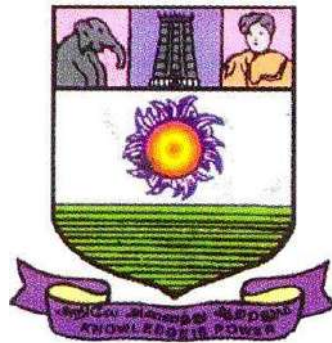


UG Programme

(Three Year Programme)

Curriculum, Programme Structure and Course Contents

**(Prepared in conformity with LOCF) (2023-
2024 onwards)**



**DEPARTMENT OF
COMMERCE**

**Directorate of Distance and
Continuing Education
Manonmaniam Sundaranar
University Tirunelveli - 627012**

STOCK MARKET OPERATIONS

Subject Code	L	T	P	S	Credits	Inst. Hours	Marks		
							CIA	External	Total
					2	2	25	75	100

Learning Objectives:

LO1:	To acquaint students with knowledge of Securities Market
LO2:	To enable the students to understand the knowledge of Practice Trading on Stock Market
LO3:	To impart the students to understand the legal frame work of securities Market
LO4:	To enables the students to have depth knowledge in different segment of stock exchange
LO5:	To understand the role of Demat Trading

Course Outcomes:

	After the successful completion of the course, the students will be able to:
CO1:	Explain the basic concept of Securities Market
CO2:	Practice Trading on Stock Market
CO3:	Analyse the legal Frame work of Securities Market
CO4:	Explain different segment of Stock Exchange
CO5:	Perform Demat Trading

Unit I: Introduction

Concept and types of Securities; Concept of return; Concept, types and measurement of risk; Development of Securities market in India

Unit II: Primary Market

Concept, Functions and Importance Functions of New Issue Market (IPO, FPO&OFS); Methods of Floatation- fix price method and book building method; Pricing of Issues; Offer Documents; Appointment and Role of Merchant Bankers, Underwriters, Lead Managers, Syndicate Members, Brokers, Registrars, Bankers, ASBA; SMEIPOs and Listing of Securities.

Unit III: Secondary Market

Concept; Functions and Importance; Mechanics of Stock Market Trading- Different types of Orders, Screen Based Trading, Internet Based Trading and Settlement Procedure; Types of Brokers.

Unit IV: Regulatory Framework

SEBI (Issue of Capital and Disclosure Requirements) Regulation 2018; Stock Exchanges and Intermediaries; SEBI and Investor Protection; Securities Contract Regulation Act and SEBI (Listing Obligations and Disclosure Requirements) Regulation 2015.

Unit V: Demat Trading

Concept and Significance; Role of Depositories and Custodian of Securities in Demat Trading; SEBI Guidelines and other Regulations Relating to Demat Trading; Procedure of Demat Trading.

Text Books:

1. Gordon, E., & Natarajan, K. 2019. Financial Markets and Services. New Delhi: Himalaya Publishing House. New Delhi
2. Benjamin, G. 1949. The Intelligent Investor. New York: Harper Publishing.
3. Dalton, J.M. 2001. How The Stock Market Works? New York: Prentice Hall Press. Machiraju, H

4. Machiraju, H.R. 2019. Merchant Banking. New Delhi: New Age Publishers.

Supplementary Readings:

1. Gitman and Joehnk 2015, Fundamentals of Investing, Pearson Publications, New Delhi.

Text Books:

1. Gordon, E., & Natarajan, K. 2019. Financial Markets and Services. New Delhi: Himalaya Publishing House. New Delhi

CO – PO & PSO MAPPING TABLE

CO / PO	PO1	PO2	PO3	PO4	PO5	PO6	PO7	PO8	PSO1	PSO2	PSO3
CO1	3	2	2	3	3	2	2	2	3	2	3
CO2	3	2	3	3	2	2	2	2	3	2	2
CO3	3	2	2	3	2	2	2	1	3	2	2
CO4	3	2	2	3	2	2	2	2	3	2	2
CO5	3	2	3	3	2	2	2	1	3	2	2
	PO1	PO2	PO3	PO4	PO5	PO6	PO7	PO8	PSO1	PSO2	PSO3
TOTAL	15	10	12	15	11	10	10				

Unit – I – Introduction

Securities are financial instruments issued to raise funds. The primary function of the securities markets is to enable to flow of capital from those that have it to those that need it. Securities market help in transfer of resources from those with idle resources to others who have a productive need for them. Securities markets provide channels for allocation of savings to investments and thereby decouple these two activities. 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.

Meaning of Stock Exchange

A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. Here, the securities are bought and sold as per well-structured rules and regulations. Securities mentioned here include debenture and share issued by a public company that is correctly listed at the stock exchange, debenture and bonds issued by the government bodies, municipal and public bodies.



Typically bonds are traded Over-the-Counter (OTC), but a few corporate bonds are sold in a stock exchange. It can enforce rules and regulation on the brokers and firms that are enrolled with them. In other words, a stock exchange is a forum where securities like bonds and stocks are purchased and traded. This can be both an online trading platform and offline (physical location).

Functions of Stock Exchange

Following are some of the most important functions that are performed by stock exchange:

1. **Role of an Economic Barometer:** Stock exchange serves as an economic barometer that is indicative of the state of the economy. It records all the major and minor changes in the share prices. It is rightly said to be the pulse of the economy, which reflects the state of the economy.
2. **Valuation of Securities:** Stock market helps in the valuation of securities based on the factors of supply and demand. The securities offered by companies that are profitable and growth-oriented tend to be valued higher. Valuation of securities helps creditors, investors and government in performing their respective functions.
3. **Transactional Safety:** Transactional safety is ensured as the securities that are traded in the stock exchange are listed, and the listing of securities is done after verifying the company's position. All companies listed have to adhere to the rules and regulations as laid out by the governing body.
4. **Contributor to Economic Growth:** Stock exchange offers a platform for trading of securities of the various companies. This process of trading involves continuous disinvestment and reinvestment, which offers opportunities for capital formation and subsequently, growth of the economy.
5. **Making the public aware of equity investment:** Stock exchange helps in providing information about investing in equity markets and by rolling out new issues to encourage people to invest in securities.
6. **Offers scope for speculation:** By permitting healthy speculation of the traded securities, the stock exchange ensures demand and supply of securities and liquidity.
7. **Facilitates liquidity:** The most important role of the stock exchange is in ensuring a ready platform for the sale and purchase of securities. This gives investors the confidence that the existing investments can be converted into cash, or in other words, stock exchange offers liquidity in terms of investment.

8. **Better Capital Allocation:** Profit-making companies will have their shares traded actively, and so such companies are able to raise fresh capital from the equity market. Stock market helps in better allocation of capital for the investors so that maximum profit can be earned.
9. **Encourages investment and savings:** Stock market serves as an important source of investment in various securities which offer greater returns. Investing in the stock market makes for a better investment option than gold and silver.

Features of Stock Exchange:

- **A market for securities-** It is a wholesome market where securities of government, corporate companies, semi-government companies are bought and sold.
- **Second-hand securities-** It associates with bonds, shares that have already been announced by the company once previously.
- **Regulate trade in securities-** The exchange does not sell and buy bonds and shares on its own account. The broker or exchange members do the trade on the company's behalf.
- **Dealings only in registered securities-** Only listed securities recorded in the exchange office can be traded.
- **Transaction-** Only through authorised brokers and members the transaction for securities can be made.
- **Recognition-** It requires to be recognised by the central government.
- **Measuring device-** It develops and indicates the growth and security of a business in the index of a stock exchange.
- **Operates as per rules-** All the security dealings at the stock exchange are controlled by exchange rules and regulations and SEBI guidelines.

What Is a Security?

The term "security" refers to a fungible, negotiable financial instrument that holds some type of monetary value. A security can represent ownership in a corporation in the form of stock, a creditor relationship with a governmental body or a corporation

represented by owning that entity's bond; or rights to ownership as represented by an option.

Understanding Securities

The Securities Act of 1933 is the first federal legislation to regulate the U.S. stock market, an authority that was previously regulated at the state level. Under the law, anyone who wishes to sell investment contracts to the public must publish certain information regarding the proposed offering, the company making the offering, and the principal figures of that company.

These requirements are intended to protect the investing public from deceptive or misleading marketing practices. The company and its leading figures are strictly liable for any inaccuracy in its financial statements, whether intentional or not. Later legislation created the Securities and Exchange Commission (SEC), which is responsible for regulations and enforcement.

Although the term "securities" is commonly associated with stocks, bonds, and similar instruments, the U.S. Supreme Court gives the term a much broader interpretation. There is an investment of money.

1. The investment is made into a "common enterprise."
2. The investors expect to make a profit from their investment.
3. Any expected profits or returns are due to the actions of a third party or promoter.

Under this rule, it does not matter if a securities offering is formalized with a legal contract or stock certificates; any type of investment offering can be a security. On several occasions, courts have enforced securities provisions on unconventional assets such as whiskey, beavers, and chinchillas.¹²³ In recent years, the SEC has also sought enforcement against issuers of crypto currencies and non-fungible tokens.

Types of Securities

Securities can be broadly categorized into two distinct types: equities and debts. However, some hybrid securities combine elements of both equities and debts.

Equity Securities

An equity security represents ownership interest held by shareholders in an entity (a company, partnership, or trust), realized in the form of shares of capital stock, which includes shares of both common and preferred stock. Holders of equity securities are typically not entitled to regular payments—although equity securities often do pay out dividends—but they are able to profit from capital gains when they sell the securities (assuming they've increased in value).

Equity securities do entitle the holder to some control of the company on a pro rata basis, via voting rights. In the case of bankruptcy, they share only in residual interest after all obligations have been paid out to creditors. They are sometimes offered as payment-in-kind.

Debt Securities

A debt security represents borrowed money that must be repaid, with terms that stipulate the size of the loan, interest rate, and maturity or renewal date.

Debt securities, which include government and corporate bonds, certificates of deposit (CDs), and collateralized securities (such as CDOs and CMOs), generally entitle their holder to the regular payment of interest and repayment of principal (regardless of the issuer's performance), along with any other stipulated contractual rights (which do not include voting rights). They are typically issued for a fixed term, at the end of which they can be redeemed by the issuer. Debt securities can be secured (backed by collateral) or unsecured, and, if secured, may be contractually prioritized over other unsecured, subordinated debt in the case of a bankruptcy.

Hybrid Securities

Hybrid securities, as the name suggests, combine some of the characteristics of both debt and equity securities. Examples of hybrid securities include equity warrants (options issued by the company itself that give shareholders the right to purchase stock within a certain timeframe and at a specific price), convertible bonds (bonds that can be converted into shares of common stock in the issuing company), and preference shares (company stocks whose payments of interest,

dividends, or other returns of capital can be prioritized over those of other stockholders).

Derivative Securities

A derivative is a type of financial contract whose price is determined by the value of some underlying asset, such as a stock, bond, or commodity. Among the most commonly traded derivatives are call options, which gain value if the underlying asset appreciates, and put options, which gain value when the underlying asset loses value.

Asset-Backed Securities

An asset-backed security represents a part of a large basket of similar assets, such as loans, leases, credit card debts, mortgages, or anything else that generates income. Over time, the cash flow from these assets is pooled and distributed among the different investors.

Risk and Return

Definition

The concept of **risk and return** makes reference to the possible economic loss or gain from investing in securities. A gain made by an investor is referred to as a return on their investment. Conversely, the risk signifies the chance or odds that the investor is going to lose money. In the case that an investor chooses to invest in an asset with minimal risk, the possible return then is often modest. In contrast, an investment with a high-risk component has a higher probability of generating larger profits.

A **risk** is the chance or odds that an investor is going to lose money.

A gain made by an investor is referred to as a **return** on their investment.

Risk and Return Examples

Imagine there are two possible bonds you want to invest in: Bond X and Bond Z. And let's say that Bond X has a 15% chance of non-payment and Bond X has a 45% chance of failure (loss). In the absence of any further data, you are of course

more likely to select Bond A since it provides you with a higher chance of keeping your money. To thrive, Bond Z must boost its interest rates until the reward surpasses the danger of non-payment. Bond Z can then entice you back despite its increased risk.

To compensate for the hazards, a riskier investment must provide higher profits. The gains are what attract some investors, while the danger deters others. A less risky investment, on the other hand, may provide relatively modest rates of return since the security of the investment is what brings investors in rather than the chance for higher returns.

A professor wants to begin investing so that he can have extra money saved up for retirement. He's reviewing three possible choices: Option 1, option 2, and option 3. Option 1 is 100% going to fail within the year, meaning a total loss. Option 2 is 100% going to have a \$100 profit by the end of the year, and option 3 has a 50% chance of a \$100 profit as well as a 50% chance of total loss.

Which option do you think the professor will choose? Let's break it down:

Option 1 guarantee that the professor will lose all of his money so this is not the best option.

Option 2 is equivalent to the professor already having the \$100 in his account because there's a 100% chance of success.

Option 3 is a toss-up: It's either worth \$0 or \$100 since the options are a total failure or total success. Therefore, to meet in the middle, this option is more than likely worth about \$50 - calculated as the probability of success (50%) multiplied by the reward of success (\$100). Many investors will be put off by the danger, whereas others will not want to lose out on the possible profit. Therefore, the price of option 3 is midway between option 1 and option 2.

Types of Risk and Return

There are several types of both risk and return.

Risks

Whenever you invest or save, there are different types of risks that can be involved. But there are typically two categories that the risks are placed into: systematic risks and unsystematic risks.

Systematic

Risks that can influence a complete economic market or at minimum a significant portion of it are known as **systematic risks**. They are the dangers of losing assets as a result of various macroeconomic or political risks which impact the general market performance. There are many types of systematic risks; a few of those are:

- Political risk - Political risk arises largely as a result of political insecurity in a nation or area. For example, if a country goes to war, the firms that operate there are deemed unsafe, and therefore risky.
- Market risk - Market risk is the by-product of investors' overall inclination to follow the market. So it is essentially the inclination of security values to shift together.
- Exchange rate risk - This type of risk arises from the unpredictability of currency value fluctuations. As a result, it impacts enterprises that conduct foreign exchange operations, such as export and import firms, or firms that do business in a foreign country.
- Interest rate risk - A shift in the market's rate of interest causes this type of risk. It mostly affects fixed-income assets since bond costs are connected to interest rates, but it also affects the valuation of stocks.

Risks that can influence a complete economic market or at minimum a significant portion of it are known as **systematic risks**.

Unsystematic Risk

Unsystematic risk is a type of risk that impacts only one sector or one business. It is the danger of losing money on an investment because of a business or sector-specific hazard. A shift in leadership, a safety recall on a good, a legislative reform that might reduce firm sales, or a new rival in the market are all examples of unsystematic risk.

Unsystematic risk is the danger of losing money on an investment because of a business or sector-specific hazard.

Systematic vs Unsystematic

In order to help you better understand; let's review a few of the main differences between systematic and unsystematic risks:

- Systematic risks can't be controlled but unsystematic risks can be controlled.
- Systematic risks are caused by external factors while unsystematic risks are caused by internal factors.
- Systematic risks can cause chaos within an entire economy while unsystematic risks can only cause issues to a specific organization or sector.

Return

There are two types of return that are most focused on: realized return and expected return.

Realized

Realized return refers to the actual return on an investment over a specific time frame. It is critical to recognize that nothing can alter a realized return. It's really a post-fact number that no action can alter. It merely provides information to investors to help them make wiser financial choices in the future.

Expected

An expected return is the estimate of profits or losses that an investor may expect from an investment. The expected return is a metric used to estimate if an investment will have a positive or negative net outcome on average. The expected return is often

founded on previous data and so cannot be guaranteed in the foreseeable future; yet, it frequently establishes acceptable expectations.

Risk and Return Concept

The amount of risk that individuals accept is measured by the amount of money they can potentially lose on their initial investment. The likelihood of a loss, as well as the amount of that loss, are both examples of risk. When someone refers to a certain investment as "high-risk," they may suggest that there's a considerable possibility that money will be lost or even a small possibility that all the money someone has could be lost.

The quantity of funds you anticipate gaining back from an investment above the amount you first put in is referred to as the return. If an investment earns even a red cent more than your original investment, it has produced a return. But if expressed in negative figures, a return may also reflect a quantity of money lost. In any case, returns are often displayed as a percentage of the initial investment.

When an investment works effectively, risk and return ought to be highly correlated. The larger the risk of an investment, the higher the possible reward. An extremely safe (low-risk) investment, on the other hand, should typically provide smaller returns.

Risk and Return Relationship

Among the most significant components of the risk-return relationship is how it determines investment pricing. An asset's price represents the harmony between its risk of failure and its prospective return in a productive market. The level of volatility, or the gap between true and predicted returns, is used to calculate risk. This discrepancy is known as standard deviation. Returns with a high standard deviation (the biggest variation from the mean) are more volatile and riskier than other investments.

Risk and return are essentially opposite interrelated concepts in the sense that investors seek high returns but low risk. Larger risks equate with higher potential profits in an efficient market. Simultaneously, smaller returns are associated with safer (reduced risk) investments. These ideas outline how investors select assets in the market, as well as how investors establish asset values.

All companies need money to run their business. Sometimes the profit acquired from selling goods or services is not sufficient to meet the working capital requirements. And so, companies invite normal people like you and me to put some money into their company so that they can run it efficiently and in return, investors get a share of whatever profit they make.

What are Stocks?

Stocks are simply an investment method to build wealth. When you invest in the stock of a company, it means you own a share in the company that issued the stock.

Stock investment is a way to invest in some of the most successful companies.

Also, there are different types of stocks available in the market to invest/trade-in. These stocks are categorised based on the following criteria:

- Market capitalization
- Ownership
- Fundamentals
- Price volatility
- Profit sharing
- Economic trends

What is Share Market?

People often wonder what is stock market and share market, and often use it interchangeably.

A stock market is similar to a share market. A share market is where the shares are issued or traded in. The primary difference between the two is that the stock market lets an individual trade in bonds, mutual funds, derivatives, shares of a company, etc. On the other hand, a share market only allows the trading of shares.

How Does the Stock Market Work?

Companies raise money on the stock market by selling ownership stakes to investors. These equity stakes are known as shares of stock.

By listing shares for sale on the stock exchanges that make up the stock market, companies get access to the capital they need to operate and expand their businesses without having to take on debt. Investors benefit by exchanging their money for shares on the stock market.

As companies put that money to grow and expand their businesses, it profits the investors as their shares of stock become more valuable over time, leading to capital gains. In addition, companies pay dividends to their shareholders as their profits grow.

The performances of individual stocks vary widely over time but taken as a whole, the stock market has historically rewarded investors with average annual returns of around 10%, making it one of the most reliable ways of growing your money.

Understanding the Stock Market Basics - Important Terms

Term	Description
Sensex	Sensex is a collection of the top 30 stocks listed on the BSE by way of market capitalisation.
SEBI	The securities and Exchange Board of India (Sebi) is the securities market regulator to oversee any fraudulent transactions and activities made by any of the parties: companies, investors, traders, brokers and the like.

Demat	Demat, or dematerialised account, is a form of an online portfolio that holds a customer's shares and other securities in an electronic (dematerialised) format.
Trading	It is the process of buying or selling shares in a company.
Stock Index	A stock index or stock market index is a statistical source that measures financial market fluctuations. They are performance indicators that indicate the performance of a certain market segment or the market as a whole.
Portfolio	It is a collection of a wide range of assets that are owned by investors. A portfolio can also include valuables ranging from gold, stocks, funds, derivatives, property, cash equivalents, bonds, etc.
Bull Market	In a bull market, companies tend to generate more revenue, and as the economy grows, consumers are more likely to spend.
Bear Market	Bear markets refer to a slowdown in the economy, which may make consumers less likely to spend and, in turn, lower the GDP.
Nifty50	Nifty 50 is a collection of the top 50 companies listed on the National Stock Exchange (NSE).
Stock Market Broker	A stock broker is an investment advisor who executes transactions such as the buying and selling of stocks on behalf of their clients.
Bid Price	The bid price is the highest price a buyer will pay to buy a specified number of shares of a stock at any given time.
Ask Price	The ask price in the stock market refers to the lowest price at which a seller will sell the stock.
IPO	Initial Public Offer (IPO) is the selling of securities to the public in the primary market. It is the largest source of funds with long or indefinite maturity for the company.
Equity	Equity is the value that would be received by the shareholder if all of the company's assets were liquidated and all of the company's debts were paid off.
Dividend	A dividend refers to cash or reward that a company provides to its shareholders. It can be issued in various forms, such as cash payment, stocks or any other form.
BSE	Bombay Stock Exchange (BSE) is the largest and first securities exchange market in

	India. It was established in 1875 as the Native Share and Stock Brokers' Association. It is also the first stock exchange in India and provides an equities trading platform for small-and-medium enterprises.
NSE	National Stock Exchange was the first to implement screen-based or electronic trading in India. It is the fourth largest stock exchange in the world in terms of equity trading volume, as per the World Federation of Exchanges (WFE).
Call & Put Option	The call option gives the investor the right to purchase the underlying security, while the put option gives the investor the right to sell shares of the underlying security. Both opinions let the investors profit from movements in a stock's price.
Types of Market	There are 2 types of stock markets: <ul style="list-style-type: none"> • Primary Market: It creates securities and acts as a platform where firms float their new stock options and bonds for the general public to acquire. • Secondary Market: Here, investors trade in securities without involving the companies who issued them in the first place with the help of brokers.
Ask and Close	The term 'ask' in the stock market refers to the lowest price at which a seller will sell the stock. 'Closing price' generally refers to the last price at which a stock trades during a regular trading session.
Moving Average	It is a stock indicator commonly used for technical analysis to smoothen the price data by creating a constantly updated average price. A rising moving average indicates that the security is in an uptrend, while a declining moving average indicates a downtrend.

