery Type/Symbol/Series/ISIN. In case the member has received the shares in CDSL, the report provides the 'Depository transaction number' for the corresponding pay-out.

- Client Allocation Details (CADT): This report provides details of pay out directly credited to the client's beneficiary account. It gives details of DP ID and Beneficiary account where the pay out is credited and also details of securities, which have not been credited to client account.

- Detailed Margin Report (MG02): This report provides client wise, security wise, and settlement wise amount of margin and exposure for the day.

- Consolidated Margin Report (MG01). This report provides amount of margin payable and amount of exposure and MABC available for the day.

2.11 FILE TRANSFER PROTOCOL

A two way communication service is provided to the trading members based on File Transfer Protocol (FTP) connections through VSAT, leased line and internet. FTP may be used for accessing data that is general as well as member specific in nature. Under this facility, a separate directory for each member has been created in which member specific data files like trading data, clearing data, along with other files like bills, trades done report etc. are routinely transferred. Each member has been given access only to his/her own directory. Along with member specific directories, there are some files like circulars, NCFM, bhav copy and related software available in a "common" directory, which is accessible by all trading members.

Members can access the files through extranet server using VSAT during off trading hours (between 4:15 p.m. and 9:30 a.m.) and through internet or lease lines for all 24 hours a day. For any Extranet connectivity problem, Helpdesk or Extranet team may be contacted.

Model questions

1. Which of the following statement is true?
(a) Clearing members are responsible for settling their obligations as determined by the NSCCL.
(b) Custodian can be a trading member.
(c) Clearing members are not required to open a dedicated clearing account with any of the clearing banks.
(d) Custodians are not required to maintain a clearing pool account with the depositories.
Ans. (a)

2. Which of the following is true about rolling settlement?
(a) In 'T+X' rolling settlement, 'T' is the trade date and 'X' is the number of business days after trade date on which settlement takes place.

(b) NSE does not provide an option to settle trades in demat securities on rolling basis.

(c) For arriving at the settlement day, all intervening holidays such as bank holiday are included.

(d) None of the above statements are true.

Ans. (a)

3. Under T+2 rolling settlement, pay-in of funds and securities takes place ______________________.

(a) on 2nd working day after trade date

(b) on 1st working day after the trade date

(c) on the trading day

(d) on 1st and 2nd working day respectively after the trade date.

Ans. (a)

4. Which of the following is true about settlement for the Limited Physical Market segment?

(a) Delivery of shares in street name and market delivery is treated as good delivery.

(b) Any delivery less than 500 shares is marked as short and such deliveries are compulsorily closed out.

(c) Settlement for trades is carried out on a trade for trade basis.

(d) Securities and funds pay in takes place on 'T+1' working days after the trade date.

Ans. (c)

5. Which of the following statements is not true about Mark to Market Margin?

(a) Mark to market margin is computed on the basis of mark to market loss of a member.

(b) Mark to market margin is calculated by marking each transaction in a scrip to the closing price of the scrip at the end of trading.

(c) Mark to market loss is the notional loss which the member would incur in case the cumulative gross outstanding position of the member in some securities were closed out at the closing price of the securities.

(d) Mark to market profit/loss across different securities within the same settlement is set off to determine the mark to market loss for a settlement.

Ans. (c)

6. VaR margin is charged at differential rate on the _____________ position of the client.

(a) Net outstanding sale

(b) Gross outstanding sale

(c) Net Sale

(d) Gross Sale

Ans. (a)

8. Members can submit which of the following as additional base capital to NSCCL.

(a) Cash

(b) Bank Fixed Deposits with approved custodians

(c) Bank Guarantee

(d) All of the above

Ans. (d)

9. Which of the following agencies assigns ISINs to the securities in India?

(a) SEBI

(b) ANNA

(c) NSDL

(d) Stock Exchanges

Ans. (a)

10. The name of the _________appears in the records of the issuer as registered owner of demat securities.

(a) depository

(b) actual owner

(c) beneficial owner

(d) depository participant

Ans. (a)

CHAPTER 3

TRADING MEMBERSHIP

3.1 STOCK BROKERS

3.1.1 Introduction

A broker is an intermediary who arranges to buy and sell securities on behalf of clients (the buyer and the seller).

According to Rule 2 (e) of SEBI (Stock Brokers and Sub-Brokers) Rules, 1992, a stockbroker means a member of a recognized stock exchange. No stockbroker is allowed to buy, sell or deal in securities, unless he or she holds a certificate of registration granted by SEBI. A stockbroker applies for registration to SEBI through a stock exchange or stock exchanges of which he or she is admitted as a member. SEBI may grant a certificate to a stock-broker [as per SEBI (Stock Brokers and Sub-Brokers) Rules, 1992] subject to the conditions that:

a) he holds the membership of any stock exchange;

b) he shall abide by the rules, regulations and bye-laws of the stock exchange or stock exchanges of which he is a member;

c) in case of any change in the status and constitution, he shall obtain prior permission of SEBI to continue to buy, sell or deal in securities in any stock exchange;

d) he shall pay the amount of fees for registration in the prescribed manner; and

e) he shall take adequate steps for redressal of grievances of the investors within one month of the date of the receipt of the complaint and keep SEBI informed about the number, nature and other particulars of the complaints.

While considering the application of an entity for grant of registration as a stock broker, SEBI shall take into account the following namely, whether the stock broker applicant –

a) is eligible to be admitted as a member of a stock exchange;

b) has the necessary infrastructure like adequate office space, equipment and man power to effectively discharge his activities;

c) has any past experience in the business of buying, selling or dealing in securities;

d) is being subjected to any disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange with respect to his business as a stock-broker involving either himself or any of his partners, directors or employees.

3.1.2 Membership in NSE

There are no entry/exit barriers to the membership in NSE. Anybody can become member by complying with the prescribed eligibility criteria and exit by surrendering membership without any hidden/overt cost.

The members are admitted to the different segments of the Exchange subject to the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India Act, 1992, the Rules, circulars, notifications, guidelines, etc., issued thereunder and the Bye laws, Rules and Regulations of the Exchange.

The standards for admission of members laid down by the Exchange stress on factors such as, corporate structure, capital adequacy, track record, education, experience, etc. and reflect a conscious effort on the part of NSE to ensure quality broking services so as to build and sustain confidence among investors in the Exchange's operations.

Benefits to the trading membership of NSE include:

1) access to a nation-wide trading facility for equities, derivatives, debt and hybrid instruments / products,
2) ability to provide a fair, efficient and transparent securities market to the investors,
3) use of state-of-the-art electronic trading systems and technology,
4) dealing with an organisation which follows strict standards for trading & settlement at par with those available at the top international bourses,
5) a demutualised Exchange which is managed by independent and experienced professionals, and
6) Dealing with an organization which is constantly striving to move towards a global marketplace in the securities industry.

3.1.2.1 New Membership

Membership of NSE is open to all persons desirous of becoming trading members, subject to meeting requirements/criteria as laid down by SEBI and the Exchange.

The different segments currently available on the Exchange for trading are:

- Capital Market (Equities and Retail Debt)
- Wholesale Debt Market
- Derivatives (Futures and Options) Market

Admission to membership of the Exchange to any of the segments is currently open and available.

Persons or Institutions desirous of securing admission as Trading Members (Stock Brokers) on the Exchange may apply for any one of the following segment groups:

I. Wholesale Debt Market (WDM) Segment
II. Capital Market (CM) and Wholesale Debt Market (WDM) segments
III. Capital Market (CM) and Futures & Options (F&O) segments
IV. Capital Market (CM), Wholesale Debt Market (WDM) and Futures & Options (F&O) segment
V. Clearing Membership of National Securities Clearing Corporation Ltd. (NSCCL) as a Professional Clearing Member (PCM)

Eligibility for acquiring new membership of NSE

1) The following persons are eligible to become trading members:
   (a) Individuals
   (b) Partnership firms registered under the Indian Partnership Act, 1932
   Individual and Partnership firm are not eligible to apply for membership on WDM segment.
   (c) Institutions, including subsidiaries of banks engaged in financial services.
   (d) Body Corporates including companies as defined in the Companies Act, 1956.

   A company shall be eligible to be admitted as a member if:

   i) such company is formed in compliance with the provisions of Section 12 of the said Act;
   ii) such company undertakes to comply with such financial requirements and norms as may be specified by the Securities and Exchange Board of India for the registration of such company;
   iii) the directors of such company are not disqualified for being members of a stock exchange and have not held the offices of the Directors in any company which had been a member of the stock exchange and had been declared defaulter or expelled by the stock exchange; and

(e) Such other persons or entities as may be permitted from time to time by RBI/SEBI under the Securities Contracts (Regulations) Rules, 1957.

2) No person shall be admitted as a trading member if:

(a) he has been adjudged bankrupt or a receiver order in bankruptcy has been made against him or he has been proved to be insolvent even though he has obtained his final discharge;
(b) he has compounded with his creditors for less than full discharge of debts;
(c) he has been convicted of an offence involving a fraud or dishonesty;
(d) he is engaged as a principal or employee in any business other than that of Securities, except as a broker or agent not involving any personal financial liability or for providing merchant banking, underwriting or corporate or investment advisory services, unless he undertakes to severe its connections with such business on admission, if admitted;
(e) he has been at any time expelled or declared a defaulter by any other Stock Exchange or he has been debarred from trading in securities by any Regulatory Authorities like SEBI, RBI etc;
(f) he has been previously refused admission to trading membership by NSE unless a period of one year has elapsed since the date of such rejection;
(g) he incurs such disqualification under the provisions of the Securities Contract (Regulations) Act, 1956 or Rules made thereunder so as to disentitle him from seeking membership of a stock exchange;
(h) incurs such disqualification consequent to which NSE determines it to be not in public interest to admit him as a member on the Exchange

Provided that in case of registered firms, body corporates and companies, the condition from (a) to (h) above will apply to all partners in case of partnership firms, and all directors in case of companies;

(i) it is a body corporate which has committed any act which renders it liable to be wound up under the provisions of the law;
(j) it is a body corporate or a company in respect of which a provisional liquidator or receiver or official liquidator has been appointed by a competent court;

Education and Experience

Where an applicant is a corporate, not less than two directors of the company (in case of a sole proprietorship, individual and in case of a partnership firm, two partners) should satisfy the following criteria:

They should be at least graduates and each of them should possess at least two years' experience in an activity related to broker, sub-broker, authorised agent or authorised clerk or authorised representative or remisier or apprentice to a member of a recognized stock exchange. Such experience will include working as a dealer, jobber, market maker, or in any other manner in the dealing in securities or clearing and settlement thereof, as portfolio manager or merchant bankers or as a researcher with any individual or organization operating in the securities market.

Shareholding Pattern

Securities markets have the inherent tendency to be volatile and risky. Therefore, there should be adequate risk containment mechanisms in place for the Stock Exchanges. One such risk containment tool is the concept of 'Dominant Promoter/Shareholder Group' which is very unique for applicants acquiring membership on the NSE. Though membership on NSE is granted to the entity applying for it, but for all practical purposes the entity is managed by a few shareholders who have controlling interest in the company. The shareholders holding the majority of shares have a dominant role in the affairs of the company. In case of any default by the broking entity, the Exchange should be able to identify and take action against the persons who are behind the company. The Exchange, therefore, needs to know the background, financial soundness and integrity of these shareholders holding such controlling interest. Hence, during the admission process the dominant shareholders are called for an interview with the Membership Recommendation Committee.

Dominant Promoter / Shareholder Group (DPG)

Dominant Promoter norms are applicable to all the corporate trading members. The norms relating to dominant promoter are given as under:

Sr. No.	Category	Norms
1.	Unlisted corporate trading member	A corporate trading member will identify a group of shareholders (Dominant Promoter Group - DPG), who normally would be individuals, not exceeding 4, who jointly and/ or severally hold not less than 51% of shares in the trading member corporate at the time of admission as well as subsequently at all relevant points of time.

Sr. No.	Category	Norms
		The shareholding/interest of close relatives of the DPG viz. Parents, spouse, children, brothers and sisters would also be counted for arriving at total dominant holding / interest, if such relative(s) give an unqualified and irrevocable support in writing to the individual concerned in respect of such holding / interest.
2.	Listed corporate trading member	a) A corporate trading member with net worth of less than Rs.50 crores, will identify a group of shareholders (Dominant Promoter Group - DPG), who normally would be individuals, not exceeding 4, who jointly and/ or severally hold not less than 40% of shares in the trading member corporate at the time of admission as well as subsequently at all relevant points of time. b) A corporate trading member with net worth of Rs.50 crores and above, will identify a group of shareholders (Dominant Promoter Group – DPG), who normally would be individuals, not exceeding 4, who jointly and/ or severally hold not less than 26% of shares in the trading member corporate at the time of admission as well as subsequently at all relevant points of time. The shareholding / interest of close relatives of the DPG viz. Parents, spouse, children, brothers and sisters would also be counted for arriving at total dominant holding / interest, if such relative(s) give an unqualified and irrevocable support in writing to the individual concerned in respect of such holding/interest. Existing unlisted trading member corporate proposing to get listed should continue to have their dominant promoters holding not less than 40% or 26% as the case may be, of the share capital post listing. If there is a change in the promoter group through a take over process and a new group acquires controlling interest, the changes shall be treated as reconstitution of the trading member corporate tantamounting to transfer of membership.
3.	Corporate shareholders to be identified as dominant shareholders	(a) Corporate shareholders are allowed to be identified as dominant shareholders (Dominant Promoter Group - DPG), if they are listed corporates each having a networth of Rs.50 Crores and above and the promoter group of the listed corporate holds at least 26% of the share capital. (b) Corporate shareholders not meeting the above norm can still be brought into the

Sr. No.	Category	Norms
		dominant shareholders group (DPG) provided: • The Trading member corporate is a wholly owned subsidiary of another company • The identifiable individual dominant promoter(s) (not more than 4) (Dominant Promoter Group) hold at least 51% of the share capital of the holding company or promoter group holding not less than 40% in case of a listed holding company OR there are two or more listed corporate shareholders jointly holding at least 51% of the share capital of the holding company and the promoter group holding in the listed corporates (independently) is at least 40% OR one or more listed corporate shareholders along with individual shareholders (belonging to the promoter group) together, not exceeding four in number, jointly hold at least 51% of the shares of the holding company, and the promoter group holding in the listed corporate is at least 40% Provided that in none of the above instances the holding company of the trading member corporate becomes the subsidiary of another corporate. Existing unlisted corporate shareholder(s) of the trading member entity, proposing to get listed should continue to have their dominant promoters holding not less than 40% or 26% as the case may, of the share capital post listing. The said dominant promoters undertake in writing, not to dilute their shareholding in the holding company without prior consent of the Exchange. If there is a change in the promoter group of such dominant corporate shareholders through a take over process and a new group acquires controlling interest in such dominant corporate shareholder, the changes may be treated as reconstitution of the trading member corporate tantamounting to transfer of membership
4.	Banks, central or state government owned Finance and/or Development Institutions	Scheduled banks, central or state government owned Finance and/or Development Institutions etc are also allowed to be identified as dominant shareholder(s) even if they are not listed provided they have a networth of atleast Rs.50 crores
5	Foreign Entities	For foreign entities taking trading membership of the Exchange through their Indian subsidiary

Sr. No.	Category	Norms
		under the automatic approval route permitted by the Government (i.e., without approaching the FIPB), subject to compliance with the guidelines of the RBI in this regard: (1) The promoting foreign entity should be either a bank or insurance organization regulated by the Central Bank or such other appropriate regulatory authority of that country OR The promoting foreign entity should be broking house/ participant in the securities market that is registered or regulated by the relevant regulatory authority of that country. The entity should have a sound track record OR The promoting foreign entity is one whose domestic arm or subsidiary is registered with SEBI for participation in any domestic venture for custodial or Asset Management services. (2) The promoting foreign entity shall hold, directly or indirectly not less than 51 % of the controlling stake in the applicant company proposing to take the trading membership of the Exchange. (3) The net worth of the entity having controlling stake in the applicant company or the promoting foreign entity should be at least Rs.50 crores.

Corporate shareholders of the trading member company can also extend their support to the DPG, provided the shareholding of the dominant promoter group along with the support of their specified relatives in the corporate shareholder is not less than 51% or 40% if listed corporate as the case may be. The indirect shareholding shall be calculated proportionately by reckoning the direct shareholding of the DPG along with the support of their specified relatives in the corporate shareholder of the trading member company.

Corporate trading members will also be allowed to change their shareholding pattern so long as such change is within the above norms as specified in 1 to 3 above and existing Dominant promoter group continues to hold controlling interest and prior approval from the Exchange is obtained.

Once a Dominant Promoter Group (DPG) is identified during admission, the same has to be maintained at all points of time. Any change in the DPG will require the trading member to seek fresh approval of the exchange as if for admission of new trading member and rules relating to the same will apply. However, inter-se transfer of shareholding among the dominant promoters will be exempt for the same.

Trading members are also requested to note that any change in shareholding requires prior approval from the Exchange, except in case of shareholding changes related to public shareholding in a listed company.

If none of the dominant promoters / shareholders is a Director on the Board of the trading member company, then at least two other directors having the requisite experience & qualification shall hold a minimum of 5% shares (each) in the paid up equity capital of the trading member company.

Failure to maintain the required level of shareholding will be treated as a breach of the continuing membership norms, which would tantamount to a reconstitution of the trading member corporate as the existing DPG would no longer hold controlling interest in the trading member corporate or alternatively a new group would have emerged with controlling stake. In such case the Exchange may initiate disciplinary action including withdrawal of trading facility of such trading members.

Segments provided in New Membership

Membership of the Exchange is open to all persons desirous of becoming trading members of the Exchange, subject to their meeting certain requirements and criteria as laid down by SEBI and the Exchange.

Persons or Institutions desirous of securing admission as Trading Members (Stock Brokers) on the Exchange may apply for any one of the following segment groups:

- Wholesale Debt Market Segment (WDM) segment
- Capital Market (CM) segment and Futures & Options (F&O) segment
- Capital Market (CM) segment, Wholesale Debt Market (WDM) segment and Futures & Options (F&O) segment
- Clearing Membership of National Securities Clearing Corporation Ltd. (NSCCL) as a Professional Clearing Member (PCM)

General Eligibility Conditions

The following persons are eligible to seek membership of the Exchange as Trading Members (Brokers):

a) Corporations, Companies or institutions or subsidiaries of such Corporations, Companies or institutions set up for providing financial services

b) Such other persons or entities as may be permitted from time to time by RBI / SEBI under the Securities Contracts (Regulations) Rules, 1957.

Criteria	Individuals	Corporates
AGE	Minimum age: 21 years Maximum age: 60 years	Minimum age: 21 years (applicable for directors)
STATUS	Indian Citizen	Corporate registered under The Companies Act, 1956 (Indian)
EDUCATION	At least a graduate or equivalent qualification	Two Directors should be at least graduate or equivalent qualification
EXPERIENCE	Should have a minimum of 2 years experience in an activity related to dealing in securities or as portfolio manager or as investment consultant or as a merchant banker or in financial services or treasury, broker, sub broker, authorised agent or authorised clerk or authorised representative or remisier or apprentice to a member of a recognized stock exchange, dealer, jobber, market maker, or in any other manner in dealing in securities or clearing and settlement thereof.	
MINIMUM PAID UP EQUITY CAPITAL	Not Applicable	Rs.30 lakh

Education and Experience

The NSE would from time to time indicate the qualifications that could be considered relevant for the purpose.

Where an applicant is a corporate, not less than two directors of the company as well as the core staff who will be dealing in the Wholesale Debt Market segment should satisfy the following criteria:

They should be at least graduates and each of them should possess at least two years experience in an activity related to banking services, financial services or treasury, broker, sub-broker, authorised agent or authorised clerk or authorised representative or remisier or apprentice to a member of a recognized stock exchange. Such experience will include working as a dealer, jobber, market maker, or in any other manner in the dealing in securities or clearing and settlement thereof, as portfolio manager or merchant bankers or as a researcher with any individual or organization operating in the securities market. The NSE may from time to time modify / expand the scope of activities that could be considered relevant experience for the above purpose.

Provided that the relevant authorities may waive compliance with any or all of the foregoing conditions and at their discretion waive the requirements set out above, if they are of the opinion that the person seeking admission is considered by the relevant authority to be otherwise qualified to be admitted as a Trading Member by reason of his means, position, integrity, knowledge and experience of business in securities.

Shareholding Pattern

The applicant shall identify a dominant promoter group, at the time of application. Any change in the shareholding of the company including that of the said dominant promoter group or their shareholding interest shall be effected only after prior permission from NSEIL. To arrive at the shareholding of persons constituting the Dominant group, the shareholding of close relatives, namely parents, spouse, children and their descendants, brothers and sisters only may be counted provided these relatives give an irrevocable, unconditional support in writing in the prescribed format.

Any change in the dominant group would require the Trading Member to seek fresh approval of the Exchange as if for admission of new Trading Member and to pay approval fee and/or additional deposits to the Exchange and also abide by such conditions as the Exchange may stipulate while granting such approval.

Fees, Deposit and Networth Requirements

1) Wholesale Debt Market (WDM) Segment

Applicants recommended for admission will be required to pay the following fee and deposits:

	(Amount in Rs. lakh)
Advance annual subscription	1.00
Interest free security deposit	150.00
Annual subscription fee	1.00

An applicant must be in a position to pay the membership and other fees, deposits etc, as applicable at the time of admission within three months of intimation to him of admission as a Trading Member or as per the time schedule specified by the Exchange. The security deposit will be included in determining the networth of the Trading Member, however, the annual subscription fee / other periodical charges would be excluded for this purpose.

Networth

An applicant for membership must possess a minimum networth of Rs. 200 lakh. In case the company is a member of any other Stock Exchange(s), it should satisfy the combined minimum networth requirements of all these Stock Exchanges including NSEIL. The minimum paid up capital of an applicant for Trading Membership should be Rs.30 lakh. The networth for this purpose should be calculated as per the method stipulated by the Exchange.

2) Capital Market (CM) and Futures & Options (F&O) segment

Applicants recommended for admission will be required to pay the following fee and deposits:

(All figures in Rs. Lakh)

Sr. No.	Particulars	CM and Trading Membership of F&O Segment	Additional requirements for Clearing Membership of NSCCL (F&O Segment)	Total for CM and Trading & Clearing Membership of F&O Segment
1	Interest Free Cash Security Deposit with NSEIL	110	-	110
2	Interest Free Cash Security Deposit with NSCCL	15	25	40
3	Total Interest Free Cash Security Deposit (1+2)	125	25	150
4	Collateral Security Deposit with NSCCL	25	25	50
5	Annual Subscription Charges	1	-	1
6	Advance Minimum Transaction Charges	1	-	1

Sr. No.	Particulars	CM and Trading Membership of F&O Segment	Additional requirements for Clearing Membership of NSCCL (F&O Segment)	Total for CM and Trading & Clearing Membership of F&O Segment
	for Futures & Options Segment			
7	Networth Requirement	100	300 (100 for self-clearing members in F&O)	300 (100 for self-clearing members in F&O)
8	Formula/ Methodology applicable for calculation of networth	As prescribed by NSE for trading members	As per Dr. L. C. Gupta Committee recommendation.	As per Dr. L. C. Gupta Committee recommendation.

Deposit for setting up VSAT terminals and operating cost for the VSAT network will be levied separately as per the policy prevailing from time to time.

It is pertinent to note that for the Futures & Options Segment, though the clearing members will not be required to bring in any additional interest-free cash deposit or maintain collateral security with NSCCL for clearing and settling their trades in the segment; they are required to bring in additional security as specified below only in respect of other trading members whose trades they undertake to settle in the Futures & Options Segment.

(i) Interest Free Security Deposit with NSCCL (Cash): Rs.2 lakh per trading member.
(ii) Collateral Security Deposit with NSCCL (by way of cash or bank guarantees or fixed deposits or select demat securities with appropriate hair cuts): Rs.8 lakh per trading member.

An applicant must be in a position to pay the membership and other fees, deposits etc, as applicable at the time of admission within three months of intimation to him of admission as a Trading Member or as per the time schedule specified by the Exchange. The security deposit will be included in determining the networth of the Trading Member, however, the annual subscription fee / other periodical charges would be excluded for this purpose.

Networth

An applicant acquiring membership of both Capital Market and Futures & Options Segments must possess the minimum prescribed net worth. The networth for this purpose should be calculated as per the stipulated method.

In case the applicant is member of any other Stock Exchange(s), it should satisfy the combined minimum networth requirements of all these Stock

Exchanges including NSEIL. The minimum paid up capital of a corporate applicant for trading membership should be Rs.30 lakh.

Preference however will be given to Individuals/Firms/Corporates with:

- individuals/partners/directors having professional qualifications like CA, CS, CWA, CFA or MBA (Finance) or any other equivalent qualification from any reputed institution, etc. direct experience in securities trading as brokers/sub-brokers;
- well established dealing offices with a well dispersed client network, principal dealing office for securities in the place from which it is applying for trading membership at least for the past one year prior to the date of advertisement or is operating in the said place as a broker, sub-broker, authorised assistant or authorised clerk or authorised representative or remisier or apprentice to a member of a recognized stock exchange, dealer, jobber, market maker or in any other manner in dealings in securities or clearing and settlement thereof;
- higher networth.

3) Professional Clearing Member - NSCCL

Applicants seeking admission as Professional Clearing Members on the Futures & Options and /or Capital Market Segments of NSCCL would be required to meet the capital adequacy norms including additional deposits and fees as given below:

(All figures in Rs. lakh)

Sr. No.	Particulars	Clearing Membership of Futures & Options Segment	Clearing Membership of Capital Market Segment	Clearing Membership of Capital Market & Futures & Options Segment
1	Interest Free Cash Security Deposit with NSCCL	25	25	34
2	Collateral Security Deposit with NSCCL *	25	25	50
3	Advance Annual Subscription	-	2.5	2.5
4	Networth Requirement	300	300	300
5	Formula/ Methodology applicable for calculation of networth	As prescribed by NSE for trading members	As per Dr. L C Gupta Committee recommendation	As per Dr. L C Gupta Committee recommendation

* Collateral Security Deposit with NSCCL can be - by way of cash or bank guarantees or fixed deposits or select demat securities with appropriate hair cuts.

For the Futures & Options Segment, the clearing members (PCMs) are required to bring in additional security deposits as specified below only in respect of trading members whose trades they undertake to clear and settle in this segment:

(i) Interest Free Security Deposit with NSCCL (Cash): Rs.2 lakhs per trading member.

(ii) Collateral Security Deposit with NSCCL (by way of cash or bank guarantees or fixed deposits or select demat securities with appropriate hair cuts): Rs.8 lakhs per trading member.

For Capital Market Segment, the clearing members (PCMs) are required to bring in additional security deposits as specified below only in respect of trading members whose trades they undertake to clear and settle in this segment:

Interest Free Cash deposit with NSCCL	For corporate trading members	Rs.9 lakh
	For non-corporate trading members	Rs.6 lakh
Collateral security with NSCCL (by way of cash or bank guarantees or fixed deposits or select demat securities with appropriate hair cuts)	For corporate trading members	Rs.25 lakh
	For non-corporate trading members	Rs.17.5 lakh

In cases, where the cash and collateral deposit are already available with NSCCL for a trading member, the Professional Clearing Members shall not be required (to the extent available) to bring in cash and collateral as aforementioned for settling the trades of that trading member. In case the trading member is required to have deposits with NSCCL greater than the amounts as stated above, the same would have to be brought in by the Professional Clearing Member.

All applicants must be in a position to pay the membership and other fees, deposits etc, as applicable at the time of admission, within the time schedule as specified by NSCCL. The security deposit will be included in determining the networth of the clearing member, however, the annual subscription fee / other periodical charges would be excluded for this purpose. Clearing in Futures & Options Segment will be permitted after obtaining the required regulatory approvals.

ADMISSION PROCEDURE FOR NEW MEMBERSHIP

(a) Submission of application form

(b) Online examination [NSE’s Certification in Financial Markets (NCFM)]

(c) Membership Recommendation Committee (MRC)
(d) MRC/Board approval
(e) SEBI Registration
(f) Formalities for enablement

(a) Submission of application form

Applicants are required to submit separate application form for trading membership of NSEIL given in Section I and clearing membership of NSCCL given in Section II of the Application Form.

Applicants should submit their application form complete in all respects in the prescribed format along with other relevant documents and accompanied by a demand draft for Rs. 10,000/- drawn in favour of National Stock Exchange of India Limited, payable at Mumbai. This amount of Rs. 10,000/- would be appropriated towards the Processing Fees and is non-refundable. Applications which are not complete in all respects and multiple applications are liable to be rejected. Applicants are requested to refer to the 'Note to Applicants' in the application form while filling the application forms.

The application along with relevant documents and the demand draft can be submitted at any of the offices of the Exchange during the working hours.

(b) Online examination

At any point of time the applicant has to ensure that at least the sole proprietor/one of the designated partner/one of the designated director/compliance officer would have a valid certificate for at least one of the following NCFM Modules :

i. Securities Market (Basic) Module
ii. Compliance Officer (Broker) Module
iii. Capital Market (Dealers) Module
iv. Derivatives Market (Dealers) Module

The dealers on CM segment are required to clear the Capital Market (Dealers) Module of NCFM while dealers on Futures & Options Segment are required to clear the Derivatives Market (Dealers) Module of NCFM. This is a pre-requisite without which user-ids are not issued. (Kindly refer to circular no. 550-NSE/MEM/7992 dated October 10, 2006 for more details)

(c) Membership Recommendation Committee (previously known as Membership Approval Committee)

The Membership Recommendation Committee (MRC) consists of seven persons from various disciplines, including the Managing Director of the

Exchange. The MRC conducts interviews with the applicants for trading membership.

The following persons have to appear for the interview:

(i) Corporates - A dominant shareholder and a Whole-time Director
(ii) Individuals – individual himself
(iii) Partnership Firms – Two partners

The purpose of the interview is to gain knowledge about the prospects as to their capability & commitment to carry on stock broking activities, financial standing and integrity.

The MRC is only a recommendatory body about the admissibility of the prospect or otherwise to the Board of Directors of the Exchange. It recommends the names of the prospects it deems fit to the Board for their approval.

(d) MRC/Board approval

The Board of Directors after taking into consideration the recommendations of the Membership Recommendation Committee either approve or reject the applications.

After getting approval from the Board, a letter admitting on a provisional basis is issued to the applicant subject to certain conditions like Registration with SEBI, submission of relevant fees/deposits and documents. The applicants are required to remit the necessary fees/deposits as per the demand advice failing which the applications may not be sent to SEBI for registration.

(e) SEBI Registration

Once admission is granted to an entity as a Stock broker (in NSE stock brokers are referred to as Trading Members), provisional offer letters are sent to the applicant.