Here is a list of commonly used terms when talking about the stock market. You can use this as a glossary to look for any time you want to learn.

Introduction to Indian Financial Markets & Securities Market Segments

Indian financial markets are a complex and dynamic system that plays a vital role in the country's economy. They bring together investors and businesses, providing a platform for capital to flow from those with excess to those with a need. The Indian financial market is made up of a variety of markets, including the stock market, the bond market, the derivatives market, the foreign exchange market, and the money market.

Financial intermediation is the process of bringing these two groups together. It is an essential part of the Indian financial market, and it helps to ensure that capital is allocated efficiently.

Structure of Financial Markets in India

This is popularly referred to as financial intermediation and exists at the core of the Indian economy; bringing investors and businesses together in a symbiotic relationship. Here is what it consists of.

The Banking System

Indian banking has a multi-tier structure. The Reserve Bank of India is the regulator of the banking system and the monetary authority. Its functions include licensing banks and regulation for a strong and stable banking system. RBI is the note-issuing authority and banker to the government and acts as a lender of last resort to the other banks. It also acts as a controller of credit in the monetary system. On the banking front there are PSU banks, private banks; cooperative banks, small finance banks etc. and they combine to define the Indian banking system.

Indian Securities Market

The securities market provides an institutional framework for efficient flow of capital in the economy. Capital markets converts saving into investments for the investor and it converts business pedigree into funding for the businesses. This basic arrangement in the securities markets enables flow of capital from households to business, in a regulated institutionalised framework.

The securities market include equities, index futures, index options, stock futures, stock options, long term bonds, medium term bonds, short term bonds, money market securities, equity funds, debt funds, hybrid funds, structured products, REITS, INVITs etc. Security markets are an important for raising money for corporates and institutions and also for investors to allocate their money.

Indian Commodities Market

Commodity market facilitates transactions between buyers and sellers of commodities. These commodities are broadly divided into four categories viz. agricultural commodities, precious metals, industrial metals and energy products (oil and gas). Commodities can be traded in India in the spot market (for immediate delivery) or in the futures market (for delivery), or in the futures market (not for delivery) or in the options (so as to devolve into commodity futures). Commodity markets are essentially used by industries, traders, importer and exporters to hedge the commodity price risk

Foreign Exchange Market or Forex Market

This is where the currencies are exchanged and there are traders, arbitrageurs, speculators and hedgers in these markets. Globally, the forex trading market is the largest compared to other asset classes. The growth of international trade made it necessary to be able to determine the relative value of currencies given the differences in their purchasing power. The need for exchanging one currency to another for settling trades in goods and services brought about foreign exchange risk and that created a robust forex market. India has had the rupee forward market offered by banks for a long time, but that is offered by banks only against actual exposure. Today, it is possible to also trade currency pairs in the currency derivatives segment of the stock exchange. The USDINR pair is, obviously, the most popular and extensively traded currency pair

Indian Insurance Market

Insurance business in India is regulated by the Insurance Regulatory and Development Authority (IRDA) of India. It regulates life and non-life insurance activities in India. Insurance is all about sharing of risk. Broadly, there are 3 sub categories in insurance viz. life insurance, non-life insurance and re-insurance. Insurance in India is still fairly underpenetrated. For long the insurance business was dominated by the government owned companies but that has changed over the last 20 years with the entry of private players.

Indian Pension Market

Much of the Indian population is still outside the formal retirement benefit cover provided by the government and its associated organisations, and companies covered under the Employees Provident Fund Organisation (EPFO). In provident fund contribution, a portion of the employers' contribution is earmarked to provide pension under the Employee Pension scheme. Some private companies may provide Superannuation plans and privately sponsored pension plans to their employees. The National Pension System (NPS) is a defined contribution pension scheme now applicable to government employees, where the employee and the government make matching contributions to a fund of the employee's choice, managed by licensed fund managers.

What role do participants play in the securities market?

Here are the key intermediaries in the securities market and the role that they play.

- Stock Exchanges provide the infrastructure for trading in securities that have been issued at prices that reflect its current value and also helps discover a fair value for the stock. It also provides liquidity to the investors when they require funds. Stock exchanges appoint clearing and settlement agencies and clearing banks to handle clearing and settlement of securities.
- Depository participants facilitate investors to hold and transact in securities in dematerialised form. They service customers on behalf of one of the depositories; NSDL or CDSL. Demat has gone a long way to make the Indian stock market system clean and transparent.
- Custodians work with institutional investors and hold securities and manage bank accounts on behalf of institutional investors. They manage the transactions pertaining to delivery of securities and money after a trade is made through the broker, and also keeps the accounts of securities and money.

- Stock brokers are registered trading members of stock exchanges. They sell new issuance of securities to investors. They put through the buy and sell transactions of investors on stock exchanges.
- Investment Bank's activities include advisory for business expansions, project financing, mergers and acquisition, investment valuation, among others, new issue management etc. Commercial Banks provide banking services of taking deposits, providing credit and enabling payment services. They provide efficient cash management for businesses.
- Insurance Companies provide service of insuring life, property and income against unexpected and large charge. Life insurance companies deal with insuring the life of individuals while general insurance covers health, motor, travel and other areas, where a sudden large expense can derail the financial situation of a household or business. Insurance companies use channels such as individual and corporate agents, brokers and banks to sell their products. Given the large resources mobilized by insurance companies by way of premiums, they are an important source of long-term funding for government and businesses.
- Pension Funds take contributions from eligible individuals and invest these funds according to the directions of the contributors to create a retirement corpus. These funds provide different options for investment of the contribution, such as debt, equity or a combination. Investors select the type of fund and these are long term retirement funds.
- AMCs and Portfolio Managers are investment specialists who manage a portfolio of securities and other assets. Against this portfolio, these asset managers either issue units or PMS accounts to create wealth over the long run.
- Investment Advisers and distributors help investors to make a choice of securities that they can buy based on an assessment of their needs, time horizon

return expectation and ability to bear risk. The idea is to work towards a long term financial plan.

Functions of the Primary Market

Here are some of the key functions that primary markets provide.

1. Primary markets provide access to wider markets and investors to corporates and help investors productively allocate money to create wealth. This includes IPOs, FPOs, and OFS etc.
2. Primary markets provide a transparent Pricing Mechanism by enabling price discovery through book building
3. Primary markets also facilitate Ownership Diversification as new subscribers (retail, HNI, corporates, institutions and trusts) enter the market and become owners.
4. They facilitate Better Disclosure practices due to stringent SEBI regulations and the demands of a competitive market.
5. Primary markets also provide the benefit of Evaluation by Investors as well as an expert view by brokers and analysts to enable an informed call.
6. For anchor investors and early stage investors and, at times, even for promoters, the primary markets provide an exit route.
7. The primary market enables distribution of securities to a large number of investors and paves the way for a liquid secondary market.
8. Regulatory Supervision is a major advantage as all stages of primary markets are closely regulated and monitored by SEBI.

Types of Primary Issues and Types of Issuers

Here are some of the popular primary issue types that are available.

- Public issue – securities are issued to the public
- Private placement – securities issued to select investors

- Preferential issue – securities issued to identified investors
- Qualified Institutional Placement – issued to institutional investors only
- Rights and Bonus issues – issued to existing shareholders on record date

Here are some of the types of issuers of securities

- Central and State governments raise funds through G-Sec, treasury bills, dated securities, State Development Loans (SDLs) etc.
- Public Sector Units (PSUs) raise monies through issue of shares, bonds, tax-exempt bonds, tax-free bonds etc.
- Private Sector Companies raise funds in the market through equity or debt securities, preference shares, and CPs and convertible instruments.
- Banks, DFIs and NBFCs raise funds via equity shares, preference shares, bonds, convertible bonds, commercial paper, certificates of deposits and securitized paper.
- Mutual Funds make NFOs of units in the domestic markets and also through closed ended funds and interval funds.
- REITs and INVITs also issue pass through securities against a portfolio of realty properties or infrastructure project pools.

Regulatory Norms Governing Public Issue of Shares

Here are some of the key regulations governing the issue of shares to the public.

- A public issue will be open for a minimum of 3 and maximum of 10 working days
- Investors can apply during this period
- Book built issue investors can also revise bids in this period.

- Company making a public issue must enter into an agreement with all depositories
- Such companies may get the IPO graded by a credit rating agency registered with SEBI

Functions of the Secondary Markets

Once a company lists through a primary issue, it gets traded in the secondary market. When you buy and sell on the NSE or BSE, it is a case of secondary market trading. Here are some common functions of the secondary market.

1. Secondary markets provide liquidity and marketability to existing securities so that investors wanting to sell shares or debentures have a ready market.
2. Secondary markets enable price discovery of traded securities through a mix of interplay of buy and sell orders as well as constant research and news flow interpretation
3. Market prices provide instant information about issuing companies to all market participants due to the strict disclosure norms prescribed by exchanges
4. Secondary market trading data is used to generate benchmark indices which are a barometer of the strength of the economy and give a market cap valuation.
5. It facilitates efficient governance by facilitating changes in corporate control. This is done through takeovers, mergers, buyouts, restructuring etc.

Secondary Market Structure and Participants

The secondary market consists of the following participants:

- Market Infrastructure Institutions include Stock Exchanges, Clearing Corporations and Depositories. Stock exchanges handle the transaction execution and the first level SRO regulation of markets. Clearing corporations clear and settle trades and also counter guarantee trades. Depositories hold shares in custody behalf of investors.
- Custodians are institutional intermediaries authorised to hold funds and securities on behalf of large institutional investors such as banks, insurance

companies, mutual funds, and foreign portfolio investors (FPIs). They settle trades for institutional investors.

- Depository Participants facilitate electronic holding, transfer, transmission, pledge of securities as well as facilitate corporate actions on the holdings.
- Members of Stock Exchanges or brokers act as the intermediary between the exchange and the investors and facilitate the trade conceptually and

Rights Issues	Rights entail issue of shares (normally at a discount to the market price to the existing shareholders) Rights are also traded separately in the market as an option
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Bonus Issues	Here the free reserves like general reserves, profits ploughed back and share premium are used to issue additional shares in a predetermined proportion to shareholders
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Dividends	Dividend is a cash payout to shareholders at a fixed rate on the number of shares they hold in the co
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Stock Splits	Stock Splits entail split the face value of the stock. For example, changing the face value of a stock from Rs.10 to Rs.5 or Rs.2 is a stock split. The reverse is stock consolidation. Like bonus issues, stock splits are also value neutral
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operationally.

Share buyback	<p>The company uses its excess cash to buy back its own shares and extinguish them.</p> <p>This improves the EPS of the company as there are less shares outstanding</p>
Mergers	<p>In a merger between two companies, one company ceases to exist and merges into the other.</p> <p>Normally, shareholders of the merged company get shares of the surviving company</p>
Takeovers	<p>Here one company is acquired by another company.</p> <p>This acquisition can be a cash transaction or a share swap and is a popular strategy of expansion and diversification</p>

- Finally, it is investors who buy and sell shares among themselves, and form the pivot of the stock markets providing liquidity support and creating wealth for themselves
- Issuers are companies and other entities that get listed on the stock exchange. Equity shares, corporate bonds and debentures as well as securities issued by the government (G-Secs and treasury bills) are admitted to trade on stock exchanges. There are specific eligibility criteria to list securities on the stock market.

Secondary markets are regulated under the provisions of the SCRA and the existing SEBI regulations. The Act has empowered stock exchanges to administer portions of the regulation pertaining to trading, membership and listing.

Corporate Actions

Corporate actions are a type of benefit given to the shareholders of a company. A company conducts several actions, apart from those related to its business, that have a direct implication for the shareholder. These include sharing of surplus with the shareholders in the form of dividend or bonus, changes in the capital structure through the issue of rights shares, buy backs, mergers and acquisitions and delisting. The entitlement to corporate actions is based on the concept of record date. That means; all shareholders that appear in the records of the company on the record date are entitled to receive the benefit of that corporate action. Here is a quick summary of corporate actions and what it entails.

Having understood the concept of corporate actions, let us look at how the calculations work in some of the popular corporate actions.

Rights Issue

The rights shares are offered to the existing investors in a proportion as approved by the board. For example, the company may choose to issue rights in the ratio of 1:1. This would double its capital. Ratio of rights issues can be anything. Investors can either opt for or even forfeit their rights shares. Such entitlements can be sold in the secondary markets.

Bonus Issue

A bonus issue of shares is made to existing shareholders. A bonus issue in the ratio 1:3 entitles the shareholder to 1 bonus share for every 3 held. The company makes the bonus issue out of its free reserves

Dividends

Dividends are the share of profits of the company paid to shareholders. Normally companies declare interim dividends through the financial year and final dividend at the end of the year. Dividends can only be declared out of the profits and not out of capital. A loss-making company cannot therefore pay a dividend to its shareholder. A company which has failed to redeem its preference shares is prohibited from declaring dividends. SEBI has mandated that listed companies shall declare dividends on a per share basis.

Stock Splits

A stock split is where the face value of the existing shares is reduced in a defined ratio. A stock split of 1:5 splits an existing share into 5 shares. In other words the par value of Rs.10 becomes Rs.2 and the number of shares held increases five times. From the company's perspective, there is no change in share value.

Share Buyback

A company may buy back its shares listed on a stock exchange from the investors out of the reserves and surplus available with the company. The shares bought back are extinguished by the company as India does not permit buyback for treasury (unlike the US). From the latest Union Budget 2019, share buybacks are taxed at 20%.

Recent Trend & Dev. in Indian Securities Market

- Well-developed securities markets are the backbone of any financial system. Apart from providing the medium for channelizing funds for investment purposes, they aid in pricing of assets and serve as a barometer of the financial health of the economy.
- Over a period, the Indian securities market has undergone remarkable changes and grown exponentially, particularly in terms of resource mobilization, intermediaries, the number of listed stocks, market capitalization, turnover and investor population.
- The Recent Trends and Development in Indian Securities Market Since 1992 are as following:

1. Corporate Securities Market: With the objectives of improving market efficiency, enhancing transparency, preventing unfair trade practices and bringing the Indian market up to international standards, a package to develop the securities market was introduced.

- The issuers complying with the eligibility criteria were allowed freedom to issue the securities at market determined rates. The secondary market overcame the geographical barriers by moving to screen based trading.
- Trades enjoyed counter-party guarantee. The trading cycle shortened to a day and trades are settled within 2 working days, while all deferral products were banned. Physical security certificates almost disappeared. A variety of derivative products were permitted.

2. SEBI Act, 1992: It created a regulator (SEBI), empowered it adequately and assigned it with the responsibility for

- (a) Protecting the interests of investors in securities,
- (b) Promoting the development of the securities market, and
- (c) Regulating the securities market.

- Enactment of SEBI Act is the first attempt towards integrated regulation of the securities market.

3. Screen Based Trading: Prior to setting up of NSE, the trading on stock exchanges in India was based on an open outcry(objection) system. The system was inefficient and time consuming because of its inability to provide immediate matching or recording of trades. In order to provide efficiency, liquidity and transparency, NSE introduced a nation-wide on-line fully automated screen based trading system (SBTS) on the CM segment on November 3, 1994.

4. Reduction of Trading Cycle: Earlier, the trading cycle for stocks, based on type of securities, used to vary between 14 days to 30 days and the settlement involved another fortnight.

- The Exchanges, however, continued to have different weekly trading cycles, which enabled shifting of positions from one Exchange to another.
- It was made mandatory for all Exchanges to follow a uniform weekly trading cycle in respect of scrips not under rolling settlement. In December 2001, all

scrips were moved to rolling settlement and the settlement period was reduced progressively from T+5 to T+3 days.

- From April 2003 onwards, T+2 days settlement cycle is being followed.

6. Equity Derivatives Trading: In order to assist market participants in managing risks better through hedging, speculation and arbitrage, SC(R) A was amended in 1995 to lift the ban on options in securities. Trading in derivatives, however, took off in 2000 with index futures after suitable legal and regulatory framework was put in place. The market presently offers index futures, index options, single stock futures and single stock options.

7. Risk Management: Market integrity is the essence of any financial market. To preempt market failures and protect investors, the regulator/exchanges have developed a comprehensive risk management system, which 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 curb excessive volatility, detect and prevent price manipulations.

- To effectively address this issue, NSE introduced the concept of a **novation**, and set up the first clearing corporation, viz. National Securities Clearing Corporation Ltd. (NSCCL), which commenced operations in April 1996.
- The NSCCL assures the counterparty risk of each member and guarantees financial settlement. Counterparty risk is guaranteed through a fine tuned risk management system and an innovative method of on-line position monitoring and automatic disablement. NSCCL established a Settlement Guarantee Fund (SGF). The SGF provides a cushion for any residual risk and operates like a self-insurance mechanism wherein the members contribute to the fund. In the 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 counterparty risk of trading on the Exchange

8. Short Selling: Short selling is defined as selling a stock which the seller does not own at the time of trade.

- Pursuant to the recommendations of the Secondary Market Advisory Committee (SMAC) of SEBI and the decision of the SEBI Board, it was decided to permit all classes of investors to short sell.
- It increases liquidity in the market, and makes price discovery more efficient. Besides, it curbs manipulation of stocks as informed investors are able to go short on stocks they feel are higher than fair value. This facility was available to non-institutional investors. Vide a circular in February 2008; SEBI permitted all classes of investors, viz., retail and institutional investors to short sell. It, however, does not permit naked short sales and accordingly, requires participants to mandatorily honor their obligation of delivering the securities at the time of settlement.

9. **Cross Margining:** An offsetting position where market participants are able to transfer excess margin from one account to another account whose margin is under the required maintenance margin.

So a Reliance Future position at Rs. 880 (Lot size: 250) could need a 20% margin, or Rs. $176 \times 250 =$ Rs. 44,000 per lot. But if you have bought a put option on Reliance at 900, then the downside is protected, so your margin requirements can be brought down substantially. NSE will offset the two and ask for a lower margin, of say Rs. 15,000 per lot. This saves you cash.

Many trading members undertake transactions on both the cash and derivative segments of an Exchange. They keep separate deposits with the exchange for taking positions in two different segments.

- In order to improve the efficiency of the use of the margin capital by market participants and as an initial step towards cross margining across cash and derivatives markets SEBI allowed Cross Margining benefit in May 2008.
- For Cross margining the stock positions of the institutions in capital market segment after confirmation by the custodian on T+1 day shall be compared with the stock futures position of the same institution in derivative segment based on the CP code of the institution at the end of the day. The position shall

be considered for cross margining only if the position in the capital market segment off set the position in the derivative segment.

10. **Market Infrastructure:** As part of the ongoing efforts to build debt market infrastructure, two new systems, the Negotiated Dealing System (NDS) and the Clearing Corporation of India Limited (CCIL) commenced operations on February 15, 2002.

- **NDS** facilitates screen based negotiated dealing for secondary market transactions in government securities and money market instruments, online reporting of transactions in the instruments available on the NDS 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.
- **CCIL** facilitates settlement of transactions in government securities (both outright and repo) on Delivery versus Payment (DVP-II) basis which provides for settlement of securities on gross basis and settlement of funds on net basis simultaneously. It acts as a central counterparty for clearing and settlement of government securities transactions done on NDS.

11. **Research in Securities Market:** In order to deepen the understanding and knowledge about Indian capital market, and to assist in policy-making, SEBI has been promoting high quality research in capital market. It has set up an in-house research department, which brings out working papers on a regular basis. In collaboration with NCAER, SEBI brought out a ‘Survey of Indian Investors’, which estimates investor population in India and their investment preferences. SEBI has also tied up with reputed national and international academic and research institutions for conducting research studies/projects on various issues related to the capital market.

- The objective of this initiative is to foster research, which can support and facilitate-
 - (a) stock exchanges to better design market micro-structure,
 - (b) participants to frame their strategies in the market place,
 - (c) regulators to frame regulations,

- (d) policy makers to formulate policies, and
- (e) expand the horizon of knowledge. The Initiative has received tremendous response.

12. **Testing and Certification:**

- A testing and certification mechanism that has become extremely popular and is sought after by the candidates as well as employers is unique on-line testing and certification programme called 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, testing, assessing, scores reporting and certifying is fully automated - there is absolutely no scope for human intervention.
- It allows tremendous flexibility in terms of testing centers, dates and timing and provides easy accessibility and convenience to candidates as he can be tested at any time and from any location.
- It tests practical knowledge and skills, that are required to operate in financial markets, in a very secure and unbiased manner, and certifies personnel who have a proper understanding of the market and business and skills to service different constituents of the market.

13. **Demutualization:** Historically, stock exchanges were owned, controlled and managed by the brokers. In case of disputes, integrity of the stock exchange suffered. NSE, however, was set up with a pure demutualized governance structure, having ownership, management and trading with three different sets of people. Currently, all the stock exchanges in India have a demutualized set up.

14. **Dematerialization:** As discussed before, the old settlement system was inefficient due to

- (i) the time lag for settlement and (ii) the physical movement of paper-based securities.

- 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.
- There are two depositories in India, viz. NSDL and CDSL. They have been set up to provide instantaneous electronic transfer of securities.

15. Clearing Corporation: The anonymous electronic order book ushered in by the NSE did not permit members to assess credit risk of the counter-party and thus 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.

16. Investor Protection: In order to protect the interest of the investors and promote awareness, the Central Government (Ministry of Corporate Affairs 1) established the Investor Education and Protection Fund (IEPF) in October 2001.

- With the similar objectives, the Exchanges and SEBI also maintain investor protection funds to take care of investor claims. SEBI and the stock exchanges have also set up investor grievance / service cells for redress of investor grievance. All these agencies and investor associations also organise investor education and awareness programmes.

19. Direct Market Access: In April 2008, SEBI allowed the direct market access (DMA) facility to the institutional investors. DMA allows brokers to offer their respective clients, direct access to the Exchange trading system through the broker's infrastructure without manual intervention by the broker.

20. Launch of Securities Lending & Borrowing Scheme: In April 2008, the Securities Lending & Borrowing mechanism was allowed. It allows market participants to take short positions effectively with less cost.

21. Launch of Currency Futures: On August 29, 2008, NSE launched trading in currency future contracts in the USD-INR pair for the first time in India. Trading in other currency pairs like Euro – INR, Pound Sterling – INR and Japanese Yen was further made available for trading in March 2010.

22. **Launch of Interest Rate Futures:** On August 31, 2009, futures on interest rate were launched on the National Stock Exchange.

23. **ASBA:** Application Supported by Blocked Amount (ASBA) is a major primary market reform. It enables investors to apply for IPOs / FPOs and rights issues without making a payment. Instead, the amount is blocked in investors' own account and only an amount proportionate to the shares allotted goes out when allotment is finalized.

24. **Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009:** In August 2009, the SEBI issued Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009, replacing the Disclosure and Investor Protection (DIP) Guidelines 2000. ICDR Regulations 2009 would govern all disclosure norms regarding issue of securities.

Development of the Securities Market

A securities market is a place where the suppliers and users of capital meet to share one another's views, and where a balance is sought among diverse market participants. The securities separate individual acts of saving and investment over time, space, and entities, and thus allow savings to occur without concomitant investment. Moreover, yield bearing securities make present consumption more expensive relative to future consumption, inducing people to save more. The composition of savings changes, with less of it being held in the form of idle money or unproductive assets, simply because more divisible and liquid assets are available.

The securities market acts as a brake on channeling savings to low-yielding enterprises and impels enterprises to focus on performance. It continuously monitors performance through movements of share prices in the market and threats of takeover. These characteristics improve the efficiency of resource utilization and thereby significantly increase returns on investment. As a result, savers and investors are not constrained by their individual abilities, but enabled by the economy's capability to invest and save, which inevitably enhances savings and investment in the economy. Thus, the securities market converts a given stock of investable resources into a larger flow of goods and services and augments economic growth. In fact, the literature is

full of theoretical and empirical studies that have established a causal robust (statistically significant) two-way relation between developments in the securities market and economic growth.

The Indian securities market dates to the eighteenth century, when the securities of the East India Company were traded in Mumbai and Kolkata. However, the orderly growth of the capital market began with the setting up of the Bombay Stock Exchange in July 1875 and Ahmedabad Stock Exchange in 1894. Eventually, 22 other exchanges in various cities were set up.

Given the significance of the securities market and the need for the economy to grow at a projected 8 percent a year, the managers of the Indian economy have been assiduously promoting the securities market as an engine of growth to provide an alternative yet efficient means of resource mobilization and allocation. Further, the global financial environment is undergoing unremitting transformation. Geographical boundaries have disappeared. The days of insulated and isolated financial markets are history. The success of any capital market largely depends on its ability to align itself with the global order.

To realize national aspirations and keep pace with the changing times, the securities market in India has gone through various stages of liberalization, bringing about fundamental and structural changes in the market's design and operation. These changes have resulted in broader investment choices and a drastic reduction in transaction costs. Efficiency, transparency, and safety have also increased integration with the global markets. The opening up of the economy for investment and trade, the dismantling of administered interest and exchange rates regimes, and setting up of sound regulatory institutions have facilitated these changes.

Regulatory Efficacy

The securities market in India was underdeveloped, opaque, dominated by a handful of players, and concentrated in a few cities. Manipulation and unfair practices were perceived to be rampant, prompting an overseas researcher to describe the market as a "snake pit." The transformation of the Indian securities market started

with the establishment of the Securities and Exchange Board of India (SEBI) in 1989, initially as an informal body and in 1992 as a statutory autonomous regulator with the twin objectives of protecting the interests of investors and developing and regulating the securities market over a period of time. SEBI has been empowered to investigate, examine, visit company premises, summon records and persons, and inquire and impose penalties commensurate with misconduct. The first and foremost challenge for the fledgling regulator was to create a regulatory and supervisory framework for the market, a job that proved formidable, because vested interests resisted every new step. However, with the designing and notification of 32 regulations and guidelines, during its decade and a half of existence, the apparatus steadily evolved and has adapted to the situation.

SEBI has instituted a consultative process of framing regulations. All reports, concept papers, and policy proposals are posted on SEBI's website (www.sebi.gov.in) for comments from market participants and the public. The comments are compiled and taken into account before regulations are finalized. Even draft regulations are put on the website, so legal experts can comment on the law's correspondence with the spirit of the initiatives. This openness has a profound impact not only in terms of valuable input and gauging public opinion before framing regulations and guidelines but also in terms of improving quality, acceptability, and ease of implementation. SEBI has formed a number of committees of eminent experts and market practitioners to support it in the design of reforms for different aspects of securities markets. The regulator posts all its orders, including those delivered on appeals against its orders, on its website. On request, it provides informal guidance on payments of nominal fees and issues an action letter so that the participants can seek clarification on any aspect and adopt an appropriate business strategy that conforms to the applicable regulations. SEBI has put timelines for performance of its various functions, such as registration and renewal, on the website. These measures work as a self-disciplining mechanism within SEBI and provide full transparency to its functioning.

Primary Market

The primary market, which at one time was flooded with a number of issues floated by dubious promoters, depriving gullible investors of their lifetime savings, has since been transformed. The changes in this area have been epic and include detailing of complete profiles of promoters, comprehensive disclosures, the existence of tangible assets, and a track record of profit as also reporting end uses of funds to the Board as a part of corporate governance. Recently, when the story of Google's initial public offering (IPO) was being touted in the media worldwide as one of the greatest innovations of recent times for raising risk capital, the *Financial Times*, London, carried the following observation:

The World's Biggest Democracy can show Google how to conduct an online IPO. . . .[I]n India you cannot apply on the web but investors can access one of the world's largest financial networks with 7000 terminals scattered around 350 cities. And every step of the book building process is public. . . .[T]he Indian system is a refreshing example of a transparent IPO market but it is also a rare one, especially in the insider-friendly Asian markets.

All the IPOs since the reforms started have been a success and, barring a few exceptions, are trading at a premium over the issue price. The regulatory framework has been modified to provide options to Indian firms for raising resources either domestically, globally, or both. These options help discover prices and reduce the cost of funds. A number of Indian firms have raised money through American depository receipts, global depository receipts, and external commercial borrowings. Two-way fungibility is permitted to enhance liquidity.

During 2004–05, a sum of Rs. 282.56 billion, as opposed to Rs. 232.71 billion in 2003–04 (which was larger than the amount raised in the 10 years of the earlier primary market boom), was raised through the primary market. In fact, the corporate sector and central and state governments together raised a total of Rs. 3.75 trillion from the securities market during 2004–05. Thankfully, so far, no major mishap has occurred recently.

If a Rip van Winkle woke up from a prolonged, deep slumber of a couple of years, he would be amazed to see the quality of the secondary market of India. The deafening noise of an outcry trading system has been replaced with the silence of the electronic consolidated anonymous limit order book, with price-time priority matching accessible through more than 10,000 terminals spread over 400 cities and towns across the Indian subcontinent, something perhaps without a parallel in the world. Transaction costs are low, compared with those of the most developed markets.

The Indian settlement system conforms to the Committee on Payment and Settlement—International Organization of Securities Commissions principles and G—30 committee (January 2003, under the chairmanship of Sir Andrew Large) recommendations, which even the most developed markets of the world are proposing to implement by the end of 2006. The institution of central counterparty (CCP), which provides full novation and guarantees settlement, has eliminated counterparty risk entirely. More than 99 percent of the dematerialization of market capitalization and straight-through processing, mandatory for all institutional trades, have enabled the Indian settlement system to function seamlessly, notwithstanding size and spread.

On a T+2 cycle, all securities are fully cleared electronically through a CCP on a rolling settlement. The CCP of the exchanges, which operates a tight risk management system and maintains a short (T+2) and consistent settlement cycle, is now financially able to meet the obligations for four to five consecutive settlements even if all the trading members default in their obligations. The dynamic risk management system comprises capital adequacy norms, trading and exposure limits, index-based market-wide circuit breakers, and margin (mark to market) requirements. The encashability of the underlying liquidity of the margins, comprising cash, bank guarantees, and securities, is evaluated periodically. The real-time monitoring of broker positions and margins and automatic disablement of terminals with value-added risk margining, built on much higher sigma deviation than the best of the markets in the world, have reduced the operational risk to the lowest ebb. In a recent unfortunate, very sharp (more than 25 percent in two days) fall of the market in May 2004, the strength of the system's risk management was tested. There was not a single

broker failure or default, and on the third day (after the two consecutive days of decline) the market functioned as if nothing unusual had happened. Even the CCP was not required to fund any broker-dealer's obligations.

The three-legged corporate compliance stool—disclosure, accounting standards, and boardroom practices—has lifted India to a global pedestal in corporate governance. In a study titled *What Works in Securities Laws?* Professors Rafael La Porta, Florencio Lopez de Silanes, and Andrei Shleifer comment, “India scores 100% as far as disclosure standards are concerned.” The Indian accounting standards are aligned with international accounting standards and are “principle based.” One of the most sophisticated pension fund managers, CalPERS, gave a score of three (the maximum that could be awarded) via permissible equity market analysis when voting for India as an investment destination. Its September 2004 report, *CLSA—CG Watch* says, “In terms of consolidation, segmental reporting, deferred tax accounting and related party transactions, the gap between Indian and U.S. Generally Accepted Accounting Principles (GAAP) is minimal.”

Regarding corporate governance it might be worthwhile to recall what an Economist Intelligence Unit 2003 study said: “Top of the Country class, as might be expected, is Singapore followed by Hong Kong SAR and somewhat surprisingly, India where overall disclosure standards have improved dramatically, accounting differences between local and U.S. standards have been minimized and the number of companies with a majority of independent directors has risen significantly.” The *CLSA—Emerging Markets Study on Corporate Governance* gives India a score of 6.2, which is next only to 7.5 for Singapore and 6.7 for Hong Kong SAR, and this happened before the implementation of the Narayana Murthy Committee recommendations, said to be effective from January 1, 2006. None of the Indian companies listed on the New York Stock Exchange (NYSE) or on the NASDAQ, to public knowledge, has sought the benefit of transition time for the implementation of SOX requirements. What could possibly be more comforting to any regulator or investor than the *CLSA—Emerging Markets Study* comment “The Securities and

Exchange Board of India (SEBI) continues to raise the bar for good corporate governance.”

It is not appropriate to compare the Indian securities market with those of Singapore and Hong Kong SAR. Singapore and Hong Kong SAR are city-states and have a much smaller spectrum to watch: listed companies, broker-dealers, investors, and even number of transactions. The Indian securities market is next only to the U.S. market in terms of size. Even though by all criteria of economic research, market capitalization and trades in U.S. dollar terms determine market size, in actual operations, the market participants and the regulators have to grapple with the number of listed securities, market participants, and the volume of transactions—areas where India stands out. The National Stock Exchange (NSE) is the third-largest exchange in the world, next only to the NYSE and NASDAQ, in the number of transactions, followed by the Bombay Stock Exchange, the fifth largest in the world. India has the largest electronic order book; NYSE and NASDAQ books are quote driven. In the matter of single-stock futures, India leads the world, followed by EURONEXT, which is not even 25 percent its size. Even in index futures, NSE volumes are next only to the Chicago Mercantile Exchange and Eurex. No other market in the world, including that of Japan, compares with the volume of transactions of Indian markets.

The focus of development and the quality of regulation have not centered only on primary and secondary markets, they have also been directed at quality of intermediation and enforcement. The mutual fund industry of India, which has gone through a host of reforms via regulatory interventions, today has some outstanding features such as benchmarking mutual fund schemes, valuation norms, uniform cut off time, and comprehensive risk management. An independent study organized by the Asian Development Bank, the Cadgon report testifies to this.

Investors and issuers can take comfort and make transactions with confidence if intermediaries and their employees (1) follow a code of conduct and deal with probity and (2) are capable of providing professional services. All intermediaries in the securities market are now registered and regulated by SEBI. A code of conduct has

been prescribed for each intermediary as well as for their employees, in addition to applicability of fit and proper person regulatory standards. Further, capital adequacy and other norms have been specified and a system of monitoring and inspecting their operations has been instituted to enforce compliance. Disciplinary action is taken against them for violating any ground rules. All the intermediaries in the market are mandated to have a compliance officer, who reports noncompliance observations directly and independently to SEBI.

The state of the market today bears testimony to the role SEBI plays. It is no wonder that a study by the Society for Capital Market Research and Development (October 2004) revealed that there has been great improvement in the general public's perception of capital market regulation in India since 2001.

The Economic Survey 2003–04 by the government of India had the following to say: “The securities markets have made enormous progress in recent years. India's equity market is now being increasingly recognized as a success story on the world scale.” These reforms have boosted the confidence of investors (domestic and international) in the Indian securities market. There are four parameters to ascertain the level of investor confidence: (1) investments by foreign institutional investors (FIIs), (2) growth of the mutual funds industry, (3) subscriptions to IPOs, and (4) an increase in the number of accounts with the depositories. According to figures from the 2003–04 financial year, mutual funds mobilized net resources of about Rs. 480 billion, equivalent to about one-fourth of incremental bank deposits. Mutual funds' assets increased from Rs. 1.1 billion at the end of March 2003 to Rs. 2.0 billion at the end of October 2005. Indian companies raised about Rs. 33 billion through euro issues. The year 2004 witnessed a net FII (portfolio money) inflow of US\$10 billion. The volume of issuance in the primary market increased from Rs. 41 billion in 2002–03 to Rs. 282.56 billion in 2004–05.

The two benchmark stock market indices, namely the SENSEX and S&P CNX NIFTY, generated astounding returns of 83 percent and 81 percent, respectively, during 2002–03 and 2003–04. Market capitalization grew from Rs. 7 trillion at the end

of March 2003 to Rs. 14 trillion at the end of March 2004, and to Rs. 23 trillion as of August 2005, indicating that the equity market is bigger than the banking system. The primary issues in the last year added at least Rs. 2 trillion in market capitalization. The trading in cash segment of exchanges increased from Rs. 932,062 in 2002–03 to Rs. 1,658,787 in 2004–05. Trading in derivatives increased from Rs. 442,341 to Rs. 2,563,165 during the same period. The turnover in government securities increased from Rs. 1,941,621 to Rs. 2,639,897. The impact cost went down to 0.1 percent in 2003–04, reflecting substantial improvement in liquidity. The number of demand accounts with depository participants has increased considerably during the past three years, from 3.8 million to 8 million, and is increasing on average at the rate of more than 100,000 per month. The number of investor complaints received by SEBI has been sharply decreasing over the years.

The efficacy of the market, where entry and exit are possible at will and the liquidity has spread from being skewed to just about 100 to more than 500 securities, is a matter of substantial comfort. More than 2,500 securities (equities) are traded for more than 100 days in a year. Overseas investors are no longer glued to research and assessments of index stocks and have been observing keenly and investing in the mid-cap segment.

The changes in the market have been very fast-paced; they have been possible with the cooperation of all the market participants, other regulators, and the government of India.

However, I would not like to give the impression that in the Indian securities market everything is fine and needs no improvement, polishing, or refurbishing. In fact, the dynamics of the global environment dictate that those charged with the responsibility of bringing about changes must always seek out learning by experience, criticism, and judgments. The market depth needs to be supplemented with further product diversification—mortgage- and asset-backed securities, warrants, and disinvestment in the public sector. The debt market of India, though large and next in size only to Japan in Asia, lacks vibrancy and does not provide adequate options for meeting medium- to

long-term funds required for greenfield projects, in particular. Infrastructure funding (essential for continued high economic growth) has become an issue in the absence of a vibrant debt market. There is no market for below-investment-grade paper, or junk bonds.

SEBI's agenda should include making the corporate debt market vibrant: cash and futures, operationalization of Indian deposit receipts, and corporatization and demutualization of stock exchanges (which has already begun with Stock Exchange, Mumbai) where the ownership, management, and trading rights reside with three different sets of entities in order to avoid conflict of interest. The Central Listing Authority and ombudsman should become fully functional. The settlement cycle should migrate to T+1. New products should be introduced to meet the needs of all kinds of market participants. MAPIN (unique identification) should be extended to cover all market participants. Regulations should be revised and amended on a continuing basis to keep them in tune with market developments. National training and skill delivery institutes should be organized to build a cadre of professionals to fulfill specialized functions in the securities market. There is a need to spread an equity culture and build institutions, such as pension funds, to enlarge the market and reduce volatility.

The regulation of listed companies, a job performed in a fragmented manner by SEBI and the Ministry of Company Affairs, needs to be consolidated to eliminate regulatory arbitrage, by unscrupulous operators and blurring of regulatory accountability.

Further, regulation is an evolutionary process and has to be refined on an ongoing basis. Thus, SEBI would and should continue to travel on the learning curve to reorient and reconfigure ground rules (regulations), investigating abilities, and investor protection measures. India will do well because it is fully convinced that securities markets allow people to do more with their savings, ideas, and talents than would otherwise be possible. Development of securities markets will also allow increasingly larger numbers of citizens to participate in some form and to share an

opportunity to profit from economic gains. Let me conclude with an opinion expressed recently by Steve Vickers, President of International Risk, published on Finance Asia.com on September 29, 2005: “The stock market has been transformed from a proverbial den of thieves to one of the most transparent automated and well regulated in the world—with record foreign institutional investment inflows a testimony to this.”

UNIT I – Introduction to Securities Market

No	Question	Marks	Bloom’s Level
1	Define securities and state their types.	5	K1, K2
2	What is meant by return on securities?	5	K1
3	Define risk and list its types.	5	K1
4	How is risk measured in securities?	5	K2
5	Write a short note on the development of securities market in India.	5	K2
6	Explain the concept and types of securities in detail.	8	K2
7	Discuss the concept of return and its importance to investors.	8	K2
8	Explain the concept, types, and measurement of risk.	8	K3
9	Describe the growth and development of securities market in India.	8	K2
10	Analyze the relationship between risk and return.	8	K4

Unit – II - Primary Market

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

For a transaction taking place in this market, there are three entities involved. It would include a company, investors, and an underwriter. A company issues security in a primary market as an initial public offering (IPO), and the sale price of such a new issue is determined by a concerned underwriter, which may or may not be a financial institution.