In this offer letter, the requirements to be complied with by the trading member for forwarding their application to SEBI are listed, important among them being:

(1) SEBI Application form along with DD of Rs. 5000/- favouring SEBI for Capital Market, Rs. 10,000/- for F&O trading only and Rs. 50,000/- for Trading cum Clearing/ Self clearing member on F&O segment.
(2) Audited financial statements, Networth certificate, Details of Directors and shareholders, etc.

(3) Memorandum or Articles of association or Partnership deed, as the case may be.

As per the requirements of SEBI, every trading member of a recognized Stock Exchange has to mandatory register itself with SEBI through the Stock Exchange which has admitted them as a Stock broker along with the recommendation of the Exchange.

It must be noted that the applicant has to remit the prescribed membership deposits (as required by the demand advice attached to the provisional offer letter) before their application is forwarded to SEBI.

After satisfying itself as to compliance with respect to all the prescribed norms, SEBI shall grant a Registration Certificate in the name of the applicant. Upon receipt of the SEBI registration certificate, the applicant will need to comply with certain formalities in order to be enabled to trade on NSE enabled Automated Trading (NEAT) system of the Exchange.

(f) Formalities for enablement

After obtaining SEBI Registration, payment of fees/deposits and submission of relevant documents, the Trading Member has to ensure that the following formalities have been complied with:

(1) For installation of VSAT the following has to be submitted (they can also be submitted while giving documents for SEBI Registration):
   - Application for installation as per Annexure 3 of Circular No.163
   - VSAT Undertaking duly notarised
   - NOC from the owner of Premises where VSAT is going to be installed
   - Payment of Rs. 2 lakh favouring 'National Stock Exchange of India Limited' payable at Mumbai, towards Interest-free VSAT Deposit.

(2) Every Trading Member has to necessarily take Insurance cover with either New India Assurance Company Ltd. or Oriental Insurance Company Ltd. or National Insurance Company Ltd. The policy covers claims for:
   - Fake/Forged/Counterfeit/Stolen securities
   - Loss of Securities / Cash
   - Errors & Omission
   - Employees Infidelity / fraud

   The proof of Insurance cover taken up by the member has to be submitted to the Exchange.

(3) The member should all submit proof of:

- Opening of Exchange Dues accounts, Client account and Own account
- Opening of Depository participant account with NSDL and CDSL
- Registration with Central Excise authorities

(4) Application for approval as user for 2 people as per specified format. The authorised dealers / approved users on the Capital Market segment are required to clear the Capital Market (Dealers) Module of NCFM. Dealers on Futures & Options Segment are required to clear the Derivatives Market (Dealers) Module of NCFM. This is a pre-requisite without which User-ids will not be issued.

(5) Trading Members are required to submit a Broker Database specified by SEBI. One soft copy and two hard copies of the same are to be submitted to the Exchange.

(6) Trading Members have to submit the following documents duly certified by the statutory auditor in the prescribed format:

- Audited accounts
- Networth certificate
- Details of Directors
- Details of shareholding
- Details of dominant promoter group

(7) Submission of Trading Membership Undertaking.

After satisfying that all the formalities and requirements are complied with regard to the Exchange, the Trading Member is enabled to trade on the system and issued user ids.

3.1.2.2 Continuing Membership

Compliance with respect to Trading Members - The Trading Members are required to comply with various requirements for continuing membership. These include:

(1) Submission of the following documents in the prescribed format duly certified by a chartered accountant:

(a) Audited Annual Accounts
(b) Net worth Certificate
(c) Shareholding pattern
(d) Dominant Promoter Group details

The above documents have to be submitted before the expiry of six months from the end of the respective financial year of the Trading Member. Non-submission of the above documents by the due date would attract penalty.

(2) Members have to annually renew their Insurance policies failing which, disciplinary action would be initiated by the Exchange.

3.1.2.3 *Multiple Memberships*

The Exchange does not permit multiple memberships among the same set of dominant promoters/shareholders. However, there may be a need for the existing trading members to take up more than one membership on the NSE for various reasons like client segregation, market or business segregation, etc. In such cases, multiple memberships may be permitted by the Exchange only in cases where the existing trading member corporate forms a subsidiary.

Trading members desirous of applying for multiple membership of the Exchange are requested to refer to Circular no.171 dated June 28, 2000 and Circular no. 484 dated July 13, 2005 (Ref: NSE/MEM/1736 and NSE/MEM/6372 respectively) issued in this regard.

Multiple Membership of the Exchange will be permitted with the following conditions:

- The applicant shall be required to identify the Existing trading member with whom they are associated at the time of making an application.
- For the purpose of taking any disciplinary actions etc., the associated entities shall be considered as one single unit. Therefore all the associated entities would attract similar action by the Exchange.
- For ensuring financial linkage between the associated entities, the new applicant should be a subsidiary of the existing trading member Company, with atleast 51% shareholding.

The following requirements need to be complied with by the applicant company and the holding company for related entities to obtain membership of the Exchange:

(a) In the application for new membership, the applicant shall identify the holding company, which is a member of the exchange.

(b) Board resolution from the existing trading member corporate for applying for new membership in the name of the subsidiary.

(c) Details of shareholding pattern of the applicant company. The existing trading member should be the dominant promoter directly holding atleast 51% of the shareholding of the company.

(d) In case of transfer of membership of holding company, both the companies will be required to comply with the transfer provisions.

(e) Details of the directors: Majority of the directors should be appointed by the holding company. The same should be incorporated in the articles of association of the subsidiary company.

(f) Undertaking from the existing as well as the applicant subsidiary company that they may be considered as a single unit for taking any disciplinary action by the Exchange.

(g) In case of default or failure to meet the obligations towards NSEIL / NSCCL by one company, the deposits of other company may be appropriated.

(h) In case of investor grievances & arbitration awards, the holding company shall honour the obligations of the subsidiary company and vice versa.

(i) The new applicant company shall be required to take up the combined membership of Capital Market Segment and Futures & Options Segment as in the case of new applicants.

3.1.2.4 Upgradation of Membership

The Exchange permits the trading members desirous of upgrading their trading membership from Individual or Partnership firm to a Corporate. Trading members intending to do so should take note of the following:

a) A request has to be sent by the trading member indicating the scheme of upgradation and the proposed shareholding pattern of the corporate.

b) In case of an upgradation from individual to Corporate, the individual should hold atleast 51% of the paid up capital of the proposed corporate (40% in case of listed corporates).

(c) In case of an upgradation from partnership firm to Corporate, the original partners should hold atleast 51% of the paid up capital of the proposed corporate (40% in case of listed corporates).

(d) There should be atleast 2 qualified directors who should be graduates with minimum 2 years experience in stock broking related activities.

(e) The proposed corporate should have a minimum paid up capital of Rs. 30 lakh and meet the networth requirements of the Exchange from time to time.

(f) After the upgradation is approved by the Exchange, the trading member will have to pay the differential deposits as applicable to corporate trading members.

3.1.2.5 Merger/Amalgamation of Membership

Trading members desirous of merging among themselves are required to submit the proposal to the Exchange for approval. The salient features are as follows:

(a) The dominant promoter group of the merged entity shall comprise of only the dominant members of the merging Trading Member.

(b) When two or more Individual Trading Members merge to form either a partnership firm or a corporate, the dominant group of partners / shareholders in such emerging Trading Member entity shall comprise of any or all such individual Trading Members.

(c) In case of merger between two or more Individual / partnership firms Trading Members resulting in the formation of a new partnership firm or corporate; the dominant group of partners / shareholders in such emerging firms or corporate Trading Member shall comprise of any or all the dominant partners / shareholders of such merging Trading Members.

(d) In case of merger between two or more corporate trading members, the dominant group of shareholders in such emerging corporate Trading Member shall comprise of any or all the dominant shareholders of such merging Trading Members.

(e) The merged entity shall at all times consist of at least one or more members of the dominant promoter group of the merging Trading Members who would hold at least 51% of its total paid up capital (40% in case of listed companies) / profit sharing ratio.

(f) The scheme of merger shall provide for the appropriation / transfer of the entire amount of security deposits of the extinguishing Trading Members with the Exchange / NSCCL in favour of the merged entity. Such deposits of the extinguishing Trading Members will be refunded to the merged entity only after the expiry of the respective lock in period of each of the extinguishing Trading Members. No interest shall be paid by the Exchange /NSCCL on such deposits. These deposits may however be considered towards net worth / capital adequacy requirements / exposure limits of the merged entity, as also for margin purposes.

(g) The scheme of merger shall provide that the merged entity shall honour all the financial commitments / obligations/ liabilities of all the extinguishing Trading Members that devolved prior to merger or may devolve subsequent to the merger and shall be treated as if it were the liability of the merged entity.

(h) As soon as the application for merger is filed before the High Court, the extinguishing broking entity should approach SEBI through the Stock Exchange for obtaining prior permission, to the scheme of merger, giving all necessary details of the proposal.

(i) The emerging entity would be allowed to trade on the registration of the extinguishing entity for a period of 45 days. However, the emerging entity should apply to SEBI at the earliest and give an undertaking to be liable for the act of the extinguishing entity and such applications in any case should be made not later than 30 days of the registration granted by the Registrar of companies to the emerging entity.

3.1.2.6 Reconstitution/ Transfer of Membership

Reconstitution/Transfer of Membership takes place when the shareholding/profit sharing ratio of existing Dominant Promoter/Shareholder/Partner group falls below 51% (40% in case of listed corporates) which means that effectively they are no more in control of the trading member entity.

Trading members desirous of transferring their trading membership of the Exchange are requested to refer to the circulars issued by the Exchange from time to time in this regard and submit the proposal to the Exchange for approval. The salient features are as follows:

(a) The trading member would be required to comply with the prevalent net worth norms of the Exchange as applicable to corporate Trading Members.
(b) A processing fee of Rs.1 lakh would be payable on approval of proposal for transfer.
(c) The trading member would be required to pay the differential between the deposit paid by them for the membership of the relevant market segments and the deposit payable for a corporate trading membership as per the prevailing entry norms for membership of the segment.
(d) The transfer proposal would be subject to recommendation by the Membership Recommendation Committee (MRC) and approval by the Board of the Exchange, and, for this purpose, the Exchange's requirements of online test and an interview by MRC, will apply.

3.1.2.7 Surrender of Membership

NSE provides a scheme for enabling the trading member to surrender their membership on the Exchange. Details of the norms and procedures related to the surrender of membership of the Exchange are prescribed as below:

(A) Surrender of trading membership (All Segments)

The salient features are as follows:

(1) A Trading Member desirous of surrendering its membership of the Exchange is required to send its request in writing in the prescribed format.
(2) The application for surrender of trading membership shall be in respect of the Trading Member's membership of the Exchange i.e. the surrender shall be composite in respect of all the segments to which the Trading Member had been admitted.
(3) In respect of an application for surrender from a Trading Member,
   - who has been suspended/ disciplinary action taken by the Exchange /SEBI,
   - in respect of whom any investigation/ action consequent to a default has been initiated by the Exchange /SEBI,
   - who is falling within the category of 'associates' as defined by SEBI,

- who owes dues to the Exchange/ NSCCL,
- against whom claims by investors of value of Rs.10 lakh or more are pending or any claim for any amount is pending for a period more than 6 months,
- against whom any other claim /complaint is pending which, in the opinion of the Exchange/ NSCCL, needs to be resolved by the concerned trading member,
- whose turnover fees liability to SEBI is still outstanding,

The Exchange has absolute discretion in dealing with such applications and if it decides to process/ accept the surrender application of such trading member, it may impose additional terms and conditions as it may deem fit.

(4) An application for surrender is not allowed to be withdrawn unless permitted by the Exchange at its discretion.

(5) Trading Members is, at the time of submission of an application for surrender of membership, required to close out all their open positions, if any, by the end of the settlement cycle in which the application is made except in cases where they want to take/ give delivery of the shares.

(6) The application of surrender of trading membership is subject to fulfillment of certain conditions, namely;

- Submission of original SEBI registration certificate(s)
- Submission of sub-broker registration certificate(s) of all the Sub-brokers associated with the trading member for onward transmission to the SEBI for cancellation.
- Submission of computation chart of turnover fee liability payable to SEBI in accordance with the Annexure A of our Circular no. 249 dated April 5, 2002 and proof of payment made to SEBI.
- Submission of details of Directors and shareholders (in the format as prescribed in our circular no.272 dated July 22, 2002 download no. NSE/MEM/3509) as on date of surrender application.
- Submission of an undertaking/ declaration that the trading member/ shareholders/ directors are not in any way associated/ connected with any defaulting member of any Stock Exchange.
- Meeting /clearing all the dues of the trading member towards NSE and NSCCL as well as all the obligations in respect of Arbitration awards, investor complaints etc.

(7) Surrender of VSATs and Leased Lines

- The trading member should request the Exchange through their surrender application to dismantle and recover all the Leased Line(s)/ VSAT(s) and other equipments given to them at their dealing offices.

- Charges in respect of VSATs shall be levied only up to the date of receipt by the Exchange of a complete application for surrender or the usage of the VSAT, whichever is later. However, in case of any delay in removal of VSAT and/ or the related equipments on account of the inability/ failure on the part of the Trading Member to facilitate such removal/ recovery, the charges in respect of the said VSATs shall be levied up to the date of actual removal/ recovery. Leased Line charges would be as per the billing of MTNL/BSNL/DOT and dependent on the work-order issued/ actual disconnection of the Leased Lines.

(8) The Exchange's annual subscription would be charged pro rata upto and including the date of receipt of complete surrender application by the Exchange.

(9) In case, a Trading Member desires to withdraw the application for surrender and the Exchange in its discretion permits such withdrawal, the application and levy of annual subscription, interest and penal charges would be as if the Trading Member had not applied for the surrender of trading membership.

(10) The requirements for the continued maintenance of collateral security deposit by the surrendering trading members have been revised and the details are as under:

Sr. No.	Trading Member Category	Applicability of extension of Collateral Security Deposit (Bank Guarantee or Fixed Deposit Receipt)
1	A) Trading Members who are not SEBI-registered, SEBI-registered but not enabled or enabled but have not traded at all in the Capital Market/ Futures & Options segment. B) Trading members only in the WDM segment	Extension of Collateral security deposit not applicable
2	Those Trading members who have not traded in the Capital Market/ Futures & Options segment during last 6 months preceding the date of receipt of surrender application.	Extension of Collateral security deposit not required

Sr. No.	Trading Member Category	Applicability of extension of Collateral Security Deposit (Bank Guarantee or Fixed Deposit Receipt)
3	Those Trading members who have traded in the Capital Market/ Futures & Options segment during last 6 months preceding the date of receipt of surrender application	Collateral in the form of B/G or FDR to be brought in / extended for 6 months (with an additional 3 month invocation/ claim period) from last trade date. In case the Trading Member has deposited securities with the custodian towards collateral security deposit (instead of cash/bank guarantee/FDR), they shall replace the securities with cash/ bank guarantee/FDR.

(11) Once the application for surrender of trading membership is approved, the interest-free security deposits of the trading member will be locked in with the Exchange/ NSCCL for specified durations.

(12) The trading members seeking to surrender trading membership must ensure that they maintain the stipulated levels of interest free security deposit before they apply for the surrender of trading membership. The refund of any part of the interest free security deposit is subject to SEBI issuing the No Dues Certificate in respect of such trading member.

(13) Upon the application for surrender being approved, the Exchange shall notify to all the Trading Members the fact of such approval.

(14) A notice to the public by way of a publication in newspapers shall also be made by the Exchange except in cases where the trading member has not traded in any segments, through which a time period of 3 months (from the date of public notification) will be given to the investors, public etc. to lodge claims against the surrendering trading member.

(15) Upon acceptance/ approval of surrender of trading membership as aforesaid, the concerned Trading Members shall not be entitled to any rights or privileges accorded under the Bye-Laws, Rules and Regulations of the Exchange/ NSCCL, but shall continue to be liable to meet their liabilities/obligations under the Bye-Laws, Rules and Regulations of the Exchange/NSCCL.

(16) A Trading Member, whose application for surrender has been approved, has an option to seek substitution of the interest-free security deposits including the portion which is not subject to the lock-in condition (i.e. which would be available for refund immediately upon receipt of No Dues Certificate from SEBI).

(17) Refund of any part component of the Interest Free Security Deposit that is locked-in as well as that portion which could be released earlier is subject to the Trading Member:

(i) Making payment to SEBI of all the turnover fees, interest payable thereon etc. as may be applicable to such trading members in respect of all the segments they have been admitted to.

(ii) Obtaining No Dues Certificate from SEBI.

(iii) Redressing, to the satisfaction of the Exchange, all investors' complaints and other grievances pending against the trading member.

(iv) Making, in respect of arbitration proceedings, suitable arrangements to the satisfaction of the Exchange so as to meet any obligation that may arise out of awards that may be made against them.

(18) Fixed Deposit Receipts/Bank Guarantees furnished by the Trading Member in connection with surrender of trading membership would be returned to the Trading Member on the maturity/ expiry of the claim period subject to stipulated conditions.

(19) Upon a Trading Member, whose surrender application has been received / approved by the Exchange, being subsequently declared a defaulter/ expelled by the Exchange, all the process applicable to that of a surrendered trading member shall cease ipso facto and the relevant process pertaining to a defaulter/ expelled trading member shall forthwith commence/ apply.

(20) No trading member, who has surrendered its trading membership, their partners (in case of partnership firm) and/or dominant shareholders (in case of corporates) would be eligible to be readmitted to the Trading Membership of the Exchange in any form for a period of one year from the date of cessation of trading membership (i.e. from the date of expiry of the lock-in period of the deposits).

(21) Cessation of membership consequent upon surrender will become final and effective after expiry of the lock-in period provided all the terms and conditions stipulated by the Exchange/NSCCL are complied with in its entirety.

(B) Segmental surrender of trading membership

The salient features are as follows:

(1) A trading member may surrender trading membership of any one of the two segments, hereinafter referred to as "segmental surrender", as mentioned below:

- Capital Market and Futures & Options segment (composite)
- Wholesale Debt Market (WDM) segment

(2) A trading member desirous of surrendering their trading membership of one of the segments of the Exchange shall send their request in writing in the prescribed format.

(3) In respect of an application for segmental surrender from a trading member,

(a) who has been suspended/disciplinary action taken by the Exchange/SEBI,

(b) in respect of whom any investigation/action consequent to a default has been initiated by the Exchange/SEBI,

(c) who is falling within the category of 'associates' as defined by SEBI,

(d) who owes dues to the Exchange/ NSCCL,

(e) against whom claims by investors of value of Rs.10 lakh or more are pending or any claim for any amount is pending for a period more than 6 months,

(f) against whom any other claim /complaint is pending which, in the opinion of the Exchange/ NSCCL, needs to be resolved by the concerned trading member,

(g) whose turnover fees liability to SEBI is still outstanding,

The Exchange shall have absolute discretion in dealing with such applications and if it decides to process/ accept the segmental surrender application of such trading member, it may impose additional terms and conditions as it may deem fit.

(4) An application for segmental surrender shall not be allowed to be withdrawn unless permitted by the Exchange at its discretion.

(5) Trading member shall, at the time of submission of an application for segmental surrender of membership, be required to close out all their open positions, if any, by the end of the settlement cycle in which the application is made, except in cases where they want to take/ give delivery of the shares.

(6) The application of segmental surrender of trading membership is subject to fulfillment of the following conditions:

(a) Submission of original SEBI registration certificate(s) of the segment proposed to be surrendered.

(b) Submission of sub-broker registration certificate(s) of all the sub-brokers associated with the trading member (on the segment proposed to be surrendered) for onward transmission to SEBI for cancellation of their registration.

(c) Submission of computation chart of turnover fee liability payable to SEBI in accordance with annexure A of our circular no. 249 dated April 5, 2002 and proof of payment made to SEBI.

(d) Submission of details of Directors and shareholders (in the format as prescribed in our circular no.272 dated July 22, 2002 download no. NSE/MEMB/3509) as on date of segmental surrender application.

(e) Submission of an undertaking/ declaration that the trading member/ shareholders/ directors are not in any way associated/ connected with any defaulting member of any Stock Exchange.

(f) Meeting /clearing all the dues of the trading member towards NSE and NSCCL as well as all other obligations including those of arbitration awards, investor complaints, etc.

(7) The annual subscription charges payable to the Exchange shall be charged pro rata upto and including the date of receipt of complete application for segmental surrender by the Exchange.

(8) In case, a trading member desires to withdraw the application for segmental surrender and the Exchange in its discretion approves the same in writing, the application and levy of annual subscription, interest and penal charges shall be as if the trading member had not applied for the segmental surrender of trading membership.

(9) The requirements for the continued maintenance of collateral security deposit by the surrendering trading members may be as follows:

Sr. No.	Trading Member Category	Applicability of extension of Collateral Security Deposit (Bank Guarantee or Fixed Deposit Receipts)
1	Trading members who are not SEBI-registered, SEBI-registered but not enabled or enabled but have not traded at all in the Capital Market and Futures & Options segment	Extension of Collateral security deposit not applicable
2	Those trading members who have not traded in the Capital Market/ Futures & Options segment during last 6 months preceding the date of receipt of segmental surrender application	Extension of collateral security deposit not required

Sr. No.	Trading Member Category	Applicability of extension of Collateral Security Deposit (Bank Guarantee or Fixed Deposit Receipts)
3	Those trading members who have traded in the Capital Market/ Futures & Options segment during last 6 months preceding the date of receipt of segmental surrender application	Collateral in the form of B/G or FDR to be brought in / extended for 6 months (with an additional 3 month invocation/ claim period) from last trade date. In case the trading member has deposited securities with the custodian towards collateral security deposit (instead of cash/bank guarantee/FDR), they would be required to replace the securities with cash/ bank guarantee/FDR.

The requirement of extension of collateral deposit is not applicable to the trading members surrendering their WDM membership.

(10) Upon the application for segmental surrender being approved, the Exchange shall notify to all the trading members the fact of such approval.

(11) A notice to the public by way of a publication in newspapers shall also be made by the Exchange through which a time period of 3 months (from the date of public notification) will be given to the investors, public etc. to lodge claims against the trading member who has opted for segmental surrender.

(12) Upon acceptance/ approval of segmental surrender of trading membership as aforesaid, the concerned trading member shall continue to be liable to meet their liabilities/ obligations under the Bye-Laws, Rules and Regulations of the Exchange/ NSCCL.

(13) A trading member, whose application for segmental surrender has been approved, may seek substitution of the interest-free security deposits including the portion which is not subject to the lock-in condition (i.e. which would be available for refund immediately upon receipt of No Dues Certificate from SEBI) as per stipulated conditions.

(14) Refund of any part component of the interest free security deposit that is locked-in as well as that portion which could be released earlier is subject to the trading member:

- Making payment to SEBI of all the turnover fees, interest payable thereon etc. as may be applicable to such trading members.

- Obtaining a No Dues Certificate from SEBI.
- Redressing, to the satisfaction of the Exchange, all investor complaints and other grievances pending against the trading member.
- Making, in respect of arbitration proceedings, suitable arrangements to the satisfaction of the Exchange, so as to meet any obligation that may arise out of awards that may be made against them.

(15) Fixed deposit receipts (FDRs)/bank guarantees furnished by the trading member in connection with segmental surrender of trading membership shall be returned to the trading member on the maturity/ expiry of the claim period subject to certain conditions.

(16) Upon a trading member, whose segmental surrender application has been received / approved by the Exchange, being subsequently declared a defaulter/ expelled by the Exchange, all the process applicable to that of a segmental surrendered trading member shall cease ipso facto and the relevant process pertaining to a defaulter/ expelled trading member shall forthwith commence/apply.

(17) No trading member, who has surrendered trading membership for a particular segment, their partners (in case of partnership firm) and/ or dominant shareholders (in case of corporates) shall be eligible to be readmitted to that particular segment of the Exchange in any form for a period of one year from the date of cessation of membership of the segment surrendered (i.e. from the date of expiry of the lock-in period for the deposits).

In case of trading members seeking readmission to the segment which they have surrendered, the fees and deposit payable at the time of readmission shall be that prevailing at the time of approval of segmental surrender or prevailing at the time of readmission to the segment which has been surrendered, whichever is higher.

(18) The segmental surrender of the membership will become final and effective after expiry of the lock-in period provided all the terms and conditions stipulated by the Exchange/NSCCL are complied with in its entirety.

(19) It may be noted that in case the trading member desires to surrender their trading membership of the Exchange for all the segments on which they are registered, they would be required to comply with all the requirements laid down in Circular 281 for surrender of their trading membership.

(20) For terms and conditions pertaining lock-in period and amount applicable and other provisions please refer Circular 315 dated December 06, 2002 (Ref.No.NSE/MEM/3788)

3.1.2.8 Suspension & Expulsion of Membership

The Exchange may expel or suspend and/or fine under censure and/or warn and/or withdraw any of the membership rights of a trading member if it be guilty of contravention, non-compliance, disobedience, disregard or evasion of any of the Bye Laws, Rules and Regulations of the Exchange or of any resolutions, orders, notices, directions or decisions or rulings of the Exchange or the relevant authority or of any other Committee or officer of the Exchange authorised on that behalf or of any conduct, proceeding or method of business which the relevant authority in its absolute discretion deems dishonorable, disgraceful or unbecoming of a trading member of the Exchange or inconsistent with just and equitable principles of trade or detrimental to the interests, good name or welfare of the Exchange or prejudicial or subversive to its objects and purposes.

(1) *Misconduct*: A trading member shall be deemed guilty of misconduct for any of the following or similar acts or omissions namely:

(a) Fraud: If it is convicted of a criminal offence or commits fraud or a fraudulent act which in the opinion of the relevant authority renders it unfit to be a trading member;

(b) Violation: If it has violated provisions of any statute governing the activities, business and operations of the Exchange, trading members and securities business in general;

(c) Improper Conduct: If in the opinion of the relevant authority it is guilty of dishonorable or disgraceful or disorderly or improper conduct on the Exchange or of willfully obstructing the business of the Exchange;

(d) Breach of Rules, Bye Laws and Regulations: If it shields or assists or omits to report any trading member whom it has known to have committed a breach or evasion of any Rule, Bye-law and Regulation of the Exchange or of any resolution, order, notice or direction thereunder of the relevant authority or of any Committee or officer or the Exchange authorised in that behalf;

(e) Failure to comply with Resolutions: If it contravenes or refuses or fails to comply with or abide by any resolution, order, notice, direction, decision or ruling of the relevant authority or of any Committee or officer of the Exchange or other person authorised in that behalf under the Bye Laws, Rules and Regulations of the Exchange;

(f) Failure to submit to or abide by Arbitration: If it neglects or fails or refuses to submit to arbitration or to abide by or carry out any award, decision or order of the relevant authority or the Arbitration Committee or the arbitrators made in connection with a reference under the Bye Laws, Rules and Regulations of the Exchange;

(g) Failure to testify or give information: If it neglects or fails or refuses to submit to the relevant authority or to a Committee or an officer of the Exchange authorised in that behalf, such books, correspondence, documents and papers or any part thereof as may be required to be produced or to appeal and testify before or cause any of its partners, attorneys, agents, authorised representatives or employees to appear and testify before the relevant authority or such Committee or officer of the Exchange or other person authorised in that behalf;

(h) Failure to submit Special Returns: If it neglects or fails or refuses to submit to the relevant authority within the time notified in that behalf special returns in such form as the relevant authority may from time to time prescribe together with such other information as the relevant authority may require whenever circumstances arise which in the opinion of the relevant authority make it desirable that such special returns or information should be furnished by any or all the trading members;

(i) Failure to submit Audited Accounts: If it neglects or fails or refuses to submit its audited accounts to the Exchange within such time as may be prescribed by the relevant authority from time to time,

(j) Failure to compare or submit accounts with Defaulter: If it neglects or fails to compare its accounts with the Defaulters' Committee or to submit to it a statement of its accounts with a defaulter or a certificate that it has no such account or if it makes a false or misleading statement therein;

(k) False or misleading Returns: If it neglects or fails or refuses to submit or makes any false or misleading statement in its clearing forms or returns required to be submitted to the Exchange under the Bye Laws, Rules and Regulations;

(l) Vexatious complaints: If it or its agent brings before the relevant authority or a Committee or an officer of the Exchange or other person authorised in that behalf a charge, complaint or suit which in the opinion of the relevant authority is frivolous, vexatious or malicious;

(m) Failure to pay dues and fees: If it fails to pay its subscription, fees, arbitration charges or any other money which may be due by it or any fine or penalty imposed on it.

2) *Un-businesslike Conduct*: A trading member shall be deemed guilty of un-businesslike conduct for any of the following or similar acts or omissions namely:

(a) Fictitious Names: If it transacts its own business or the business of its constituent in fictitious names or if he carries on business in more than one trading segment of the Exchange under fictitious names;

(b) Fictitious Dealings: If it makes a fictitious transaction or gives an order for the purchase or sale of securities the execution of which would involve no change of ownership or executes such an order with knowledge of its character;

(c) Circulation of rumours: If it, in any manner, circulates or causes to be circulated, any rumours;

(d) Prejudicial Business: If it makes or assists in making or with such knowledge is a party to or assists in carrying out any plan or scheme for the making of any purchases or sales or offers of purchase or sale of securities for the purpose of upsetting the equilibrium of the market or bringing about a condition in which prices will not fairly reflect market values;

(e) Market Manipulation and Rigging: If it, directly or indirectly, alone or with other persons, effects series of transactions in any security to create actual or apparent active trading in such security or raising or depressing the prices of such security for the purpose of inducing purchase or sale of such security by others;

(f) Unwarrantable Business: If it engages in reckless or unwarrantable or un-businesslike dealings in the market or effects purchases or sales for its constituent's account or for any account in which it is directly or indirectly interested which purchases or sales are excessive in view of its constituent's or his own means and financial resources or in view of the market for such security;

(g) Compromise: If it connives at a private failure of a trading member or accepts less than a full and bona fide money payment in settlement of a debt due by a trading member arising out of a transaction in securities;

(h) Dishonoured Cheque: If it issues to any other trading member or to its constituents a cheque which is dishonoured on presentation for whatever reasons;

(i) Failure to carry out transactions with Constituents: If it fails in the opinion of the relevant authority to carry out its committed transactions with its constituents;

3) *Unprofessional Conduct*: A trading member shall be deemed guilty of unprofessional conduct for any of the following or similar acts or omissions namely:

(a) Business in Securities in which dealings not permitted: If it enters into dealings in securities in which dealings are not permitted;

(b) Business for Defaulting Constituent: If it deals or transacts business directly or indirectly or executes an order for a constituent who has within its knowledge failed to carry out engagements relating to securities and is in default to another trading member unless such constituent shall have made a satisfactory arrangement with the trading member who is its creditor;

(c) Business for Insolvent: If without first obtaining the consent of the relevant authority it directly or indirectly is interested in or associated in business with or transacts any business with or for any individual who has been bankrupt or insolvent even though such individual shall have obtained his final discharge from an Insolvency Court;

(d) Business without permission when under suspension: If without the permission of the relevant authority it does business on its own account or on account of a principal with or through a trading member during the period it is required by the relevant authority to suspend business on the Exchange;

(e) Business for or with suspended, expelled and defaulter trading members: If without the special permission of the relevant authority it shares brokerage with or carries on business or makes any deal for or with any trading member who has been suspended, expelled or declared a defaulter;

(f) Business for Employees of other trading members: If it transacts business directly or indirectly for or with or executes an order for an authorised representative or employee of another trading member without the written consent of such employing trading member;

(g) Business for Exchange Employees: If it makes a speculative transaction in which an employee of the Exchange is directly or indirectly interested;

(h) Advertisement: If it advertises for business purposes or issue regularly circular or other business communications to persons other than its own constituents, trading members of the Exchange, Banks and Joint Stock Companies or publishes pamphlets, circular or any other literature or report or information relating to the stock markets with its name attached;

(i) Evasion of Margin Requirements: If it willfully evades or attempts to evade or assists in evading the margin requirements prescribed in these Bye Laws and Regulations;

(j) Brokerage Charge: If it willfully deviates from or evades or attempts to evade the Bye Laws and Regulations relating to charging and sharing of brokerage.

(k) Dealings with entities prohibited to buy or sell or deal in securities market. If it deals, directly or indirectly, in the course of its business with or transacts any business with or for any entity, which has been prohibited by SEBI to buy or sell or deal in the securities market.

4) *Trading member's responsibility for Partners, Agents and Employees:* A trading member shall be fully responsible for the acts and omissions of its authorised officials, attorneys, agents, authorised representatives and employees and if any such act or omission be held by the relevant authority to be one which if committed or omitted by the trading member would subject it to any of the penalties as provided in the Bye Laws, Rules and Regulations of the Exchange then such trading member shall be liable therefore to the same penalty to the same extent as if such act or omission had been done or omitted by itself.

5) *Suspension on failure to provide margin deposit and/or Capital Adequacy requirements*: The Exchange shall require a trading member to suspend its business when it fails to provide the margin deposit and/or meets capital adequacy norms as provided in the Bye Laws, Rules and Regulations and the suspension of business shall continue until it furnishes the necessary margin deposit or meet capital adequacy requirements. The relevant authority may expel a trading member acting in contravention of this provision.

6) *Suspension of Business*: The relevant authority may require a trading member to suspend its business in part or in whole:

(a) Prejudicial Business: When in the opinion of the relevant authority, the trading member conducts business in a manner prejudicial to the Exchange by making purchases or sales of securities or offers to purchase or sell securities for the purpose of upsetting equilibrium of the market or bringing about a condition of demoralisation in which prices will not fairly reflect market values, or

(b) Unwarrantable Business: When in the opinion of the relevant authority it engages in unwarrantable business or effects purchases or sales for its constituent's account or for any account in which it is directly or indirectly interested which purchases or sales are excessive in view of its constituent's or its own means and financial resources or in view of the market for such security, or

(c) Unsatisfactory Financial Condition: When in the opinion of the relevant authority it is in such financial condition that it cannot be permitted to do business with safety to its creditors or the Exchange.

7) *Removal of Suspension*: The suspension of business as above shall continue until the trading member has been allowed by the relevant authority to resume business on its paying such deposit or on its doing such act or providing such thing as the relevant authority may require.

8) *Consequence of Suspension*: The suspension of a trading member shall have the following consequences namely:

(a) Suspension of Membership Rights: The suspended trading member shall during the terms of its suspension be deprived of and excluded from all the rights and privileges of membership including the right to attend or vote at any meeting of the general body of trading members of the relevant segment, but it may be proceeded against by the relevant authority for any offence committed by it either before or after its suspension and the relevant authority shall not be debarred from taking cognisance of and adjudicating on or dealing with any claim made against it by other trading members;

(b) Rights of creditors unimpaired: The suspension shall not affect the rights of the trading members who are creditors of the suspended trading member;

(c) Fulfillment of Contracts: The suspended trading member shall be bound to fulfill contracts outstanding at the time of its suspension;

(d) Further business prohibited: The suspended trading member shall not during the terms of its suspension make any trade or transact any business with or through a trading member provided that it may with the permission of the relevant authority close with or through a trading member the transactions outstanding at the time of its suspension;

(e) Trading members not to deal: No trading member shall transact business for or with or share brokerage with a suspended trading member during the terms of its suspension except with the previous permission of the relevant authority.

9) *Consequences of Expulsion*: The expulsion of a trading member shall have the following consequences namely:

(a) Trading membership rights forfeited: The expelled trading member shall forfeit to the Exchange its right of trading membership and all rights and privileges as a trading member of the Exchange including any right to the use of or any claim upon or any interest in any property or funds of the Exchange but any liability of any such trading member to the Exchange or to any trading member of the Exchange shall continue and remain unaffected by its expulsion;

(b) Office vacated: The expulsion shall create a vacancy in any office or position held by the expelled trading member;

(c) Rights of Creditors unimpaired: The expulsion shall not affect the rights of the trading members who are creditors of the expelled trading member;

(d) Fulfillment of Contracts: The expelled trading member shall be bound to fulfil transactions outstanding at the time of his expulsion and it may, with the permission of the relevant authority close such outstanding transactions with or through a trading member;

(e) Trading members not to deal: No trading member shall transact business for or with or share brokerage with the expelled trading member except with the previous permission of the relevant authority.

(f) Consequences of declaration of defaulter to follow: The provisions of Chapter XII and Chapter XII of the Bye Laws pertaining to default and Protection Fund respectively shall become applicable to the trading member expelled from the Exchange as if such trading member has been declared a defaulter.

3.1.2.9 Declaration of Defaulter

A trading member may be declared a defaulter by direction / circular / notification of the relevant authority of the trading segment if:

(1) he is unable to fulfill his obligations; or

(2) he admits or discloses his inability to fulfill or discharge his duties, obligations and liabilities; or

(3) he fails or is unable to pay within the specified time the damages and the money difference due on a closing-out effected against him under these Bye Laws, Rules and Regulations; or

(4) he fails to pay any sum due to the Exchange or to submit or deliver to the Exchange on the due date, delivery and receive orders, statement of differences and securities, balance sheet and such other clearing forms and other statements as the relevant authority may from time to time prescribe; or

(5) if he fails to pay or deliver to the Defaulters' Committee all monies, securities and other assets due to a trading member who has been declared a defaulter within such time of the declaration of default of such trading member as the relevant authority may direct; or

(6) if he fails to abide by the arbitration proceedings as laid down under the Bye Laws, Rules and Regulations.

Without prejudice to the foregoing, if a Trading Member is either expelled or declared a defaulter by any other recognised Stock Exchange on which he is a member or if the registration certificate is cancelled by SEBI, then the said Trading Member is expelled from the Exchange.

Failure to fulfill Obligations

The relevant authority may order a trading member to be declared a defaulter if he fails to meet an obligation to a trading member or constituent arising out of Exchange transactions.

Insolvent a Defaulter

A trading member who has been adjudicated an insolvent shall be ipso factor declared a defaulter although he may not be at the same time a defaulter on the Exchange.

Trading member's Duty to Inform

A trading member shall be bound to notify the Exchange immediately if there be a failure by any trading member to discharge his liabilities in full.

Compromise Forbidden

A trading member guilty of accepting from any trading member anything less than a full and bona fide money payment in settlement of a debt arising out of a transaction in securities shall be suspended for such period as the relevant authority may determine.

Surrender of Trading Membership

TMs can apply for surrender of their trading membership once admitted on the Exchange. Surrender of trading membership can be permitted by the Exchange after fulfilling certain conditions by the member such as, clearing off all the dues to the Exchange and NSCCL, notifying all other TMs of the approval of surrender, obtaining No dues certificate from SEBI, issuance of a public notification in leading dailies etc. The deposits of the trading members would be released by the Exchange/NSCCL after a prescribed lock-in period. However, there is no lock-in period applicable in case of trading member, who is,

(i) Not SEBI registered
(ii) SEBI registered but not enabled
(iii) SEBI registered and enabled but not traded at all

3.1.2.10 Authorised Persons

Trading members of the Exchange may appoint authorised persons who are individuals, registered partnership firms, bodies corporate or companies as defined under the Companies Act, 1956 in the Capital Market (CM) segment or Futures & Options (F&O) segment or in both CM and F&O segments.

An authorised person may introduce clients to the trading member for whom they may receive remuneration / commission / compensation from the trading member and not from the clients.

The clients introduced by the authorised person will have a direct relationship with the trading member i.e. the member-constituent agreement, know your client forms, risk disclosure document, etc. shall be executed between the client and the trading member i.e., the authorised person shall not be allowed to have any trading relationship with the clients. The trading member shall issue the contract notes and/or bills directly to the client i.e. the authorized person shall not issue contract notes, confirmation memo and/or bills in their name.

The clients introduced by the authorised person would be required to deliver securities and make payments directly in the trade name of the trading member (as appearing on the SEBI registration certificate). Similarly the trading member shall deliver securities and make payments directly in the name of the clients.

For further details pertaining to authorised person and trading members desirous of appointing authorised person may refer to circular no. 333 (NSE/MEM/4082) dated April 10, 2003.

3.2 SUB-BROKERS

The trading members of the Exchange may appoint sub-brokers to act as agents of the concerned trading member for assisting the investors in buying, selling or dealing in securities. The sub-brokers would be affiliated to the trading members and are required to be registered with SEBI. A sub-broker would be allowed to be associated with only one trading member of the Exchange.

Trading members desirous of appointing sub-brokers are required to submit the following documents to the Membership Department of the Exchange:

- Copy of sub-broker - broker agreement duly certified by the trading members
- Application form for registration as a sub-broker with Securities and Exchange Board of India (Form B)
- Recommendation letter to be given by the trading member with whom the sub-broker is affiliated (Form C)

The detailed scheme relating to the registration of sub-brokers is provided in the following circulars:

	Circular No.	Download No.	Date
1)	60	NSE/MEM/275	12-Jun-1997
2)	63	NSE/MEM/282	25-Jun-1997
3)	69	NSE/MEM/311	23-Jul-1997
4)	168	NSE/MEM/1708	19-Jun-2000

The trading member concerned shall be responsible to ensure the settlement of all deals entered into by trading member even though the orders in respect of the deals may have originated from its sub-broker.

The trading member shall issue contract notes for all trades in respect of its sub-broker in the name of the sub-broker and the sub-broker shall in turn issue purchase / sale notes to his clients as per the format prescribed by the Exchange. The sub-broker shall split the contract client wise and scrip wise and issue promptly the purchase / sale note accordingly.

The sub-broker will be required to adhere to NSE's 'know your clients' requirements. The important documents relating to dealing through a sub-broker are given below:

- Individual client registration application form
- Non-individual client registration application form
- Sub-broker client agreement
- Purchase/Sale Note issued by Sub-brokers acting for constituents

Eligibility

A sub-broker may be an individual, a partnership firm or a corporate. In case of corporate or partnership firm, the directors or partners and in the case of an individual sub-broker applicant, each of them shall comply with the following requirements:

(1) They shall not be less than 21 years of age;

(2) They shall not have been convicted of any offence involving fraud or dishonesty;

(3) They shall have atleast passed 12th standard equivalent examination from an institution recognized by the Government;

(4) They should not have been debarred by SEBI

(5) The corporate entities applying for sub-brokership shall have a minimum paid up capital of Rs. 5 Lakh and it shall identify a dominant shareholder who holds a minimum of 51% shares either singly or with the unconditional support of his/her spouse.

Registration

No sub-broker is allowed to buy, sell or deal in securities, unless he or she holds a certificate of registration granted by SEBI.

Sub-brokers are required to obtain certificate of registration from SEBI in accordance with SEBI (Stock Brokers & Sub-brokers) Rules and Regulations, 1992, without which they are not permitted to buy, sell or deal in securities.

SEBI may grant a certificate to a sub-broker, subject to the conditions that:

(1) he shall pay the fees in the prescribed manner;

(2) he shall take adequate steps for redressal of grievances of the investors within one month of the date of the receipt of the complaint and keep SEBI informed about the number, nature and other particulars of the complaints received;

(3) in case of any change in the status and constitution, the sub- broker shall obtain prior permission of SEBI to continue to buy, sell or deal in securities in any stock exchange; and

(4) he is authorised in writing by a stock-broker being a member of a stock exchange for affiliating himself in buying, selling or dealing in securities.

The applicant sub-broker shall submit the required documents to the stock exchange with the recommendation of a Trading Member. After verifying the documents, the stock exchange may forward the documents of the applicant sub-broker to SEBI for registration. A sub-broker can trade in that capacity after getting himself registered with SEBI. The Exchange may not forward the said application of the sub-broker to SEBI for registration if the applicant is found to have introduced or otherwise dealt with fake, forged, stolen, counterfeit etc. shares and securities in the market.

Other Requirements

The Trading Member has to issue contract notes for all trades in respect of its sub-broker in the name of the sub-broker and the sub-broker shall, in turn issue purchase/sale notes to his clients as per the format prescribed by the Exchange.

The Trading Member with whom the sub-broker is affiliated is responsible for:

(1) ensuring the compliance by a sub-broker of the Rules, Bye-laws and Regulations of the Exchange

(2) inspecting that the sub-brokers are registered and recognized

(3) Ensuring that the sub-brokers function in accordance with the Scheme, Rules, Byelaws, Regulations etc. of the Exchange/NSCCL and the SEBI Regulations etc.

(4) Informing the sub-broker and keeping him apprised about trading/settlement cycles, delivery/payment schedules and any changes therein from time to time.

(5) Reporting any default or delay in carrying out obligations by any of the sub-brokers affiliated to him, to all other stock brokers with whom the said sub-broker is affiliated.

Cancellation of Registration

In case a Trading Member/Sub-broker intends to cancel the registration as a sub-broker, the sub-broker is required to submit the original SEBI Registration certificate through their affiliated Trading Member. While applying for cancellation of registration, the affiliated Trading Member needs to give a public notification to this effect.

For further details, Circular No. 199 dated June 15, 2001 (Ref.No.: NSE/MEM/2618) may be referred to.

3.3 BROKER-CLIENTS RELATIONS

3.3.1. Know your client

The TM shall enter into an agreement in the specified format provided by NSE with the client before accepting orders on latter's behalf. The said agreement shall be executed on non-judicial stamp paper of adequate value, duly signed by both the parties on all the pages. Copy of the said agreement is to be kept with the TM permanently.

In addition to the agreement, the TM shall seek information from the client in the 'Client Registration Application Form' obtaining information like: investor risk profile, financial profile, investor identification details, address details, income, PAN number, employment, age, investments, other assets and financial liabilities. The TM shall obtain recent passport size photographs of each of their clients in case of individual clients and of all partners in case of partnership firms and of the dominant promoter in case of corporate clients. The TM shall also take proof of identification and address of the client.

Trading Member shall make the Constituent aware of trading segment to which Trading Member is admitted, particulars of SEBI registration number, employee primarily responsible for the Constituents affairs, the precise nature of the Trading Member's liability for business to be conducted, basic risks involved in trading on the Exchange (equity and other instruments) including any limitations on the liability and the capacity in which the Trading Member acts and the Constituent's liability thereon, investors' rights and obligations, etc. by issuing to the Constituent a Risk Disclosure Document in such format, as may be prescribed by the Exchange from time to time and shall obtain the same from his Constituents duly signed.

Execution of client registration form, member constituent agreement and Risk Disclosure Document is optional in case of institutional clients

A stock-broker shall not deal knowingly, directly or indirectly, with a client who defaults to another stock-broker. There is no limit on the number of clients for a TM.

3.3.2 Unique Client Code

SEBI made it mandatory for all brokers to use unique client codes for all clients. Brokers shall collect and maintain in their back office the Permanent Account Number (PAN) allotted by Income Tax Department for all their clients.

Brokers shall verify the documents with respect to the unique code and retain a copy of the document. They shall also be required to furnish the above particulars of their clients to the stock exchanges/clearing corporations and the same would be updated before placing orders for the clients. The stock exchanges shall be required to maintain a database of client details submitted by brokers.

3.3.3 Margins from the Clients

Members should have a prudent system of risk management to protect themselves from client default. Margins are likely to be an important element of such a system. The same shall be well documented and be made accessible to the clients and the Stock Exchanges. However, the quantum of these margins and the form and mode of collection are left to the discretion of the members (SEBI/MRD/DoP/SE/Cir–07/2005 dated February 23, 2005). The margin so collected shall be kept separately in the client bank account and utilized for making payment to the clearing house for margin and settlement with respect to that client.

3.3.4 Execution of Orders

Where the constituent requires an order to be placed or any of his order to be modified after the order has entered the system but has not been traded, the Trading Member may, if it so desires, obtain order placement/modification details in writing from the constituent. The Trading Member shall accordingly provide the constituent with the relevant order confirmation/modification slip or copy thereof, forthwith, if so required by the constituent.

Where the constituent requires any of his orders to be cancelled after the order has been entered in the system but has not been executed, the Trading Member may, if it so desires, obtain the order cancellation details in writing from the constituent. The Trading Member shall accordingly provide the constituent with the relevant order cancellation details, forthwith, if so required by the constituent. The Trading Member may, if it so desires, obtain in writing, the delivery and payment requirement in any instructions of an order that it receives from the constituent.

Where a Trading Member receives a request for order modification or order cancellation from the constituent, it shall duly bring it to their notice that if the order results in a trade in the meantime, the requests for modification or cancellation cannot be executed.

3.3.5 Contract Note

Contract note is a confirmation of trade(s) done on a particular day for and on behalf of a client. A stock-broker shall issue a contract note to his clients for trades (purchase/sale of securities) executed with all relevant details as required therein to be filled in (refer to SEBI circular no. SMD/SED/CIR/23321 dated November 18, 1993). A contract note shall be issued to a client within 24 hours of the execution of the contract duly signed by the TM or his Authorized Signatory.

As per Regulation 18 of SEBI (Stock-Brokers & Sub-Brokers) Regulations, 1992, the TM shall preserve the duplicate copy of the contract notes issued for a minimum of five years.

The TM shall ensure that:

(a) contract notes are in the prescribed format,
(b) stamp duty is paid,
(c) all statutory levies are shown separately in the contract note, and
(d) contract notes are signed by the TM or by an authorised signatory TM.

The contract note should contain name and address (registered office address as well as dealing office address) of the TM, the SEBI registration number of the TM, details of trade viz. order number, trade number, order time, trade time, security name, quantity, trade price, brokerage, settlement number and details of other levies.

3.3.6 Payments/Delivery of Securities to the Clients

Every TM shall make payments to his clients or deliver the securities purchased within one working day of pay-out unless the client has requested otherwise.

3.3.7 Brokerage

The maximum brokerage chargeable by TM in respect of trades effected in the securities admitted to dealing on the CM segment of the Exchange is fixed at 2.5% of the contract price, exclusive of statutory levies. This maximum brokerage is inclusive of sub-brokerage. The brokerage shall be indicated separately from the price, in the contract note. The TM may not share brokerage with a person who is a TM or in employment of another TM.

3.3.8 Segregation of Bank Accounts

The TM should maintain separate bank accounts for client's funds and own funds. It shall be compulsory for all TMs to keep the money of the clients in a separate account and their own money in a separate account. Funds shall be transferred from the client account to the clearing account for the purpose of funds pay-in obligations on behalf of the clients and vice-versa in case of funds pay-out. No payment for transaction in which the TM is taking position as a principal will be allowed to be made from the client's account.

3.3.9 Segregation of Demat (Beneficiary) Accounts

The Trading Members shall keep the dematerialised securities of Constituents in a separate beneficiary account distinct from the beneficiary account maintained for holding their own dematerialised securities. No delivery towards the own transactions of the Trading Members shall be allowed to be made from the account meant for Constituents. For this purpose, every Trading Member is required to open a beneficiary account in the name of the Trading Member exclusively for the securities of the Constituents (to be referred to as "Constituents beneficiary account"). A Trading Member may keep one consolidated Constituents' beneficiary account for all its Constituents or different accounts for each of its Constituents as it may deem fit.

3.4 SUB-BROKER-CLIENTS RELATIONS

3.4.1 Sub-broker

Sub-broker is an important intermediary between stock broker and client in Capital Market segment

"Sub-broker" means any person not being a member of a stock exchange who acts on behalf of a stock broker as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such stock brokers.

3.4.2 Registration

A broker shall deal with a person who is acting as a sub-broker only if such person is registered with SEBI as a sub-broker. It is a responsibility of a

Broker to ensure that none of its client is acting as a sub-broker unless it is registered with SEBI.

A broker of the Exchange executing transactions on behalf of its clients through a broker of other stock exchange is also required to be registered with SEBI as sub-broker of respective broker.

Application for sub-broker registration has to be submitted to the Exchange with recommendation of the associated stock broker, in a prescribed format.

3.4.3 Relationship with clients/role

A sub-broker shall have to enter into a tripartite agreement with its clients and the stock broker specifying the scope of rights and obligations of the sub-broker, stock broker and such client of the sub-broker as per format prescribed by SEBI for dealing in securities in cash segment. There shall be privity of contract between the stock broker and the sub-broker's client. A separate agreement has to be executed for each Exchange.

Sub-broker will help the client in redressal of grievance in respect of transactions executed through its associated broker. Sub-broker will also assist and co-operate in ensuring faster settlement of any arbitration proceeding arising out of the transaction entered through its associated broker and shall be jointly / severally liable to implement the arbitration award.

A sub-broker will provide assistance to stock broker and clients introduced to by it to reconcile their accounts at the end of each quarter with reference to all the settlements where payouts have been declared during the quarter.

3.4.4 Contract notes

A stock broker shall issue contract note as per the format prescribed by the Exchange to client introduced through a sub-broker. A sub-broker shall render necessary assistance to its client in obtaining the contract note from the stock broker. Sub-broker shall not issue any purchase/sale note or confirmation memo to its client.

3.4.5 Securities/ Funds

Transactions in securities executed on behalf of a client introduced through the sub-broker shall be settled by delivery/ payment between the stock broker and the client directly, in accordance of the rules, regulations and byelaws of the Exchange and such settlements shall not take place through sub-broker. Delivery of securities and payment of funds relating to the transactions of a client introduced by the sub-broker shall be directly between the stock broker and the client of the sub broker.

3.4.6 Sub-brokerage

Sub-broker is entitled to sub-brokerage not exceeding 1.5% of the transaction value.

3.5 DISPUTE, ARBITRATION AND APPEAL

Investor complaints received against the trading members / companies in respect of claims/disputes for transactions executed on the Exchange are handled by the Investor Service Cell (ISC). The complaints are forwarded to the trading members for resolution and seeking clarifications. The ISC follows-up with the trading members and makes efforts to resolve the complaint expeditiously. However, in certain cases, on account of conflicting claims made by the investor and the trading member, when it is not possible to administratively resolve the complaint, investors are advised to take recourse to the arbitration mechanism prescribed by the Exchange.

Arbitration, which is a quasi judicial process, is an alternate dispute resolution mechanism prescribed under the Arbitration and Conciliation Act, 1996. The Exchange Bye Laws prescribe the provisions in respect of Arbitration and the procedure therein has been prescribed in the Regulations.

The claim, difference or dispute between the trading members inter se, between trading members and constituents/registered sub-brokers between investors and listed companies arising out of transactions executed on the Exchange can be referred to arbitration in accordance with the provisions prescribed under the Byelaws and Regulations of the Exchange. To establish that the disputes have arisen out of trades done on the Exchange, it is essential that the parties produce adequate documents viz. contract notes, bills, ledger accounts, etc.

The aggrieved parties can file for arbitration at the regional centres viz. Mumbai, Delhi, Kolkata and Chennai based on the region where the constituent ordinarily resides. The reference for arbitration should be filed within six months from the date when the dispute arose between the parties in the prescribed form along with a list of Arbitrators (selected from the names of persons who are eligible to act as Arbitrators provided by the Exchange). The time taken by ISC for resolution of the complaint is excluded by the Arbitrator, while considering the issue of limitation.

The arbitration application received from the applicant (aggrieved party) is forwarded to the other party i.e. the respondent. The respondent is called upon to file his reply along with the list of Arbitrators within the specified time. The parties (applicant and respondent) have to select seven names in the descending order of preference from the eligible list of Arbitrators if arbitration reference is filed at Mumbai and five names in the descending order of preference from the eligible list of Arbitrators if arbitration reference is filed at Delhi, Chennai or Kolkata.

The sole arbitrator or panel of arbitrators to whom the highest preference has been given by both the parties is/are appointed by the Exchange to conduct the arbitration proceeding and pass the award in the respective arbitration matter. If no common person/s are identifiable from the list submitted by both the parties, the sole arbitrator or panel of Arbitrators is/are appointed by the Exchange from the list of persons eligible to act as Arbitrators after excluding the names of Arbitrators given by the parties. Sole Arbitrator is appointed if the claim amount is upto Rs.25 lakhs and panel of Arbitrators comprising of three persons are appointed if the claim amount is more than Rs.25 lakhs based on the list of Arbitrators submitted by the parties. The sole Arbitrator/panel of Arbitrators would fix a hearing in the matter unless both parties waive their right for such hearing in writing. In cases the claim amount is Rs. 25,000/- or less, it is not mandatory to hold a hearing of the parties and the matter is decided based on the documents and submissions made by the parties. In case, either of the parties fails to make submissions/be present for the hearing repeatedly, even though notices has been issued, the Arbitrator may proceed to decide the matter ex-parte.

Based on the submissions made by the parties and the documentary evidence produced before the Arbitrator, the award is passed by the Arbitrator. The award is pronounced in writing and signed by the sole Arbitrator or in case of a panel of Arbitrators by all the three Arbitrators. The Arbitrator may include an interest component on the amount awarded, at such rate and for such period, as the Arbitrator deems reasonable. In case the award is passed in favor of the constituent (investor) the trading member is requested to comply with the award failing which the award amount is debited and set aside from the available deposit of the trading member.

The party who is aggrieved with the arbitration award can initiate appropriate steps for setting aside the award by filing a petition in the appropriate court under section 34 of the Arbitration and Conciliation Act, 1996. The petition has to be filed normally within a period three months from the date of receipt of the award. On expiry of three months, the award amount set aside shall be released to the constituent incase petition is not filed under section 34 of the Arbitration and Conciliation Act, 1996 by either of the parties. In case petition is filed, the award amount set aside is dealt in accordance with the court order.

3.6 CODE OF ADVERTISEMENT

Trading Members of the Exchange while issuing advertisements in the media have to comply with the Code of Advertisement prescribed by the Exchange. In pursuance of that, a copy of an advertisement has to be submitted to the Exchange to get a prior approval before its issue in publication/media.

Trading members not complying with the Code of Advertisement may have to face disciplinary proceedings. The code of advertisement is as under:

(1) The term advertisement as referred in this code shall have the following meaning: Advertisement means and includes any document, pamphlets, circulars, brochures, notice or any research reports, material published, or designed for use in a newspaper, magazine or other periodical, radio, television, telephone or tape recording, video tape display, signs or bill boards, motion pictures, telephone directories (other than routine listings) or other public media, whether in print or audio visual form.

(2) The trading member should designate and authorise a person to ensure the correctness of the information given in any advertisement.

(3) The trading member issuing any such advertisement should inform the name of such authorized person to the Exchange.

(4) The advertisement should be related to the nature of services that the trading member can offer. If the trading member is engaged in any other business then any advertisement if permissible for such business should not indicate the name of the Trading member as a member of the Exchange.

(5) The advertisement should be written in clear language and should not be such which may prejudice interest of the investors in general.

(6) The advertisement should not contain any confusing, misleading or offensive information.

(7) It should be free from inaccuracies.

(8) The advertisement should not contain a recommendation regarding purchase or sale of any particular share or security of any company. It should not make any promise including guaranteeing of any return to the investing public.

(9) The material should not contain anything which is otherwise prohibited.

(10) The Advertisement shall contain:
   a) Name and/or his logo, code of National Stock Exchange membership.
   b) Registration Number allotted by the Securities and Exchange Board of India.

(11) The Advertisement may be issued individually or jointly with other Trading members provided that the trading member shall not allow its name to be advertised or caused to be published in the advertisement of other trading members, unless such advertisement is issued by it.

(12) In the event of suspension of any trading member by the Exchange, the trading member so suspended shall not issue any advertisement either singly or jointly with any other trading member, during the period of suspension.

(13) In the event of any proceeding/action initiated against a Trading member by a regulatory body other than National Stock Exchange, National Stock Exchange reserves the right to direct the trading member to refrain from issuing any advertisement for such a period as it may deem fit.

(14) National Stock Exchange reserves the right to call for the advertisement and/or such other information/explanation as it may require, after the publication of the said advertisement. National Stock Exchange shall have cease and desist powers in this behalf.

SEBI has advised the Stock Exchanges to ensure that their brokers/sub-brokers do not advertise their business, including in their internet sites, by subsidiaries, group companies etc., in prohibition of code of conduct specified in the Schedule II of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992 (SEBI circular Ref. No. SMDRP/Policy/Cir-49/2001 Dated October 22, 2001). The code of conduct in the regulations require a stock broker/sub-broker not to advertise his business publicly unless permitted by the stock exchange and not to resort to unfair means inducing clients from other stock brokers.