An underwriter also facilitates and monitors the new issue offering. Investors purchase the newly issued securities in the primary market. Such a market is regulated by the Securities and Exchange Board of India (SEBI).

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

Functions of Primary Market

The functions of such a market are manifold –

- New Issue Offer

The primary market organises offer of a new issue which had not been traded on any other exchange earlier. Due to this reason, it is also called a New Issue Market.

Organising new issue offers involves a detailed assessment of project viability, among other factors. The financial arrangements for the purpose include considerations of promoters' equity, liquidity ratio, debt-equity ratio and requirement of foreign exchange.

- Underwriting Services

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

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

- Distribution of New Issue

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

Types of Primary Market Issuance

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

- Public Issue

Public issue is the most common method of issuing securities of a company to the public at large. It is mainly done via Initial Public Offering (IPO) resulting in

companies raising funds from the capital market. These securities are listed in the stock exchanges for trading.

A privately held company converts into a publicly-traded company when its shares are offered to the public initially through IPO. Such a public offer allows a company to raise funds for expansion of business, improving infrastructure, and repaying its debts, among others.

Trading in an open market also increases a company's liquidity and provides a scope for issuance of more shares in raising further capital for business.

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

- Private Placement

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

Private placements are easier to issue than initial public offerings as the regulatory stipulations are significantly less. It also incurs reduced cost and time, and the company can remain private.

Such issuance is suitable for start-ups or companies which are in their early stages. The company may place this issuance to an investment bank or a hedge fund or place before ultra-high net worth individuals (HNIs) to raise capital.

- Preferential Issue

A preferential issue is one of the quickest methods available to companies for raising capital. Both listed and unlisted companies can issue shares or convertible securities to

a select group of investors. However, the preferential issue is neither a public issue nor a rights issue.

The shareholders in possession of preference shares stand to receive the dividend before the ordinary shareholders are paid.

- Qualified Institutional Placement

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

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

Some QIBs are –

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

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

- Rights and Bonus Issues

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

For rights issues, investors retain the choice of buying stocks at discounted prices within a stipulated period. Rights issue enhances control of existing shareholders of the company, and also there are no costs involved in the issuance of these kinds of shares.

For bonus issues, stocks are issued by a company as a gift to its existing shareholders. However, the issuance of bonus shares does not infuse fresh capital.

Examples of Primary Stock Market Selling

Company Details

Facebook One of the remarkable IPOs that were undertaken includes the Facebook initial public offering. The offer initiated in 2012 is to date the largest IPO in the technology sector. The company successfully raised \$16 billion through its initial public offering. As an effect, its turnover increased by close to 100%.

Also, there was a high demand for the stock in the primary market, which led to the pricing of Facebook's stock to be fixed at \$38 for each share as determined by the underwriters.

The valuation of the stock eventually amounted to \$104 billion, highest for a newly formed public company.

Coal India The biggest IPO undertaken in India was by Coal India in 2010, which raised Rs. 15,200 Crore. The shares were listed at Rs. 287.75 and eventually increased to Rs.340.

The company offered a 5% discount on the final IPO price to retail investors, along

with the subsidiaries and employees of the company.

Advantages of Primary Market

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

Disadvantages of Primary Market

- There may be limited information for an investor to access before investment in an IPO since unlisted companies do not fall under the purview of regulatory and disclosure requirements of the Securities and Exchange Board of India.
- Each stock is exposed to varying degrees of risk, but there is no historical trading data in a primary market for analysing IPO shares because the company

is offering its shares to the public for the first time through an initial public offering.

- In some cases, it may not be favorable for small investors. If a share is oversubscribed, small investors may not receive share allocation.

With this information regarding the primary market, individuals can make a well-thought-out decision regarding investment in the market. It also makes way for the creation of an investment portfolio with diversified risk.

Primary Market vs Secondary Market

Below are the primary distinctions between the Primary Market and the Secondary Market:

Features	Primary Market	Secondary Market
Purpose	First-time issuance and sale of new securities	Securities that already exist are acquired and sold
Participants	Issuing Companies, Underwriters, Investors	Investors, Brokers, Dealers
Function	Capital Raising	Trading
Price	Fixed Price	Market-Driven Price
Volume	Low Volume	High Volume
Liquidity	Low Liquidity	High Liquidity
Regulation	Regulated by SEBI	Regulated by Stock Exchanges and SEBI

Why Do Companies Issue Shares to the Public?

Companies come to the primary market to raise money for several reasons. Some of them are for business expansion, business development, and improving infrastructure, repaying its debts and many more. This helps the company to increase its liquidity. Also, it provides a scope for more issuance of shares in raising further capital for business.

The company can raise capital through –

- **Equity:** when the company raises money by issuing shares to the public. It is termed as stock capital, also known as share capital of the company.
- **Debt:** the companies raise capital by taking loans where interest is payable on it.

When a company requires capital, the primary source of funds is loans from banks. However, raising funds from banks requires interest payments to them. Consequently, when a company raises funds from the public, there is no commitment to fixed interest payout. Also, there is profit-sharing among the shareholders in proportion to the number of shares held by them. There are two ways in which the company shares the profits among its shareholders –

- Dividend Payout
- Capital appreciation

Thus, the money raised in the primary market goes directly to the issuing company. This is where the capital formation of the company takes place.

How to Apply Through an Initial Public Offering (IPO)?

To apply for an IPO, the investor needs to choose for the IPO and apply for it. Next, the investor needs the following accounts –

- **Demat account** – it is mandatory for an investor to have a Demat account and hold the shares in electronic form.
- **Bank account** – for making the payment for shares. It is done via Application Supported by Blocked Amount (ASBA) facility.
- **Trading account** – one can open this account with any of the brokerage firms which offer trading facilities.

The following is the process for applying for an IPO online –

1. Log in to the trading account and select the IPO for investing.
2. Enter the price and number of lots of the shares
3. Fill the application form and provide UPI Id.
4. Approve the funds request through the UPI app
5. Application is successful.

Once the issue closes, the company determines the share price and allot shares. After 15 days, the share allotment happens to the investors. If the investors receive the shares, the amount is deducted from the bank account.

After the allotment process, investors receive a Confirmation Allotment Note (CAN). The shares are visible in the Demat account. In case, the investors do not receive the allotment, the amount blocked is released back to them.

Finally, the shares issued during the IPO are listed on the stock exchange and available for trading.

Initial Public Offerings (IPO)

The Capital market represents the “Primary Market” and the “Secondary Market. The capital market has two interdependent and inseparable segments, the new issuers (the primary market) and stock (secondary) market. The primary market is used by issuers for raising fresh capital from the investors by making initial public offers or rights issues or offers for sale of equity or debt. An active secondary market promotes the growth of the primary market and capital formation, since the investors in the primary market are assured of a continuous market where they have an option to liquidate their investments.

A corporate may raise capital in the primary market by way of an initial public offer, rights issue or private placement. An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. It is the largest source of funds with long or indefinite maturity for the company.

An IPO is an important step in the growth of a business. It provides a company access to funds through the public capital market. An IPO also greatly increases the credibility and publicity that a business receives. In many cases, an IPO is the only

way to finance quick growth and expansion. In terms of the economy, when a large number of IPOs are issued, it is a sign of a healthy stock market and economy.

When the company makes its first IPO to the public, the relationship is directly between the company and investors, and the money flows to the Company as its “Share Capital”. Shareholders thus become owners of the Company through their participation in the Company’s IPO and have ownership rights over the company. This is the largest source of funds for a company, which enables the company to create “Fixed Assets” which will be employed in the course of the business. The shareholders of the Company are free to exit their investment through the secondary market.

What is Book Building?

SEBI guidelines defines Book Building as "a process undertaken by which a demand for the securities proposed to be issued by a body corporate is elicited and built-up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document".

Book Building is basically a process used in Initial Public Offer (IPO) for efficient price discovery. It is a mechanism where, during the period for which the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The offer price is determined after the bid closing date.

Difference between Book Building Issue and Fixed Price Issue

In Book Building securities are offered at prices above or equal to the floor prices, whereas securities are offered at a fixed price in case of a public issue. In case of Book Building, the demand can be known everyday as the book is built. But in case of the public issue the demand is known at the close of the issue.

An IPO is an initial public offering, in which shares of a private company are made available to the public for the first time. An IPO allows a company to raise equity capital from public investors.

The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors. Meanwhile, it also allows public investors to participate in the offering.

How an Initial Public Offering (IPO) Works

Before an IPO, a company is considered private. As a pre-IPO private company, the business has grown with a relatively small number of shareholders including early investors like the founders, family, and friends along with professional investors such as venture capitalists or angel investors.

An IPO is a big step for a company as it provides the company with access to raising a lot of money. This gives the company a greater ability to grow and expand. The increased transparency and share listing credibility can also be a factor in helping it obtain better terms when seeking borrowed funds as well.

When a company reaches a stage in its growth process where it believes it is mature enough for the rigors of SEC regulations along with the benefits and responsibilities to public shareholders, it will begin to advertise its interest in going public.

Typically, this stage of growth will occur when a company has reached a private valuation of approximately \$1 billion, also known as unicorn status. However, private companies at various valuations with strong fundamentals and proven profitability potential can also qualify for an IPO, depending on the market competition and their ability to meet listing requirements.

IPO shares of a company are priced through underwriting due diligence. When a company goes public, the previously owned private share ownership converts to public ownership, and the existing private shareholders' shares become worth the

public trading price. Share underwriting can also include special provisions for private to public share ownership.

Generally, the transition from private to public is a key time for private investors to cash in and earn the returns they were expecting. Private shareholders may hold onto their shares in the public market or sell a portion or all of them for gains.

Meanwhile, the public market opens up a huge opportunity for millions of investors to buy shares in the company and contribute capital to a company's shareholders' equity. The public consists of any individual or institutional investor who is interested in investing in the company.

Overall, the number of shares the company sells and the price for which shares sell are the generating factors for the company's new shareholders' equity value. Shareholders' equity still represents shares owned by investors when it is both private and public, but with an IPO, the shareholders' equity increases significantly with cash from the primary issuance.

History of IPOs

The term initial public offering (IPO) has been a buzzword on Wall Street and among investors for decades. The Dutch are credited with conducting the first modern IPO by offering shares of the Dutch East India Company to the general public.

Since then, IPOs have been used as a way for companies to raise capital from public investors through the issuance of public share ownership.

Through the years, IPOs have been known for uptrends and downtrends in issuance. Individual sectors also experience uptrends and downtrends in issuance due to innovation and various other economic factors. Tech IPOs multiplied at the height of the dotcom boom as startups without revenues rushed to list themselves on the stock market.

The 2008 financial crisis resulted in a year with the least number of IPOs. After the recession following the 2008 financial crisis, IPOs ground to a halt, and for some years after, new listings were rare. More recently, much of the IPO buzz has moved to a focus on so-called unicorns—startup companies that have reached private valuations of more than \$1 billion. Investors and the media heavily speculate on these companies and their decision to go public via an IPO or stay private.

What Is the IPO Process?

The IPO process essentially consists of two parts. The first is the pre-marketing phase of the offering, while the second is the initial public offering itself. When a company is interested in an IPO, it will advertise to underwriters by soliciting private bids or it can also make a public statement to generate interest.

The underwriters lead the IPO process and are chosen by the company. A company may choose one or several underwriters to manage different parts of the IPO process collaboratively. The underwriters are involved in every aspect of the IPO due diligence, document preparation, filing, marketing, and issuance.

Steps to an IPO

1. **Proposals.** Underwriters present proposals and valuations discussing their services, the best type of security to issue, offering price, amount of shares, and estimated time frame for the market offering.
2. **Underwriter.** The company chooses its underwriters and formally agrees to underwrite terms through an underwriting agreement.
3. **Team.** IPO teams are formed comprising underwriters, lawyers, certified public accountants (CPAs), and Securities and Exchange Commission (SEC) experts.
4. **Documentation.** Information regarding the company is compiled for required IPO documentation. The S-1 Registration Statement is the primary IPO filing document. It has two parts—the prospectus and the privately held filing information.¹ The S-1 includes preliminary information about the expected

date of the filing.² It will be revised often throughout the pre-IPO process. The included prospectus is also revised continuously.

5. **Marketing & Updates.** Marketing materials are created for pre-marketing of the new stock issuance. Underwriters and executives market the share issuance to estimate demand and establish a final offering price. Underwriters can make revisions to their financial analysis throughout the marketing process. This can include changing the IPO price or issuance date as they see fit. Companies take the necessary steps to meet specific public share offering requirements. Companies must adhere to both exchange listing requirements and SEC requirements for public companies.
6. **Board & Processes.** Form a board of directors and ensure processes for reporting auditable financial and accounting information every quarter.
7. **Shares Issued.** The company issues its shares on an IPO date. Capital from the primary issuance to shareholders is received as cash and recorded as stockholders' equity on the balance sheet. Subsequently, the balance sheet share value becomes dependent on the company's stockholders' equity per share valuation comprehensively.
8. **Post IPO.** Some post-IPO provisions may be instituted. Underwriters may have a specified time frame to buy an additional amount of shares after the initial public offering (IPO) date. Meanwhile, certain investors may be subject to quiet periods.

Advantages and Disadvantages of an IPO

The primary objective of an IPO is to raise capital for a business. It can also come with other advantages as well as disadvantages.

Advantages

One of the key advantages is that the company gets access to investment from the entire investing public to raise capital. This facilitates easier acquisition deals (share conversions) and increases the company's exposure, prestige, and public image, which can help the company's sales and profits.

Increased transparency that comes with required quarterly reporting can usually help a company receive more favorable credit borrowing terms than a private company.

Disadvantages

Companies may confront several disadvantages to going public and potentially choose alternative strategies. Some of the major disadvantages include the fact that IPOs are expensive, and the costs of maintaining a public company are ongoing and usually unrelated to the other costs of doing business.

Fluctuations in a company's share price can be a distraction for management, which may be compensated and evaluated based on stock performance rather than real financial results. Additionally, the company becomes required to disclose financial, accounting, tax, and other business information. During these disclosures, it may have to publicly reveal secrets and business methods that could help competitors.

Rigid leadership and governance by the board of directors can make it more difficult to retain good managers willing to take risks. Remaining private is always an option. Instead of going public, companies may also solicit bids for a buyout. Additionally, there can be some alternatives that companies may explore.

Pros

- Can raise additional funds in the future through secondary offerings
- Attracts and retains better management and skilled employees through liquid stock equity participation (e.g., ESOPs)
- IPOs can give a company a lower cost of capital for both equity and debt

Cons

- Significant legal, accounting, and marketing costs arise, many of which are ongoing
- Increased time, effort, and attention required of management for reporting
- There is a loss of control and stronger agency problems

IPO Alternatives

Direct Listing

A direct listing is when an IPO is conducted without any underwriters. Direct listings skip the underwriting process, which means the issuer has more risk if the offering does not do well, but issuers also may benefit from a higher share price. A direct offering is usually only feasible for a company with a well-known brand and an attractive business.

Dutch Auction

In a Dutch auction, an IPO price is not set. Potential buyers can bid for the shares they want and the price they are willing to pay. The bidders who were willing to pay the highest price are then allocated the shares available.

Investing in an IPO

When a company decides to raise money via an IPO it is only after careful consideration and analysis that this particular exit strategy will maximize the returns of early investors and raise the most capital for the business. Therefore, when the IPO decision is reached, the prospects for future growth are likely to be high, and many public investors will line up to get their hands on some shares for the first time. IPOs are usually discounted to ensure sales, which makes them even more attractive, especially when they generate a lot of buyers from the primary issuance.

Initially, the price of the IPO is usually set by the underwriters through their pre-marketing process. At its core, the IPO price is based on the valuation of the company using fundamental techniques. The most common technique used is discounted cash flow, which is the net present value of the company's expected future cash flows.

Underwriters and interested investors look at this value on a per-share basis. Other methods that may be used for setting the price include equity value, enterprise value,

comparable firm adjustments, and more. The underwriters do factor in demand but they also typically discount the price to ensure success on the IPO day.

It can be quite hard to analyze the fundamentals and technical of an IPO issuance. Investors will watch news headlines but the main source for information should be the prospectus, which is available as soon as the company files its S-1 Registration.³ The prospectus provides a lot of useful information. Investors should pay special attention to the management team and their commentary as well as the quality of the underwriters and the specifics of the deal. Successful IPOs will typically be supported by big investment banks that can promote a new issue well.

Overall, the road to an IPO is a very long one. As such, public investors building interest can follow developing headlines and other information along the way to help supplement their assessment of the best and potential offering price.

The pre-marketing process typically includes demand from large private accredited investors and institutional investors, which heavily influence the IPO's trading on its opening day. Investors in the public don't become involved until the final offering day. All investors can participate but individual investors specifically must have trading access in place. The most common way for an individual investor to get shares is to have an account with a brokerage platform that itself has received an allocation and wishes to share it with its clients.

Performance of IPOs

Several factors may affect the return from an IPO which is often closely watched by investors. Some IPOs may be overly hyped by investment banks which can lead to initial losses. However, the majority of IPOs are known for gaining in short-term trading as they become introduced to the public. There are a few key considerations for IPO performance.

Lock-Up

If you look at the charts following many IPOs, you'll notice that after a few months the stock takes a steep downturn. This is often because of the expiration of the lock-up period. When a company goes public, the underwriters make company insiders, such as officials and employees, sign a lock-up agreement.

Lock-up agreements are legally binding contracts between the underwriters and insiders of the company, prohibiting them from selling any shares of stock for a specified period. The period can range anywhere from three to 24 months. Ninety days is the minimum period stated under Rule 144 (SEC law) but the lock-up specified by the underwriters can last much longer.⁴ The problem is, when lockups expire, all the insiders are permitted to sell their stock. The result is a rush of people trying to sell their stock to realize their profit. This excess supply can put severe downward pressure on the stock price.

Waiting Periods

Some investment banks include waiting periods in their offering terms. This sets aside some shares for purchase after a specific period. The price may increase if this allocation is bought by the underwriters and decrease if not.

Flipping

Flipping is the practice of reselling an IPO stock in the first few days to earn a quick profit. It is common when the stock is discounted and soars on its first day of trading.

Tracking IPO Stocks

Closely related to a traditional IPO is when an existing company spins off a part of the business as its standalone entity, creating tracking stocks. The rationale behind spin-offs and the creation of tracking stocks is that in some cases individual divisions of a company can be worth more separately than as a whole. For example, if a division has high growth potential but large current losses within an otherwise slowly growing company, it may be worthwhile to carve it out and keep the parent company as a large shareholder then let it raise additional capital from an IPO.

From an investor's perspective, these can be interesting IPO opportunities. In general, a spin-off of an existing company provides investors with a lot of information about the parent company and its stake in the divesting company. More information available for potential investors is usually better than less and so savvy investors may find good opportunities from this type of scenario. Spin-offs can usually experience less initial volatility because investors have more awareness.

Follow-on Public Offer (FPO):

What Is a Follow-on Public Offer (FPO)?

A follow-on public offer (FPO) is the issuance of shares to investors by a company listed on a stock exchange. A follow-on offering is an issuance of additional shares made by a company after an initial public offering (IPO).

Follow-on offerings are also known as secondary offerings.

How a Follow-on Public Offer (FPO) Works

Public companies can also take advantage of an FPO through an offer document. FPOs should not be confused with IPOs, the initial public offering of equity to the public. FPOs are additional issues made after a company is established on an exchange. Proceeds from the sale go to the company issuing the stock. Similar to an IPO, companies that want to execute a follow-on public offer must fill out U.S. Securities and Exchange Commission (SEC) documents.

Types of Follow-on Public Offers (FPOs)

There are two main types of follow-on public offers:

- The first is dilutive to investors, as the company's board of directors agrees to increase the share float level or the number of shares available. This kind of follow-on public offering seeks to raise money to reduce debt or expand the business, resulting in an increase in the number of shares outstanding.

- The other type of follow-on public offer is non-dilutive. This approach is useful when directors or substantial shareholders sell off privately held shares.