Model Questions

1. Which of the following are the benefits to the trading membership of NSE?

   (a) Access to a nation-wide trading facility for equities, derivatives, debt and hybrid instruments / products.
   (b) Ability to provide a fair, efficient and transparent securities market to the investors.
   (c) Dealing with an organization which follows strict standards for trading and settlement at par with those available at the top international bourses.
   (d) all of the above.
   Ans. (d)

2. In NSEIL, the minimum paid-up capital required for a member (a corporate) in Capital Market segment is _______.
   (a) Rs. 75 lakhs
   (b) Rs. 100 lakhs
   (c) Rs. 50 lakhs
   (d) Rs. 30 lakhs
   Ans. (d)

3. Which of the following documents/information do the trading members of NSE have to submit on an annual basis as part of the continuing membership norms?
   (a) Audited Annual Accounts
   (b) Net worth certificate
   (c) Shareholding Pattern
   (d) All of the above.
   Ans. (d)

4. Which of the following statements is true about arbitration?
   (a) The reference for arbitration should be filed within six months from the date when the dispute arose between the parties along with a list of arbitrators.
   (b) The arbitration application received from the applicant is forwarded to the respondent.
   (c) The respondent is called upon to file his reply along with his list of arbitrators within the specified time.
   (d) All of the above statements are true.
   Ans. (d)

5. SEBI made it mandatory for all brokers to use __________ for all clients.
(a) Permanent account number
(b) Driving license number
(c) Bank account number
(d) Unique client code
Ans. (d)

6. As per the Code of Conduct prescribed in the SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992, a stock broker/sub-broker should seek permission from ______ for advertising business publicly.
(a) the stock exchange
(b) SEBI
(c) The Brokers' Association
(d) SAT
Ans. (a)

7. A contract note shall be issued to a client within _________ hours of the execution of the contract duly signed by the trading member.
(a) 24
(b) 36
(c) 42
(d) no time limit
Ans. (a)

8. If a client has sold 10000 shares of a scrip @ Rs. 50, what is the maximum brokerage that the client can be charged?
(a) Rs. 2,500
(b) Rs. 12,500
(c) Rs. 7,500
(d) no limit
Ans. (b)

Working:
Maximum brokerage = brokerage rate*value of the transaction
=2.5 %*(10000 shares*Rs. 50) = Rs. 12,500

CHAPTER 4

LEGAL FRAMEWORK

This section deals with legislative and regulatory provisions relevant from the viewpoint of a trading member. The five main legislations governing the securities market are:(a) the Securities Contracts (Regulation) Act, 1956, which provides for regulation of transactions in securities through control over stock exchanges; (b) the Companies Act, 1956, which sets out the code of conduct for the corporate sector in relation to issue, allotment and transfer of securities, and disclosures to be made in public issues; (c) the SEBI Act, 1992 which establishes SEBI to protect investors and develop and regulate securities market; (d) the Depositories Act, 1996 which provides for electronic maintenance and transfer of ownership of dematerialised securities and (e) the Prevention of Money Laundering Act, 2002 which prevents money laundering and provides for confiscation of property derived from or involved in money laundering.

Legislations

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. It was retained with some modifications as a means of controlling the raising of capital by companies and to ensure that national resources were channelled into proper lines, i.e., for desirable purposes to serve goals and priorities of the government, and to protect the interests of investors. Under the Act, any firm wishing to issue securities had to obtain approval from the Central Government, which also determined the amount, type and price of the issue. As a part of the liberalisation process, the Act was repealed in 1992 paving way for market determined allocation of resources.

Securities Contracts (Regulation) Act, 1956

It provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities. 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. As a condition of recognition, a stock exchange complies with conditions prescribed by Central Government. Organised trading activity in securities takes place on a specified recognised stock exchange. The stock exchanges determine their own listing regulations which have to conform to the minimum listing criteria set out in the Rules.

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. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. It can conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act. It has powers to register and regulate all market intermediaries and also to penalise them in case of violations of the provisions of the Act, Rules and Regulations made thereunder. SEBI has full autonomy and authority to regulate and develop an orderly securities market.

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) dematerialising the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form. In order to streamline the settlement process, the Act envisages transfer of ownership of securities electronically by book entry without making the securities move from person to person. The Act has made the securities of all public limited companies freely transferable, restricting the company's right to use discretion in effecting the transfer of securities, and the transfer deed and other procedural requirements under the Companies Act have been dispensed with.

Companies Act, 1956

It deals with issue, allotment and transfer of securities and various aspects relating to company management. It provides for standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and management perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information.

Prevention of Money Laundering Act, 2002

The primary object of the Act is to prevent money-laundering and to provide for confiscation of property derived from or involved in money-laundering.

The term money-laundering is defined as whoever acquires, owns, possess or transfers any proceeds of crime; or knowingly enters into any transaction which is related to proceeds of crime either directly or indirectly or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India commits the offence of money-laundering.

Besides providing punishment for the offence of money-laundering, the Act also provides other measures for prevention of Money Laundering. The Act also casts an obligation on the intermediaries, banking companies etc to furnish information, of such prescribed transactions to the Financial Intelligence Unit- India, to appoint a principal officer, to maintain certain records etc.

Rules and Regulations

The Government has framed rules under the SC(R)A, SEBI Act and the Depositories Act. SEBI has framed regulations under the SEBI Act and the Depositories Act for registration and regulation of all market intermediaries, for prevention of unfair trade practices, insider trading, etc.

Under these Acts, Government and SEBI issue notifications, guidelines, and circulars, which need to be complied with by market participants.

The self-regulatory organisaitons (SROs) like stock exchanges have also laid down their rules and regulations for market participants.

Regulators

The regulators ensure that the market participants behave in a desired manner so that the securities market continue to be a major source of finance for corporates and government and the interest of investors are protected.

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 Securities and Exchange Board of India (SEBI) as may be seen from the Table 4.1.

Table 4.1: Regulation of the securities market

Acts	Section	Powers	Exercisable by
Securities Contracts (Regulation) Act, 1956	4A	Corporatisation and demutualisation of stock exchanges	SEBI
	4B	Procedure for Corporatisation and demutualisation	
	6	Call for periodical returns or direct inquiries to be made	
	8A	Clearing Corporation	
	9	Approval of byelaws of recognised stock exchanges	
	10	Make or amend bye-laws of recognised stock exchanges	
	12A	Power to issue directions	
	13A	Additional trading floor	
	17	Licensing of dealers in securities in certain areas	
	3	Application for recognition of stock exchanges	Central Government and concurrently exercisable by SEBI
	4	Grant of recognition to stock exchanges	
	5	Withdrawal of recognition	
	7	Submission of Annual Report	
	7A	Rules restricting voting rights	
	8	Direct rules to be made or to make rules	
	11	Supersede governing body of a recognised stock exchanges	
	12	Suspend business of recognised stock exchanges	
	13	Contracts in notified areas illegal in certain circumstances	
	14	Contracts in notified areas void in certain circumstances	
	16	Prohibition of contracts	
	18	Exclusion of spot delivery contracts	
	22	Right of Appeal against refusal to list	
	28	Inapplicability of the SC(R)A in certain cases	
	21A	Appeal against the decision of recognised stock exchange to delist the securities	SAT
	22A	Appeal against refusal by stock exchanges to list securities of public companies	
	22B	Procedures and Powers of SAT	
	16	Prohibition of Contracts	Central Government and concurrently exercisable by SEBI and RBI
	22F	Appeal against the decision of SAT	Supreme Court
	All other powers under the Act		Central Government
	Securities Contracts (Regulation) Rules, 1992		SEBI
	Rules, Regulations and Bye-Laws		Stock Exchanges

Acts	Sections	Powers	Exercisable by
SEBI Act, 1992	3, 5 & 6 13 14 15 15K to 15S 16 17 18 20 24B 29 31 34	Establishment and Management of SEBI Establishment of SAT To issue directions To supersede SEBI SEBI to submit returns and reports To make rules Rules and Regulations to be laid before Parliament	Central Government
	15T & 15U 24A	Appellate powers Composition of certain offences	SAT
	4	Management of Board	Central Government and RBI
	15Z	Appeal to Supreme Court	Supreme Court
	All other powers		SEBI
Depositories Act, 1996	22B 23 24 27 29	Power to grant immunity Appeals To make rules Rules and Regulations to be laid before the Parliament Removal of difficulties	Central Government
	23A & 23B	Appellate powers	SAT
	22A 23F	Composition of certain offences Appeal against order or decision of SAT	Supreme Court
	26	To make bye-laws	Depositories
	All other powers		SEBI
Companies Act, 1956	55 to 58, 59 to 81, 108 to 110, 112, 113, 116 to 122, 206, 206A, 207	Issue of securities, transfer of securities, and non-payment of dividend in case of listed public companies and in case of those public companies which intend to get their securities listed on any recognised stock exchange in India.	SEBI
	108A to 108E 108I		Central Government

* Government has issued notifications providing that the contracts for sale and purchase of government securities, gold-related securities, money market securities and securities derived from these securities and ready forward contracts in debt securities shall be regulated by RBI. Such contracts, if executed on stock exchanges, shall, however, be regulated by SEBI in a manner that is consistent with the guidelines issued by RBI.

Most of the powers under the SC(R)A are excercisable by Central Government, while a few others by SEBI. The powers of the Central Government under the SC(R)A are also con-currently exercised by SEBI. 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. The SEBI Act and the Depositories Act are mostly administered by SEBI. All these are administered by SEBI. The powers under the Companies Act relating to issue and transfer of securities and non-payment of dividend are administered by SEBI in case of listed public companies and public companies proposing to get their securities listed. The SROs ensure compliance with their own rules relevant for them under the securities laws.

4.1 SECURITIES CONTRACTS (REGULATION) ACT, 1956

The Securities Contracts (Regulation) Act, 1956 [SC(R)A] was enacted to prevent undesirable transactions in securities by regulating the business of dealing therein and by providing for certain other matters connected therewith. This is the principal Act, which governs the trading of securities in India.

The definitions of some of the important terms are given below:

'Recognised Stock Exchange' means a stock exchange, which is for the time being recognised by the Central Government under Section 4 of the SC(R)A.

'Stock Exchange' means –

(a) any body of individuals, whether incorporated or not, constituted before corporatisation and demutualization under sections 4A and 4B, or

(b) a body corporate incorporated under the Companies Act, 1956 (1 of 1956) whether under a scheme of corporatisation and demutualization or otherwise,

for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.

As per Section 2(h), the term "securities" include-

(i) shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate,

(ii) derivative,

(iii) units or any other instrument issued by any collective investment scheme to the investors in such schemes,

(iv) Security receipts as defined in clause (zg) of section 2 of the Securisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act 2002 (SARFAESI)

(v) units or any other such instrument issued to the investors under any mutual fund scheme,

(vi) any certificate or instrument issued to an investor by any issuer being a special purpose distinct entity which possesses any debt or receivable, including mortgage debt, assigned to such entity, and acknowledging

beneficial interest of such investor in such debt or receivable, including mortgage debt, as the case maybe.

(vii) government securities,

(viii) such other instruments as may be declared by the Central Government to be securities, and

(ix) rights or interests in securities.

As per section 2(aa), "Derivative" includes-

A. a security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security;

B. a contract which derives its value from the prices, or index of prices, of underlying securities;

Section 18A provides that notwithstanding anything contained in any other law for the time being in force, contracts in derivative shall be legal and valid if such contracts are-

(i) traded on a recognised stock exchange;

(ii) settled on the clearing house of the recognised stock exchange, in accordance with the rules and bye-laws of such stock exchanges.

In accordance with the rules and bye-laws of such stock exchange.

"Spot delivery contract" has been defined in Section 2(i) to mean a contract which provides for-

(a) actual delivery of securities and the payment of a price therefore either on the same day as the date of the contract or on the next day, the actual period taken for the despatch of the securities or the remittance of money therefore through the post being excluded from the computation of the period aforesaid if the parties to the contract do not reside in the same town or locality;

(b) transfer of the securities by the depository from the account of a beneficial owner to the account of another beneficial owner when such securities are dealt with by a depository.

The SC(R)A deals with-

1. stock exchanges, through a process of recognition and continued supervision,
2. contracts & options in securities, and
3. listing of securities on stock exchanges.

Recognition of stock exchanges

By virtue of the provisions of the Act, the business of dealing in securities cannot be carried out without registration from SEBI. Any Stock Exchange which is desirous of being recognised has to make an application under Section 3 of the Act to SEBI, which is empowered to grant recognition and prescribe conditions. This recognition can be withdrawn in the interest of the trade or public.

Section 4A of the Act was added in the year 2004 for the purpose of corporatisation and demutualisation of stock exchange. Under section 4A of the Act, SEBI by notification in the official gazette may specify an appointed date on and from which date all recognised stock exchanges have to corporatise and demutualise their stock exchanges. Each of the Recognised stock exchanges which have not already being corporatised and demutualised by the appointed date are required to submit a scheme for corporatisation and demutualization for SEBI's approval. After receiving the scheme SEBI may conduct such enquiry and obtain such information as be may be required by it and after satisfying that the scheme is in the interest of the trade and also in the public interest, SEBI may approve the scheme.

SEBI is authorised to call for periodical returns from the recognised Stock Exchanges and make enquiries in relation to their affairs. Every Stock Exchange is obliged to furnish annual reports to SEBI. Recognised Stock Exchanges are allowed to make bylaws for the regulation and control of contracts but subject to the previous approval of SEBI and SEBI has the power to amend the said bylaws. The Central Government and SEBI have the power to supersede the governing body of any recognised stock exchange. The Central Government and SEBI also have power to suspend the business of the recognised stock exchange to meet any emergency as and when it arises, by notifying in the official gazette.

Contracts and Options in Securities

Organised trading activity in securities takes place on a recognised stock exchange. If the Central Government is satisfied, having regard to the nature or the volume of transactions in securities in any State or States or area, that it is necessary so to do, it may, by notification in the Official Gazette, declare provisions of section 13 to apply to such State or States or area, and thereupon every contract in such State or States or area which is entered into after date of the notification otherwise than between members of a recognised stock exchange or recognised in stock exchanges in such State or States or area or through or with such member shall be illegal. The effect of this provision clearly is that if a transaction in securities has to be validly entered into, such a transaction has to be either between the members of a recognised stock exchange or through a member of a Stock Exchange.

Listing of Securities

Where securities are listed on the application of any person in any recognised stock exchange, such person shall comply with the conditions of the listing agreement with that stock exchange (Section 21). Where a recognised stock exchange acting in pursuance of any power given to it by its bye-laws, refuses to list the securities of any company, the company shall be entitled to be furnished with reasons for such refusal and the company may appeal to Securities Appellate Tribunal (SAT) against such refusal.

Delisting of Securities

A recognised stock exchange may delist the securities of any listed companies on such grounds as are prescribed under the Act. Before delisting any company from its exchange, the recognised stock exchange has to give the concerned company a reasonable opportunity of being heard and has to record the reasons for delisting that concerned company. The concerned company or any aggrieved investor may appeal to SAT against such delisting. (Section 21A)

4.2 SECURITIES CONTRACTS (REGULATION) RULES, 1957

The Central Government has made Securities Contracts (Regulation) Rules, 1957, in the exercise of the powers conferred by section 30 of SC(R) Act., 1956 for carrying out the purposes of that Act. The powers under the SC(R)R, 1957 are exercisable by SEBI.

Contracts between members of recognised stock exchange

All contracts between the members of a recognised stock exchange shall be confirmed in writing and shall be enforced in accordance with the rules and bye-laws of the stock exchange of which they are members (Rule 9).

Books of account and other documents to be maintained and preserved by every member of a recognised stock exchange :

(i) Every member of a recognised stock exchange shall maintain and preserve the following books of account and documents for a period of five years:

(a) Register of transactions (Sauda book).

(b) Clients' ledger.

(c) General ledger.

(d) Journals.

(e) Cash book.

(f) Bank pass-book.

(g) Documents register showing full particulars of shares and securities received and delivered.

(2) Every member of a recognised stock exchange shall maintain and preserve the following documents for a period of two years:

(a) Member’s contract books showing details of all contracts entered into by him with other members of the same exchange or counter-foils or duplicates of memos of confirmation issued to such other members.

(b) Counter-foils or duplicates of contract notes issued to clients.

(c) Written consent of clients in respect of contracts entered into as principals. (Rule 15)

4.3 SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992

Major part of the liberalisation process was the repeal of the Capital Issues (Control) Act, 1947, in May 1992. With this, Government’s control over issues of capital, pricing of the issues, fixing of premia and rates of interest on debentures etc. ceased, and the office which administered the Act was abolished: the market was allowed to allocate resources to competing uses. However, to ensure effective regulation of the market, SEBI Act, 1992 was enacted to establish 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.

Its regulatory jurisdiction extends over companies listed on Stock Exchanges and companies intending to get their securities listed on any recognized stock exchange in the issuance of securities and transfer of securities, in addition to all intermediaries and persons associated with securities market. SEBI can specify the matters to be disclosed and the standards of disclosure required for the protection of investors in respect of issues; can issue directions to all intermediaries and other persons associated with the securities market in the interest of investors or of orderly development of the securities market; and can conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act. In short, it has been given necessary autonomy and authority to regulate and develop an orderly securities market. All the intermediaries and persons associated with securities market, viz., brokers and sub-brokers, underwriters, merchant bankers, bankers to the issue, share transfer agents and registrars to the issue, depositories, Participants, portfolio managers, debentures trustees, foreign institutional investors, custodians, venture capital funds, mutual funds, collective investments schemes, credit rating agencies, etc., shall be registered with SEBI and shall be governed by the SEBI Regulations pertaining to respective market intermediary.

Constitution of SEBI

The Central Government has constituted a Board by the name of SEBI under Section 3 of SEBI Act. The head office of SEBI is in Mumbai. SEBI may establish offices at other places in India.

SEBI consists of the following members, namely:-

(a) a Chairman;
(b) two members from amongst the officials of the Ministry of the Central Government dealing with Finance and administration of Companies Act, 1956;
(c) one member from amongst the officials of the Reserve Bank of India;
(d) five other members of whom at least three shall be whole time members to be appointed by the Central Government.

The general superintendence, direction and management of the affairs of SEBI vests in a Board of Members, which exercises all powers and do all acts and things which may be exercised or done by SEBI.

The Chairman also have powers of general superintendence and direction of the affairs of the Board and may also exercise all powers and do all acts and things which may be exercised or done by the Board.

The Chairman and members referred to in (a) and (d) above shall be appointed by the Central Government and the members referred to in (b) and

(c) shall be nominated by the Central Government and the Reserve Bank respectively.

The Chairman and the other members are from amongst the persons of ability, integrity and standing who have shown capacity in dealing with problems relating to securities market or have special knowledge or experience of law, finance, economics, accountancy, administration or in any other discipline which, in the opinion of the Central Government, shall be useful to SEBI.

Functions of SEBI

SEBI has been obligated to protect the interests of the investors in securities and to promote and development of, and to regulate the securities market by such measures as it thinks fit. The measures referred to therein may provide for:-

(a) regulating the business in stock exchanges and any other securities markets;
(b) registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner;
(c) registering and regulating the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries as SEBI may, by notification, specify in this behalf;
(d) registering and regulating the working of venture capital funds and collective investment schemes including mutual funds;
(e) promoting and regulating self-regulatory organisations;
(f) prohibiting fraudulent and unfair trade practices relating to securities markets;
(g) promoting investors' education and training of intermediaries of securities markets;
(h) prohibiting insider trading in securities;
(i) regulating substantial acquisition of shares and take-over of companies;
(j) calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self- regulatory organisations in the securities market;
(k) calling for information and record from any bank or any other authority or board or corporation established or constituted by or under any Central, State or Provincial Act in respect of any transaction in securities which is under investigation or inquiry by the Board;
(l) performing such functions and exercising according to Securities Contracts (Regulation) Act, 1956, as may be delegated to it by the Central Government;
(m) levying fees or other charges for carrying out the purpose of this section;
(n) conducting research for the above purposes;

(o) calling from or furnishing to any such agencies, as may be specified by SEBI, such information as may be considered necessary by it for the efficient discharge of its functions;

(p) performing such other functions as may be prescribed.

SEBI may, for the protection of investors, (a) specify, by regulations for (i) the matters relating to issue of capital, transfer of securities and other matters incidental thereto; and (ii) the manner in which such matters, shall be disclosed by the companies and (b) by general or special orders : (i) prohibit any company from issuing of prospectus, any offer document, or advertisement soliciting money from the public for the issue of securities, (ii) specify the conditions subject to which the prospectus, such offer document or advertisement, if not prohibited may be issued. (Section 11A).

SEBI may issue directions to any person or class of persons referred to in section 12, or associated with the securities market or to any company in respect of matters specified in section 11A. if it is in the interest of investors, or orderly development of securities market to prevent the affairs of any intermediary or other persons referred to in section 12 being conducted in a manner detrimental to the interests of investors or securities market to secure the proper management of any such intermediary or person (Section 11B).

Registration of Intermediaries

The intermediaries and persons associated with securities market shall buy, sell or deal in securities after obtaining a certificate of registration from SEBI, as required by Section 12:

1) Stock-broker,
2) Sub- broker,
3) Share transfer agent,
4) Banker to an issue,
5) Trustee of trust deed,
6) Registrar to an issue,
7) Merchant banker,
8) Underwriter,
9) Portfolio manager,
10) Investment adviser
11) Depository,
12) Participant
13) Custodian of securities,
14) Foreign institutional investor,
15) Credit rating agency or
16) Collective investment schemes,
17) Venture capital funds,
18) Mutual fund, and
19) Any other intermediary associated with the securities market

4.4 SEBI (STOCK BROKERS & SUB-BROKERS) REGULATIONS, 1992

In terms of regulation 2(g), 'small investor' means any investor buying or selling securities on a cash transaction for a market value not exceeding rupees fifty thousand in aggregate on any day as shown in a contract note issued by the stock-broker.

Registration of Stock Broker

A stock broker applies in the prescribed format for grant of a certificate through the stock exchange or stock exchanges, as the case may be, of which he is admitted as a member (Regulation 3). The stock exchange forwards the application form to SEBI as early as possible as but not later than thirty days from the date of its receipt.

SEBI takes into account for considering the grant of a certificate all matters relating to buying, selling, or dealing in securities and in particular the following, namely, whether the stock broker:

(a) is eligible to be admitted as a member of a stock exchange,

(b) has the necessary infrastructure like adequate office space, equipment and man power to effectively discharge his activities,

(c) has any past experience in the business of buying, selling or dealing in securities,

(d) is subjected to disciplinary proceedings under the rules, regulations and bye-laws of a stock exchange with respect to his business as a stock-broker involving either himself or any of his partners, directors or employees, and

(e) is a fit and proper person.

SEBI on being satisfied that the stock-broker is eligible, grants a certificate to the stock-broker and sends intimation to that effect to the stock exchange or stock exchanges, as the case may be. Where an application for grant of a certificate does not fulfill the requirements, SEBI may reject the application after giving a reasonable opportunity of being heard.

Fees by stock brokers

Every applicant eligible for grant of a certificate shall pay such fees and in such manner as specified in Schedule III or schedule IIIA, as the case may be.Provided that SEBI may on sufficient cause being shown permit the stock-broker to pay such fees at any time before the expiry of six months from the date for which such fees become due (Regulation 10). Where a stock-broker fails to pay the fees, SEBI may suspend the registration certificate, whereupon the stock- broker shall cease to buy, sell or deal in securities as a stock- broker.

Appointment of Compliance Officer

Every stock broker shall appoint a compliance officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions etc issued by SEBI or the Central Government and for redressal of investors' grievances. The compliance officer shall immediately and independently report to SEBI any non-compliance observed by him (Regulation 18A).

Code of conduct

The stock-broker holding a certificate at all times abides by the Code of Conduct as given hereunder:

I. General

1. Integrity: A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.
2. Exercise of Due Skill and Care: A stock-broker, shall act with due skill, care and diligence in the conduct of all his business.
3. Manipulation: A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.
4. Malpractices: A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.
5. Compliance with Statutory Requirements: A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, SEBI and the stock exchange from time to time as may be applicable to him.

II. Duty to the investor

1. Execution of Orders: A stock-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price and not refuse to deal with a small investor merely on the ground of the volume of business involved. A stock-broker shall promptly inform his client about the execution or non-execution of an order, and make prompt payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients.
2. Issue of Contract Note: A stock-broker shall issue without delay to his client or client of the sub-broker, as the case may be a contract note for all transactions in the form specified by the stock exchange.
3. Breach of Trust: A stock-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.
4. Business and Commission:

(a) A stock-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

(b) A stock-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

5. Business of Defaulting Clients: A stock-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities with another stock-broker.
6. Fairness to Clients: A stock-broker, when dealing with a client, shall disclose whether he is acting as a principal or as an agent and shall ensure at the same time that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.
7. Investment Advice: A stock-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The stock-broker should seek such information from clients, wherever he feels it is appropriate to do so.

7A. Investment Advice in publicly accessible media:

(a) A stock broker or any of his employees shall not render, directly or indirectly, any investment advice about any security in the publicly accessible media, whether real - time or non real-time, unless a disclosure of his interest including the interest of his dependent family members and the employer including their long or short position in the said security has been made, while rendering such advice.

(b) In case, an employee of the stock broker is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.

8. Competence of Stock Broker: A stock-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients.

III. Stock-brokers vis-a-vis other stock-brokers

1. Conduct of Dealings: A stock-broker shall co-operate with the other contracting party in comparing unmatched transactions. A stock-broker shall not knowingly and willfully deliver documents which constitute bad delivery and shall co-operate with other contracting parties for prompt replacement of documents which are declared as bad delivery.
2. Protection of Clients Interests: A stock-broker shall extend fullest co-operation to other stock-brokers in protecting the interests of his clients regarding their rights to dividends, bonus shares, right shares and any other rights related to such securities.
3. Transactions with Stock-Brokers: A stock-broker shall carry out his transactions with other stock-brokers and shall comply with his obligations in completing the settlement of transactions with them.
4. Advertisement and Publicity: A stock-broker shall not advertise his business publicly unless permitted by the stock exchange.

5. Inducement of Clients: A stock-broker shall not resort to unfair means of inducing clients from other stock- brokers.
6. False or Misleading Returns: A stock-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board and the stock exchange.

IV. 1. A stock broker, shall enter into an agreement as specified by the Board with his client.

2. A stock broker shall also enter into an agreement as specified by the Board with the client of the sub-broker.

Registration of Sub-Broker

An application by a sub-broker for the grant of a certificate is made in the prescribed format accompanied by a recommendation letter from a stock-broker of a recognised stock exchange with whom he is to be affiliated along with two references including one from his banker ((Regulation 11A). The application form is submitted to the stock exchange of which the stock-broker with whom he is to be affiliated is a member.

The eligibility criteria for registration as a sub-broker are as follows:

(i) in the case of an individual:

(a) the applicant is not less than 21 years of age,
(b) the applicant has not been convicted of any offence involving fraud or dishonesty,
(c) the applicant has atleast passed 12th standard equivalent examination from an institution recognised by the Government, and

Provided that SEBI may relax the educational qualifications on merits having regard to the applicant's experience.

(d) the applicant is a fit and proper person.

(ii) In the case of partnership firm or a body corporate the partners or directors, as the case may be, shall comply with the following requirements:

(a) the applicant is not less than 21 years of age,
(b) the applicant has not been convicted of any offence involving fraud or dishonesty, and
(c) the applicant has atleast passed 12th standard equivalent examination from an institution recognised by the Government.

Provided that SEBI may relax the educational qualifications on merits having regard to the applicant's experience.

The stock exchange on receipt of an application, verifies the information contained therein and certifies that the applicant is eligible for registration. The stock exchange forwards the application form of such applicants who comply with all the requirements specified in the Regulations to SEBI as early as possible, but not later than thirty days from the date of its receipt.

SEBI on being satisfied that the sub-broker is eligible, grants a certificate to the sub-broker and sends intimation to that effect to the stock exchange or stock exchanges as the case may be. SEBI grants a certificate of registration to the appellant subject to the terms and conditions.

Where an application does not fulfill the requirements, SEBI may reject the application after giving a reasonable opportunity of being heard.

The sub-broker shall -

(a) pay the fees as specified in Schedule III,

(b) abide by the Code of Conduct specified in Schedule II,

(c) enter into an agreement with the stock-broker for specifying the scope of his authority and responsibilities.

(d) comply with the rules, regulations and bye-laws of the stock exchange.

(e) not be affiliated to more than one stock broker of one stock exchange.

Code of conduct

The sub-broker at all times abides by the Code of Conduct as given hereunder:

I. General

1. Integrity: A sub-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all investment business.
2. Exercise of Due Skill and Care: A sub-broker, shall act with due skill, care and diligence in the conduct of all investment business.

II. Duty to the Investor

1. Execution of Orders: A sub-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price. A sub-broker shall promptly inform his client about the execution or non-execution of an order.
2. A sub-broker shall render necessary assistance to his client in obtaining the contract note from the stock-broker.
3. Breach of Trust: A sub-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.
4. Business and Commission:

a) A sub-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

b) A sub-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

c) A sub-broker shall not charge from his clients a commission exceeding one and one-half of one percent of the value mentioned in the respective sale or purchase notes.

5. Business of Defaulting Clients: A sub-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities and is in default with another broker or sub-broker.
6. Fairness to Clients: A sub-broker, when dealing with a client, shall disclose that he is acting as an agent ensuring at the same time, that no conflict of

interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.

7. Investment Advice: A sub-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The sub-broker should seek such information from clients, wherever they feel it is appropriate to do so.

7A. Investment Advice in publicly accessible media-

a) A sub-broker or any of his employees shall not render, directly and indirectly any investment advice about any security in the publicly accessible media, whether real-time or non-real-time, unless a disclosure of his interest including his long or short position in the said security has been made, while rendering such advice.

b) In case, an employee of the sub-broker is rendering such advice, he shall also disclose the interest of his dependent family members and the employer including their long or short position in the said security, while rendering such advice.

8. Competence of Sub-broker: A sub-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients and continuous compliance with the regulatory system.

III. Sub-Brokers vis-à-vis Stock Brokers

1. Conduct of Dealings: A sub-broker shall co-operate with his broker in comparing unmatched transactions. A sub-broker shall not knowingly and willfully deliver documents, which constitute bad delivery. A sub-broker shall co-operate with other contracting party for prompt replacement of documents, which are declared as bad delivery.
2. Protection of Clients Interests: A sub-broker shall extend fullest co-operation to his stock-broker in protecting the interests of their clients regarding their rights to dividends, right or bonus shares or any other rights relatable to such securities.
3. Transaction with Brokers: A sub-broker shall not fail to carry out his stock broking transactions with his broker nor shall he fail to meet his business liabilities or show negligence in completing the settlement of transactions with them.
4. Agreement between sub-broker, client of the sub-broker and main broker: A sub-broker shall enter into a tripartite agreement with his client and with the main stock broker specifying the scope of rights and obligations of the stock broker, sub-broker and such client of the sub-broker.
5. Advertisement and Publicity: A sub-broker shall not advertise his business publicly unless permitted by the stock exchange.
6. Inducement of Clients: A sub-broker shall not resort to unfair means of inducing clients from other brokers.

IV. Sub-brokers vis-a-vis Regulatory Authorities

1. General Conduct: A sub-broker shall not indulge in dishonourable, disgraceful or disorderly or improper conduct on the stock exchange nor shall he willfully obstruct the business of the stock exchange. He shall comply with the rules, bye-laws and regulations of the stock exchange.
2. Failure to give Information: A sub-broker shall not neglect or fail or refuse to submit to SEBI or the stock exchange with which he is registered, such books, special returns, correspondence, documents, and papers or any part thereof as may be required.
3. False or Misleading Returns: A sub-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to SEBI or the stock exchanges.
4. Manipulation: A sub-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.
5. Malpractices: A sub-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the public interest or which leads to interference with the fair and smooth functions of the market mechanism of the stock exchanges. A sub-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

4.5 SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 1992

Insider trading is prohibited and is considered an offence vide SEBI (Insider Trading) Regulations, 1992.

The definitions of some of the important terms are given below :

'Dealing in securities' means an act of subscribing, buying, selling or agreeing to subscribe, buy, sell or deal in any securities by any person either as principal or agent.

'Insider' means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to unpublished price sensitive information in respect of securities of a company, or who has received or has had access to such unpublished price sensitive information.

A "connected person" means any person who-

(i) is a director, as defined in clause (13) of section 2 of the Companies Act, 1956 of a company, or is deemed to be a director of that company by virtue of sub-clause (10) of section 307 of that Act, or

(ii) occupies the position as an officer or an employee of the company or holds a position involving a professional or business relationship between himself and the company whether temporary or permanent and who may reasonably be expected to have an access to unpublished price sensitive information in relation to that company.

A person is 'deemed to be a connected person' if such person-

(i) is a company under the same management or group or any subsidiary company thereof within the meaning of section (1B) of section 370, or sub-section (11) of section 372, of the Companies Act, 1956 or sub-clause (g) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969 as the case may be; or

(ii) is an intermediary as specified in section 12 of SEBI Act, 1992, Investment company, Trustee Company, Asset Management Company or an employee or director thereof or an official of a stock exchange or of clearing house or corporation;

(iii) is a merchant banker, share transfer agent, registrar to an issue, debenture trustee, broker, portfolio manager, Investment Advisor, sub-broker, Investment Company or an employee thereof, or, is a member of the Board of Trustees of a mutual fund or a member of the Board of Directors of the Asset Management Company of a mutual fund or is an employee thereof who have a fiduciary relationship with the company;

(iv) is a member of the Board of Directors, or an employee, of a public financial institution as defined in Section 4A of the Companies Act, 1956;

(v) is an official or an employee of a self regulatory organisation recognised or authorised by the Board of a regulatory body;

(vi) is a relative of any of the aforementioned persons;

(vii) is a banker of the company.

(viii) Relatives of the connected person; or

(ix) is a concern, firm, trust, Hindu Undivided Family, company or association of persons wherein any of the connected persons mentioned in sub-clause (i) of clause (c) of this regulation or any of the persons mentioned in sub-clauses (vi), (vii) or (viii) of this clause have more than 10% of the holding or interest

"Price sensitive information" means any information which relates directly or indirectly to a company and which if published is likely to materially affect the price of securities of that company.

The following shall be deemed to be price sensitive information: -

(i) periodical financial results of the company;

(ii) intended declaration of dividends (both interim and final);

(iii) issue of securities or buy-back of securities;

(iv) any major expansion plans or execution of new projects;

(v) amalgamation, mergers or takeovers;

(vi) disposal of the whole or substantial part of the undertaking;

(vii) any significant changes in policies, plans or operations of the company.

Unpublished means information which is not published by the company or its agents and is not specific in nature.

Speculative reports in print or electronic media shall not be considered as published information.

Prohibition on dealing, communicating or counseling (Regulation 3)

No insider shall–

- either on his own behalf or on behalf of any other person, deal in securities of a company listed on any stock exchange when in possession of any unpublished price sensitive information;
- communicate, counsel or procure, directly or indirectly, any unpublished price sensitive information to any person who while in possession of such unpublished price sensitive information shall not deal in securities; Provided that nothing contained above shall be applicable to any communication required in the ordinary course of business or profession or employment or under any law.

Regulation 3A

No company shall deal in the securities of another company or associate of that other company while in possession of any unpublished price sensitive information.

Violation of provisions relating to insider trading

Any insider, who deals in securities in contravention of the provisions of regulation 3 or 3A shall be guilty of insider trading (regulation 4).

If SEBI suspects any person of having violated the provisions of insider regulation, it may make inquiries with such person or with the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organisation in the securities market to form a prima facie opinion as to whether there is any violation of insider regulations.

Where SEBI forms a prima facie opinion that it is necessary to investigate and inspect the books of accounts, either documents and records of an insider or the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organisation in the securities market, it may appoint an investigating authority for the following purpose

i) to investigate into the complaints received from investors, intermediaries or any other person on any matter having a bearing on the allegations of insider trading; and

ii) to investigate sou moto upon its own knowledge or information in its possession to protect the interest of investors in securities against breach of insider trading regulations.

A reasonable notice has to be given to the insider before undertaking any investigation. Such notice is not required to be given if SEBI is satisfied that it is in the public interest or in the interest of the investors. During such investigation and inspection of the books of accounts, the insider or the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organisation in the securities market shall be bound to discharge their obligations as provided in the regulations. The investigating authority has to submit his report to SEBI within reasonable time.

SEBI after considering the report shall communicate its findings to the suspected person and seek a reply from such person. Such suspected person shall reply to the findings within 21 days to SEBI. After receipt of such reply, SEBI may take such measures to safeguard and protect the interest of investors, securities market and for due compliance with the insider trading regulations.

SEBI also has powers to appoint an auditor to investigate into the books of accounts or the affairs of the insider or the stock exchanges, mutual funds, other persons associated with the securities market, intermediaries and self-regulatory organisation in the securities market.

To protect the interest of investor and securities market and for due compliance of the insider trading regulations, SEBI may issue order as per Regulation 11 in accordance with SEBI(Prohibition of Insider Trading) Regulations, 1992 , or initiate criminal prosecution under Section 24 or any action under Chapter VIA of the Securities and Exchange Board of India Act, 1992

Policy on disclosures and internal procedure for prevention of insider trading:

Chapter IV of the Regulations deals with policy on disclosures and internal procedure for prevention of insider trading. Accordingly, all listed companies and organisations associated with securities markets including:

(a) the intermediaries as mentioned in section 12 of the Act, asset management company and trustees of mutual funds;

(b) the self regulatory organisations recognised or authorised by the Board;

(c) the recognised stock exchanges and clearing house or corporations;

(d) the public financial institutions as defined in Section 4A of the Companies Act, 1956; and

(e) the professional firms such as auditors, accountancy firms, law firms, analysts, consultants, etc., assisting or advising listed companies, shall frame a code of internal procedures and conduct as near there to the Model Code specified in Schedule I of these Regulations.

Disclsoures

Disclosure of interest or holding by directors and officers and substantial shareholders in listed companies –

Initial Disclosure:

(1) Any person who holds more than 5% shares or voting rights in any listed company shall disclose to the company in Form A, the number of shares or voting rights held by such person, on becoming such holder, within 4 working days of:-

(a) the receipt of intimation of allotment of shares; or

(b) the acquisition of shares or voting rights, as the case may be.

(2) Any person who is a director or officer of a listed company, shall disclose to the company in Form B, the number of shares or voting rights held by such person, within 4 working days of becoming a director or officer of the company.

Continual Disclosure

(3) Any person who holds more than 5% shares or voting rights in any listed company shall disclose to the company in Form C the number of shares or voting rights held and change in shareholding or voting rights, even if such change results in shareholding falling below 5%, if there has been change in such holdings from the last disclosure made under sub-regulation (1) or under this sub-regulation; and such change exceeds 2% of total shareholding or voting rights in the company.

(4) Any person who is a director or officer of a listed company, shall disclose to the company in Form D, the total number of shares or voting rights held and change in shareholding or voting rights, if there has been a change in such holdings from the last disclosure made under sub-regulation (2) or under this sub-regulation, and the change exceeds Rupees 5 lakh in value or 25000 shares or 1% of total shareholding or voting rights, whichever is lower.

(5) The disclosure mentioned in sub-regulations (3) and (4) shall be made within 4 working days of :

(a) the receipt of intimation of allotment of shares, or

(b) the acquisition or sale of shares or voting rights, as the case may be.

Disclosure by company to stock exchanges

(6) Every listed company, within five days of receipt, shall disclose to all stock exchanges on which the company is listed, the information received under sub-regulations (1), (2),(3) and (4) of Regulation 13.

Code of Ethics

SEBI has advised stock exchanges to adopt the Code of Ethics for their directories and functionaries with effect from 31st May 2001. This is aimed at improving the professional and ethical standards in the functioning of exchanges thereby creating better investors confidence in the integrity of the market.

4.6 SEBI (PROHIBITION OF FRADULENT AND UNFAIR TRADE PRACTICES RELATING TO SECURITIES MARKETS) REGULATIONS, 2003

The SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 2003 enable SEBI to investigate into cases of market manipulation and fraudulent and unfair trade practices. The regulations specifically prohibit market manipulation, misleading statements to induce sale or purchase of securities, unfair trade practices relating to securities. SEBI can conduct investigation, suo moto or upon information received by it, by an investigating officer in respect of conduct and affairs of any person dealing, buying/selling/dealing in securities. Based on the report of the investigating officer, SEBI can initiate action for suspension or cancellation of registration of an intermediary.

The term "fraud" has been defined by Regulation 2(1)(c). Fraud includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person or his agent while dealing in securities in order to induce another person with his connivance or his agent to deal in securities, whether or not there is any wrongful gain or

avoidance of any loss, and shall also include -

1. a knowing misrepresentation of the truth or concealment of material fact in order that another person may act to his detriment;
2. the suggestion as to a fact which is not true by one who does not believe it to be true;
3. an active concealment of a fact by one having knowledge or belief of the fact;
4. a promise made without any intention of performing it;
5. a representation made in a reckless and careless manner whether it be true or false;
6. any such act or omission as any other law specifically declares to be fraudulent;
7. deceptive behaviour by a person depriving another of informed consent or full participation;
8. a false statement made without reasonable ground for believing to be true;
9. the act of an issuer of securities giving out misinformation that affects the market price of the security, resulting in investors being effectively misled even though they did not rely on the statement itself or anything derived from it other than the market price.

And "fraudulent" shall be construed accordingly :

Nothing contained in this clause shall apply to any general comments made in good faith in regard to –

(a) the economic policy of the Government;
(b) the economic situation of the country;
(c) trends in the securities market;
(d) any other matter of a like nature;
Whether such comments are made in public or in private.

The regulation prohibits:
(1) dealings in securities in a fraudulent manner,
(2) market manipulation,
(3) misleading statements to induce sale or purchase of securities, and
(4) unfair trade practice relating to securities

Prohibition of certain dealings in securities
"No person shall directly or indirectly"
(a) buy, sell or otherwise deal in securities in a fraudulent manner

(b) use or employ, in connection with issue, purchase or sale of any security listed or proposed to be listed in a recognised stock exchange, any manipulative or deceptive device or contrivance in contravention of the provisions of the Act or the rules or the regulations made thereunder.
(c) employ any device, scheme or artifice to degraud in connection with dealing in or issue of securities which are listed or proposed to be listed on a recognised stock exchange;
(d) engage in any act, practice, course of business which operates or would operate as fraud or deceit upon any person in connection with any dealing in or issue of securities which are listed or proposed to be listed on a recognised stock exchange in contravention of the act, rules and regulations. (Regulation 3).

Prohibition against Manipulative, fraudulent and unfair trade practices

Regulation 4 provides that no person shall indulge in a fraudulent or an unfair trade practice in securities.
Further any dealing in securities shall be deemed to be fraudulent or an unfair trade practice if it involves fraud and may include all or any of the following :-
(i) indulging in an act which creates false or misleading appearance of trading in the securities market.
(ii) dealing in a security not intended to effect transfer of beneficial ownership but intended to operate only as a device to inflate, depress or cause fluctuations in the price of such security for wrongful gain or avoidance of loss.
(iii) advancing or agreeing to advance any money to any person thereby inducing any other person to offer to buy any security in any issue only with the intention of securing the minimum subscription to such issue.
(iv) paying, offering or agreeing to pay or offer, directly or indirectly, to any person any money or money's worth for inducing such person for dealing in any security with the object of inflating, depressing, maintaining or causing fluctuation in the price of such security.
(v) any act or omission amounting to manipulation of the price of a security.
(vi) publishing or causing to publish or reporting or causing to report by a person dealing in securities any information which is not true or which he does not believe to be true prior to or in the course of dealing in securities.
(vii) entering into a trasaction in securities without intention of performing it or without intention of change in ownership of such security.
(viii) selling, dealing or pledging of stolen or counterfeit security whether in physical or dematerialized form.
(ix) an intermediary promising a certain price in respect of buying or selling of a security to a client and waiting till a discrepancy arises in the price of such security and retaining the difference in prices as profit for himself.

(x) an intermediary providing his clients with such information relating to a security as cannot be verified by the clients before their dealing in such security.
(xi) an advertisement that is misleading or that contains information in a distorted manner and which may influence the decision of the investors.

(xii) an intermediary reporting trading transactions to his clients entered into on their behalf in an inflated manner in order to increase his commission and brokerage.
(xiii) an intermediary not disclosing to his client transactions entered into on his behalf including taking an option position.
(xiv) circular transactions in respect of a security entered into between intermediaries in order to increase commission to provide a false appearance of trading in such security or to inflate, depress or cause fluctuations in the price of such security.
(xv) encouraging the clients by an intermediary to deal in securities solely with the object of enhancing his brokerage or commission.
(xvi) an intermediary predating or otherwise falsifying records such as contract notes.
(xvii) an intermediary buying or selling securities in advance of a substantial client order or whereby a futures or option position is taken about an impending transaction in the same or related futures or options contract.
(xviii) planting false or misleading news which may induce sale or purchase of securities.

4.7 THE DEPOSITORIES ACT, 1996

The Depositories Act, 1996 was enacted to provide for regulation of depositories in securities and for matters connected therewith or incidental thereto. It came into force from 20th September, 1995.
The terms used in the Act are defined as under:
(1) "Beneficial owner" means a person whose name is recorded as such with a depository.
(2) "Depository" means a company, formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under sub-section (1A) of section 12 of the SEBI Act, 1992.
(3) "Issuer" means any person making an issue of securities.
(4) "Participant" means a person registered as such under sub-section (1A) of section 12 of the SEBI Act, 1992.
(5) "Registered owner" means a depository whose name is entered as such in the register of the issuer.

Agreement between depository and participant
A depository shall enter into an agreement in the specified format with one or more participants as its agent.
Services of depository

Any person, through a participant, may enter into an agreement, in such form as may be specified by the bye-laws, with any depository for availing its services.

Surrender of certificate of security

Any person who has entered into an agreement with a depository shall surrender the certificate of security, for which he seeks to avail the services of a depository, to the issuer in such manner as may be specified by the regulations. The issuer, on receipt of certificate of security, shall cancel the certificate of security and substitute in its records the name of the depository as a registered owner in respect of that security and inform the depository accordingly. A depository shall, on receipt of information enter the name of the person in its records, as the beneficial owner.

Registration of transfer of securities with depository

Every depository shall, on receipt of intimation from a participant, register the transfer of security in the name of the transferee. If a beneficial owner or a transferee of any security seeks to have custody of such security, the depository shall inform the issuer accordingly.

Options to receive security certificate or hold securities with depository

Every person subscribing to securities offered by an issuer shall have the option either to receive the security certificates or hold securities with a depository. Where a person opts to hold a security with a depository, the issuer shall intimate such depository the details of allotment of the security, and on receipt of such information the depository shall enter in its records the name of the allottee as the beneficial owner of that security.

Securities in depositories to be in fungible form

All securities held by a depository shall be dematerialised and shall be in a fungible form.

Rights of depositories and beneficial owner

A depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of a beneficial owner. The depository as a registered owner shall not have any voting rights or any other rights in respect of securities held by it. The beneficial owner shall be entitled to all the rights and benefits and be subjected to all the liabilities in respect of his securities held by a depository.

Pledge or hypothecation of securities held in a depository

A beneficial owner may with the previous approval of the depository create a pledge or hypothecation in respect of a security owned by him through a depository. Every beneficial owner shall give intimation of such pledge or hypothecation to the depository and such depository shall thereupon make entries in its records accordingly. Any entry in the records of a depository under Section 12 (2) shall be evidence of a pledge or hypothecation.

Furnishing of information and records by depository and issuer

Every depository shall furnish to the issuer information about the transfer of securities in the name of beneficial owners at such intervals and in such manner as may be specified by the bye-laws. Every issuer shall make available to the depository copies of the relevant records in respect of securities held by such depository.

Option to opt out in respect of any security

If a beneficial owner seeks to opt out of a depository in respect of any security he shall inform the depository accordingly. The depository shall on receipt of intimation make appropriate entries in its records and shall inform the issuer. Every issuer shall, within thirty days of the receipt of intimation from the depository and on fulfillment of such conditions and on payment of such fees as may be specified by the regulations, issue the certificate of securities to the beneficial owner or the transferee, as the case may be.

Depository to indemnify loss in certain cases

Any loss caused to the beneficial owner due to the negligence of the depository or the participant, the depository shall indemnify such beneficial owner. Where the loss due to the negligence of the participant is indemnified by the depository, the depository shall have the right to recover the same from such participant.

Securities not liable to stamp duty

As per Section 8-A of Indian Stamp Act, 1899:

a) an issuer, by the issue of securities to one or more depositories shall, in respect of such issue, be chargeable with duty on the total amount of security issued by it and such securities need not be stamped;

b) where an issuer issues certificate of security under sub-section (3) of Section 14 of the Depositories Act, 1996, on such certificate duty shall be payable as is payable on the issue of duplicate certificate under the Indian Stamp Act, 1899;

c) transfer of registered ownership of securities from a person to a depository or from a depository to a beneficial owner shall not be liable to any stamp duty;

d) transfer of beneficial ownership of shares, such securities dealt with by a depository shall not be liable to duty under Article 62 of Schedule I of the Indian Stamp Act, 1899;

e) transfer of beneficial ownership of units, such units being units of mutual fund including units of the Unit Trust of India, dealt with by a depository shall not be liable to duty under Article 62 of Schedule I of the Indian Stamp Act, 1899;

4.8 INDIAN CONTRACT ACT, 1872

Contract

According to section 2(h) of the Indian Contract Act, 1872, a contract is an agreement enforceable by law. Therefore, there has to be an agreement to create a contract and secondly, it has to satisfy certain requirements mentioned in section 10 of the Act, i.e., the agreement has to be between parties competent to contract, with their free consent, for a lawful object and with lawful consideration, and it should not have been expressly declared as void agreement.

Standard Form Contracts

With an enormous increase in commercial transactions, the concept of Standard Form Contracts has come into existence. Various business organisations like insurance companies, airways, securities market regulator, other businessman etc. generally get the terms of the contract printed on a standard form and the other side is simply required to agree to the same, or sometimes to sign in token of his having agreed to the terms of the contract so drafted. A standard form contract is a pre-established record of legal terms regularly used by a business entity or firm in transactions with customers. The record specifies the legal terms governing the relationship between the firm and another party. The firm requires the other party to accept the record without amendment and without expecting the other party to know or understand its terms. A Standard Form Contract is effective upon acceptance.

Agency contract

An agent is a person employed to do any act for another or to represent another in dealings with third persons, as per section 182 of the Indian Contract Act, 1872. The person for whom such act is done, or who is so represented, is called the Principal. Principal is bound by the acts done by an agent or the contracts entered into by him on behalf of the principal in the same manner, as if the acts had been done or the contracts had been entered into by the principal himself, in person.

An agent has a dual capacity: one, he serves as a connecting link between his principal and the third person, and second, he can have a contractual relationship with his principal.

An agent, having an authority to do an act, has authority to do every lawful thing which is necessary in order to do such act. An agent having authority to carry on a business, has authority to do every lawful thing necessary for the purpose, or usually done in the course, of conducting such business.

Sub-agent

A sub-agent is a person employed by, and acting under the control of, the original agent in the business of the agency. Though the general rule is against delegation of authority by an agent or the appointment of a sub-agent, there could be such an appointment in exceptional situations recognised by law. Thus, when any act does not need personal performance by the agent himself, or the principal agrees to the appointment of a sub-agent, or the ordinary custom of trade permits the same, or the nature of the business of agency so warrants, nature of the agency so warrants, a sub-agent may be validly appointed by an agent.

When a sub-agent has been properly appointed the position of various parties is as under:

(i) The principal is, so far as regards third persons, represented by the sub-agent, and is bound by and responsible for his acts, as if he were an agent originally appointed by the principal.

(ii) The agent is responsible to the principal for the acts of the sub-agent.

(iii) The sub-agent is responsible for his acts to the agent, but not to the principal except in case of fraud or willful wrong.

4.9 THE COMPANIES ACT, 1956

There are two types of Companies, viz., Private and Public.

Private company means a company which has a minimum paid-up capital of one lakh rupees or such higher paid-up as may be prescribed and by its articles:

(a) restricts the right to transfer its shares, if any;
(b) limits the number of its members to fifty;
(c) prohibits any invitation to the public to subscribe for any shares in or debentures of the company;
(d) prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives

Public company means a company which –

(a) is not a private company;
(b) has a minimum paid-up capital of five lakh rupees or such higher paid-up capital, as may be prescribed;
(c) is a private company which is a subsidiary of a company which is not a private company.

The minimum number of persons required to form a public company is seven and the minimum number of persons required to form a private company is two.

Shares

The shares or debentures or other interest of any member in a company shall be moveable property, transferable in the manner provided by the articles of the company (section82). A certificate, under common seal of the company, specifying any shares held by any member shall be prima facie evidence of the title of the member to such shares (section 84).

Buy-back of securities (Section 77A)

A company may purchase its own shares or other specified securities out of:

(a) free reserves; or
(b) the securities premium account; or
(c) the proceeds of any shares of other specified securities.

Conditions to be satisfied for buy-back

The following conditions must be satisfied by the company before buying-back its own shares or other specified securities:

(i) the buy-back must be authorised by its articles;
(ii) a special resolution shall be passed in general meeting of the company authorizing buy-back;
(iii) the buy-back in any financial year shall be equal to or less than 25% of the total paid-up capital and free reserves of the company in that financial year
(iv) the ratio of debt owed by the company is not more than twice the capital and its free reserves after such buy-back
(v) all the shares or other specified securities for buy-back are fully paid-up;
(vi) the buy-back of listed securities is in accordance with SEBI Regulations;

(vii) the buy-back of un-listed securities is in accordance with guidelines prescribed by Central Government.

Every buy-back shall be completed within twelve months from the date of passing the special resolution or a resolution passed by the Board.

Share Capital

According to section 86, the share capital of a company limited by shares formed after the commencement of this Act, or issued after such commencement, shall be of two kinds only, namely:

a) equity share capital with voting rights; or with differential rights as to dividend, voting or otherwise, and

b) preference share capital.

As per section 85, preference share capital means, with reference to any company limited by shares, whether formed before or after the commencement of this Act, that part of the share capital of the company which fulfils both the following requirements, namely:

a) that as respects dividends, it carries or will carry a preferential right to be paid a fixed amount or an amount calculated at a fixed rate, which may be either free of or subject to income tax, and

b) that as respects capital, it carries or will carry, on a winding-up or repayment of capital, a preferential right to be repaid the amount of the capital paid-up or deemed to have been paid-up, whether or not there is a preferential right to the payment of either or both of the following amounts, namely:

(i) any money remaining unpaid, in respect of the amounts specified in clause (a), up to the date of the winding-up or repayment of capital, and

(ii) any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company.

Equity share capital means with reference to any such company, all share capital which is not preference share capital.

Every public listed company, making initial public offer of any security for a sum of rupees of ten crores or more, shall issue the same only in dematerialized form by complying with the requisite provisions of the Depositories Act, 1996 and the regulations made thereunder.

No allotment shall be made of any shares in or debentures of a company in pursuance of a prospectus issued generally, and no proceedings shall be taken on applications made in pursuance of a prospectus so issued, until the beginning of the fifth day after that on which the prospectus is first so issued or such later time, if any, as may be specified in the prospectus (section 72).

Every company intending to offer shares or debentures to the public for subscription by the issue of a prospectus shall, before such issue, make an application to one or more recognised stock exchanges for permission for the shares or debentures intending to be so offered to be dealt with in the stock exchange or each such stock exchange (section 73).

Transfer of shares (Section 108)

A company shall register a transfer of shares in, or debentures of, the company, if a proper instrument of transfer duly stamped and executed by or on behalf of the transferor and by or on behalf of the transferee and specifying the name, address and occupation, if any, of the transferee, has been delivered to the company along with the certificate relating to the shares or debentures, or if no such certificate is in existence, along with the letter of allotment of the shares or debentures.

Section 108, however, does not apply to transfer of securities affected by the transferor and the transferee both of whom are entered as beneficial owners in the records of a depository.

As per section 111A, the shares or debentures and any interest therein of a public limited company are freely transferable.

Annual Return (Sections 159 & 160)

Every Company shall within sixty days from the day on which the Annual General Meeting is held, prepare and file Annual Return with Registrar of Companies.

Annual General Meeting (Section 166)

Every company shall in each year hold in addition to any other meetings a general meeting as its annual general meeting and shall specify the meeting as such in the notices calling it. Every AGM shall be called for a time during business hours, on a day that is not a public holiday, and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated. The annual general meeting should be held on the earliest of the three relevant dates as prescribed under section 166 together with section 210:

a) 15 months from the previous annual general meeting;

b) last day of the calendar year.

c) 6 months from the close of the financial year,

A general meeting of a company may be called by giving at least twenty-one days' notice in writing.

Dividend (Section 205)

Dividend shall be declared or paid by a company for any financial year

(a) out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of section 205 (2) of the Act, or
(b) out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in accordance with those provisions and remaining undistributed, or
(c) out of both (a and b above), or
(d) out of moneys provided by the Central Government or a State Government for the payment of dividend in pursuance of a guarantee given by that Government.

The amount of dividend shall be deposited in a separate bank account within five days from the date of declaration of dividend. The dividend shall be paid within thirty days from the date of its declaration. (section 205A)

Investor Education and Protection Fund (Section 205C)

The Central Government notified the establishment of a Fund called the Investor Education and Protection Fund. The fund shall be credited with:

a) amounts in the unpaid dividend accounts of companies,

b) application moneys received by companies for allotment of any securities and due for refund,

c) matured deposits with companies,

d) matured debentures with companies,

e) the interest accrued on the amounts referred to above (a to d),

f) grants and donations given to the Fund by the Central Government, State Governments, companies or any other institutions for the purposes of the Fund; and

g) the interest or other income received out of the investments made from the Fund: Provided that no such amounts referred to in clauses (a) to (d) shall form part of the Fund unless such amounts have remained unclaimed and unpaid for a period of seven years from the date they became due for payment.

The Investor Education and Protection Fund shall be utilised for promotion of awareness amongst the investors and for the protection of the interests of investors in accordance with such rules as may be prescribed.

4.10 INCOME TAX ACT, 1961

'Domestic company' means an Indian company, or any other company which, in respect of its income liable to tax under this Act, has made the prescribed arrangements for the declaration and payment, within India, of the dividends (including dividends on preference shares) payable out of such income, as per Section 2(22A).

Dividend, according to Section 2(22) includes-

(a) any distribution by a company of accumulated profits, whether capitalised or not, if such distribution entails the release by the company to its shareholders of all or any part of the assets of the company;

(b) any distribution to its shareholders by a company of debentures, debenture-stock, or deposit certificates in any form, whether with or without interest, and any distribution to its preference shareholders of shares by way of bonus, to the extent to which the company possesses accumulated profits, whether capitalised or not;

(c) any distribution made to the shareholders of a company on its liquidation, to the extent to which the distribution is attributable to the accumulated profits of the company immediately before its liquidation, whether capitalised or not;

(d) any distribution to its shareholders by a company on the reduction of its capital, to the extent to which the company possesses accumulated profits which arose after the end of the previous year ending next before the 1st day of April, 1933, whether such accumulated profits have been capitalised or not;

(e) any payment by a company, not being a company in which the public are substantially interested, of any sum (whether as representing a part of the assets of the company or otherwise) made after the 31st day of

May, 1987, by way of advance or loan to a shareholder, being a person who is the beneficial owner of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) holding not less than ten per cent of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest (hereafter in this clause referred to as the said concern) or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits;

but 'dividend' does not include-

(a) a distribution made in accordance with sub-clause (c) or sub-clause (d) in respect of any share issued for full cash consideration, where the holder of the shares is not entitled in the event of liquidation to participate in the surplus assets;

(b) a distribution made in accordance with sub-clause (c) or sub-clause (d) in so far as such distribution is attributable to the capitalised profits of the company representing bonus shares allotted to its equity shareholders after the 31st day of March, 1964 (and before the 1st day of April, 1965);

(c) any advance or loan made to a shareholder (or the said concern) by a company in the ordinary course of its business, where the lending of money is a substantial part of the business of the company;

(d) any dividend paid by a company which is set off by the company against the whole or any part of any sum previously paid by it and treated as a dividend within the meaning of sub-clause (e), to the extent to which it is so set off;

(e) any payment made by a company on purchase of its own shares from a shareholder in accordance with the provisions of section 77A of the Companies Act, 1956.

(f) any distribution of shares pursuant to a demerger by the resulting company to the shareholders of the demerged company (whether or not there is a reduction of capital in the demerged company).

Dividend income (Section 8): For the purposes of inclusion in the total income of an assessee-

(a) any dividend declared by a company or distributed or paid by it within the meaning of sub-clause (a) or sub-clause (b) or sub-clause (c) or sub-clause (d) or sub-clause (e) of clause (22) of Section 2,shall be deemed to be the income of the previous year in which it is so declared, distributed or paid, as the case may be;

(b) any interim dividend shall be deemed to be the income of the previous year, in which the amount of such dividend is unconditionally made available by the company to the member who is entitled to it.

Interest on securities (Clause 28B of Section 2) means-

(i) interest on any security of the Central Government or a State Government,

(ii) interest on debentures or other securities for money issued by or on behalf of a local authority or a company or a corporation established by a Central, State or provincial Act.

Capital asset

(i) Long term capital asset means a capital asset which is not a short term capital asset, as per Clause 29A of Section 2.

(ii) Short term capital asset means a capital asset held by an assessee for not more than thirty-six months* immediately preceding the date of its transfer, (Clause 42A of Section 2)* twelve months in the case of a share held in a company or any other security listed in a recognised stock exchange in India or a unit of the Unit Trust of India established under the Unit Trust of India Act, 1963 or a unit of a Mutual Fund specified under clause (23D) of section 10 or a zero coupon bond.

Capital gains (Section 45)

Any profits or gains arising from the transfer of a capital asset effected in the previous year shall, save as otherwise provided in sections (54, 54B, 54D, 54E, 54EA, 54EB, 54F, 54G and 54H), be chargeable to income-tax under the head "Capital gains", and shall be deemed to be the income of the previous year in which the transfer took place.