Diluted Follow-on Offering

Diluted follow-on offerings happen when a company issues additional shares to raise funding and offer those shares to the public market. As the number of shares increase, the earnings per share (EPS) decrease. The funds raised during an FPO are most frequently allocated to reduce debt or change a company's capital structure. The infusion of cash is good for the long-term outlook of the company, and thus, is also good for its shares.

Non-Diluted Follow-on Offering

Non-diluted follow-on offerings happen when holders of existing, privately held shares bring previously issued shares to the public market for sale. Cash proceeds from non-diluted sales go directly to the shareholders placing the stock into the open market.

In many cases, these shareholders are company founders, members of the board of directors, or pre-IPO investors. Since no new shares are issued, the company's EPS remains unchanged. Non-diluted follow-on offerings are also called secondary market offerings.

At-the-Market (ATM) Offering

An at-the-market (ATM) offering gives the issuing company the ability to raise capital as needed. If the company is not satisfied with the available price of shares on a given day, it can refrain from offering shares. ATM offerings are sometimes referred to as controlled equity distributions because of their ability to sell shares into the secondary trading market at the current prevailing price.

Example of a Follow-on Public Offer (FPO)

Follow-on offerings are common in the investment world. They provide an easy way for companies to raise equity that can be used for common purposes. Companies

announcing secondary offerings may see their share price fall as a result. Shareholders often react negatively to secondary offerings because they dilute existing shares, and many are introduced below market prices.

In 2015, many companies had follow-on offerings after going public less than a year prior. Shake Shack (SHAK) was one company that saw shares fall after news of a secondary offering. Shares fell 16% on news of a substantial secondary offering that came in below the existing share price.

In 2017, follow-on offerings produced \$142.3 billion in equity raised for companies. There were a total of 737 FPOs in 2017. This marked a 21% jump in the number of FPOs vs. 2016. However, the value of FPOs was down 3% year over year in 2017.

What are the benefits of follow-on public offers (FPOs)?

There are several reasons why a public company will choose to raise more equity. For example, they might use the proceeds to pay off debt and improve their debt-to-value (DTV) ratio, or they can use the funds to improve the company's growth by financing new projects.

What are the advantages of at-the-market (ATM) offerings?

At-the-market (ATM) offerings have several advantages, including minimal market impact. Businesses can raise capital quickly without having to announce the offering. ATM offerings are also typically sold for less than traditional follow-on offerings, and they require minimal management involvement.

What are the disadvantages of ATM offerings?

ATM offerings tend to be smaller than traditional follow-on offerings, so if a business is looking to raise a large amount of capital, this may not be the way. In addition, the price may fluctuate depending on the market.

The Bottom Line

A Follow-on Public Offer (FPO) is a process through which a publicly-traded company raises additional capital by issuing and selling new shares of its stock to the public via a stock exchange. This is typically done when the company wants to fund new projects or expansions, pay off debt, or increase its working capital. There are two main types of FPOs, dilutive and non-dilutive. The shares are offered at a fixed price to the public through a book-building process, with the proceeds going directly to the company. Existing shareholders may also participate in the FPO, either by purchasing additional shares or selling some of their existing ones. FPOs are a way for companies to tap into the capital markets and raise additional funds without taking on debt.

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Offer For Sale (OFS): Meaning, Advantages & Disadvantages

What is OFS?

OFS (offer for sale) is an easier way to sell shares through the exchange platform for listed businesses. India's securities regulator Sebi introduced the OFS mechanism in 2012 to make it easier to promote publicly traded companies to reduce their holdings and adhere to the minimum public shareholding norms. This method was widely adopted by listed companies, private and state-owned, in order to comply with the Sebi order. This route was used by the government to sell its shares in public sector companies later.

What is an OFS? Step-By-Step Guide to Selling Your Products

The simplicity and cost effectiveness of an OFS sets it apart from IPOs. The process to launch an IPO is quite tedious. It is necessary to submit a SEBI application, prepare a red herring prospectus and appoint lead managers. It is time-consuming and costly.

An OFS does not have to meet these requirements. This is how an OFS operates -

Promoters of the company decide to sell their stocks via OFS. This information is sent to the exchanges at least two days before the OFS. This information is mandatory.

Company announces OFS date. Unlike IPOs and other IPOs, the offer for sale is only available for one trading day.

The floor price is announced by the company. This is the minimum price at which promoters will sell their shares. An OFS cannot be purchased at a lower price than the floor.

Steel Authority of India Limited (SAIL), for example, initiated an OFS in January 2021. The floor price was set at Rs 64 per share. A bid above Rs 64 per share would be rejected. You can place a bid of Rs 64 or more. After all bids have been received, the company will announce the price cut. The cutoff price for SAIL OFS was Rs65.65 in the above example. Investors who bid less than Rs 65.65 won't be allotted and will have their money refunded to trading accounts.

Investors who bid higher than the cut-off price will be awarded shares. The money will then be transferred to the promoters.

Who can invest in an OFS?

There are two types of OFS investors.

- **Retail Investors**
- **Institutional Investors**

Retail investors are those whose total bid value is less than Rs 2 Lakhs. Example:

ABC Ltd's floor price is Rs 10. Ram is eligible for 20,000 shares. Shyam is eligible for 20,001 shares.

Total Ram's bid = Cutoff price * Number of shares = Rs 10 * 20,00,000. Shyam's total bid = Cutoff price * Number of shares = Rs 10,001 = Rs 2,00,000.010.

Ram's offer is less than Rs 2 Lakhs. He will therefore be eligible under the retail category. Shyam's bid for Rs 2 Lakhs is only Rs 10 higher than Shyam's. He will still be eligible to invest as an Institutional Investors.

An OFS can be accessed by institutional investors.

- **Mutual fund companies**
- **Insurance companies**
- **Foreign Institutional Investors**
- **Pension funds etc.**

As per SEBI, in an OFS:

- 1) 5% must be reserved by institutional investors such as mutual funds, insurance companies, etc.
- 2) Retail investors like Ram must have 10% Shyam's eligibility as an Institutional investor has decreased his chances of getting allotment. He faces stiff competition from institutional investors. He will also not be eligible for the 10% retail reservation.

What are some of the benefits of an OFS?

- 1) Now that we have answered the question about how to apply to OFS shares, let's turn our attention to the benefits of OFS. Retail investors are often offered a discount on the floor price when they apply for OFS shares. Retail buyers who choose to invest via OFS could receive a discount of up to 5%.
- 2) OfS is also a time-saving option for retail investors.
- 3) You may be curious about the charges associated with applying for an offer for sale. The answer is that there are no extra charges, apart from the regular STT or securities transaction charges that apply for any equity investment.

What are the disadvantages of an OFS?

1) According to SEBI norms, retail investors must receive at least 10% of the offer. This could be as high as 20% in the case of power supplies. However, this is significantly lower than the 35 percent reserved for individual investors in case of initial public offerings (IPOs).

2) A maximum issue time for an OFS is one trading day. FPOs, however, are open for up to 10 days. The issuing company must notify stock exchanges two banking days prior to the OFS. It is important to keep up to date in order to avoid missing out on lucrative investment tools. **Things to**

Know Before Investing in OFS? You can invest in an offer for sale only through a broker like Nirmal Bang Securities Pvt Ltd. OFS can't be applied for via physical forms. So, a Demat account is compulsory for investing in an OFS. Investors must have the entire bid amount in their trading account to qualify for bidding. Ram's order value, for example, is Rs 2 Lakhs. Ram should have Rs 2 Lakhs in the trading account before he places an order. Orders for OFS can only be placed between 9.15 AM and 3.00 PM. After 3:00 pm, OFS orders cannot be modified or placed. While applying for an OFS, you can place only limit orders. Market orders are disqualified.

Promoters can't sell more than 25% OFS to one bidder, except for mutual funds. Shares of successful bidders are credited in their Demat account in T+2 days.

What is OFS?

OFS (offer for sale) is an easier way to sell shares through the exchange platform for listed businesses. India's securities regulator Sebi introduced the OFS mechanism in 2012 to make it easier to promote publicly traded companies to reduce their holdings and adhere to the minimum public shareholding norms.

- **Who can invest in OFS Investors in Offers for Sale?**

There are two types of OFS investors.

- 1) Retail Investors
- 2) Institutional Investors

- **What is the major disadvantage of an OFS?**

A maximum issue time for an OFS is one trading day. FPOs, however, are open for up to 10 days. The issuing company must notify stock exchanges two banking days prior to the OFS. It is important to keep up to date in order to avoid missing out on lucrative investment tools.

Offer for Sale (OFS) is a mechanism used by large promoters of listed companies in India to sell their shares on the stock exchange platform through an auction process and reduce their holdings. In an OFS, the promoters of a company or any other shareholder having more than 10% stake can sell a part of their shareholding to the public without going through the traditional public offering process.

In an OFS, the selling shareholder sets a floor price, which is the minimum price at which shares can be offered. The demand may come from existing shareholders, retail investors, and institutional investors, who bid for shares. The auction typically lasts for a few hours, and the seller can accept bids from investors during this period.

OFS provides a way for stakeholders to liquidate some of their holdings in a listed company and raise funds. It provides a simple and efficient way for companies to comply with the minimum public shareholding requirement of the SEBI regulations.

Features of offer for sale (OFS)

1. **Ownership requirement:**

Only shareholders with over 10% of a company's share capital can propose an OFS. It's used when existing shares are added to the market.

2. Accessible to leading companies:

OFS is available to the top 200 companies by market capitalisation.

3. Reserved shares:

25% of shares are reserved for Insurance Corporations and Mutual Funds. No single bidder, other than these, can be awarded more than 25% of the bid amount.

4. Retail investor participation:

At least 10% of the offering size is reserved for retail investors, who may receive a discount on the offer price.

5. Duration and notification:

The OFS counter is open for one day. The company must notify stock exchanges at least two days before the OFS.

6. Comparison with FPO:

Compared to Follow-On Public Offering (FPO), OFS is faster and more efficient. FPOs are open for 3 to 10 days and involve a longer process.

7. Hedged retail offers:

All retail offer amounts in OFS are 100% hedged by cash and cash equivalent margins, ensuring a secure process.

8. Speedy process:

Excess funds are returned the same day after 6:00 p.m. if there is non-allotment or partial allocation.

9. Margin offers:

100% margin offers can change during OFS business hours. Zero percent margin offers can only be changed upwards.

10. Cancellation and rejection:

Offers below the minimum price are rejected. The final assignment is subject to price discovery. In contrast, an FPO involves setting a price range, and bids are placed within that range.

How OFS works

1. **Announcement of the OFS:** The seller announces the OFS and the floor price to the stock exchange.
2. **Order submission:** Investors can place their bids for the shares at or above the floor price during the bidding period.
3. **Allocation of shares:** The seller evaluates the bids and decides on the allocation of shares based on the price and the number of bids received. The shares are allocated to successful bidders.
4. **Settlement:** The shares are credited to the Demat accounts of the successful bidders, and the payment is debited from their bank accounts.

The seller can decide to accept the bids at or above the floor price. If the bids are lower than the floor price, the OFS is considered unsuccessful, and the shares remain with the seller.

OFS is a cost-effective and efficient way for listed companies to raise money in compliance with the SEBI regulations requiring a minimum public shareholding of 10%. It is a transparent process that provides an opportunity for investors to buy shares directly from the seller at a predetermined price.

How to bid and apply for an OFS?

To participate in an OFS, investors need to have a Demat account. The bidding process can be done through the stockbroker's trading platform or by using other designated channels as specified by the stock exchange.

To invest in an OFS (Offer for Sale), follow these steps:

1. Open a Demat account with a registered broking firm like Bajaj Financial Securities Limited (BFSL).
2. Once the bidding window opens, log in to your trading account and place your bids, specifying the quantity and price at or above the floor price.
3. Review and confirm your bid.

Monitor the bidding window for any updates or changes. After the bidding window closes, the seller determines the final price and allocation of shares. Allotted shares will be credited to your Demat account, such as the one with BFSL.

Offer for sale (OFS) example

ABC company decides to conduct an OFS with a minimum share price of Rs. 150.

Investors:

- Ms. Patel: A retail investor eligible for 1500 shares.
- Infinite capital fund: An institutional investor entitled to 2000 shares.

Total supply calculation:

1. Ms. Patel's offer:

- Total supply = Limit price * Number of shares = Rs. 150 * 1500 = Rs. 225,000.

2. Infinite capital fund's offer:

- Total supply = Limit price * Number of shares = Rs. 150 * 2000 = Rs. 300,000.

Retail and institutional categories:

- Ms. Patel: Her offer falls within the retail category.
- Infinite capital fund: As an institutional investor, they are eligible for the institutional category, securing a larger share with a higher total supply.

This example illustrates the differential treatment based on investor types in an OFS, with institutional investors having the potential for a higher total supply compared to retail investors.

What is the difference between an OFS and IPO/ FPO?

While OFS, IPO (Initial Public Offering), and FPO (Follow-on Public Offering) are methods used by companies to sell shares, there are distinct differences between them.

- **Nature of Shares:** In an OFS, existing shareholders sell their shares to the public, whereas in an IPO or FPO, the company issues new shares to raise capital.
- **Purpose:** An OFS allows existing shareholders to divest their holdings, provide an exit route, or meet regulatory requirements. On the other hand, IPOs (Initial Public Offering) and FPOs are primarily aimed at raising capital for the company's expansion or other financial needs.

- **Underwriting:** IPOs and FPOs often involve underwriters like investment banks are involved, who guarantee the subscription of shares, ensuring that the company raises the desired capital. In an OFS, usually there is no underwriting involved causing the selling shareholders to take some risk, but some sellers may opt for underwriting to ensure a successful sale of shares.

What are the advantages of an OFS?

- **Cost-effective:** OFS is a cost-effective way for promoters or existing shareholders to sell their shares in a listed company since the process does not involve the company itself. This bypasses the expenses associated with an IPO or FPO, such as underwriting fees, legal fees, and registration expenses.
- **Efficient:** OFS is an efficient way for stakeholders to liquidate their holdings in a listed company and raise funds as the bidding process is carried out in a single day, and the transaction is settled within two working days.
- **Quick Execution:** OFS does not require a lengthy process of filing a draft offer document, getting the document approved by SEBI, and undertaking road shows to invite bids; hence, it helps in quick execution of the transaction.
- **Transparency:** OFS is a transparent process because the bidding happens on a stock exchange platform, where all the details are visible to the public. The seller sets a floor price, which is the minimum price at which the shares can be bid for, and the bid data is available in real-time.
- **Flexible:** OFS provides sellers with the flexibility to choose the number of shares they want to sell and at what price. The seller can also decide not to sell shares if the bids do not meet their expectations.

What are the disadvantages of an OFS?

1. **Limited window to participate:** The window to participate in the OFS is usually limited to one trading day, unlike in Follow-on Public Offerings (FPOs) where investors get at least three days to place their bids. This provides limited opportunity for the investors to participate in the OFS and gain an advantage of the same.
2. **Retail investors receive a lower allocation:** According to SEBI norms, retail investors must receive at least 10% of the offer, which could be as high as 20%

in the case of power supplies. However, this is significantly lower than the 35% reserved for individual investors in case of initial public offerings (IPOs).

3. **Limited information:** Unlike IPOs, where companies are required to provide detailed information about their business, OFS does not require companies to provide any such information. This can make it difficult for investors to make informed decisions.
4. **Market volatility:** The price of shares in an OFS is determined by market demand and supply. This can lead to high volatility in the share price, which can be risky for investors.

Things you need to consider before investing in an OFS

1. **Investor category awareness:** Investors should identify whether they fall into the retail or institutional category. This distinction determines the total supply and potential share allocation.
2. **Financial preparedness:** Assess whether you have the required funds in your trading account. For instance, Ms. Patel should ensure she has Rs. 225,000 to support her offer.
3. **Demat account necessity:** Verify that you have a Demat account as OFS transactions can only be conducted through this electronic format.
4. **Order placement timing:** Orders for OFS can only be placed between 9:15 am and 3:00 pm. Investors need to submit their orders within this timeframe.
5. **Order type consideration:** Understand the order type limitations. Only limited orders can be placed; market orders are not allowed.
6. **Ownership limitation recognition:** Acknowledge that companies are restricted from selling more than 25% of the OFS to a single offer or, excluding mutual funds.
7. **Post-investment process awareness:** Recognise that successful bidders can expect shares to be credited to their Demat accounts as per the trade settlement cycle.
8. **Comparison with Institutional Investors:** Be aware of the potential for institutional investors to secure a higher total supply compared to retail investors.

Flotation

Flotation is a process where a private company goes public by issuing new shares and acquiring finance from external sources, such as the general public or a group of investors. The term 'Flotation' is mostly used in the United Kingdom.

How does Flotation Work?

The company considering flotation hires an investment bank as an underwriter. Starting from the amount the company needs to raise from the investors to documentation, to preparing a draft prospectus for the road show, and finally, to decide on the final price of IPO, the underwriter plays an important role.

The road show is an attempt by the company and underwriter to persuade potential investors before the IPO. The road show ultimately helps to decide the number of shares to be issued and the final IPO price.

However, Flotation brings along various costs for the company such as underwriting costs, legal expenses, audit charges, registration charges, etc. Such costs range between 2% to 8%.

Methods of Flotation

There are various methods of Flotation. The company can opt for the method that best suits its needs and objectives.

- **Initial Public Offering (IPO):**

A well-known method for Flotation is Initial Public Offering (IPO). IPO is a way for private companies to go public by offering new shares to the general public for the first time. Existing investors of the company can also take an exit by offering shares to the general public via IPO. Investors can subscribe to the issue and become partial owners of the company. However, the IPO method of Flotation is expensive.

- **Offer through prospectus:**

The company can also choose to float the shares by offering a prospectus. They invite the general public to invest, by publishing prospectus in advertisements, magazines, etc. A prospectus is a crucial document that describes all the necessary information related to securities offered for sale. The prospectus displays the purpose of the issue, the company's financial performance, future outlook, etc. It should be according to SEBI and investor protection guidelines.

- **Offer through sale:**

The offer through sale method of Flotation also aims at the general public for seeking funds. However, the offer is not made directly to them. Rather, the company sells the securities to intermediaries, such as brokers, at a predetermined price. The Brokers, then, sell those securities to the interested investors.

- **Private placement:**

Through the private placement method, the company aims at institutional investors and some individual investors for acquiring funds. A private placement is a relatively quicker and less costly way of procuring funds. The company saves time and cost for underwriting and related expenses, which are required when issuing securities to the general public.

- **Rights issue:**

In this method, the company first offers new Shares to existing investors. The existing stockholders can subscribe to new shares in proportion to the number of shares they hold. They are then offered to the general public.

Benefits of Flotation

Flotation brings the following benefits.

- **Accessibility to huge capital:**

The companies often require a hefty amount for research & development, capital projects, or transactions, such as mergers or acquisitions, etc. For such an instance, Flotation can open a new door for the company by providing access to huge capital. The company can issue fresh shares and acquire finance from external sources, such as the general public or a group of investors.

- **Better debt-to-equity ratio:**

Equity is not the only way for companies to procure the required funds. There are other sources such as retained earnings, bank loans, issuing debt instruments, etc. However, excessive debt worsens the debt-to-equity ratio for the company.

The debt-to-equity ratio shows the proportion of debt a company uses to finance its operations, compared to equity. If the percentage is higher, it can affect the company's reputation. Flotation can help improve the debt-to-equity ratio to collect funds in the future.

- **Helps the company to gain publicity:**

Flotation, especially when the new issue is for the general public, gains the company immense publicity. People are aware of the company and attempt to understand its products and operations. It may attract new customers and increase their market share.

- **Exit strategy for existing venture investors:**

When Flotation opens the door for many new investors, it can be a way of exiting the existing investment for venture investors. Venture investors can make money by selling their investments when the company chooses to float the shares.

Methods of floatation in Primary Market

The following are the various methods through which floating of new issues can be done.

(i) Offer through Prospectus

The most commonly used method for raising funds in primary market is offer through prospectus. It involves inviting the subscriptions from public by issue of prospectus. A prospectus is published as advertisements in newspapers, magazines, etc. It provides such information as the purpose for which the fund is being raised, company's background and future prospects, its past financial performance, etc. Such information helps the public and the investors to know about the company as well as the potential risk and the earnings involved. Such issues need to be listed on one of the stock exchanges and should be in accordance with the guidelines and rules listed under the Companies Act and SEBI disclosure.

(ii) Offer through Sale

As against offer through prospectus, under the offer through sale method, the company does not issue securities directly to the public rather they are issued through intermediaries such as brokers, issuing houses, etc. That is, under offer through sale, securities are issued in two steps, first the company sells its securities to the intermediaries at the face value and later the intermediaries resell the securities to the investing public at a higher price than the face value to earn profit.