Where any person has had at any time during previous year any beneficial interest in any securities, then any profits or gains arising from transfer made by the depository or participant of such beneficial interest in respect of securities shall be chargeable to income-tax as the income of the beneficial owner of the previous year in which such transfer took place and shall not be regarded as income of the depository who is deemed to be registered owner of securities by virtue of sub-section (1) of section 10 of the Depositories Act, 1996, and for the purposes of section 48 and proviso to clause (42A) of section 2, the cost of acquisition and the period of holding of any securities shall be determined on the basis of the first-in-first-out method.

Types of capital gains

1. Long term capital gain means capital gain arising from the transfer of a long term capital asset, as per Clause 29B of Section 2.
2. Short term capital gain means capital gain arising from the transfer of a short term capital asset, as per Clause 42B of Section 2.

PAN compulsory for Securities transaction

The Income-tax (Eighth Amendment) Rules, 2002 made it mandatory for a person to quote permanent account numbers (PAN), issued by the income tax department, for securities transactions of over Rs. 1 lakh.

Tax on long-term capital gains (Section 112)

Where the total income of an assessee includes any income, arising from the transfer of along-term capital asset, which is chargeable under the head 'Capital gains', the tax payable by the assessee on the total income shall be the aggregate of,-

(a) in the case of an individual or a Hindu undivided family, being a resident,-
   i. the amount of income-tax payable on the total income as reduced by the amount of such long-term capital gains, had the total income as so reduced been his total income; and

ii. the amount of income-tax calculated on such long-term capital gains at the rate of twenty per cent:

(b) in the case of a domestic company,-

i. the amount of income-tax payable on the total income as reduced by the amount of such long-term capital gains, had the total income as so reduced been its total income; and

ii. the amount of income-tax calculated on such long-term capital gains at the rate of [twenty] per cent:

(c) in the case of a non-resident (not being a company) or a foreign company,-

i. the amount of income-tax payable on the total income as reduced by the amount of such long-term capital gains, had the total income as so reduced been its total income; and

ii. the amount of income-tax calculated on such long-term capital gains at the rate of twenty percent;]

(d) in any other case of a resident,-

i. the amount of income-tax payable on the total income as reduced by the amount of long-term capital gains, had the total income as so reduced been its total income; and

ii. the amount of income-tax calculated on such long-term capital gains at the rate of twenty per cent

Where the gross total income of an assessee includes any income arising from the transfer of along term capital asset, the gross total income shall be reduced by the amount of such income and the deduction under Chapter VI-A shall be allowed as if the gross total income as so reduced were the gross total income of the assessee.

Where the total income of an assessee includes any income arising from the transfer of a long-term capital asset, the total income shall be reduced by the amount of such income and the rebate under section 88 shall be allowed from the income-Tax on the total income as so reduced.

4.11 MONEY LAUNDERING ACT, 2002

The Money Laundering Act, 2002 was enacted to prevent money laundering and to provide for confiscation of property derived from, or involved in, money-laundering and for matters connected therewith or incidental thereto.

The terms used in the Act are defined as under:

(1) "intermediary" means a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992.

(2) "proceeds of crime" means any property or assets of every description, whether corporeal or incorporeal, movable or immovable, tangible or intangible and includes deeds and instruments evidencing title to, or interest in, such property or assets, wherever located;

The term Money Laundering has been defined in Section 3 of the Act as

Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money-laundering.

Punishment for money-laundering

The punishment for money-laundering is rigorous imprisonment for a term which shall not less than three years but which may extend to seven years and shall also be liable to fine which may extend to five lakh rupees.

Banking companies, financial institutions and intermediaries to maintain records.

Section 12 of the Prevention of Money Laundering Act, 2002 lays down following obligations on banking companies, financial institutions and intermediaries.

(1) Every banking company, financial institution and intermediary shall –

(a) maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month;
(b) furnish information of transactions referred to in clause (a) to the Director within such time and as may be prescribed;
(c) verify and maintain the records of the identity of all its clients, in such manner as may be prescribed:

Provided that where the principal officer of a banking company or financial institution or intermediary, as the case may be, has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value so as to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

(2) The records referred to in sub-section (1) shall be maintained for a period of ten years from the date of cessation of the transactions between the clients and the banking company or financial institution or intermediary, as the case may be."

The Financial Intelligence Unit India (FIU- IND) has been set up as a multi-disciplinary unit for establishing links between suspicious or unusual financial transactions and underlying criminal activities. It coordinates and support efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes. The FIU-IND is the central nodal agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions to these agencies who shall protect the information against misuse.

Authorities under the Act

The Act provides that every order of attachment of property involved in money-laundering, order of seizure of property/records etc. shall be forwarded along with a complaint or application to the Adjudicating Authority within a period of thirty days. Such order is to be confirmed by the Adjudicating Authority within a certain time-limit. The Adjudicating Authority is constituted separately. The appeal against the orders of the Director or the Adjudicating Authority can be filed before the Appellate Tribunal being set up under the Prevention of Money Laundering Act.

The following are classes of authorities for the purposes of the Act, namely:

(a) Director or Additional Director or Joint Director,
(b) Deputy Director,
(c) Assistant Director, and
(d) Such other class of officers as may be appointed for the purposes of this Act.

Model questions

1. Every member of a recognised stock exchange shall maintain and preserve the Register of transactions (Sauda book) for a period of ________years.
   (a) five
   (b) three
   (c) two
   (d) seven
   Ans: five

2. The intermediaries and persons associated with securities market shall be registered with________.
   (a) DCA
   (b) MoF
   (c) SEBI
   (d) ROC
   Ans: SEBI

3. As per the provisions of SEBI (Prohibition of Insider Trading) Regulations, any person who holds more than _______shares or voting rights in any listed company shall make such disclosure to the company.
(a) 10 %
(b) 5%
(c) 2%
(d) 3%
Ans: 5%

4. The minimum paid-up capital of private company is Rs. _________.
(a) 10 lakhs
(b) 5 lakhs
(c) 1 lakh
(d) 2 lakhs
Ans: 1 lakh

5. The minimum paid-up capital of public company is Rs. __________.
(a) 10 lakhs
(b) 5 lakhs
(c) 1 lakh
(d) 2 lakhs
Ans: 5 lakh

6. The private company limits the number of its members to ___________.
(a) seven
(b) two
(c) fifty
(d) No limit
Ans: fifty

7. The public company limits the number of its members to ___________.
(a) seven
(b) two
(c) fifty
(d) No limit
Ans: No limit

8. The minimum number of persons required to form a private company is _________.
(a) two
(b) ten
(c) five
(d) seven
Ans: two

9. The minimum number of persons required to form a public company is ________.
(a) two
(b) ten
(c) five
(d) seven
Ans: seven

10. Every public company, making initial public offer of any security for a sum of rupees of ___________ or more, shall issue the same only in dematerialized form.
(a) two crores
(b) fifty crores
(c) ten crores
(d) five crores.
Ans: ten crores

CHAPTER 5

AN OVERVIEW OF THE INDIAN SECURITIES MARKET

5.1 INTRODUCTION

Securities markets provide a channel for allocation of savings to those who have a productive need for them. As a result, the savers and investors are not constrained by their individual abilities, but by the economy's abilities to invest and save respectively, which inevitably enhances savings and investment in the economy.

5.2 MARKET SEGMENTS

The securities market has two interdependent and inseparable segments: the primary and the secondary market.

5.2.1 Primary Market

The primary market provides the channel for sale of new securities. Primary market provides opportunity to issuers of securities; Government as well as corporates, to raise resources to meet their requirements of investment and/or discharge some obligation.

They may issue the securities at face value, or at a discount/premium and these securities may take a variety of forms such as equity, debt etc. They may issue the securities in domestic market and/or international market.

The primary market issuance is done either through public issues or private placement. A public issue does not limit any entity in investing while in private placement, the issuance is done to select people. In terms of the Companies Act, 1956, an issue becomes public if it results in allotment to more than 50 persons. This means an issue resulting in allotment to less than 50 persons is private placement. There are two major types of issuers who issue securities. The corporate entities issue mainly debt and equity instruments (shares, debentures, etc.), while the governments (central and state governments) issue debt securities (dated securities, treasury bills).

The price signals, which subsume all information about the issuer and his business including associated risk, generated in the secondary market, help the primary market in allocation of funds.

5.2.2 Secondary Market

Secondary market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets.

The secondary market enables participants who hold securities to adjust their holdings in response to changes in their assessment of risk and return. They also sell securities for cash to meet their liquidity needs. Once the new securities are issued in the primary market they are traded in the stock (secondary) market. The secondary market is operated through two mediums, namely, the Over-the-Counter (OTC) market and the Exchange-Traded market. OTC markets are informal markets where trades are negotiated. Most of the trades in the government securities are in the OTC market. All the spot trades where securities are traded for immediate delivery and payment take place in the OTC market. The exchanges do not provide facility for spot trades in a strict sense. Closest to spot market is the cash market in exchanges where settlement takes place after some time. There are 19 exchanges (at the end of March 2008) in India and all of them follow a systematic settlement period. All the trades taking place over a trading cycle (day=T) are settled together after a certain time (T+2 day). Trades executed on NSE only are cleared and settled by a clearing corporation which provides novation and settlement guarantee. Nearly 100% of the trades in capital market segment are settled through demat delivery. NSE also provides a formal trading platform for trading of a wide range of debt securities including government securities in both retail and wholesale mode. NSE also provides trading in derivatives of equities, interest rate as well indices. In derivatives market (F&O market segment of NSE), standardised contracts are traded for future settlement. These futures can be on a basket of securities like an index or an individual security. In case of options, securities are traded for conditional future delivery. There are two types of options – a put option permits the owner to sell a security to the writer of options at a predetermined price while a call option permits the owner to purchase a security from the writer of the option at a predetermined price. These options can also be on individual stocks or basket of stocks like index. Two exchanges, namely NSE and the Stock Exchange, Mumbai (BSE) provide trading of derivatives of securities. Today the market participants have the flexibility of choosing from a basket of products like:

- Equities
- Bonds issued by both Government and Companies

- Futures on benchmark indices as well as stocks
- Options on benchmark indices as well as stocks
- Futures on interest rate products like Notional 91-day T-Bills, 10 year notional zero coupon bond and 6% notional 10 year bond.

The past decade in many ways has been remarkable for securities market in India. It has grown exponentially as measured in terms of amount raised from the market, number of stock exchanges and other intermediaries, the number of listed stocks, market capitalisation, trading volumes and turnover on stock exchanges, and investor population. Along with this growth, the profiles of the investors, issuers and intermediaries have changed significantly. The market has witnessed several institutional changes resulting in drastic reduction in transaction costs and significant improvements in efficiency, transparency, liquidity and safety. In a short span of time, Indian derivatives market has got a place in list of top global exchanges.

The market capitalization has grown over the period indicating more companies using the trading platform of the stock exchange. As of March 2008, the market capitalization of NSE was Rs. 48,581,217 million. The market capitalization ratio is defined as market capitalization of stocks divided by GDP. It is used as a measure of stock market size. It is of economic significance since market is positively correlated with the ability to mobilize capital and diversify risk.

The trading volumes on exchanges have been witnessing phenomenal growth over the past few years. During 2007-08, the capital market segment of NSE reported a trading volume of Rs. 35,510,382 million. The turnover ratio, which reflects the volume of trading in relation to the size of the market, stood at 73.09% in the year 2007-08. The turnover ratio is defined as the total value of shares traded on a country's stock exchange divided by market capitalization. It is used as a measure of trading activity or liquidity in the stock markets. The top 2 stock exchanges accounted for nearly 99% of turnover, while the rest of the exchanges had negligible volumes during 2007-08.

The movement of the NIFTY50, the most widely used indicator of the market, has been responding to changes in the government's economic policies, the increase in FIIs inflows, etc.

Reforms in the securities market, particularly the establishment and empowerment of SEBI, market determined allocation of resources, screen based nation-wide trading, dematerialisation and electronic transfer of securities, rolling settlement and ban on deferral products, sophisticated risk management and derivatives trading, have greatly improved the regulatory framework and efficiency of trading and settlement. Indian market is now comparable to many developed markets in terms of a number of qualitative parameters.

5.3 PRODUCTS AND PARTICIPANTS

Financial markets facilitate the reallocation of savings from savers to entrepreneurs. Savings are linked to investments by a variety of intermediaries through a range of complex financial products called "securities" which is defined in the Securities Contracts (Regulation) Act, 1956 to include shares, bonds, scrips, stocks or other marketable securities of like nature in or of any incorporate company or body corporate, government securities, derivatives of securities, units of collective investment scheme, interest and rights in securities, security receipt or any other instruments so declared by the central government.

Table 5.1: Market Participants in Securities Market

Particulars	Number as on March 31, 2008
Securities Appellate Tribunal	1
Regulators*	4
Depositories	2
Stock Exchanges with equity trading	19
Brokers	9,487
Sub-brokers	44,073
FIIs	1,319
Portfolio Managers	205
Custodians	15
Registrars to an Issue and Share Transfer Agents	76
Merchant Bankers	155
Bankers to an Issue	50
Debenture Trustees	28
Underwriters	35
Venture Capital Funds	106
Mutual Funds	40
Collective Investment Schemes	0
*DCA, DEA, RBI & SEBI	

Source: SEBI

It is not that the users and suppliers of funds meet each other and exchange funds for securities. It is difficult to accomplish such double coincidence of wants. The amount of funds supplied by the supplier may not be the amount needed by the user. Similarly, the risk, liquidity and maturity characteristics of the securities issued by the issuer may not match preference of the supplier. In such cases, they incur substantial search costs to find each other. Search costs are minimised by the intermediaries who match and bring the suppliers and users of funds together. These intermediaries may act as agents to match the needs of users and suppliers of funds for a commission, help suppliers and users in creation and sale of securities for a fee or buy the securities issued by users and in turn, sell their own securities to suppliers to book profit. It is, thus, a misnomer that securities market dis-intermediates by establishing a direct relationship between the savers and the users of funds. The market does not work in a vacuum; it requires services of a large variety of intermediaries. The disintermediation in the securities market is in fact an intermediation with a difference, it is a risk-less intermediation, where the ultimate risks are borne by the savers and not the intermediaries. A large variety and number of intermediaries provide intermediation services in the Indian securities market as may be seen from Table 5.1.

5.4 DERIVATIVES MARKET

Trading in derivatives commenced in the Indian market in June 2000. The number of instruments available in derivatives has been expanded in phases. To begin with, SEBI only approved trading in index futures contracts based on NIFTY50 Index and BSE-30 (Sensex) Index. This was followed by approval for trading in options based on these indices and options on individual securities and also futures on interest rates derivative instruments (91-day Notional T-bills and 10-year Notional 6% coupon bearing as well as zero coupon bonds). Now, there are futures and options based on benchmark index NIFTY50, CNX IT Index, Bank Nifty Index, CNX Nifty Junior, CNX 100, Nifty Midcap 50 as well as options and futures on single stocks (228 stocks as on May 2008). The Mini NIFTY50 Futures & Options contract was introduced for trading on January 1, 2008. Index options on NSE follow European style of settlement, whereas stock options follow an American style of settlement.

During 2007-08, the derivatives market segment of NSE witnessed a trading value of Rs. 130,904,779 million. NSE accounts for nearly 98% of the derivatives turnover in India.

5.5 A PROFILE

The securities market has essentially three categories of participants, namely the issuers of securities, investors in securities and the intermediaries and products include equities, bonds and derivatives. The issuers and investors are the consumers of services rendered by the intermediaries while the investors are consumers (they subscribe for and trade in securities) of securities issued by issuers. In pursuit of providing a product to meet the needs of each investor and issuer, the intermediaries churn out more and more complicated products. They educate and guide them in their dealings and bring them together. Those who receive funds in exchange for securities and those who receive securities in exchange for funds often need the reassurance that it is safe to do so. This reassurance is provided by the law and by custom, often enforced by the regulator. The regulator develops fair market practices and regulates the conduct of issuers of securities and the intermediaries so as to protect the interests of suppliers of funds. The regulator ensures a high standard of service from intermediaries and supply of quality securities and non-manipulated demand for them in the market.

The past decade in many ways has been remarkable for securities market in India. It has grown exponentially as measured in terms of amount raised from the market, number of stock exchanges and other intermediaries, the number of listed stocks, market capitalisation, trading volumes and turnover on stock exchanges, and investor population. Along with this growth, the profiles of the investors, issuers and intermediaries have changed significantly. The market has witnessed fundamental institutional changes resulting in drastic reduction in transaction costs and significant improvements in efficiency, transparency and safety.

5.6 REFORMS IN INDIAN SECURITIES MARKETS

5.6.1 Corporate Securities Market

During the last decade, there have been substantial regulatory, structural, institutional and operational changes in the securities industry. These have been brought in with the objective of improving market efficiency, enhancing transparency, preventing unfair trade practices and bringing the Indian market up to the international standards. The following paragraphs list the principal reform measures undertaken since 1992.

SEBI Act, 1992: It created the securities market regulator, the SEBI, with the main objective and responsibility for (a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market. Its regulatory jurisdiction extends over corporate in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. The courts have upheld the powers of SEBI to impose monetary penalties and to levy fees from market intermediaries.

Enactment of the SEBI Act was the first attempt towards integrated regulation of the securities market. SEBI was given full authority and jurisdiction over the securities market under the Act, and was given concurrent/delegated powers for various provisions under the Companies Act and the SCRA.

DIP Guidelines: With the repeal of the Capital Issues (Control) Act, 1947 in May 1992, Government's control over issue of capital, pricing of the issues, fixing of premia and rates of interest on debentures etc. ceased. Thereafter, the market has been allowed to allocate resources among the competing uses. In the interest of investors, SEBI issued the Disclosure and Investor Protection (DIP) guidelines. These guidelines contain a substantial body of requirements for issuers/intermediaries, with a broad intention to ensure that all the concerned entities observe high standards of integrity and fair dealing. The guidelines cast a responsibility on the lead managers to issue a due diligence certificate, stating that they have examined the prospectus and that it brings out all the facts and does not contain anything wrong or misleading. Issuers are now required to comply with the guidelines and then access the market. The companies can access the market only if they fulfill minimum eligibility norms in terms of their track record of distributable profits and net worth.

Screen Based Trading: Prior to setting up of NSE, the trading on stock exchanges in India used to take place through an open outcry system. This system did not allow immediate matching or recording of trades. This was time consuming and imposed limits on trading. In order to provide efficiency, liquidity and transparency, NSE introduced a nation-wide on-line fully-automated screen based trading system (SBTS). In this system a member can punch into the computer, quantities of securities and the prices at which he desires to transact and the transaction is executed as soon as it finds a matching sale or buy order from a counter party. It allows a large number of participants, irrespective of their geographical locations, to trade with one another simultaneously, improving the depth and liquidity of the market. Given the efficiency and cost effectiveness delivered by the NSE's trading system, it became the leading stock exchange in the country in its very first year of operation. This forced the other stock exchanges to adopt SBTS. As a result, open out-cry system has disappeared from India. Today, India can boast that almost 100% trading takes place through electronic order matching.

Technology has been harnessed to carry the trading platform to the premises of brokers. NSE carried the trading platform further to the PCs in the residence of investors through the internet and to hand-held devises through WAP for convenience of mobile investors. This has made a huge difference in terms of equal access to investors in a geographically vast country like India.

Trading Cycle: Initially, the trading cycle varied from 14 days for specified securities to 30 days for others and settlement took another fortnight. The exchanges, however, continued to have different weekly trading cycles, which enabled shifting of positions from one exchange to another. Rolling settlement on T+5 basis was introduced in respect of specified scrips reducing the trading cycle to one day. It was made mandatory for all exchanges to follow a uniform weekly trading cycle in respect of scrips not under rolling settlement.

All scrips moved to rolling settlement from December 2001. The settlement period has been reduced progressively from T+5 to T+3 days. Currently T+2 day settlement cycle is being followed.

Derivatives Trading: To assist market participants to manage risks better through hedging, speculation and arbitrage, SC(R)A was amended in 1995 to lift the ban on options in securities. However, trading in derivatives took off much later after the suitable legal and regulatory framework was out in place. The market presently offers index futures and index options on NIFTY50, CNX IT Index, Bank Nifty Index, CNX Nifty Junior, CNX 100, Nifty Midcap 50, BSE 30 Sensex, BSE Teck, BSE Bankex, BSE Oil & Gas, BSE PSU, BSE Metal and BSE FMCG, and single stock futures and options and futures in interest rate products like notional 91-day T-Bills and notional 10-year bonds. BSE also has weekly options on 4 stocks and BSE Sensex. The mini derivative (futures and options) contracts on NIFTY50 and Sensex were introduced for trading on January 1, 2008.

Demutualisation: Historically, brokers owned, controlled and managed the stock exchanges. In case of disputes, integrity of the exchange suffered. Therefore regulators focused on reducing the dominance of trading members in the management of stock exchanges and advised them to reconstitute their governing councils to provide for at least 50% non-broker representation, management and trading membership would be segregated from one another. A few exchanges have already initiated demutualisation process. NSE, however, adopted a pure demutualised governance structure where ownership, management and trading are with three different sets of people. This completely eliminates any conflict of interest and helped NSE to aggressively pursue policies. There are 19 demutualised stock exchanges.

Depositories Act: The earlier settlement system gave rise to settlement risk. This was due to the time taken for settlement and due to the physical movement of paper. Further, the transfer of shares in favour of the purchaser by the company also consumed considerable amount of time. To obviate these problems, the Depositories Act, 1996 was passed to provide for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed and accuracy. This act brought in changes by (a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerialising of securities in the depository mode; In order to promote dematerialisation, the regulator has been promoting settlement in demat form in a phased manner in an ever-increasing number of securities.

The stamp duty on transfer of demat securities has been waived. There are two depositories in India, viz. NSDL and CDSL. They have been set up to provide instantaneous electronic transfer of securities. All actively traded scrips are held, traded and settled in demat form. Demat settlement accounts for over 99.9% of turnover settled by delivery. This has eliminated the bad deliveries and associated problems.

To prevent physical certificates from sneaking into circulation, it has been mandatory for all new securities issued should be compulsorily traded in dematerialised form. The admission to a depository for dematerialisation of securities has been made a prerequisite for making a public or rights issue or an offer for sale. It has also been made compulsory for public listed companies making IPO of any security for Rs. 10 crore or more only in dematerialised form.

Risk Management: With a view to avoid any kind of market failures, the regulator/exchanges have developed a comprehensive risk management system. This system is constantly monitored and upgraded. It encompasses capital adequacy of members, adequate margin requirements, limits on exposure and turnover, indemnity insurance, on-line position monitoring and automatic disablement, etc. They also administer an efficient market surveillance system to detect and prevent price manipulations. The clearing corporation has also put in place a system which tracks online real time client level portfolio based upfront margining. Exchanges have set up trade/settlement guarantee funds for meeting shortages arising out of non-fulfillment/partial fulfillment of funds obligations by the members in a settlement. As a part of the risk management system, index based market wide circuit breakers have also been put in place.

The anonymous electronic order book ushered in by the NSE did not permit members to assess credit risk of the counter-party necessitated some innovation in this area. To address this concern, NSE had set up the first clearing corporation, viz. National Securities Clearing Corporation Ltd. (NSCCL), which commenced its operations in April 1996. The NSCCL assured the counterparty risk of each member and guaranteed financial settlement. NSCCL established a Settlement Guarantee Fund (SGF). The SGF provides a cushion for any residual risk and operates like a self-insurance mechanism wherein members contribute to the Fund. In event of failure of a trading member to meet his obligations, the fund is utilized to the extent required for successful completion of the settlement. This has eliminated counter-party risk of trading on the Exchange.

Investor Protection: The SEBI Act established SEBI with the primary objective of protecting the interests of investors in securities and empowers it to achieve this objective. SEBI specifies that critical data should be disclosed in the specified formats regarding all the concerned market participants. The

Central Government has established a fund called Investor Education and Protection Fund (IEPF) in October 2001 for the promotion of awareness amongst investors and protection of the interest of investors.

DEA, DCA, the SEBI and the stock exchanges have set up investor grievance cells for redressal of investor grievance. The exchanges maintain investor protection funds to take care of investor claims. The DCA has also set up an investor education and protection fund for the promotion of investors' awareness and protection of interest of investors. All these agencies and investor associations are organising investor education and awareness programmes. In January 2003, SEBI launched a nation-wide Securities Market Awareness Campaign that aims at educating investors about the risks associated with the market as well as the rights and obligations of investors. The NSE have also taken special measures for educating the investors, it conducts seminars, workshops and comes out with advertisement both in print and electronic media to communicate to the investors.

Globalisation: Indian securities market is getting increasingly integrated with the rest of the world. Indian companies have been permitted to raise resources from abroad through issue of ADRs, GDRs, FCCBs and ECBs. Further, foreign companies are allowed to tap the domestic stock markets.

Indian companies are permitted to list their securities on foreign stock exchanges by sponsoring ADR/GDR issues against block shareholding. NRIs and OCBs are allowed to invest in Indian companies. FIIs have been permitted to invest in all types of securities, including government securities. The investments by FIIs enjoy full capital account convertibility. They can invest in a company under portfolio investment route upto 24% of the paid up capital of the company. This can be increased up to the sectoral cap/statutory ceiling, as applicable to the Indian companies concerned, by passing a resolution of its Board of Directors followed by a special resolution to that effect by its general body. The Indian Stock Exchanges have been permitted to set up trading terminals abroad. The trading platform of Indian exchanges is now accessed through the Internet from anywhere in the world.

RBI permitted two-way fungibility for ADRs/GDRs, which meant that the investors (foreign institutional or domestic) who hold ADRs/GDRs can cancel them with the depository and sell the underlying shares in the market. The company can then issue fresh ADRs to the extent of the shares cancelled. Previously, once a company issued ADR/GDR and if the holder wanted to obtain the underlying equity shares of the Indian Company, then, such ADR/GDR would be converted into shares of the Indian Company. Once such conversion took place, it was not possible to reconvert the equity shares into ADR/GDR. The result was, every time a conversion took place, companies had to seek Government permission to reissue the depositories.

5.6.2 Government Securities Market

The Government securities market has witnessed significant transformation in the nineties. There have been major institutional and operational changes in the government securities market. In the primary market, securities are issued through the auction system by The Reserve Bank of India (RBI) at market related rates. They are issued across maturities to develop a yield curve from short to long end, which is used as a benchmark. Also, the types of bonds issued have diversified include floating rate bonds, capital index bonds, zero coupon bonds. Further, non-competitive bids are accepted from retail investors in order to widen investor base. The reforms in the secondary market include setting up a system of primary dealers, who provide with two way quotes for transactions in securities, setting up of Clearing Corporation of India as the central clearing agency wherein delivery versus payment (DvP) system is used for settlement, and negotiated dealing screen for reporting of all the trades. Further, to facilitate retail investors to invest in government securities, RBI permitted select entities to provide custody (Constituent SGL) accounts. Other measures include abolition of TDS on government securities and stamp duty on transfer of demat debt securities.

Market Infrastructure: As part of the ongoing efforts to build debt market infrastructure, two new systems/set-up have been made operational the Negotiated Dealing System (NDS) and the Clearing Corporation of India Limited (CCIL). NDS, interalia, facilitates screen based negotiated dealing for secondary market transactions in government securities and money market instruments, online reporting of transactions and dissemination of trade information to the market. Government Securities (including T-bills), call money, notice/term money, repos in eligible securities, Commercial Papers and Certificate of Deposits are available for negotiated dealing through NDS among the members. Initially, the settlement of trades was carried out on individually, that is, irrespective of couterparties each trade was settled separately. Further, there was no central agency to guarantee the trades. Therefore, the CCIL was set up to facilitate settlement using the higher versions of Delivery versus Payment mechanism.

It began by settling the securities on gross basis and settlement of funds on net basis. Subsequently, both the securities and funds are settled on net basis. It, also, acts as a central counterparty for clearing and settlement of government securities transactions done on NDS.

RBI has also introduced an electronic order matching system in the Indian gilts market as a part of NDS which is referred to as the NDS-OM. This system is purely order driven, has anonymous order matching, provides timely information both pre-trade and post trade, allows straight-through processing, allows traders to set their preferences in terms of orders, facilitates trading by members on behalf of their constituents and last but not the least provides a precise audit trail of transaction especially in light of the extant guidelines of sale of government securities and DvP III mode of settlements.

The major reforms planned include strengthening and modernizing legislative framework through a government securities Act and switching over to order-driven screen based trading in government securities on the stock exchanges.

5.7 RESEARCH IN SECURITIES MARKETS

In order to deepen the understanding and to assist in policy-making, SEBI has been promoting high quality research in the Indian capital market. Its monthly bulletin carries research articles pertaining to issues in the capital market. In order to improve market efficiency further and to set international benchmarks in the securities industry, NSE also administers a scheme called the NSE Research Initiative. The objective of this initiative is to foster research to better design market microstructure. The NSE Research Initiative has so far come out with 44 Working Papers.

5.8 TESTING AND CERTIFICATION

With a view to improve the quality of intermediation, a system of testing and certification has been used in some of the developed and developing markets. This ensures that a person dealing with financial products has a minimum knowledge about them, the markets and regulations. As a result, not only the intermediaries benefit due to the improvement in the quality of their services, but also the career prospectus of the certified professionals is better. Thus, the confidence of the investors in the market increases.

NSE has evolved a testing and certification mechanism known as the National Stock Exchange's Certification in Financial Markets (NCFM). It is an on-line fully automated nation-wide testing and certification system where the entire process from generation of question paper, invigilation, testing, assessing, scores reporting and certifying is fully automated. It tests practical knowledge and skills, that are required to operate in financial markets. A certificate is awarded to those personnel who qualify the tests, which indicates that they have a proper understanding of the market and skills to service different constituents of the market. It offers 14 securities market related modules.

Model Questions

1. Over-the-counter market describes _________.
   (a) trading that takes place off organised exchanges, usually over the telephone.
   (b) trading that takes place in the organised exchanges.
   (c) trading of derivatives.
   (d) trading on Over The Counter Exchange of India
   Ans. (a)

2. It has been made compulsory for public listed companies making IPO of any security for __________ or more only in dematerialised form.
(a) Rs. 5 crore
(b) Rs. 1 crore
(c) Rs. 10 crore
(d) Rs. 2 crore
Ans. (c)

3. Which of the following is not true about issue of securities?
(a) Issuers are required to comply with Disclosure and Investor Protection guidelines and then access the market.
(b) The Disclosure and Investor guidelines contain a substantial body of requirements for issuers/intermediaries, the broad intention being to ensure that all concerned observe high standards of integrity and fair dealing.
(c) The Disclosure and Investor Protection guidelines aim to cast a responsibility on the lead secure full disclosure of relevant information about the issuer and the nature of the securities to be issued so that investor can take an informed decision.
(d) The issue price of shares is determined by merchant banker in consultation with SEBI.
Ans. (d)

4. The Risk Management System does not encompasses _________.
(a) capital adequacy of members
(b) adequate margin requirements
(c) limits on exposure and turnover
(d) clearing and settlement
Ans. (d)

(5) To facilitate retail investors to invest in government securities, RBI permitted:
(a) select entities to provide custody (Constituent SGL) accounts
(b) abolition of TDS on government securities
(c) abolition of stamp duty on transfer of demat debt securities
(d) All of the above

Ans. (d)

CHAPTER 6

FUNDAMENTAL VALUATION CONCEPTS

6.1 ELEMENTARY STATISTICAL CONCEPTS

6.1.1 Mean

Mean is the arithmetic average of all the values in a data set. If there are 'N' elements of data (Xi) in the data set, then the mean ($\overline{X}$) is given by

$$\overline{X} = \sum Xi/N, \text{ where } i = 1, 2, 3, \ldots\ldots, n$$

Example 1: What is the average rate of return of XYZ if the returns during the previous three years are 10%, 15% and 20%?

Average Return = (10% + 15% + 20%)/3
= 15%

Therefore, average rate of return during previous three years of XYZ is 15%.

If there is a weightage/probability 'P_i' associated with an element 'X_i', then the weightage mean/expected value ($\overline{X}$) is given by the equation

$$\overline{X} = \sum P_i * X_I \text{ , where } i = 1, 2, 3, \ldots\ldots, n$$

Example 2: What is the expected return of XYZ if it has the probability of earning returns as given below?

Probability (%)	Return (%)
20	10
30	12
50	15

Expected value = (20%*10%) + (30%*12%) + (50%*15%)
= 13.10%

6.1.2 Geometric Mean

Geometric Mean (GM) is theoretically considered to be the best average in measuring returns from securities. It is also considered more appropriate in averaging ratios and percentages. It is defined as the n^{th} root of the product of 'N' items. If there are two items, square root is taken; if there are three items, then cube root and so on.

Symbolically,

$$GM = \sqrt[n]{(X_1)*(X_2)*(X_3)*\ldots\ldots (Xn)}$$

where X_1, X_2, X_3..........refer to the various items of the series.

Example 3: What is the annual percentage rate of increase in security prices if it increased @14% in 1999, 5% in 2000 and 2% in 2001?

Annual rate of increase = $\sqrt[3]{1.14 * 1.05 * 1.02}$
= 1.0688 = 6.88%

6.1.3 Return and Risk

Return and risk are the two key determinants of security prices or values. This calls for an explicit and quantitative understanding of the concepts.

Return and Risk of a Single Asset

Return on an investment/asset for given period, say a year, consists of annual income (dividend) receivable plus change in market price. Symbolically,

$$\text{Rate of Return (R)} = \frac{Yd_t + (P_t - P_{t-1})}{P_{t-1}}$$

Where,

Yd^t = annual income/cash dividend at the end of time period 't'.
P_t = security price at time period 't' which is closing/ending price.
P_{t-1} = security price at time period 't-1' which is opening/beginning price.

For example, for a security if price at the beginning of the year is Rs. 50.00; dividend receivable at the end of the year is Rs. 2.50; and price at the end of the year is Rs. 55.00 then, the rate of return on this security is:

$$\frac{2.50 + (55.00 - 50.00)}{50} = 0.15 = 15\%$$

The rate of return of 15 per cent has two components:

(i) Current yield i.e. annual income ÷ opening/beginning price = 2.50 ÷ 50.00 =.05 = 5% and
(ii) Capital gains/loss yield, i.e. (end price-opening price) ÷ opening/beginning price = (Rs.55 – Rs. 50) ÷ Rs. 50 =0.1 = 10%

Risk may be described as variability/fluctuation/deviation of actual return from expected return from a given asset/investment. Higher the variability, greater is the risk. In other words, the more certain the return from an asset, lesser is the variability and thereby lesser is the risk.

Types of Risks

The risk of a security can be broadly classified into two types such as systematic risk and unsystematic risk. Standard deviation has been used as a proxy measure for total risk.

Systematic Risk

Systematic Risk refers to that portion of total variability (/risk) in return caused by factors affecting the prices of all securities. Economic, political, and sociological changes are the main sources of systematic risk. Though it affects all the securities in the market, the extent to which it affects a security will vary from one security to another. To put it differently, the systematic risks of various securities differ due to their relationship with market. Systematic risk can not be diversified. Systematic risk can be measured in terms of Beta (ß), a statistical measure. The ß factor describes the movement in a security's or a portfolio's return in relation to that of the market returns. The beta for market portfolio is equal to one by definition. Beta of one (ß=1), indicates that volatility of return on the security is same as the market or index; beta more than one (ß>1) indicates that the security has more unavoidable risk or is more volatile than market as a whole, and beta less than one (ß<1) indicates that the security has less systematic risk or is less volatile than market.

Unsystematic risk

Unsystematic Risk refers to that portion of total risk that is unique or peculiar to a firm or an industry, above and beyond that affecting securities markets in general. Factors like consumer preferences, labour strikes, management capability etc. cause unsystematic risk (/variability of returns) for a company's stock. Unlike systematic risk, the unsystematic risk can be reduced/avoided through diversification. Total risk of a fully diversified portfolio equals to the market risk of the portfolio as its specific risk becomes zero.

Measurement of Risk for a Single Asset

The statistical measures of a risk of an asset are: (a) Standard Deviation and (b) Co-efficient of variation.

6.1.4 Standard Deviation of Return

Standard deviation (σ), is the most common statistical measure of risk of an asset from the expected value of return. It measures the fluctuations around mean returns. It represents the square root of average squared deviations of individual returns (R_i) from the expected return ($\overline{R}$). Symbolically,

$$\sigma_R = \sqrt{\sum_{i=1}^{n} \frac{(R_i - \overline{R})^2}{N}}$$

<u>*Variance*</u> (σ^2) on the other hand, equals to average of squares of deviations of individual returns (R^i) from expected returns ($\overline{R}$). Symbolically,

$$\sigma^2_R = \sum_{i=1}^{n} \frac{(R_i - R)^2}{N}$$

Thus, Standard Deviation (σ) equals to the positive square root of variance (σ^2) i.e.

Standard Deviation = $\sqrt{Variance}$.

Example 4: The stock returns of the company A for past five years are 10%, 20% 5%, 30% and 35%. What is the standard deviation of the returns for the returns of the company A?

$$\overline{R} = \frac{10+20+5+30+35}{5} = 20$$

$$\sigma_R = \sqrt{\frac{\sum_{i=1}^{N}(R_i - \overline{R})^2}{N}}$$

$$\sigma_R = \sqrt{\frac{[(10-20)]^2 + [(20-20)]^2 + [(5-20)]^2 + [(30-20)]^2 + [(35-20)]^2}{5}}$$

$$\sigma_R = \sqrt{\frac{(-10)^2 + (0)^2 + (-15)^2 + (10)^2 + (15)^2}{5}}$$

$$\sigma_R = \sqrt{\frac{100+0+225+100+225}{5}} = \sqrt{\frac{650}{5}}$$

$$\sigma_R = \sqrt{130} = 11.40$$

6.1.5 Co-efficient of variation

It is a measure of risk per unit of expected return. The actual dispersion/variation as determined by standard deviation is called absolute dispersion. Co-efficient of variation converts standard deviation of expected values into relative values to enable comparison of risks associated with assets having different expected values. The coefficient of variation (CV) is computed by dividing the standard deviation of return, σ_R, for an asset by its expected value, $\overline{R}$. Symbolically,

$$CV = \frac{\sigma_R}{\overline{R}}$$

It is generally expressed as a percentage. The larger the CV, the larger the relative risk of the asset. A disadvantage of the coefficient of variation is that it fails to be useful when $\overline{R}$ is close to zero.

Example 5: Security A gives a return of 10% with a dispersion of 3.5%, while security B gives a return of 20% with a dispersion of 5%. Which security is more risky?
Coefficient of Variation for Security A = (3.5/10) = 0.35 or 35% and
Coefficient of Variation for Security B = (5/20) = 0.25 or 25%. Therefore, the security A is more risky in relation to its return.

6.1.6 Covariance

Covariance describes the nature of relationship between two variables. For instance, it may be the relationship between return on a security and the return on Market portfolio or may be the relationship between two securities etc.
If X and Y are two securities, then the covariance between the two securities is given by the following formula:

$$\text{cov}_{xy} = \frac{\sum_{i=1}^{N}[\ (Xi - \overline{X})\ (Yi - \overline{Y}\ )]}{N - 1} \qquad \text{where } i = (1, 2, 3,..,n)$$

When two securities are combined, if rates of return of two securities move together, their interactive risk/covariance is said to be positive and vice versa. If rates of return are independent, then the covariance is zero.

Example 6: Following are the returns of two securities X and Y for 5 years:

Year	Return on Security X	*Return on Security Y*
1	5	4
2	7	6
3	9	8
4	11	10
5	13	12

Calculate the covariance between the two securities X and Y.

Solution:

Year	Return on Security X	Return on Security Y	$Xi - \overline{X}$	$Yi - \overline{Y}$	$(Xi - \overline{X})(Yi - \overline{Y})$
1	5	4	-4	-4	16
2	7	6	-2	-2	4
3	9	8	0	0	0
4	11	10	2	2	4
5	13	12	4	4	16
Total	*45*	*40*	*0*	*0*	*40*

$$\overline{X} = \frac{5+7+9+11+13}{5} = 9 \qquad \overline{Y} = \frac{4+6+8+10+12}{5} = 8$$

$$\text{cov}_{xy} = \frac{\sum_{i=1}^{N}[(Xi - \overline{X})(Yi - \overline{Y})]}{N - 1} = \frac{40}{5-1} = 10$$

Thus the covariance between the two securities X and Y is positive.

6.1.7 Correlation Coefficient

Correlation coefficient describes the degree of relationship between the two variables under consideration. It is given be the equation

$\rho = \text{Cov}(X, Y) / (\sigma_X * \sigma_Y)$

where σ_X = Standard deviation of X

σ_y = Standard deviation of Y

It ranges between –1 and +1 (+1 perfectly correlated, 0 uncorrelated and –1 perfectly negatively correlated).

6.1.8 Normal Distribution

The stock price over a period of time tends to follow a pattern, which is similar to the Normal Distribution. The mean of the sample data and the standard deviation of the individual data points can define the Normal Distribution. The Normal Distribution can be represented graphically by symmetric, bell shaped curve described by mean and standard deviation.

If there is a 99% probability of an outcome occurring, then it will lie within $\pm 3\sigma$ deviation from the mean. At 95% probability, it will lie within $\pm 2\sigma$ deviation from the mean and at 66% probability, it will lie within $\pm\sigma$ deviation from the mean.

Example 7: A stock is at Rs.1000 on day 1. The total risk 'σ' of the stock is 3% per day. What range of prices would be observed on day 2 with 99% probability?

At 99% probability, the value can lie anywhere between $\pm 3\sigma$ from the mean
That is, the price can vary from 1000 – (3 * 3% * 1000) = 1000 – 90 = Rs.910 to 1000 + (3 * 3% * 1000) = 1000 + 90 = Rs.1090
Hence, the price can vary between Rs.910 to Rs.1090 on the next day.

6.1.9 Calculation of Beta (ß)

The risk of a well diversified portfolio, as we have seen, is represented by its market risk of the securities included in the portfolio. The market risk of a security reflects its sensitivity to market movements. Such sensitivity of a security is called beta (ß). As mentioned earlier, the beta for market portfolio is equal to '1' by definition. Beta of one (ß=1), indicates that volatility of return on the security is same as the market or index; beta more than one (ß>1) indicates that the security has more unavoidable risk or is more volatile than market as a whole, and beta less than one (ß<1) indicates that the security has less systematic risk or is less volatile than market.

Given return on security X which is a dependent variable (R_x) and return on Market portfolio, the independent variable (R_m), Beta for the security X is calculated by following formula:

$$ß = \frac{\text{cov}(R_x, R_m)}{Var(R_m)}$$

Example 8: Given return on security-X and the return on Market portfolio, calculate beta of the security X:

Year	Return on Security X: (R_x)	Return on Market Portfolio: (R_m)	$Rx_i - \overline{Rx}$	$Rm_i - \overline{Rm}$	$(Rx_i - \overline{Rx})*(Rm_i - \overline{Rm})$	$(Rm_i - \overline{Rm})^2$
1	5	11	-2	2	-4	4
2	7	12	0	3	0	9
3	-3	-9	-10	-18	180	324
4	11	13	4	4	16	16
5	15	18	8	9	72	81
	35	45	0	0	264	434

Expected return on Security X:

$$\overline{R_x} = \frac{5+7-3+11+15}{5} = \frac{35}{5} = 7$$

Expected return on Market portfolio:

$$\overline{R_m} = \frac{11+12-9+13+18}{5} = \frac{45}{5} = 9$$

The covariance between return on security-X and the return on Market portfolio is:

$$\text{cov}_{xm} = \frac{\sum_{i=1}^{N}[(Rx_i - \overline{Rx})(Rm_i - \overline{Rm})]}{N-1} = \frac{264}{5-1} = 66$$

Variance of return on the market portfolio (σ^2_m) is calculated:

$$\sigma^2_M = \frac{\sum (Rm_i - \overline{Rm})^2}{N-1} = \frac{434}{5-1} = 108.5$$

Thus, beta of security X can be calculated as:

$$\beta_x = \frac{\text{cov}(R_x, R_m)}{Var(R_m)} = \frac{66}{108.5} = 0.61$$

Since Beta of Security X is 0.61 (which is less than 1), we may infer that its return is less volatile than the return on the market portfolio. If the return on market portfolio increases/decreases by 10% then return on security X would be expected to increase/decrease by 6.1% (0.61*10%).

6.1.10 Relationship between Return and Risk

Capital Asset Pricing Model

Portfolio Theory developed by Harry Markowitz is essentially a normative approach as it prescribes what a rational investor should do. On the other hand, Capital Asset Pricing Model (CAPM) developed by William Sharpe and others is an exercise in positive economics as it is concerned with:

(i) what is the relationship between risk and return for efficient portfolio? And

(ii) what is the relationship between risk and return for an individual security?

CAPM assumes that individuals are risk averse. CAPM describes the relationship/trade-off between risk and expected/required return. It explains the behaviour of security prices and provides mechanism to assess the impact of an investment in a proposed security on risks and return of investors' overall portfolio. The CAPM provides framework for understanding the basic risk-return trade-offs involved in various types of investment decisions. It enables drawing certain implications about risk and the size of risk premiums necessary to compensate for bearing risks.

Using beta (ß) as the measure of non-diversifiable risk, the CAPM is used to define the required return on a security according to the following equation:

$$R_s = R_f + \beta_s (R_m - R_f)$$

Where:

R_s = the return required on the investment

R_f = the return that can be earned on a risk-free investment (e.g. Treasury bill)

R_m = the average return on all securities (e.g., S&P 500 Stock Index)

β_s = the security's beta (systematic) risk

It is easy to see that the required return for a given security increases with increases in its beta.

Application of the CAPM can be demonstrated:

Example 9: Assume that a security with a beta of 1.5 is being considered for investment at a time when the risk-free rate of return is 8 % p.a. and the market return is expected to be 20% p.a. The expected/required return can be calculated by substituting the given data into the CAPM equation:

$$R_s = 8\% + [1.50 * (20\% - 8\%)]$$
$$= 8\% + [1.50 * 12\%]$$
$$= 8\% + 18\% = 26\%$$

The investor should, therefore, require a 26 percent return on this investment, a compensation for the non-diversifiable risk assumed, given the security's beta of 1.5. Such security is aggressive security. If the beta is 1.00, then the security is considered as neutral and the required return would be 20 percent [8%+ [1.00*(20%-8%)]: and if the beta had been lower, say 0.80, then the security is considered as a defensive security and the required return would be 17.6 percent [8%+ [0.80* (20%-8%)]. Thus, CAPM reflects a positive mathematical relationship between risk and return, since the higher the risk (beta) higher is the required return.

6.1.11 Return and Risk of a portfolio

Investors prefer investing in a portfolio of assets (combination of two or more securities/assets) rather than investing in a single asset. The expected return on a portfolio is a weighted average of the expected returns of individual securities or assets comprising the portfolio. The weights are equal to the proportion to amount invested in each security to the total amount.

For example, when a portfolio consists of two securities, its expected return is:

$$\overline{R}_P = w_1 \overline{R}_1 + (1 - w_1)\overline{R}_2$$

where,

$\overline{R}_P$ = Expected return on a portfolio

w_1 = proportion of portfolio invested in security 1

(1- w_1) = proportion of portfolio invested in security 2.

In general, expected return on a portfolio consisting of 'n' securities is expressed as:

$$\overline{R}_P = \sum_{i=1}^{n} w_i \overline{R}_i$$

Example 10: What is the portfolio return, if expected returns for the three assets such as A, B, and C, are 20%, 15% and 10% respectively, assuming that the amount of investment made in these assets are Rs. 10,000, Rs. 20,000, and Rs. 30,000 respectively.

Weights for each of the assets A, B, and C respectively may be calculated as follows:

Total Amount invested in the portfolio of 3 assets (A, B, and C) = Rs. 10,000 + Rs. 20,000 + Rs.30,000 = Rs. 60,000.

Weight for the asset A = 10000/60000 = 1/6 = 0.1667
Weight for the asset B = 20000/60000 = 1/3 = 0.3333
Weight for the asset C = 30000/60000 = 1/2 = 0.5

Given expected returns for the three assets A, B and C, as 20%, 15% and 10% respectively, Returns on Portfolio
= (0.1667*0.20)+(0.3333*0.15)+(0.5*0.10)
= 0.13334*100 =13.33%

Measurement of Risk for a portfolio

According to the Modern Portfolio Theory, while the expected return of a portfolio is a weighted average of the expected returns of individual securities (or assets) included in the portfolio, the risk of a portfolio measured by variance(or standard deviation) is *not* equal to the weighted average of the risk of individual securities included in the portfolio. The risk of a portfolio not only depends on variance/risk of individual securities but also on co-variances between the returns on the individual securities.

Given the covariance between the returns on the individual securities, the portfolio variance consisting of 'n' securities is calculated as:

$$Var\ (R_p) = \sigma_P^2 = \sum_{a=1}^{n} \sum_{b=1}^{n} w_a w_b Cov(R_a, R_b) \quad \text{............ (6.1)}$$

Since the covariance between two variables is the product of their standard deviations multiplied by their co-efficient of correlation, covariance between the returns on two securities, [$Cov(R_a, R_b)$] may be expressed as:

$$Cov(R_a, R_b) = \rho_{ab}\sigma_a\sigma_b$$

where,

ρ_{ab} = coefficient of correlation between Ra and R_b

σ_a = standard deviation of Ra

σ_b = standard deviation of R_b

Hence, in case co-variances are not known and correlation co-efficients are given, the Portfolio variance (σ_p^2) can be calculated with following formula:

$$\sigma_p^2 = \sum_{a=1}^{n} \sum_{b=1}^{n} w_a w_b \rho_{ab} \sigma_a \sigma_b \quad \text{............ (6.1a)}$$

Portfolio with Two Securities:

Assuming a portfolio consisting of two securities (i.e. n=2), Portfolio Variance for the two securities is calculated by substituting n=2 in the formula (6.1) as follows:

Var (R_p) =

$$\sigma_P^{\,2} = w_1 w_1 \rho_{1.1}\sigma_1\sigma_1 + w_1 w_2 \rho_{1.2}\sigma_1\sigma_2 + w_2 w_1 \rho_{2.1}\sigma_2\sigma_1 + w_2 w_2 \rho_{2.2}\sigma_2\sigma_2 \quad .... (6.2)$$

The first and the last terms can be simplified. Clearly the return on a security is perfectly (positively) correlated with itself. Thus, $\rho_{1.1}$=1, as does $\rho_{2.2}$=1. Because $\rho_{2.1} = \rho_{1.2}$, the second terms can be combined. The result is:

Portfolio Variance, $Var(R_P) = \sigma_P^{\,2} = w^2{}_1\sigma^2{}_1 + w^2{}_2\sigma^2{}_2 + 2\, w_1\, w_2\, \rho_{1.2}\, \sigma_1\sigma_2$

OR substituting $\rho_{1.2}\,\sigma_1\sigma_2$ by Cov. (1, 2), we get,

$Var(R_P) = \sigma_P^{\,2} = w^2{}_1\sigma^2{}_1 + w^2{}_2\sigma^2{}_2 + 2\, w_1\, w_2 Cov\ (1, 2)$

Portfolio Risk (standard deviation) $\sigma_P = \sqrt{PorfolioVariance}$

Example 11: The standard deviation of the two securities (a, b) are 20% and 10% respectively. The two securities in the portfolio are assigned equal weights. If their correlation coefficient is +1, 0 or –1 what is the portfolio risk?

(i) When the correlation is +1

Portfolio Variance = $0.5^2*0.2^2 + 0.5^2*0.10^2 + 2*0.5*0.5*$ Cov (a, b)
= 0.25*0.04 +0.25*0.01+2 *0.25 *1*0.2*0.1
= 0.0100 +0.0025 +2 *0.25 *1*0.02
= 0.0100 +0.0025 +0.0100
=0.0225

Portfolio Risk (Standard Deviation) = $\sqrt{PorfolioVariance}$ = 0.15

(ii) When the correlation is 0

Portfolio Variance = $0.5^2*0.2^2 + 0.5^2*0.10^2 + 2*0.5*0.5*$ Cov (a, b)
= 0.0100 +0.0025 + 0
=0.0125

Portfolio Risk (Standard Deviation) = $\sqrt{PorfolioVariance}$ = 0.1118

(iii) When the correlation is -1

Portfolio Variance = $0.5^2*0.2^2 + 0.5^2*0.10^2 + 2*0.5*0.5*$ Cov (a, b)
= 0.0100 +0.0025 + (-0.0100)
= 0.0025

Portfolio Risk (Standard Deviation) = $\sqrt{PorfolioVariance}$ = 0.05

6.2 UNDERSTANDING FINANCIAL STATEMENTS

Financial statement consists of Balance Sheet, Profit and Loss Account, Sources and Uses of Funds Statements, and Auditors' Notes to the Financial statements. The Balance sheet shows the financial position of the firm at a particular point of time. The profit and loss account (Income Statement) shows the financial performance of the firm over a period of time. The sources and uses of funds statements reflect the flow of funds through the business during a given period of time.

6.2.1 Balance Sheet

The balance sheet of a company, according to the Companies Act, should be either in account form or the report form.

Balance Sheet: Account Form

Liabilities	Assets
Share Capital	Fixed Assets
Reserves and Surplus	Investments
Secured loans	Current Assets, loans and Advances
Unsecured loans	Miscellaneous expenditure
Current liabilities and provisions	

Liabilities:

- Share Capital: Share capital has been divided into equity capital and preference capital. The share capital represents the contribution of owners of the company. Equity capital does not have fixed rate of dividend. The preference capital represents contribution of preference shareholders and has fixed rate of dividend.

- Reserves and Surplus: The reserves and surpluses are the profits retained in the company. The reserves can be divided into revenue reserves and capital reserves. Revenue reserves represent accumulated retained earnings from the profits of business operations. Capital reserves are those gained which are not related to business operations. The premium on issue of shares and gain on revaluation of assets are examples of the capital reserves.

- Secured and Unsecured Loans: Secured loans are the borrowings against the security. They are in the form of debentures, loans from financial institutions and loans from commercial banks. The unsecured loans are the borrowings without a specific security. They are fixed deposits, loans and advances from promoters, inter-corporate borrowings, and unsecured loans from the banks.

- Current Liabilities and Provisions: They are amounts due to the suppliers of goods and services brought on credit, advances payments received, accrued expenses, unclaimed dividend, provisions for taxes, dividends, gratuity, pensions, etc.

Assets:

- Fixed Assets: These assets are acquired for long-terms and are used for business operation, but not meant for resale. The land and buildings, plant, machinery, patents, and copyrights are the fixed assets.

- Investments: The investments are the financial securities either for long-term or short-term. The incomes and gains from the investments is not from the business operations.

- Current Assets, Loans, and Advances: This consists of cash and other resources which can be converted into cash during the business operation. Current assets are held for a short-term period. The current assets are cash, debtors, inventories, loans and advances, and pre-paid expenses.

- Miscellaneous Expenditures and Losses: The miscellaneous expenditures represent certain outlays such as preliminary expenses and pre-operative expenses not written off. Though loss indicates a decrease in the owners' equity, the share capital can not be reduced with loss. Instead, Share capital and losses are shown separately on the liabilities side and assets side of the balance sheet.

Balance Sheet: Report Form

I. Sources of Funds
1. Shareholders' Funds
(a) Share Capital
(b) Reserves & surplus
2. Loan Funds
(a) Secured loans
(b) Unsecured loans
II. Application of Funds
(i) Fixed Assets
(ii) Investments
(iii) Current Assets, loans and advances
Less: Current liabilities and provisions
Net current assets
(iv) Miscellaneous expenditure and losses

6.2.2 Profit and Loss Account

Profit and Loss account is the second major statement of financial information. It indicates the revenues and expenses during particular period of time. The period of time is an accounting period/year, April-March. The profit and loss account can be presented broadly into two forms: (i) usual account form and (ii) step form. The accounting report summarizes the revenue items, the expense items, and the difference between them (net income) for an accounting period.

Mere statistics/data presented in the different financial statements do not reveal the true picture of a financial position of a firm. Properly analyzed and interpreted financial statements can provide valuable insights into a firm's performance. To extract the information from the financial statements, a number of tools are used to analyse such statements. The popular tools are:

1. Comparative Financial Statements,
2. Common sized Statements, and
3. Ratio Analysis.

6.2.3 Comparative Financial Statements

This involves putting statements for two periods/organizations in a comparative form and indicating differences between them in terms of rupees and percentages.

Example 12: Financial statement of XYZ Ltd. for the years 2005 and 2006 are compared as under:

Particulars	Amount (in Rs. Lakh)		Increase/Decrease	
	2005	2006	Amount	(%)
Equity Share Capital	15.00	15.00	-	-
Debentures	9.00	6.00	(-) 3.00	(-) 33.33
Current Liabilities	10.00	10.50	(+) 0.50	(+) 5.00
Land and Building	13.00	13.00	-	-
Investments	8.00	10.00	(+) 2.00	(+) 25.00
Current Assets	13.00	8.50	(-) 4.50	(-) 34.62

6.2.4 Common Size Statements

This involves putting statements for two years/organizations in a comparative form, where the items appear in percentage to total, rather than in absolute rupee form. This indicates relative importance of each item in the total and significant changes in the composition of the items.

Example 13: Common size statement of ABC Ltd. for the years 2005 and 2006 is as under:

Particulars	Amount (in Rs. Lakh)		Percentage	
	2005	2006	2005	2006
Equity Share Capital	15.00	15.00	44.11	47.62
Debentures	9.00	6.00	26.47	19.05
Current Liabilities	10.00	10.50	29.42	33.33
Land and Building	13.00	13.00	38.23	41.27
Investments	8.00	10.00	23.53	31.75
Current Assets	13.00	8.50	38.24	26.98

6.2.5 Ratio Analysis

Financial ratio is a quantitative relationship between two items/variables. Financial ratios can be broadly classified into three groups: (I) Liquidity ratios, (II) Leverage/Capital structure ratio, and (III) Profitability ratios.

(I) Liquidity ratios

Liquidity refers to the ability of a firm to meet its financial obligations in the short-term which is less than a year. Certain ratios which indicate the liquidity of a firm are: (i) Current Ratio, (ii) Acid Test Ratio, (iii) Turnover Ratios. It is based upon the relationship between current assets and current liabilities.

(i) Current ratio $= \frac{Current.Assets}{Current.Liabilities}$

The current ratio measures the ability of the firm to meet its current liabilities from the current assets. Higher the current ratio, greater the short-term solvency (i.e. larger is the amount of rupees available per rupee of liability).

(ii) Acid-test Ratio $= \frac{Quick.Assets}{Current.Liabilities}$

Quick assets are defined as current assets excluding inventories and prepaid expenses. The acid-test ratio is a measurement of firm's ability to convert its current assets quickly into cash in order to meet its current liabilities. Generally speaking 1:1 ratio is considered to be satisfactory.

(iii) Turnover Ratios:

Turnover ratios measure how quickly certain current assets are converted into cash or how efficiently the assets are employed by a firm. The important turnover ratios are:

-Inventory Turnover Ratio,
-Debtors Turnover Ratio,
-Average Collection Period,
-Fixed Assets Turnover and
-Total Assets Turnover

Inventory Turnover Ratio = $\dfrac{Cost\ of\ Goods\ Sold}{Average\ Inventoty}$

Where, the cost of goods sold means sales minus gross profit. 'Average Inventory' refers to simple average of opening and closing inventory. The inventory turnover ratio tells the efficiency of inventory management. Higher the ratio, more the efficient of inventory management.

Debtors' Turnover Ratio = $\dfrac{NetCreditSales}{AverageAccounts\mathrm{Re}ceivable(Debtors)}$

The ratio shows how many times accounts receivable (debtors) turn over during the year. If the figure for net credit sales is not available, then net sales figure is to be used. Higher the debtors turnover, the greater the efficiency of credit management.

Average Collection Period = $\dfrac{AverageDebtors}{AverageDailyCreditSales}$

Average Collection Period represents the number of days' worth credit sales that is locked in debtors (accounts receivable).

Please note that the Average Collection Period and the Accounts Receivable (Debtors) Turnover are related as follows:

Average Collection Period = $\dfrac{365\,Days}{DebtorsTurnover}$

Fixed Assets turnover ratio measures sales per rupee of investment in fixed assets. In other words, how efficiently fixed assets are employed. Higher ratio is preferred. It is calculated as follows:

Fixed Assets turnover ratio = $\dfrac{Net.Sales}{NetFixedAssets}$

Total Assets turnover ratio measures how efficiently all types of assets are employed.

Total Assets turnover ratio $= \dfrac{Net.Sales}{AverageTotalAssets}$

(II) Leverage/ Capital structure ratios

Long term financial strength or soundness of a firm is measured in terms of its ability to pay interest regularly or repay principal on due dates or at the time of maturity. Such long term solvency of a firm can be judged by using leverage or capital structure ratios. Broadly there are two sets of ratios: First, the ratios based on the relationship between borrowed funds and owner's capital which are computed from the balance sheet. Some such ratios are: Debt to Equity and Debt to Asset ratios. The second set of ratios which are calculated from Profit and Loss Account are: The interest coverage ratio and debt service coverage ratio are coverage ratio for leverage risk.