(iii) Private Placement

Under this method, the securities are sold only to some selected individuals and big institutional investors rather than to the public. The companies either allot the securities themselves or they sell the securities to intermediaries who in turn sell them to selected clients. This method saves the company from various mandatory or non-mandatory expenses such as cost of manager fees, commission, underwriter fees, etc. Thus, the companies which cannot afford the huge expenses related to public issue often go for private placement.

(iv) Rights Issue

Under the Companies Act 1956, it is the right of the existing shareholders of a company to subscribe to the new shares issued by it. The existing shareholders are

offered subscription of new shares of the company in proportion to the number of shares possessed by them.

(v) e-IPOs

It is system of issuing securities through online system. If a company decides to offer its securities through an online system it is required to gets into an agreement with the stock exchange. This is called Initial Public Offer (IPO). Company appoints brokers for accepting applications and placing orders. A company can apply to get listed in any stock market except from the one through which it has already offered securities. Herein, the lead manager looks upon the various activities and coordinates them.

Methods of Floating New Issues in Primary Market

Through this article, we will explore the various aspects of the issues that an Indian company makes. They are divided into many sub-categories. We will deal with the primary and secondary markets here.

Methods of Floatation in Primary Market

There are many ways and means by which an Indian company can issue its shares in the financial market. They are as follows:

Method 1: Public Issue

As the name suggests, this method allows anyone belonging to any part of India to subscribe for the securities or invest in the particular company's stocks. When an offer is made by the company so that more and more people become a part of the shareholder's family, it is known as a public issue.

Public Issue is further divided into:

Initial Public Offer (IPO)

Through Initial Public Offer or IPO, only a certain amount of the securities that the company has fixed is made public. The specific securities are available for subscription to the public for the very first time. The Initial Public Offering had many

methods making it public, including fixed price method, book building method, or an amalgamation of both.

Further Public Offer (FPO)

It also goes by the name, Seasoned or Subsequent Public Offer. Through this, an Indian company makes a fresh set of securities available to the public for subscription. It is also termed as “Follow On Public Offer”.

Method 2: Private Placement

As per the name, private placement is the method of placing the shares from an Indian company to a selected number of people. The number of people should not exceed 50 or as prescribed in any case. When the issuing of the shares by the issuer is neither a public issue nor a rights issue, it is termed as a private placement in the primary market. Since the issuing of the shares is private and limited, mainly brokers buy these securities and further sell them to their clients. The brokers are wholesalers of the stocks here. The promoters can sell a portion of the securities to their family members, friends, or well-wishers. However, the promoters have to make a minimum contribution before the issue is made public. Mutual funds, financial institutions, and other such organisations subscribe to private placement orders. The private placement in the primary and secondary market can be of two kinds:

Preferential Issue/Allotment

Preferential Issue deals with issuing securities to a selected or specific group of people. It is done on a private placement basis. The issue price should be higher than the average high or low of the closing price.

Qualified Institutions Placement (QIP)

As the name suggests, the Qualified Institutions Placement is only made to the renowned institutions in the financial sector. The shares can be converted to equity.

Method 3: Rights Issue

The shares that are being offered to the existing shareholders of any company are termed as a rights issue in the primary market. However, the shares are offered in a particular proportion and not haphazardly. This is an effective way of fundraising for successful companies. The amount of funds needed by the company decides the proportion of the securities to be sold to the shareholders.

Method 4: Bonus Reserves

Through bonus reserves, the securities are distributed to the existing shareholders by the free reserves present in the company. It is served as a bonus to the shareholders, and they do not have to pay any extra amount for these shares. The various Indian companies are interested in this method as it brings up the value of shares.

Method 5: Employees Stock Option Plan (ESOP)

As the name suggests, through this method, the employees of a company can have a share of the securities. Many ways and means are specified for the employees to receive the company's stocks in the primary market. The Employee Stock Option Plan is provided to the employees at a higher position, including the director, chairman, manager, and so on. The stocks are made available to them at a predetermined price and the date for the purchase is also specified. The ESOP is provided to the employees so that they can avail this service. The employees can buy the stocks directly, or they can receive them as a bonus. The last option is the Employees Stock Option Plan or ESOP.

Issue Price

The issue price is the cost at which a new security is offered to the public when it first becomes available for trading. This price is set by the issuing company in consultation with its financial advisors and underwriters. The importance of the issue price lies in its ability to attract investors while reflecting the company's perceived value.

What Is Issue Price?

The issue price is the initial price at which a company's shares are made available to the public during an initial public offering (IPO) or other issuance. It represents a critical balance between the company's valuation aspirations and market demand.

This pricing is not arbitrary; it involves meticulous calculations and market assessments to ensure the offer is enticing yet realistic. Investors willing to participate in IPOs must understand the importance of the issue price to make informed investment decisions.

The issue price also plays a role in how the company is perceived in the market. If set too high, it may deter potential investors; if it is too low, the company might not raise the funds it needs.

The goal is to find a 'Goldilocks' price that's just right, ensuring a successful launch and a stable aftermarket performance. This is the price at which they can first get their hands on the stock during an IPO.

Issue Price Example

To illustrate, imagine a tech startup preparing for its IPO. The advisors determine an issue price of INR 150 per share, which they believe reflects the company's growth potential and industry benchmarks. This price is the rate at which investors can apply for shares during the IPO process.

Issue Price Formula

Issue Price = Company's Valuation/Number of Shares Issued.

The issue price formula typically incorporates the company's current earnings, projected growth, and market conditions. This formula provides a starting point for determining the issue price but is often adjusted based on investor demand and market sentiment.

Calculating the issue price is more an art than a science, involving qualitative judgments alongside quantitative analysis. Financial advisors and underwriters may adjust the formula to reflect the uniqueness of the issuing company, market appetite, and strategic considerations.

Issue Price Vs Face Value

The primary difference between Issue Price and Face Value is that the Issue Price is the cost at which a share is offered to investors when it goes public or during further issuance, while the Face Value is the share's nominal value recorded in company books, unrelated to its market value.

Factor	Issue Price	Face Value
Definition	Price at which new shares are offered	The nominal value of a share
Fluctuation	Can vary based on demand and valuation	Typically remains constant
Investor Focus	Paid at IPO or issuance	Legal and accounting relevance
Example	INR 150 for a tech IPO	INR 10 as stated in the company charter

What Is an Issue?

An issue is a process of offering securities in order to raise funds from investors. Companies may issue bonds or stocks to investors as a method of financing the business. The term "issue" also refers to a series of stocks or bonds that have been offered to the public and typically relates to the set of instruments that were released under one offering.

Understanding Issues

The issuance of securities can take many forms. Companies may have a new issue, in which they release a security for the first time, or a seasoned issue, in which an established firm offers additional shares. In general, an issue tends to refer to a

particular offering. For example, if a company sells a group of 10-year bonds to the public, that set of bonds will be referred to as a single issue.

If a company needs capital, among its options are selling stocks or issuing bonds. In a secondary offering, the board of directors votes to issue more shares and increase the number of shares available in the market for trading. The proceeds from selling additional shares to the public go directly to the company.

Likewise, if a business wants to move existing debt and create new debt at the same time, it might decide to issue bonds. The company borrows money from investors and repays it with interest. The interest is a tax-deductible expense that reduces the corporation's cost of borrowing.

Factors in Issuing Stocks or Bonds

Companies need to consider business goals when deciding whether to sell stock or to issue bonds. Issuing stocks or bonds in order to raise capital for projects can have the effect of changing the capital structure of a firm (which is comprised of a mix of debt and equity). How weighted a company's structure is in either debt or capital determines the cost of capital for the company. The cost of issuing debt is the interest rate that the issuing company has to periodically pay its investors and lenders. The cost of issuing equity is dividend payments. Finding a good balance between both types of securities can help a firm avoid paying a high cost of capital.

Money from equity investment doesn't need to be repaid, nor do dividends associated with shares need to be paid as interest does with bonds. Since each issue of stock changes an investor's ownership in the company, there is a limit to how much stock a company can issue as dilution becomes a problem.

However, corporations can issue bonds as long as investors are willing to act as lenders. Because companies can pay bondholders a lower interest rate and retain greater control over funding, issuing bonds is less expensive than borrowing from a bank. Bonds do not change the ownership or operation of a company that is owned

while selling stock does. Record-keeping is simpler with bondholders, as all bonds with the same issuance earn the same interest rate and have the same maturity date. Bond offerings are also more flexible than stock issuance.

Stock and Bond Underwriting

Companies issuing stocks and bonds may use investment banks to facilitate the process. For example, if a company decides to sell bonds, the investment bank determines the value and riskiness of the corporation, then determines the prices, and finally underwrites and sells the bonds to the public or privately in a so-called private placement. Investment banks might also underwrite stocks or other securities for an initial public offering (IPO) or secondary public offering. Book runners may be assigned to larger accounts.

Underwriting involves conducting thorough research and assessing the degree of risk associated with a new issue. This check helps to set fair borrowing rates for loans and create a market for securities by accurately pricing investment risk. If the risk is deemed too high, an underwriter may refuse to participate or will require a higher yield. Underwriting ensures that the company's IPO will raise the amount of capital needed, and provides the underwriters with a premium or profit for their service. Investors benefit from the vetting process that underwriting provides and the ability it gives them to make an informed investment decision.

This type of underwriting can involve individual stocks as well as debt securities, including government, corporate, or municipal bonds. Underwriters or their employers purchase these securities to resell them for a profit either to investors or dealers (who sell them to other buyers). When more than one underwriter or group of underwriters is involved, this is known as an underwriter syndicate.

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account for free and join millions of traders and investors on the global crypto market.

What Is an Offering Price?

An offering price, generally, is the price at which something is offered for sale. In finance and investments, the offering price most often refers to the per-share value at which publicly-issued securities are made available for purchase by the investment bank during an initial public offering (IPO).

Underwriters analyze numerous factors when attempting to determine the ideal price for a security's offering. The underwriter's fee and any management fees applicable to the issue are typically included in the price.

Understanding Offering Prices

The term offering price is most often used in reference to the process of issuing securities such as stocks, bonds, mutual funds, and other investments that are bought and sold in financial markets. For example, a stock quote includes a bid and offer. The bid is the current price that an investor can sell shares and the offer, which is also called the ask price, is how much it costs to buy shares.

In the context of an IPO, a lead manager of the underwriting sets the offering price. Ideally, an investment bank assesses the current and near-term values of the underlying company and sets an offering price that is fair to the company relative to capital. In order to attract sufficient buying interest when the offering becomes available to the public, the price must also be fair to investors in terms of potential value.

The public offering price (POP) is the price at which new issues of stock are offered to the public by an underwriter. Because the goal of an IPO is to raise capital for the issuer, underwriters must determine an offering price that will be attractive to investors. When underwriters determine the public offering price, they look at factors

such as the strength of the company's financial statements, how profitable it is, public trends, growth rates, and investor confidence.

Setting the offering price may look more like Hollywood scriptwriting than high finance, especially when high-profile companies go public. The underwriting syndicate handling the IPO wants to set the offering price high enough that the company is satisfied with the amount of money raised, but just low enough that the opening price and the trading on the first few days of listing provide a nice IPO pop as the public finally gets a chance at shares.

Offering Price and Opening Price

The offering price was, and sometimes still is, referred to as the public offering price. This is a bit misleading as almost no individual investors are able to purchase an IPO at the offering price. The syndicate generally sells all the shares at the offering price to institutional and accredited investors.

The opening price is thus the first opportunity for the public to purchase shares and it is set purely by supply and demand, as buy and sell orders queue up for the first day of trading. Shares of an IPO can see some ups and downs from that point forward.

Offerings and Individual Investors

Individual investors should not be too upset about missing out on the offering price because many IPOs hit a patch of post-IPO blues where they can be snapped up below the offering price as initial market expectations and a company's performance in reality finally collide. Indeed, there are many examples where an offering price is set much higher than any intrinsic value can justify.

The high valuation is often based on the perceived market appetite for shares in the sector or industry a company operates in, as opposed to the fundamentals of that particular company. In that case, the stock price in the market can fall and offer investors an opportunity to buy shares below the offering price.

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What is the Role and Activities of Merchant Banker in India?

Introduction

In the beginning, **merchant banking**-a phrase that dates back to the UK of the 19th century-supported trade and commerce by offering loans for imports and exports. In the early 1900s, European institutions like HSBC and Standard Chartered pushed the expansion of this practice to India. As time went on, merchant bankers in India added new services to their repertoire, such as handling initial public offerings (IPOs) and providing financial guidance. The first merchant bank to be established in India was National Grindlays Bank, followed by Citibank, ICICI Bank, and SBI Capital Markets. The Merchant Bankers Regulation (MBR) was established by the Securities and Exchange Board of India (SEBI) in 1992 to control merchant banking operations. In light of the requirement that merchant bankers adhere to the MBR and register with SEBI, there are currently more than 500 registered merchant bankers in India. With India's economic expansion, companies have come to rely more and more on merchant bankers for financial services, and they have also helped the country's capital markets thrive.

What Do You Mean By A Merchant Banker?

Fundamentally, merchant bankers are financial institutions. The main activities of merchant bankers are business loans as well as underwriting. They primarily offer their services to large enterprises and individuals of high net worth. While acting as a banker to an issue, a merchant banker has to disclose full details to the **Securities Exchange Board of India (SEBI)**¹ as it is the regulator for this entity. They do not

undertake the activities of depositories or retail lender institutions. Merchant bankers are basically intermediaries.

Role of Merchant Banker

In India, a merchant banker's duties can be divided into the following main categories:

- **Underwriting:** Merchant bankers are essential to the process of underwriting new securities issues. In order to guarantee that there is a market for the securities and provide investors' confidence, this involves a commitment to buy any unsold securities from the issuer.
- **Issue Management:** Merchant bankers are in charge of overseeing every step of the issuance of new securities. This encompasses duties including creating the prospectus, selecting the type of securities to be issued, establishing the price, and managing the marketing and sale of the securities to investors, among other things.
- **Advisory Services:** Merchant bankers offer helpful advice to companies on a range of financial issues. This involves giving advice on company restructuring, mergers and acquisitions, and strategic planning. They assess possible buyers or sellers, determine the financial sustainability of firms, and negotiate the terms of agreements.
- **Portfolio Management:** Merchant bankers also look after the portfolios of high-net-worth clients and companies. In order to maintain a balanced portfolio involves identifying suitable property, keeping an eye on investment performance, and making the required modifications.

Activities of Merchant Bankers

1. **Raising finance:** Merchant Bankers (MB) assist their clients in fundraising by way of issue of a debenture, shares, bank loans, etc.
2. **Promotional activities:** In India, the Activities of Merchant bankers play a very vital role as promoters of industrial enterprises. They assist entrepreneurs

in the matter of conceiving ideas, identifying projects, preparation of feasibility reports, getting Government approvals as well as incentives, etc.

3. **Brokers in stock exchanges:** Merchant bankers also buy and sell shares in the stock exchange on behalf of their clients. They also additionally conduct research on equity shares.
4. **Project management:** Merchant bankers offer their service to clients in several ways in the process of project management also.

Advise On Modernization and Expansion

Further, Merchant bankers also advise on amalgamations, mergers, acquisitions, takeovers, foreign collaborations, diversification of business, technology up-gradation, joint-ventures, etc., to their clients.

Managing the ensuing public issue of the client is also an essential service offered by Merchant Bankers. In fact, it is a prime function of Merchant Bankers.

They offer the following services for the above-mentioned purpose:

- The timing of the public issue to be fixed
- Determining the size of the public issue
- The price of the share to be issued
- Acting in the capacity of manager to the issue
- Helping in receiving applications as well as allotment of securities
- Appointment of brokers as well as underwriters for the issue
- Lastly, listing of the shares on the relevant stock exchange for the trading purpose

Credit Syndication

A merchant banker offers some specialized assistance in the phases of preparation of a project, the loan applications required for the raising of short-term and long-term credit from various banks and financial institutions, etc.

Handling Government Consent for Industrial Projects

A merchant banker fulfils all formalities for his client to obtain government permission to expand and modernize businesses and start new businesses.

Special Assistance to Entrepreneurs and Small Companies

Merchant banker counsils and explains the people in business and small companies on availability and avenues of business opportunities, concessions, incentives, and government policies and helps them to take advantage of this.

Services to PSU's

Merchant banker also offers several services to public sector undertakings and units and their public utilities.

A merchant bank assists in reviving sick industrial units also. They negotiate with several agencies such as banks, long-term lending institutions, and the Board for Industrial and Financial Reconstruction (BIFR).

Portfolio Management of Sick Units

Merchant bankers help in offering revival services to companies issuing the securities.

Merchant Bankers: Roles, Responsibilities and Ethics

“Discover the pivotal roles and ethical responsibilities of Merchant Bankers in the securities market. Uncover the regulations governing their conduct, from managing public issues to advising on international offerings. Explore the stringent Code of Conduct they must adhere to, emphasizing integrity and due diligence. Learn about the post-issue involvements, emphasizing continuous monitoring and coordination. Understand the significance of Merchant Bankers in protecting investor interests, ensuring regulatory compliance, and upholding the integrity and stability of the securities market.”

Merchant Banker means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management.

Roles

In terms of Regulations 13A of SEBI (Merchant Banker) Regulations, 1992 (MB Regulations) read with **RMB Circular No. 1(98-99) dated June 05, 1998**, with effect from July 01, 1998, a merchant banker shall undertake only those activities which are relating to Securities market and which do not require registration/ granted exemption from registration as an NBFC from RBI.

In particular, a merchant banker *inter-alia* undertakes the following activities:

1. Managing Public Issue of Securities
2. Underwriting connected with the aforesaid Public Issue Management Business
3. Managing/advising on International Offerings of Debt/Equity i.e., GDR, ADR, bonds and other instruments
4. Private Placement Securities
5. Corporate Advisory Services related to Securities Market e.g. take-overs, acquisitions, Disinvestment
6. Advisory services for Projects

7. International Financial Advisory Services

8. Filing placement memorandum and issuance of due diligence certificates for AIFs

Code of Conduct

Under Regulation 13 of the MB Regulations, a merchant banker is required to abide by the Code of Conduct as specified in Schedule III thereof. It imposes an onerous duty on the merchant banker to provide clients with the best advice feasible while simultaneously protecting the interests of investors and ensuring that proper disclosures are provided promptly and without making false or inflated claims. The merchant banker must conduct its business with a high degree of integrity, decency, and fairness, and it must immediately notify SEBI of any violations of the regulatory framework that come to its attention.

“For failure on the part of the Merchant Banker in complying with the requirements of the regulations, penalty has been provided, which includes even cancellation of the registration itself. Such a severe penalty for default is indicative of the extent of the responsibility vested in the Merchant Banker in dealing with public issues.” (*SEBI vs Shriyam Broking Intermediary Ltd.*). It is pertinent to note that the various clauses in the code of conduct are meant to be illustrative in nature and can not be construed in a manner which could be totally inconsistent with the basic roles and responsibilities of a merchant banker which are primarily to protect the interest of the investors at all cost.

Integrity and Due Diligence

A merchant banker has to exercise due care and diligence and maintain high standards of integrity in the conduct of its business. Further, it is the Merchant Banker’s responsibility to ensure that investors receive accurate and timely information. Furthermore, it has a position of significant trust and responsibility in any public issue, and investors rely on the merchant banker’s activities to protect their interests. “Without Merchant Banker acting diligently and complying strictly with the letter and spirit of guidelines and regulations, the issue cannot be properly regulated and small investors are put to grave danger.” (*SEBI vs Vatsa Corporation Ltd.*).

“One of the reasons for appointing the merchant banker for the purpose of public offer is, that the merchant banker, being a professional body, is required to ensure regulatory compliance with reference to the public offer and, therefore it is expected to carry out utmost care and compliance with the regulations applicable to the public offer. Therefore, a merchant banker’s responsibility is to ensure that the corporate entity is acting in accordance with the norms laid down and in case of violation bring the said violation to the notice of the regulator for appropriate action. The Code of Conduct prescribes that a merchant banker shall all times exercise due diligence and ensure proper case and exercise independent professional judgment.” (*Corporate Professionals Capital Private Limited vs SEBI*)

Securities Appellate Tribunal (SAT) in the matter of *SEBI vs HSBC Securities and Capital* stated “The role of the Merchant Banker is important while preparing and filing the offer document as the general investors are carried away by the contents of the said offer document and accordingly a decision is taken by them. The prospectus should contain all the information about the company. Typically, the merchant banker is required to verify the content of the issue prospectus and to exercise ‘due diligence’ in the process.”

Post issue involvements

Merchant Bankers right from the beginning are associated with the public offering of securities of a Company. Nonetheless, their role does not end with the mere closure of the public issue. SEBI RMB(G1 series), Circular No.1 (92-93) dated March 1, 1993 stated as under:

“Lead manager responsible for post-issue activities shall maintain closed co- ordination with the Registrar to the issue and arrange to depute its officers from regular intervals after the closure of issue to monitor the flow of applications from collecting bank branches, processing the applications including those accompanied by stock invests and other matters till the basis of allotment is decided, dispatch is completed and listing done. Any act of omission or commission on the part of Registrars noticed during such inspections should be duly reported to SEBI....”

Furthermore, the completion of the IPO does not relieve the merchant bankers from their liabilities. In a recent case, SEBI conducted an investigation in respect of April 2011 IPO of Paramount Printpackaging Limited (PPL). Additionally, proceedings were also initiated against the appellants, notably One Life Capital Advisors Limited, to examine its role as a merchant banker in PPL's IPO. After seven years of the issuance of the IPO, SEBI issued summons in the year 2018 calling upon the appellants to produce the material to show what diligence was carried out by them with regard to certain statements made in the prospectus.

The aforementioned statements help us in understanding how crucial it is for merchant bankers to fulfil their roles and obligations in the securities market with integrity, ethics, and impence in order to align its primary role with that of SEBI, one of which is "to protect the interest of investors in the securities market." The regulators and investors have a specific level of trust in merchant bankers. Without the presence of merchant bankers, the securities market would lack the necessary expertise, oversight, and trust that is essential for the smooth functioning and protection of investors. Their contribution is crucial in upholding the integrity and stability of the market, making them an indispensable component of the securities market.

In the Indian financial system, merchant bankers are crucial since they carry out a variety of tasks that help to expedite capital market transactions and offer business advising services. Regulatory compliance, capital market services, business advisory services, and project finance are all part of their duties. Merchant bankers protect investor interests and uphold financial transaction transparency by ensuring compliance with **SEBI regulations** and other pertinent legislation. Merchant bankers must have comprehensive knowledge of and experience in the financial markets. They must have a thorough awareness of the numerous financial products and services that are available, as well as the regulatory structure that oversees the sector. Furthermore, it is critical that they be able to build and maintain excellent connections with customers and other stakeholders. Due to the Indian financial market's on-going growth and evolution, merchant bankers are becoming more and more important.

Merchant bankers are required to provide a broader range of services in order to successfully fulfil the demands of businesses and investors, given the changing market conditions.

What Is Underwriting?

Underwriting is the process through which an individual or institution takes on financial risk for a fee. This risk most typically involves loans, insurance, or investments. The term underwriter originated from the practice of having each risk-taker write their name under the total amount of risk they were willing to accept for a specified premium.

Although the mechanics have changed over time, underwriting continues today as a key function in the financial world.

How Underwriting Works

Underwriting involves conducting research and assessing the degree of risk each applicant or entity brings to the table before assuming that risk. This check helps to set fair borrowing rates for loans, establish appropriate premiums to adequately cover the true cost of insuring policyholders, and create a market for securities by accurately pricing investment risk. If the risk is deemed too high, an underwriter may refuse coverage.

Risk is the underlying factor in all underwriting. In the case of a loan, the risk has to do with whether the borrower will repay the loan as agreed or will default. With insurance, the risk involves the likelihood that too many policyholders will file claims at once. With securities, the risk is that the underwritten investments will not be profitable.

Underwriters evaluate loans, particularly mortgages, to determine the likelihood that a borrower will pay as promised and that enough collateral is available in the event of default. In the case of insurance, underwriters seek to assess a policyholder's health and other factors and spread the potential risk among as many people as possible.

Underwriting securities, most often done via initial public offerings (IPOs), helps determine the company's underlying value compared to the risk of funding its IPO.

Types of Underwriting

There are basically three different types of underwriting: loans, insurance, and securities.

Loan Underwriting

All loans undergo some form of underwriting. In many cases, underwriting is automated and involves appraising an applicant's credit history, financial records, and the value of any collateral offered, along with other factors that depend on the size and purpose of the loan. The appraisal process can take a few minutes to a few weeks, depending on whether the appraisal requires a human being to be involved.

The most common type of loan underwriting that involves a human underwriter is for mortgages. This is also the type of loan underwriting that most people encounter. The underwriter assesses income, liabilities (debt), savings, credit history, credit score, and more depending on an individual's financial circumstances. Mortgage underwriting typically has a “turn time” of a week or less.

Refinancing often takes longer because buyers who face deadlines get preferential treatment. Although loan applications can be approved, denied, or suspended, most are “approved with conditions,” meaning the underwriter wants clarification or additional documentation.

Insurance Underwriting

With insurance underwriting, the focus is on the potential policyholder—the person seeking health or life insurance. In the past, medical underwriting for health insurance was used to determine how much to charge an applicant based on their health and even whether to offer coverage at all, often based on the applicant’s pre-existing conditions. Beginning in 2014, under the Affordable Care Act, insurers were

no longer allowed to deny coverage or impose limitations based on pre-existing conditions.

Life insurance underwriting seeks to assess the risk of insuring a potential policyholder based on their age, health, lifestyle, occupation, family medical history, hobbies, and other factors determined by the underwriter. Life insurance underwriting can result in approval—along with a range of coverage amounts, prices, exclusions, and conditions—or outright rejection.

Securities Underwriting

Securities underwriting, which seeks to assess risk and the appropriate price of particular securities—most often related to an IPO—is performed on behalf of a potential investor, often an investment bank. Based on the results of the underwriting process, an investment bank would buy (underwrite) securities issued by the company attempting the IPO and then sell those securities in the market.

Underwriting ensures that the company's IPO will raise the capital needed and provides the underwriters with a premium or profit for their service. Investors benefit from the vetting process that underwriting provides and its ability to make an informed investment decision.

This type of underwriting can involve individual stocks and debt securities, including government, corporate, or municipal bonds. Underwriters or their employers purchase these securities to resell them for a profit either to investors or dealers (who sell them to other buyers). When more than one underwriter or group of underwriters is involved, this is known as an underwriter syndicate.

How Long Does Underwriting Take?

The time frame for underwriting varies among different investment products, as the underwriter will have to spend some time examining the risk profile of each investment. Personal loans and insurance products are generally fairly simple to underwrite.

Personal Loans

For car loans, the process is managed by an algorithm that compares the applicant to other borrowers with a similar profile. This process takes only a few days at most, and in some cases, it is almost instantaneous.¹

Home mortgages tend to take longer because the underwriter will need to verify the borrower's income, employment, and credit history, which can take some time. Full approval for a home loan can take up to 45 days, although the underwriting process itself accounts for only a small part of this time frame.¹

Insurance

Underwriting insurance is the same as underwriting a loan, except that the insurers weigh the probability and size of the average claim compared to the premiums that they expect to collect. In the case of property and auto insurance policies, this is based on factors like the age of the insured, their geographical location, and their past history of making claims.

Life insurance policies are more complicated because they also account for the insured's medical history. Underwriting life insurance can also take a month or longer, although most decisions are issued in a few days.¹

Stocks and Bond Issues

Securities are the most complicated products to underwrite. When a company issues a bond or a stock offering, the underwriter (usually an investment bank) examines the company's accounts, cash flows, assets, and liabilities, and checks for any discrepancies. This can take anywhere between six and nine months.¹

Underwriter

An underwriter is a person or institution that evaluates and assumes another party's risk in mortgages, insurance, loans, or investments for a fee, usually in the form of a commission, premium, spread, or interest. The term underwriting refers to the process of evaluating the risk of insuring a potential policyholder based on their age, health,

lifestyle, occupation, family medical history, hobbies, and other factors determined by the underwriter.

Underwriters are critical to the mortgage industry, insurance industry, equity markets, and common types of debt securities trading because of their ability to ascertain risk.

What does an underwriter do?

1. **Risk assessment:** Underwriters evaluate the risk associated with a potential policyholder, borrower, or investment. This involves a comprehensive analysis of various factors depending on the type of underwriting involved. For example, in insurance underwriting, factors such as age, health, lifestyle, and family medical history are considered, while mortgage underwriting may focus on factors like credit history, income, and the property being financed.
2. **Decision making:** Based on the risk assessment, underwriters make informed decisions on whether to approve or deny an application for insurance, a loan, or an investment. They determine the terms and conditions, including the interest rate, coverage limits, or investment terms. The goal is to strike a balance between attracting business and managing risk effectively.
3. **Compliance:** Underwriters ensure that the proposed transaction complies with applicable laws, regulations, and internal policies. Compliance is a critical aspect of underwriting to mitigate legal and regulatory risks associated with the financial transaction.
4. **Documentation review:** Underwriters carefully review documentation submitted by applicants, which may include financial statements, medical records, property appraisals, or other relevant information. This meticulous review helps underwriters gather the necessary data to make informed decisions.
5. **Communication:** Underwriters often communicate with various parties involved in the underwriting process. This may include insurance agents, loan officers, appraisers, and, in some cases, the applicants themselves. Clear communication is essential to gather additional information, clarify discrepancies, and convey decisions.

6. **Monitoring and portfolio management:** For ongoing relationships, such as insurance policies or investment portfolios, underwriters monitor changes in risk factors. They may adjust terms or coverage based on changes in the risk profile of the insured or the market conditions.

Types of underwriters

Insurance underwriter:

Insurance underwriters play a vital role in the insurance industry by evaluating and managing the risk associated with insuring individuals, businesses, or assets. Using a detailed analysis of various factors, insurance underwriters determine the likelihood of a policyholder filing a claim. This analysis includes assessing the applicant's health, age, lifestyle, occupation, and other relevant information. Based on this evaluation, the underwriter sets the premium—the amount the policyholder pays for insurance coverage. A higher risk profile may result in a higher premium, reflecting the increased likelihood of a claim. The insurance underwriter's responsibility is to strike a balance between attracting policyholders and ensuring the financial stability of the insurance company.

Mortgage underwriter:

In the realm of real estate and lending, mortgage underwriters are instrumental in evaluating the risk associated with providing mortgage loans to individuals seeking to purchase homes or properties. Mortgage underwriters assess the creditworthiness of applicants by scrutinising their credit history, income, employment stability, and debt-to-income ratio. Additionally, they evaluate the value of the property being financed to ensure it aligns with the loan amount requested. The goal is to determine whether the applicant poses an acceptable level of risk for the lending institution. Once the risk assessment is complete, the mortgage underwriter decides whether to approve the loan application, specifying the terms and conditions of the loan, including the interest rate.

Loan underwriter:

Loan underwriters operate across various types of loans, including personal loans, auto loans, and business loans. Their primary responsibility is to assess the

creditworthiness of loan applicants and determine the risks associated with lending money. Loan underwriters analyse the applicant's credit history, income, employment status, debt levels, and other relevant financial information. This comprehensive evaluation helps them make informed decisions about whether to approve or deny the loan application. Additionally, loan underwriters set the terms of the loan, including the interest rate and repayment schedule. Their role is crucial in maintaining a balance between providing access to credit and managing the financial risk for the lending institution.

Securities underwriter:

Securities underwriters play a key role in the issuance of securities, such as stocks and bonds, into the financial markets. They work with companies or governments looking to raise capital by issuing securities. Securities underwriters conduct thorough due diligence on the issuer, assessing its financial health, business prospects, and overall market conditions. Based on this evaluation, they assist in determining the terms of the securities, including the offering price and quantity. Securities underwriters may also assume the risk of purchasing the securities from the issuer and reselling them to investors. This process is particularly evident during Initial Public Offerings (IPOs), where a private company transitions to a publicly traded one. Securities underwriters help facilitate the efficient functioning of capital markets by connecting issuers with investors and managing the associated financial risks.

Example: IPO underwriting

Suppose ABC Ltd., a promising technology company based in India, decides to go public and raise capital by issuing shares through an Initial Public Offering (IPO). In this scenario, the underwriter plays a crucial role in facilitating the IPO process.

1. **Selection of underwriters:** ABC Ltd. would engage the services of an underwriting firm or investment bank, which acts as the underwriter for the IPO. The underwriter agrees to purchase the entire lot of shares from ABC Ltd. at a predetermined price, providing the company with the assurance of raising the intended capital even if market conditions are uncertain.

2. **Due diligence:** The underwriter conducts thorough due diligence on ABC Ltd. This involves scrutinising the company's financial statements, business model, growth prospects, potential risks, and overall market conditions. The underwriter aims to assess the risk associated with investing in ABC Ltd.'s shares.
3. **Determining offer price:** Based on the due diligence, the underwriter collaborates with ABC Ltd. to determine the offer price of the shares. This price must strike a balance between attracting investors and ensuring that the company raises the required capital. The underwriter considers various factors such as market demand, industry trends, and the financial health of ABC Ltd.
4. **Underwriting agreement:** Once the offer price is set, an underwriting agreement is formalised between ABC Ltd. and the underwriter. This agreement outlines the terms and conditions of the underwriting, including the quantity of shares to be issued, the offer price, and the commitment of the underwriter to purchase any unsold shares.
5. **Risk mitigation:** The underwriter takes on the risk associated with selling the shares to the public. If market demand is lower than expected, and not all shares are sold, the underwriter is obligated to purchase the remaining shares as per the underwriting agreement. This commitment provides ABC Ltd. with a degree of certainty regarding the funds that it will raise through the IPO.

Additional read: What is Share Market

Underwriters vs. agents/ brokers

Aspect	Underwriters	Agents and brokers
Primary role	Evaluate and assume risk, making decisions on acceptance, pricing, and terms.	Intermediaries who connect clients with insurance or financial products and services provided by underwriters. They do not assume risk.
Decision-making	Have the authority to	Facilitate transactions but

authority	approve or deny applications and set terms based on risk assessment.	do not have the authority to underwrite or make final decisions on applications.
Risk assumption	Assume and manage risk on behalf of the insurance company, lender, or issuer.	Do not assume risk. They act as intermediaries, connecting clients with underwriters.
Relationship with clients	Limited direct interaction with end clients. Interact more with agents, brokers, or other intermediaries.	Directly interact with clients, understanding their needs, and recommending suitable products.
Compensation structure	Typically earn a salary or commission from the underwriting institution.	Earn commissions or fees from the underwriting institution for successfully connecting clients with financial products.
Market knowledge	Deep understanding of risk assessment and market conditions to make informed decisions.	In-depth knowledge of available products and services, as well as market trends to advise clients effectively.
Licensing requirements	Often required to have professional certifications and licences specific to the industry, such as insurance or securities licences.	Required to have licences to sell insurance or financial products, varying by jurisdiction and product type.
Examples	Insurance underwriters assess and price insurance risks. Mortgage	Insurance agents sell insurance policies. Mortgage brokers connect

	underwriters evaluate loan applications. Securities underwriters assist in bringing securities to the market.	borrowers with lenders. Stockbrokers facilitate securities transactions.
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The diverse roles of underwriters in insurance, mortgages, loans, and securities contribute to the stability, fairness, and functionality of various financial markets. Their ability to assess and manage risk is essential for making informed decisions that benefit both the financial institutions they represent and the individuals or entities seeking financial products or services.

Role of a Lead Manager in IPO

Lead manager plays an integral role in the success of an IPO. Lead managers are appointed by a company while coming out with an IPO and their role is extensive in the pre-issue and the post-issue process.

Pre-issue role of a lead manager includes:

- a. Due diligence of the company
- b. Preparing the draft prospectus
- c. Advertising the issue and related details
- d. Compliance with the regulations with ROC, SEBI, and other stock exchanges.
- e. Drawing up marketing strategies for the IPO
- f. Appointing the various intermediaries for the IPO like the merchant banker, Registrar for the IPO, advertisers for the IPO, etc.

Role of the Lead manager in IPO – Post-Issue

Post-issue role of a lead manager includes:

- a. Managing the escrow accounts
- b. Co-ordinating with the non-institutional investors

- c. Intimation of the allocation of securities
- d. Issuing refunds to the bidders if applicable
- e. Finalizing the listing of shares on stock exchanges
- f. Transfer of shares in the Demat account of investors

Lead Manager

A lead manager is the merchant banker appointed by the issuer company to carry out the entire IPO process.

A lead manager is the **merchant banker** appointed by the issuer company to carry out the entire IPO process. A lead manager is also known as the **Book Running Lead Manager (BRLM)**.

A merchant banker is a SEBI registered financial institution that assists the corporates with financial solutions like helping in fundraising, providing consultancy services, acting as underwriters, and much more.

A company can appoint one or more than one merchant bankers, of whom one acts as the lead manager. The lead manager plays a very crucial role in an IPO as the lead manager is responsible for the entire IPO process.

Lead manager's pre IPO activities includes Drafting and design of Offer documents, Prospectus, statutory advertisements and memorandum. Also they draws up the various marketing strategies for the issue. The post issue activities of lead manager includes coordinate non-institutional allocation, intimation of allocation and dispatch of refunds to bidders, management of escrow accounts etc.

Who is a Syndicate Member?

A syndicate member is an investment banker who gets the mandate to sell shares of an IPO to eligible applicants. How do they get this mandate? The company going public approaches several banks and asks them for a proposal on how they propose to take the company public. The company then chooses the bank with the best proposal. The underwriters who take responsibility for making sure the company can sell all of the shares are called the syndicates.

The chosen bank then forms a syndicate of several other banks, which help it sell the stock in exchange for a commission. All banks that are part of this syndicate are called members of the same syndicate. In most cases, the syndicate members can be from any part of the world and do not necessarily have to fall under the same geographical location as the company.

A syndicate member can be a single individual or represent other business entities. They can also be based on a particular industry and brought together by an investment bank with expertise in this field. The syndicate members are selected based on their expertise, experience, and track record in the industry.

Types of Syndicates

There are various types of syndicate members in an IPO with often similar, yet vital functions for the success of the IPO:

- **Lead Manager:** The lead manager's role as a syndicate manager is to be the marketer and distributor of the new issue. This syndicate member is in charge of finalizing all details regarding the issue and negotiating with the issuer to achieve a more beneficial agreement. The lead manager will often share its profits with other banks that assist in promoting the issue to their clients.
- **Co-Manager:** Syndicate members are a group of investment banks that also promote, but generally on a smaller scale than lead managers. Co-managers do not have as much influence on structuring and pricing but may provide advice to issuers during this process.
- **Book Running Lead Manager:** A book running lead manager typically functions as both a lead manager and co-manager simultaneously. This person or company is responsible for setting up financial records related to sales, providing information about distribution (when the shares will be available), and potentially organizing an underwriting syndicate (or group of investors) for additional assistance and guidance throughout the process.

What is syndication risk?

Syndication risk is when an underwriter or the syndicate members of fixed-income security cannot place the entire issue with investors. This can be a major concern for companies seeking to issue large amounts of debt. For example, if Country X and trying to issue \$100 billion in debt, it's possible that even the best efforts won't find enough interested buyers to buy all of it at a comfortable price. In such cases, underwriters may need to take back some of the debt on their balance sheets before they can eventually sell it at a loss later on.

This outcome may seem untenable, but it is a common practice in the financial world. The impact of this kind of situation varies depending on how much debt is involved and whether or not there are any other market factors involved (such as an economic downturn).

If an underwriter takes back too much unsold debt from its clients over time, then its balance sheet could become unmanageable in size or even insolvent. Likewise, other factors may prevent them from selling off those securities quickly before they need more capital (like another recession).

Syndication risk is when an underwriter or the syndicate members of fixed-income security cannot place the entire issue with investors. This can be a major concern for companies seeking to issue large amounts of debt. For example, if Country X and trying to issue \$100 billion in debt, it's possible that even the best efforts won't find enough interested buyers to buy all of it at a comfortable price. In such cases, underwriters may need to take back some of the debt on their balance sheets before they can eventually sell it at a loss later on.

Syndicate Member: Role in IPO, Types and Syndication Risk

Syndicate members play an important role when a company launches its IPO. When a company goes public, it asks several banks to give suggestions on how they should be going public. A company then selects the bank with the best suggestion and underwriters of the said bank take responsibility to sell all shares of that company. These underwriters are called syndicate members or syndicates.

Who Is a Syndicate Member?

A syndicate member is an investment banker, or commercial bank, that has the mandate to sell shares of IPO to qualified applicants. These members should be registered with the market regulator, SEBI (Securities & Exchange Board of India), or registered as brokers with stock exchanges for underwriting IPOs.