(i) Debt-Equity ratio reflects relative contributions of creditors and owners to finance the business.

Debt-Equity ratio $= \dfrac{Debt}{Equity}$

The desirable/ ideal proportion of the two components (high or low ratio) varies from industry to industry.

(ii) Debt-Asset Ratio: Total debt comprises of long term debt plus current liabilities. The total assets comprise of permanent capital plus current liabilities.

Debt-Asset Ratio $= \dfrac{Total\ Debt}{Total\ Assets}$

The second set or the coverage ratios measure the relationship between proceeds from the operations of the firm and the claims of outsiders.

(iii) Interest Coverage ratio $= \dfrac{Earnings\ Before\ Interest\ and\ Taxes}{Interest}$

Higher the interest coverage ratio better is the firm's ability to meet its interest burden. The lenders use this ratio to assess debt servicing capacity of a firm.

(iv)Debt Service Coverage Ratio (DSCR) is a more comprehensive and apt to compute debt service capacity of a firm. Financial institutions calculate the average DSCR for the period during which the term loan for the project is repayable. The Debt Service Coverage Ratio is defined as follows:

$$\frac{Profit.after.tax + Depreciation + OtherNoncashExpenditure + Interest.on.term.loan}{Interest\ on term\ loan + Repayment of\ term loan}$$

(III) Profitability ratios

Profitability and operating/management efficiency of a firm is judged mainly by the following profitability ratios:

(i) Gross Profit Ratio $= \dfrac{Gross\ Profit}{Net\ Sales}$

(ii) Net Profit Ratio $= \dfrac{Net\ Profit}{Net\ Sales}$

Some of the profitability ratios related to investments are:

(iii) Return on Total Assets = $\dfrac{Net\ Income}{Average\ Total\ Assets}$

(iv)Return on Capital Employed = $\dfrac{Net\ Profit}{Capital\ Employed}$

(Here, Capital Employed = Fixed Assets + Current Assets - Current Liabilities)

Return on Shareholders' Equity

$$= \frac{Net\ Income\ After\ Tax}{Average\ Total\ Shareholders'\ Equity\ or\ Net\ Worth}$$

(Net worth includes Shareholders' equity capital plus reserves and surplus)

A common (equity) shareholder has only a residual claim on profits and assets of a firm, i.e., only after claims of creditors and preference shareholders are fully met, the equity shareholders receive a distribution of profits or assets on liquidation. A measure of his well being is reflected by return on equity. There are several other measures to calculate return on shareholders' equity:

(i) Earnings Per Share (EPS): EPS measures the profit available to the equity shareholders per share, that is, the amount that they can get on every share held. It is calculated by dividing the profits available to the shareholders by number of outstanding shares. The profits available to the ordinary shareholders are arrived at by net profits after taxes and preference dividend. It indicates the value of equity in the market.

$$EPS = \frac{Net\ Profit}{Number\ of\ Ordinary\ Shares\ Outstanding}$$

(ii) Price-earnings ratios = P/E Ratio $= \dfrac{Market\ Price\ per\ Share}{EPS}$

(iii) Cash Earnings per share (CPS/CEPS):

$$CPS/CEPS = \frac{Net\ Profit - Preference\ Dividend + Depreciation}{Number\ of\ Equity\ Shares}$$

Illustration:

Balance Sheet of ABC Co. Ltd. as on March 31, 2006

(Rs. in Crore)

Liabilities	Amount	Assets	Amount	
Share Capital (1,00,00,000 equity shares of Rs.10 each)	16.00	Fixed Assets (net)		60.00
Reserves & Surplus	22.00	Current Assets:		23.40
Secured Loans	21.00	Cash & Bank	0.20	
Unsecured Loans	25.00	Debtors	11.80	
Current Liabilities & Provisions	16.00	Inventories	10.60	
		Pre-paid expenses	0.80	
		Investments		16.60
Total	100	Total		100

Profit & Loss Account of ABC Co. Ltd. for the year ending on March 31, 2006:

Particulars	Amount	Particulars	Amount
Opening Stock	13.00	Sales (net)	105.00
Purchases	69.00	Closing Stock	15.00
Wages and Salaries	12.00		
Other Mfg. Expenses	10.00		
Gross Profit	16.00		
Total	120.00	Total	120.00
Administrative and Personnel Expenses	1.50	Gross Profit	16.00
Selling and Distribution Expenses	2.00		
Depreciation	2.50		
Interest	1.00		
Net Profit	9.00		
Total	16.00	Total	16.00
Income Tax	4.00	Net Profit	9.00
Equity Dividend	3.00		
Retained Earning	2.00		
Total	9.00	Total	9.00
Market price per equity share - Rs. 20.00			

Current Ratio = Current Assets / Current Liabilities
= 23.40/16.00 = 1.46

Quick Ratio = Quick Assets / Current Liabilities
=Current Assets-(inventory + prepaid expenses)/Current Liabilities
= [23.40-(10.60+0.8)]/16.00 = 12.00/16.00 = 0.75

Inventory Turnover Ratio = Cost of goods sold/Average Inventory

= (Net Sales-Gross Profit)/ [(opening stock + closing stock)/2]
= (105-16)/ [(15+13)/2] = 89/14 = 6.36

Debtors Turnover Ratio = Net Sales/Average account receivables (Debtors)
=105/11.80 =8.8983

Average Collection period = 365 days / Debtors turnover
= 365 days/8.8983 = 41 days

Fixed Assets Turnover ratio = Net Sales / Net Fixed Assets
= 105/60 = 1.75

Debt to Equity Ratio = Debt/ Equity
= (21.00+25.00)/(16.00+22.00) = 46/38 = 1.21

Gross Profit Ratio = Gross Profit/Net Sales

= 16.00/105.00 = 0.15238 or 15.24%
Net Profit Ratio = Net Profit / Net Sales
= 9/105.00 = 0.0857 or 8.57 %

Return on Shareholders' Equity = Net Profit after tax/Net worth
= 5.00/(16.00+22.00) =0.13157 or 13.16%

6.3 TIME VALUE OF MONEY

One of the most important principles in all of finance is the relationship between value of a rupee today and value of rupee in future. This relationship is known as the 'time value of money'. A rupee today is more valuable than a rupee tomorrow. This is because current consumption is preferred to future consumption by the individuals, firms can employ capital productively to earn positive returns and in an inflationary period, rupee today represents greater purchasing power than a rupee tomorrow. The time value of the money may be computed in the following circumstances.

(a) Future value of a single cash flow
(b) Future value of an annuity
(c) Present value of a single cash flow
(d) Present value of an annuity

6.3.1 Future Value of a Single Cash Flow

For a given present value (PV) of money, future value of money (FV) after a period 't' for which compounding is done at an interest rate of 'r', is given by the equation

$$FV = PV\ (1+r)^t$$

This assumes that compounding is done at discrete intervals. However, in case of continuous compounding, the future value is determined using the formula

$$FV = PV * e^{rt}$$

Where 'e' is a mathematical function called 'exponential' the value of exponential (e) = 2.7183. The compounding factor is calculated by taking natural logarithm (log to the base of 2.7183).

Example 14: Calculate the value of a deposit of Rs.2,000 made today, 3 years hence if the interest rate is 10%.

By discrete compounding:

FV = 2,000 * $(1+0.10)^3$ = 2,000 * $(1.1)^3$ = 2,000 * 1.331 = Rs. 2,662

By continuous compounding:

FV = 2,000 * $e^{(0.10*3)}$ =2,000 * 1.349862 = Rs.2699.72

Example 15: Find the value of Rs. 70,000 deposited for a period of 5 years at the end of the period when the interest is 12% and continuous compounding is done.

Future Value = 70,000* $e^{(0.12*5)}$ = Rs. 1,27,548.827.

The future value (FV) of the present sum (PV) after a period 't' for which compounding is done 'm' times a year at an interest rate of 'r', is given by the following equation:

FV = PV (1+(r/m))^mt

Example 16: How much a deposit of Rs. 10,000 will grow at the end of 2 years, if the nominal rate of interest is 12 % and compounding is done quarterly?

Future value = 10,000 * $\left(1+\frac{0.12}{4}\right)^{4*2}$ = Rs. 12,667.70

6.3.2 Future Value of an Annuity

An annuity is a stream of equal annual cash flows. The future value (FVA) of a uniform cash flow (CF) made at the end of each period till the time of maturity 't' for which compounding is done at the rate 'r' is calculated as follows:

$$FVA = CF*(1+r)^{t-1} + CF*(1+r)^{t-2} + ... + CF*(1+r)^{1} + CF$$

$$= CF\left(\frac{(1+r)^{t}-1}{r}\right)$$

The term $\left(\frac{(1+r)^{t}-1}{r}\right)$ is referred as the Future Value Interest Factor for an Annuity (FVIFA). The same can be applied in a variety of contexts. For e.g. to know accumulated amount after a certain period,; to know how much to save annually to reach the targeted amount, to know the interest rate etc.

Example 17: Suppose, you deposit Rs.3,000 annually in a bank for 5 years and your deposits earn a compound interest rate of 10 per cent, what will be value of this series of deposits (an annuity) at the end of 5 years? Assume that each deposit occurs at the end of the year.

Future value of this annuity is:

$=Rs.3000*(1.10)^4 + Rs.3000*(1.10)^3 + Rs.3000*(1.10)^2 + Rs.3000*(1.10) + Rs.3000$

$=Rs.3000*(1.4641)+Rs.3000*(1.3310)+Rs.3000*(1.2100)+Rs.3000*(1.10) + Rs.3000$

= Rs. 18315.30

Example 18: You want to buy a house after 5 years when it is expected to cost 40 lakh how much should you save annually, if your savings earn a compound return of 12%?

$$FVIFA_{t=5\ ,\ r=12\%} = \left(\frac{(1+0.12)^5 - 1}{0.12} \right) = 6.353$$

The annual savings should be:

4000000/6.353=6,29,623.80

In case of continuous compounding, the future value of annuity is calculated using the formula: $FVA = CF * (e^{rt} - 1)/r$.

6.3.3 Present Value of a Single Cash Flow

Present value of (PV) of the future sum (FV) to be received after a period 't' for which discounting is done at an interest rate of 'r', is given by the equation

In case of discrete discounting: $PV = FV / (1+r)^t$

Example 19: What is the present value of Rs.5,000 payable 3 years hence, if the interest rate is 10 % p.a.

$PV = 5000 / (1.10)^3$ i.e. = Rs.3756.57

In case of continuous discounting: $PV = FV * e^{-rt}$ OR $PV = \frac{FV}{e^{rt}}$

Example 20: What is the present value of Rs. 10,000 receivable after 2 years at a discount rate of 10% under continuous discounting?
Present Value = 10,000/(exp^(0.1*2)) = Rs. 8187.297

6.3.4 Present Value of an Annuity

The present value of annuity is the sum of the present values of all the cash inflows of this annuity.
Present value of an annuity (in case of discrete discounting)

$$PVA = FV [\{(1+r)^t - 1 \}/ \{r * (1+r)^t\}]$$

The term $[(1+r)^t - 1/ r*(1+r)^t]$ is referred as the Present Value Interest factor for an annuity (PVIFA).

Example 21: What is the present value of Rs. 2000/- received at the end of each year for 3 continuous years
= 2000*[1/1.10]+2000*[1/1.10]^2+2000*[1/1.10]^3
= 2000*0.9091+2000*0.8264+2000*0.7513
= 1818.181818+1652.892562+1502.629602
= Rs. 4973.704

Example 22: Assume that you have taken housing loan of Rs.10 lakh at the interest rate of Rs.11 percent per annum. What would be you equal annual installment for repayment period of 15 years?
Loan amount = Installment (A) *PVIFA n=15, r=11%
10,00,000 = A* $[(1+r)^t - 1/ r*(1+r)^t]$
10,00,000 = A* [(1.11)^15 - 1/ 0.11(1.11^15]
10,00,000 = A* 7.19087
10,00,000/7.19087 = A
A = Rs. 1,39,065.24

Present value of an annuity (in case of continuous discounting) is calculated as:

$$PV_a = FV_a * (1-e^{-rt})/r$$

6.4 EQUITY RESEARCH

For the purpose of equity research, numerous data sources like annual reports of companies, stock exchange publications, CMIE publications, RBI Economic Statistics, financial magazines, brochures, brokerage research publications, information from various credit rating agencies, are used apart from on-line data sources. The prominent on-line data sources are: Bloomberg, Reuters, Bridge Indian Quotation Systems Pvt. Ltd., Asian CERC Information Technology Ltd., etc.

NSE provides a lot of data useful for research. It produces one CD for each month of the operations of NSE. Each CD is identified by the name of the starting directory in yyyymm format. The CD has following directories:

(a) Bhav Copy: Summary information about each security for each day.
(b) Index: Information about stock market indexes.
(c) Snapshots: Snapshots of the limit order book at many time points in a day, and
(d) Trades: A database of every single trade that takes place.

6.4.1 Bhav Copy Database

The bhav copy database contains a directory structure where the date is represented as yyyymmdd. This gives one file for each trading day. The lines in this file have 11 fields per line, delimited by the pipe "|" character. This provides details like Open Price, High Price, Low Price, Closing Price, Last Traded Price, Traded Quantity, Value of shares traded, Number of trades and Corporate Action flags for each security for everyday.

6.4.2 Index Database

The Index directory contains databases connected with stock market indices. Both end-of-day and intra-day information is available. This also provides index movement from second to second. The intra-day files show a fresh calculation of the market index every time a trade takes place in a given second, so multiple records are found for the same second. Three indices are covered: S&P CNX Nifty, CNX Midcap and S&P CNX Defty. These are found in directories called Nifty, CNX Midcap and Defty. S&P CNX Nifty is the main stock market index in India; it is composed of the top fifty highly liquid stocks in India which make up roughly half of the market capitalization of India. CNX Defty is the same as Nifty, expressed in dollar terms.

6.4.3 Order Book Snapshots Database

NSE is a limit order book market, also known to economists as the 'Open electronic limit order book market' (OELOB) or to practitioners as a market based on 'electronic order matching'. The order book snapshots are stored in a directory and have names hhmmss.gz to convey the time the snapshots were taken. These files are databases with one record per line and each record pertains to one limit order. The files are sorted by price. The main fields per record are Order ID number, Symbol, Series, Quantity, Price, Time stamp, Buy/Sell, Day flags, Quantity flags, Price flags, Book type, Minimum Fill Quantity, Quantity Disclosed.

6.4.4 Trades Database

Trades database is about every trade that take place in the exchange. This information is kept in a distinct file. The main fields available are Trade ID number, Symbol, Series, Timestamp, Price and Quantity traded.

Model Questions

1. Security A gives a return of 10% with a dispersion of 4%, while security B gives a return of 18% with a dispersion of 6%. Which security is more risky?

   (a) Security A
   (b) Security B
   (c) Both securities are equally risky
   (d) Neither of the securities are risky
   Ans: (a)

2. The standard deviation of two securities 'A' and 'B' are 15% and 20%, and their correlation coefficient is 0.5. What is the portfolio risk for both the securities, if the investments are made equally?

   (a) 15.21%
   (b) 15%
   (c) 20%
   (d) 17.5%
   Ans: (a)

3. A balance sheet of a firm provides information about ________.

   (a) financial position of a firm for a period.
   (b) financial position of a firm at a particular point of time.
   (c) operational position of a firm at a particular point of time.
   (d) operational position of a firm for a period.
   Ans: (b)

4. Inventory Turnover Ratio is given by __________.

   (a) Cost of Goods Sold/Average Inventory
   (b) Cost of Goods Sold/Sales
   (c) Purchases/Inventory
   (d) Sales/Inventory
   Ans: (a)

5. Snapshots database of NSEIL provides ___________.

(a) summary information about each security for each day.
(b) information about stock market indexes.
(c) snapshots of the limit order book at many time points in a day.
(d) a database of every single trade that takes place

Ans: (c)

6. Given the covariance between the return on Security A and the return on the Market Portfolio is 14 and beta of the Security A is 0.5, what is the variance of the return on the market portfolio?

(a) 7
(b) 0.036
(c) 28
(d) 5.29

Ans: (c)

7. Calculate the value 5 years hence of a deposit of Rs. 1,000 made today if the interest rate is 8% (compounded annually).

(a) Rs. 1,400
(b) Rs. 1,469
(c) Rs. 1,000
(d) Rs. 1,040
Ans: (b)

8. What is the present value of Rs. 1,000 payable 3 years hence if the interest rate is 9% per annum?

(a) Rs. 715
(b) Rs. 1,295
(c) Rs. 1,000
(d) Rs. 772

Ans: (d)

NCFM Model Test Paper

Capital Market (Dealers) Module

Q:1 A trading member shall be deemed guilty of misconduct if he fails to ________ [1 Mark]

(a) provide buy and sell recommendation to clients
(b) utilize clients funds as his own funds
(c) give preference to his own orders to that of his clients'
(d) submit to or abide by Arbitration

Q:2 The Order / Trade window in the NEAT system allows the __________ [1 Mark]

(a) user to enter orders only.
(b) user to enter/modify/cancel orders
(c) user to modify orders only.
(d) user to cancel orders only.

Q:3 With effect from April 1, 2003 the settlement cycle moved from ? [2 Marks]

(a) T+2 to T+1
(b) T+3 to T+2
(c) T+2 to T+3
(d) T+5 to T+3

Q:4. _______ allows the user to disclose only a portion of the order quantity to the market [2 Marks]

(a) An order with a limit price
(b) A stop loss order
(c) An order with a Disclosed Quantity (DQ)
(d) None of the above

Q:5 A __________ can modify his own orders or orders of any dealer under his branch [2 Marks]

(a) A dealer.
(b) A sub-broker
(c) Branch Manager.
(d) Any authorized user.

Q:6 A trading member entering an order needs to enter the __________
[2 Marks]

(a) Margin payable by the client
(b) Brokerage payable by the client
(c) Client code
(d) Transaction tax payable by the client

Q:7 The _______________ can be generated by the trading member on-line. [2 Marks]

(a) SEBI registration certificate
(b) Trading member ID
(c) Trade and Order slips
(d) Only statements (A) and (C)

Q:8 In case the net outstanding position in any security is nil, the difference between the buy and sell values is considered as notional loss for the purpose of calculating the __________ payable? [2 Marks]

(a) Volatility Margin
(b) Initial Margin
(c) Buy margin
(d) Mark to market margin

Q:9 Auction is held in PQR for 10,000 shares.

The closing price of PQR on that day was Rs.249.00
The last traded price of PQR on that day was Rs.244.0
The close price of PQR last Friday was Rs.245.00
The previous day's close price of PQR was Rs.254.00
What is the maximum allowable price at which the member can put a sell order in the auction for PQR? (Assume Price Band applicable for Auction market is +/-20%) [3 Marks]

(a) Rs. 304.80
(b) Rs. 380.35
(c) Rs. 354
(d) Rs. 344

Q:10 A trading member on the NSE, has a branch order value of Rs. 850 lakh for his Mumbai branch and Rs. 500 lakh for Delhi branch. Mumbai branch has two users 'X' and 'Y' with user order value limits of Rs. 300 lakh and Rs. 400 lakh respectively. Delhi branch has one user 'Z' with user order value limit of Rs. 450 lakh. The member applies for a new user at Mumbai. What is the maximum user order value that can be set for the new user? [3 Marks]

(a) Rs. 500 lakh
(b) Any amount, as there is no restriction on User Order Value
(c) Rs. 150 lakh
(d) Rs. 250 lakh

Q:11 Securities and funds pay in takes place on ______ working days after the trade date. [2 Marks]

(a) 'T+3'
(b) 'T+1'
(c) 'T+2'
(d) within 24 hours of sale

Q:12 No price bands are applicable on________________? [1 Mark]

(a) securities traded on the Capital Market Segment of NSE
(b) securities which are very liquid
(c) securities which are less liquid
(d) securities on which derivative products are available

Q:13 The trading member shall issue the contract notes and/or bills _______. [1 Mark]

(a) to the sub-broker
(b) to the authorized person
(c) only if there is a written agreement to do so
(d) directly to the client

Q:14 All Auction orders are entered into the _________? [2 Marks]

(a) Auction accumulator book.
(b) Auction order matching system.
(c) Auction trade book.
(d) Auction order book

Q:15 Price bands for the Limited Physical Market is the same as the _________? [1 Mark]

(a) auction market
(b) Futures and Options market
(c) normal market
(d) Debt market

Q:16 Memberwise Margin Payment Status Report is a _________? [1 Mark]

(a) Weekly report.

(b) Monthly report.
(c) Daily report.
(d) None of the above.

Q:17 If a client buys shares worth Rs. 2,25,000 and sells shares worth Rs. 1,75,000 through a broker, then the maximum brokerage payable to him is ___. [2 Marks]

(a) Rs. 24,000
(b) Rs. 16,000
(c) Rs. 10,000
(d) Rs. 20,000

Q:18 A trading member may face disciplinary proceedings for not complying with the ___________ [2 Marks]

(a) Code of Advertisement
(b) Code of payment
(c) Code of Disciplinary rules
(d) (A) and (B)

Q:19 Is it not compulsory for a trading member to maintain a separate bank account for the Clients? [2 Marks]

(a) True, unless his clients request for opening a bank account
(b) True
(c) True, only if his clients are not his relatives
(d) False

Q:20 An advertisement issued by a trading member shall contain __________. [1 Mark]

(a) the photographs of the directors the trading member
(b) the signatures of the directors of the trading member
(c) addresses of the directors of the trading member
(d) Name and/or his logo, code of National Stock Exchange membership

Q:21 A portfolio contains securities with the expected return as follows:-

Security	Probability	Return
A	20	10
B	30	12
C	50	15

What will be the expected return of the portfolio? [1 Mark]

(a) 8.1
(b) 56
(c) 13.10
(d) 3.10

Q:22 A variant of counter party risk is _________ [2 Marks]

(a) Value at Risk
(b) Liquidity Risk
(c) Market Risk
(d) (A) and (C)

Q:23 What does 'S' indicate as an activity in the 'Activity Log' screen in the NEAT system? [1 Mark]

(a) Sell order
(b) Stop loss order
(c) Trade Modified
(d) Order Cancelled

Q:24 NSE's Certification in Financial Markets (NCFM) is an ______. [1 Mark]

(a) on-line examination mandatory to take up membership on the NSE
(b) on-line examination but not mandatory to take up membership on the NSE
(c) on-line examination to become an arbitrator of NSE
(d) on-line examination to become a director of brokers of NSE

Q:25 There are ____ Securities Appellate Tribunal(s) in India? [1 Mark]

(a) 1
(b) 3
(c) 0
(d) 2

Q:26 If ______ attempts are made by a user to log on with an incorrect password, then that user is automatically disabled. [1 Mark]

(a) 2
(b) 5
(c) 4
(d) 3

Q:27 Bank Pass Book shall be preserved for a period of _____ years by the stock broker as per the Securities Contracts (Regulation) Rules, 1957 [2 Marks]

(a) 7
(b) 5
(c) 10
(d) 6

Q:28 The Depository transfers the securities from the pool accounts of members/custodians to the ________________. [2 Marks]

(a) pool account of the clearing agency
(b) settlement account of the clients
(c) delivery Account
(d) settlement account of the clearing agency

Q:29 A depository is an entity where the securities of an investor are held in a(n) ___________? [1 Mark]

(a) physical form
(b) electronic or physical form
(c) electronic form
(d) none of the above

Q:30 For liquid securities, the VaR margin covers ________ losses. [2 Marks]

(a) three day.
(b) two day
(c) one-day.
(d) five day.

Q:31 The primary market issuance is done either through public issues or ___________? [1 Mark

(a) secondary markets
(b) FII placements
(c) HNI placements
(d) Private placement

Q:32 Trading members desirous of appointing sub-brokers are required to submit the following documents to the Membership Department of the Exchange ___ [1 Mark]

(a) a Copy of sub-broker - broker agreement duly certified by the trading members
(b) Application form for registration as a sub-broker with Securities and Exchange Board of India
(c) Recommendation letter to be given by the trading member with whom the sub-broker is affiliated
(d) All of the above

Q:33 ______ or an individual can become member of an exchange [1 Mark]

(a) a corporate, a partnership firm
(b) Hindu Undivided Family
(c) An individual, a partnership firm, Hindu Undivided Family

(d) An individual, Hindu Undivided Family

Q:34 NSCCL uses services of _________ to transfer funds [1 Mark]

(a) depositories
(b) clearing Banks
(c) share transfer agents
(d) custodians

Q:35 A broker can have a maximum of ___ clients. [1 Mark]

(a) 500
(b) 50
(c) unlimited
(d) 100

Q:36_____________ shall be utilised for promotion of awareness amongst the investors and for the protection of the interests of investors [2 Marks]

(a) Dividend Equalisation Reserve
(b) Investor Education and Protection Fund
(c) Investor Protection Fund
(d) General Revenue Account of the Central Government

Q:37 The effect of the provisions of SC(R)A, 1956 clearly is that if a transaction in securities has to be validly entered into, such a transaction has to be either between the members of a recognised stock exchange or through a member of a Stock Exchange? The above statement is true or false? [2 Marks]

(a) False
(b) True
(c) Partially True
(d) True only for debentures

Q:38 Incase of any shortfall in margin, the members are not permitted to _______ with immediate effect [2 Marks]

(a) accept new clients.
(b) accept margins from clients.
(c) trade
(d) none of the above

Q:39 Bank Guarantee can be submitted as a(n) ___________ to NSCCL by trading members. [2 Marks]

(a) surety.
(b) indemnity
(c) warranty
(d) additional base capital

Q:40 A trading member on the NSE, has set the branch order value unlimited for his Chennai branch and Rs. 1000 lakh for Kolkata branch. Chennai branch has two users 'X' and 'Y' with user order limits of Rs. 250 lakh and Rs. 300 lakh respectively. Kolkata branch has one user 'Z' with user order value limit of Rs. 550 lakh. The member applies for a new user at Kolkata. What is the maximum user order value that can be set for the new user? [3 Marks]

(a) Not more than Rs. 950 lakh
(b) Zero
(c) unlimited
(d) Rs. 450 lakh

Q:41 Rs. 100 lakh is the _____________ for a corporate member in Capital Market and F&O segments of NSEIL? [2 Marks]

(a) maximum networth
(b) minimum base capital
(c) maximum base capital
(d) minimum networth

Q:42 Which is the principal Act that governs the trading in securities market in India? [3 Marks]

(a) Companies Act, 1956
(b) Securities Contracts (Regulation) Act, 1956
(c) SEBI Act, 1992
(d) Depositories Act, 1996

Q:43 Rahul is supposed to receive Rs. 90,000 from Chandra after 3 years. If the interest rate is 8%, what is the present value of the amount due from Chandra? [2 Marks]

(a) 81,444.9
(b) 71,444.9
(c) 86,444.9
(d) 91,444.9

Q:44 The user is not allowed to modify any auction orders. True or false?

[2 Marks]

(a) false
(b) true, only if they are another user's orders.
(c) true, only if the price of the order is above Rs. 500
(d) true

Q:45 The daily obligation report is downloaded at the ___________to each Clearing Member? [1 Mark]

(a) beginning of the trading day
(b) end of the month
(c) end of the trading day
(d) beginning of the month

Q:46 The detailed outstanding orders screen is split into First Line and _________? [2 Marks]

(a) Second Line.
(b) Detail Line.
(c) Next Line.
(d) Following Line.

Q:47 What does 'SPD' indicate as a message code in 'Full Message window' in the NEAT system? [1 Mark]

(a) Security Suspension/De-suspension
(b) There is no such message code as 'SPD' in the Full Message Window
(c) All messages related to suspension for trading of listed securities only
(d) All messages related to securities only

Q:48 Benefits of trading membership on the NSE includes access to a nation-wide trading facility for equities, derivatives, debt and hybrid instruments / products. True or false. [1 Mark]

(a) false
(b) true
(c) true only equity trades
(d) true only for derivatives

Q:49 The owner of securities intending to avail of depository services opens an account with a depository through a __________ [1 Mark]

(a) depository participant (DP)
(b) sub-broker
(c) stock exchange
(d) depository

Q:50 The members/custodians make available the required securities in their ___________with depository participants (DPs) by the prescribed pay-in time for securities. [2 Marks]

(a) Clients Account
(b) Delivery Account
(c) Pool accounts
(d) Receipt Account

Q:51 One of the Custodial Trade Reports is the ___________ [1 Mark]

(a) Client Obligation Report
(b) Trades Rejected by Custodian Report
(c) Clearing Member Report
(d) None of the above

Q:52 If a client buys shares worth Rs. 1,90,000 and sells shares worth Rs. 10,000 through a stock-broker, then the maximum brokerage payable is _______. [3 Marks]

(a) Rs. 4,000
(b) Rs. 5,000
(c) Rs. 2,000
(d) Rs. 6,000

Q:53 Which of the following issue securities in the primary market? [1 Mark]

(a) Government of India
(b) State Goverments
(c) Companies
(d) All of the above

Q:54 Under the SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 1992, a person is 'deemed to be a connected person' if such person is ____________. [2 Marks]

(a) an auditor of the company
(b) the advertising agent of the company
(c) the banker of the company
(d) None of the above

Q:55 _____________ is printed on the contract note issued by the trading member to the client? [2 Marks]

(a) User ID
(b) Terminal ID

(c) Name of the Dealer who executed the trade
(d) Settlement number

Q:56 Mr. Desai has decided to deposit Rs. 200,000 in the bank annually. If the bank has a policy of continuous compounding and the prevailing interest rate is 10% how much would his deposit grow upto in 2 years? [2 Marks]

(a) 466,141.11
(b) 471,507.54
(c) 485,570.70
(d) 442,859.90

Q:57 The following intermediaries and persons associated with securities market shall buy, sell or deal in securities after obtaining a certificate of registration from SEBI, as required by Section 12. [2 Marks]

(a) Stock Broker
(b) Merchant Banker
(c) Portfolio Manager
(d) All of the above

Q:58 What does 'F' indicate as a status in the 'Auction Inquiry' screen in the NEAT system? [1 Mark]

(a) Auction is pending and yet to begin.
(b) Auction is deleted.
(c) There is no such status indicator as 'P' in the Auction Inquiry screen.
(d) Auction is over.

Q:59 A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors' interest or which leads to interference with the fair and smooth functioning of the market. True or False. [2 Marks]

(a) False
(b) Partially true
(c) True
(d) Only if he is a large stock broker

Q:60 The ___________ feature allows a trading member to get instantaneous market information on any desired security [2 Marks]

(a) ticker
(b) snap quote
(c) inquiry window
(d) All of the above

Answers

1	(d)	21	(c)	41	(d)
2	(b)	22	(b)	42	(b)
3	(b)	23	(a)	43	(b)