Syndicates work as intermediaries between an investor and a company that issues shares through an IPO. Investors who wish to subscribe, invest through intermediaries chosen by the issuer company.

The selected bank can then choose other banks and entities to form a syndicate. These banks do not necessarily have to be from the same geographical location as the issuer company.

What Is the Role of a Syndicate Member?

Apart from being an intermediary between an investor and an issuer company, syndicates are also responsible for circulating copies of the Red Herring Prospectus and application form to potential investors.

Once syndicates receive the bidding details for IPO shares, they enter those into an electronic bidding system and generate a transaction registration slip (TRS). This slip contains price and demand options for the bidder.

You can modify your bid as many times as you want during the pre-defined period. However, you have to avail services from the same bidder for modification from whom you placed your bid in the first place.

Syndicates send all the funds received from investors into an escrow account of the issuer company. Then they send application forms along with supporting documents to the registrar of the issue for further proceedings.

When a syndicate member registers a bid, it has to enter the following details of an investor in the online system:

- Name of investor
- Category of the investor such as corporate, individual, NRI, mutual fund, FII, etc.
- Quantity of bid
- Price of bid
- Application form number
- Depository participant identification number
- Client ID of the beneficiary account of a bidder
- If investors have paid the margin amount while submitting the application form or not

What Are the Types of Syndicates?

There are often different ranks of syndicate members in IPO with somewhat similar functions. Let's find out about them:

- **Lead Manager**

Lead Manager or Syndicate Manager is the distributor or marketer of the IPO issue. It is responsible for finalising all the details regarding the new issue with the issuer and negotiating to reach a positive agreement. A Syndicate Manager might share the profit with other partner banks who would help it in promoting the issue to the customers or clients.

- **Book Running Lead Manager**

A book running lead manager often performs the tasks of both a lead manager and a co-manager. This entity usually has the responsibility to set up financial sales records, give information regarding distribution such as when shares will be available for bidding, and arrange an underwriting syndicate for additional guidance throughout the process.

- **Co-Manager**

Co-managers are similar group of investment banks that helps in promotion but on a smaller scale as compared to lead managers. These managers may provide suggestion or advice during the process but do not have much say about structuring and pricing.

What Is Syndication Risk?

Syndication issue arises when syndicate members or underwriters of fixed income security are not able to place the entire issue to the investors. This can mainly be a serious concern for companies who want to issue a large amount of debt.

Suppose, a company is trying to issue a \$500 million debt. But underwriters are unable to arrange or find enough interested investors to buy all of this at a reasonable price. In such situations, syndicate members may have to take back some of this debt on their balance sheet to sell it at loss later on, eventually.

Such situations are pretty common in financial transactions. The consequence of this situation depends on many factors such as economic condition, amount of debt and any other impacting factors.

If the debt is too much for underwriters to take back, it can make their balance sheets insolvent. Also, economic factors can delay the process of selling them faster, even before they need more capital.

What Role Do Syndicates Play in Determining the IPO Price?

There are multiple steps involved in determining the price of an IPO.

Primarily, syndicates or underwriters collect information from sales personnel who have experience in IPOs, stock exchanges and growth prospect analysis. The equity syndicate members then arrange a meeting where only members are allowed to participate.

These members use a close bidding process to determine the equity IPO price. Once the members agree on pricing, they get an allocation of a percentage of shares before

it goes public. When the IPO goes public, they share the profit or loss, whichever incurred, based on the changes in the IPO price.

Broker:

What Is a Broker?

A broker is an individual or firm that acts as an intermediary between an investor and a securities exchange. Because securities exchanges only accept orders from individuals or firms who are members of that exchange, individual traders and investors need the services of exchange members.

Brokers provide that service and are compensated in various ways, either through commissions, fees, or through being paid by the exchange itself. Investopedia regularly reviews all of the top brokers and maintains a list of the best online brokers and trading platforms to help investors make the decision of what broker is best for them.

We recommend the best products through an independent review process, and advertisers do not influence our picks. We may receive compensation if you visit partners we recommend.

Understanding Brokers

As well as executing client orders, brokers may provide investors with research, investment plans, and market intelligence. They may also cross-sell other financial products and services their brokerage firm offers, such as access to a private client offering that provides tailored solutions to high net worth clients. In the past, only the wealthy could afford a broker and access the stock market. Online brokering triggered an explosion of discount brokers, which allow investors to trade at a lower cost, but without personalized advice.

Discount vs. Full-Service Brokers

Discount brokers can execute many types of trades on behalf of a client, for which they charge a reduced commission in the range of \$5 to \$15 per trade. Their low fee structure is based on volume and lower costs. They don't offer investment advice and brokers usually receive a salary rather than a commission. Most discount brokers offer an online trading platform that attracts a growing number of self-directed investors. Such services usually charge \$0 in commissions.

Full-service brokers offer a variety of services, including market research, investment advice, and retirement planning, on top of a full range of investment products. For that, investors can expect to pay higher commissions for their trades. Brokers receive compensation from the brokerage firm based on their trading volume as well as for the sale of investment products. An increasing number of brokers offer fee-based investment products, such as managed investment accounts.

Real Estate Brokers

In the real estate industry, a broker is a licensed real estate professional who typically represents the seller of a property. A broker's duties when working for a seller may include:

- Determining the market values of properties.
- Listing and advertising the property for sale.
- Showing the property to prospective buyers.
- Advising clients about offers, provisions, and related matters.
- Submitting all offers to the seller for consideration.

It is not uncommon to have a real estate broker work for a buyer, in which case, the broker is responsible for:

- Locating all properties in the buyer's desired area sorted by price range and criteria.
- Preparing an initial offer and purchase agreement for a buyer who decides to make an offer for a property.

- Negotiating with the seller on behalf of the buyer.
- Managing inspections on the property and negotiating repairs.
- Assisting the buyer through to closing and taking possession of the property.

Broker Regulation

Brokers register with the Financial Industry Regulatory Authority (FINRA), the broker-dealers' self-regulatory body. In serving their clients, brokers are held to a standard of conduct based on the "suitability rule," which requires there be reasonable grounds for recommending a specific product or investment. The second part of the rule, commonly referred to as "know your customer," or KYC, addresses the steps a broker must use to identify their client and their savings goals, which helps them establish the reasonable grounds for the recommendation.

The broker must make a reasonable effort to obtain information on the customer's financial status, tax status, investment objectives, and other information used in making a recommendation.

This standard of conduct differs significantly from the standard applied to financial advisors registered with the Securities and Exchange Commission (SEC) as registered investment advisors (RIAs). Under the Investment Advisers Act of 1940, RIAs are held to a strict fiduciary standard to always act in the best interest of the client, while providing full disclosure of their fees.

Real estate brokers in the United States are licensed by each state, not by the federal government. Each state has its own laws defining the types of relationships that can exist between clients and brokers, and the duties of brokers to clients and members of the public.

What Is a Registrar?

A registrar is an institution, often a bank or trust company, responsible for keeping records of bondholders and shareholders after an issuer offers securities to the public. When an issuer needs to make an interest payment on a bond or a dividend payment

to shareholders, the firm refers to the list of registered owners maintained by the registrar.

How a Registrar Works

One role of the registrar is to make sure the amount of shares outstanding does not exceed the number of shares authorized in a firm's corporate charter. A corporation cannot issue more shares of stock than the maximum number of shares that the corporate charter discloses. Outstanding shares are those that shareholders currently hold.

A business may continue to issue shares periodically over time, increasing the number of outstanding shares. The registrar accounts for all issued and outstanding shares, as well as the number of shares owned by each individual shareholder.

Special Considerations

The registrar determines which shareholders are paid a cash or stock dividend. A cash dividend is a payment of company earnings to each shareholder, and a stock dividend means additional shares are issued to each shareholder.

To pay a dividend, the corporation sets a record date. The registrar verifies the shareholders who own the stock on the record date and the number of shares owned as of that date. Both cash and stock dividends are paid based on the registrar's list of shareholders. The registrar changes this shareholder data based on current buy-and-sell transactions.

Types of Registrars

Broadly, registrars are record keepers. They exist outside of the stock market too. There are registrars for schools and colleges that manage student records, while governments use registrars for companies and businesses. Meanwhile, a registrar can mean a certain professor in medicine or a type of technology—such as software in human resources or a domain name registrar.

Mutual funds operate using a transfer agent, which is a company that acts as the registrar and also performs the duties of a transfer agent. While the registrar keeps records, the transfer agent handles the mutual fund share purchases and redemptions.

Example of Registrars

Registrars exist for bonds too. For example, when an issuer offers a bond to investors, the company works with an underwriter to create a bond indenture. The indenture lists all of the pertinent information about the bond, including its face amount, the interest rate, and the maturity date. A bond indenture also certifies the bond is a legal obligation of the issuer. A bond may be secured by specific company assets or simply by the issuer's ability to pay.

Just as with stock, the bond registrar tracks the investors who own the bond and investors who should receive interest payments. When the bond matures, the registrar's records determine which investors should be repaid the principal amount on the bond issue.

Investment Banker Defined, With Examples and Required Skills

What Is an Investment Banker?

An investment banker is an individual who often works as part of a financial institution and is primarily concerned with raising capital for corporations, governments, or other entities. Examples of investment banker employers are Goldman Sachs (GS), Morgan Stanley (MS), JPMorgan Chase (JPM), Bank of America Merrill Lynch (BAC), and Deutsche Bank (DB).

Understanding Investment Banking

Investment bankers facilitate large, complicated financial transactions. These transactions may include structuring an acquisition, merger, or sale for clients. Another responsibility of investment bankers is issuing securities as a means of

raising capital. This involves creating detailed documentation for the Securities and Exchange Commission (SEC) necessary for a company to go public.

An investment banker can save a client time and money by identifying the risks associated with a particular project before a company moves forward. In theory, the investment banker is an expert in their field or industry, who has a finger on the pulse of the current investing climate. Businesses and non profit institutions often turn to investment bankers for advice on how best to plan their development.

An investment banker also assists with pricing financial instruments and navigating regulatory requirements. When a company holds its initial public offering (IPO), an investment bank will buy all or much of that company's shares directly, acting as an intermediary. In this case, acting on behalf of the company going public, the investment bank will subsequently sell the company's shares into the public market, creating immediate liquidity.

An investment bank stands to make a profit in this scenario, generally pricing its shares at a markup. In doing so, the investment bank takes on a substantial amount of risk. While experienced analysts at the investment bank use their expertise to price the stock accurately, an investment banker can lose money on the deal if they have overvalued the shares.

An Example of Investment Banking and an IPO

For example, suppose that Pete's Paints Co., a chain supplying paints and other hardware, wants to go public. Pete, the owner, gets in touch with Katherine, a prominent investment banker. Pete and Katherine strike a deal in which Katherine (on behalf of her firm) agrees to buy 100,000 shares of Pete's Paints for the company's IPO at the price of \$24 per share, based on her analyst team's recommendations. The investment bank pays \$2.4 million for the 100,000 shares.

After filing the appropriate paperwork, such as SEC Form S-1, and setting the IPO's date and time, Katherine and her team begin selling the stock into the open market at \$26 per share. However, the investment bank cannot sell more than 20% of the shares at this price given weak demand and is forced to reduce the price to \$23 to sell the rest of the holdings. This ultimately leads to a loss for Katherine and her team.

Required Skills for Investment Bankers

The investment banking field is popular because investment bankers are typically well paid. However, these positions require specific skills, such as excellent number-crunching abilities, strong verbal and written communication skills, and the capacity to work long and ruling hours.

Investment bankers must abide by their firm's stipulated code of conduct and typically sign a confidentiality agreement because of the sensitive nature of the information they receive. Moreover, there is potential for conflict of interest if the advisory and trading divisions of investment banks interact.

A hierarchy of positions typically exists in investment banking: (from junior to senior) analyst, associate, vice president, senior vice president, and then managing director.

What is ASBA?

ASBA abbreviated as Application Supported by Blocked Amount is an IPO application process developed by SEBI. It is an application containing an authorization to block the application money in the bank account, for subscribing to an IPO issue. You cannot use the blocked amount for any purpose. However, you can continue to earn interest in the blocked amount. If you are a non-retail investor wanting to invest in IPO, it is mandatory to apply through ASBA.

As an investor, if you apply through ASBA, your money gets debited from your bank account only if your application is selected for allotment. It is refunded to your bank account if you do not get the IPO issue or the issue has been

withdrawn. From 2016 onwards, the SEBI has directed that it is mandatory to fill an ASBA form if you wish to invest in IPO.

Eligibility Criteria for ASBA

Here are some of the eligibility criteria for ASBA:

- You are an Indian residential investor.
- You should have a valid PAN number along with a Demat account and trading account.
- You have to apply through the blocking of funds in the bank account with self-certified Syndicate Banks.
- You should have adequate balance in your bank account.
- You should bid at cut off, with a single option of number of shares to bid for.
- You should not bid under any of the reserved categories.
- You have agreed to the terms and conditions of not revising a bid.

How to Apply for ASBA?

You can apply for ASBA through both online and offline methods. Here are some of the steps to apply for ASBA:

1. Online ASBA Application

- Login to your Netbanking account and click on “IPO Application”.
- You can select the particular IPO you wish to apply for and mention up to 3 bids.
- Fill the Demat account details and place and confirm your orders.
- The bidding amount is blocked in your bank account up to the finalization of allotment. However, you will continue to earn interest on it.

2. Offline ASBA Application

- Download the ASBA form from the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) website.
- Fill in the required details and submit the form at the Self-certified Syndicate Banks along with the photocopy of required identity proof.

- Once you submit the application, the bank will send the application details to the stock exchange and block the stipulated bid amount in your bank account.
- You can check the application status on both BSE and NSE website.

Benefits of ASBA

Here are some of the unique benefits for investors applying through ASBA process:

- When money is blocked in your bank account, you do not lose out on interest income. You continue to earn interest on the blocked amount.
- The ASBA eliminates the need to pay money via cheques and demand drafts.
- The ASBA facility is hassle-free and does not involve any cost. You can easily apply via Netbanking without submitting any physical documentation.
- The investors need not worry about the refunds. In case there is no allotment of shares, the money is unblocked from your bank account for further use.
- The blocked amount is considered while calculating the Average Quarterly Balance in the account.

Application Supported by Blocked Amount (ASBA) Procedure

Main Features of ASBA process

ASBA provides an alternative mode of payment in issues whereby the application money remains in the investor's account till finalization of basis of allotment in the issue.

ASBA process facilitates investors bidding with multiple options, to apply through Self Certified Syndicate Banks (SCSBs), in which the investors have bank accounts. SCSBs are those banks which satisfy the conditions laid by SEBI. SCSBs would accept the applications, verify the application, block the fund to the extent of bid payment amount, upload the details in the web based bidding system of NSE, unblock once basis of allotment is finalized and transfer the amount for allotted shares, to the issuer.

As per SEBI circular no CIR/CFD/POLICY CELL/11/2015 dated November 10, 2015. All shall mandatorily use only Application Supported by Blocked Amount (ASBA) facility for all issues opening from 01 January, 2016 onwards.

1. Registration procedure of Self Certified Syndicate Bank (SCSB): In order to register with the Exchange the SCSB has to submit a one-time undertaking as per the prescribed format.
2. SCSB List
3. Registration procedure for Registrars to an Issue and Share Transfer Agents (RTAs) and Depository Participants (DPs): In order to register with the Exchange the RTAs/DPs has to submit the application as per the prescribed format attached below :
4. Download List of RTAs and DP (including details of location where Application Forms will be accepted) (.zip)
5. Apply online through ASBA e-Forms

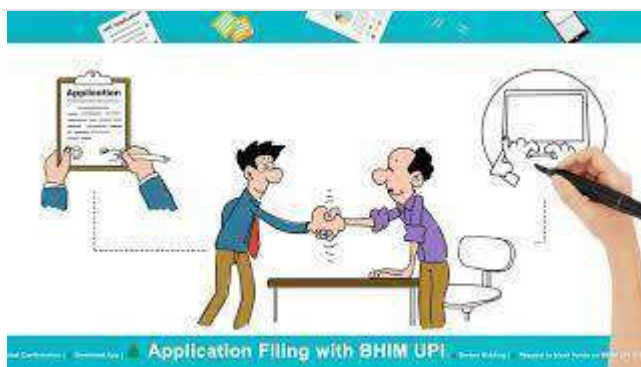
As per SEBI Cir no SEB/HO/CFD/DIL2/CIR/P/2018/138 dated November 01, 2018. To further streamline the process, the use of Unified Payment Interface (UPI) as a payment mechanism with Application Supported by Block Amount (ASBA) for application in public issues by retail investors through intermediaries (Syndicate members, Registered Stock Brokers, Registrar and Transfer agent and Depository Participants) has been initiated. The process has increased efficiency, eliminated the need for manual intervention at various stages, and has reduced the time duration from issue closure to listing by upto 3 working days. Considering the time required for making necessary changes to the systems and to ensure complete and smooth transition to UPI payment mechanism, the proposed alternate payment mechanism and consequent reduction in timelines is proposed to be introduced in a phased manner as under

Phase I: From January 01, 2019, the UPI mechanism for retail individual investors through intermediaries will be made effective along with the existing process and

existing timeline of T+6 days. The same will continue, for a period of 3 months or floating of 5 main board public issues, whichever is later.

Phase II: Thereafter, for applications by retail individual investors through intermediaries, the existing process of physical movement of forms from intermediaries to Self-Certified Syndicate Banks (SCSBs) for blocking of funds will be discontinued and only the UPI mechanism with existing timeline of T+6 days will continue, for a period of 3 months or floating of 5 main board public issues, whichever is later.

UPI based ASBA process



BHIM UPI Registration



Phase III: Subsequently, final reduced timeline will be made effective using the UPI mechanism

What is an SME IPO?

SME IPO, as the name suggests, is a specialised form of initial public offering tailored for small and medium enterprises. It provides a unique platform for these enterprises

to raise capital from the public and list their shares on the stock exchanges. The introduction of SME IPOs has empowered smaller businesses, allowing them access to funds from a broader investor base.

SME IPO exchanges: Where are they listed?

In India, SME IPOs are primarily listed on two exchanges:

1. **BSE SME Exchange:** Operated by the Bombay Stock Exchange (BSE), this platform facilitates SME IPOs. It provides visibility and liquidity to SMEs.
2. **NSE emerge:** The National Stock Exchange (NSE) operates NSE emerge, another dedicated platform for SME IPOs. It aims to promote the growth of SMEs by providing access to capital markets.

Listing criteria for SME IPO

Here are the key requirements:

1. Incorporation:

The SME must be incorporated under the Companies Act, 1956. If the SME was formed through the conversion of a registered proprietorship, partnership, or LLP, the partnership firm or LLP should have a net worth of at least Rs. 1 crore for the preceding two full financial years.

Post-issue paid-up capital:

The face value (post-issue paid-up capital) of the SME should not exceed Rs. 25 crore.

Net tangible assets:

The SME's net tangible assets should be valued at least Rs. 1.5 crore.

Track record:

The applicant company seeking listing should have a track record of at least 3 years.

If the SME took over a proprietorship concern, registered partnership firm, or LLP, the combined track record (including the predecessor) should also be at least 3 years.

Alternatively, if the SME lacks a 3-year track record, the project for which the

IPO is proposed should be appraised and funded by institutions like NABARD, SIDBI, or banks (other than cooperative banks).

Earnings before interest, depreciation, and tax (EBIDTA):

The company, proprietorship concern, registered firm, or LLP should have operating profit (EBIDTA) from operations for 2 out of the 3 latest financial years preceding the application date. For companies with appraised and funded projects, positive operating profit from operations in the preceding financial year is required.

2. **Leverage ratio:**

The leverage ratio (debt-to-equity ratio) should not exceed 3:1 (relaxation may be granted to finance companies).

3. **Disciplinary action and defaults:**

No regulatory action of suspension of trading against the promoters or companies promoted by the promoters by any stock exchange with nationwide trading terminals.

Directors should not be disqualified or debarred by any regulatory authority.

No pending defaults in payment of interest and/or principal to debenture/ bond/ fixed deposit holders by the applicant company or promoters.

4. **Additional criteria for broking companies:**

Net worth of minimum Rs. 5 crore with profit before tax of at least Rs. 5 crore in any 2 years out of 3 financial years.

Features of SME IPOs

SME IPOs come with distinctive features that cater to the specific needs and characteristics of small and medium enterprises. Some notable features include:

1. **Simplified regulatory compliance:** SME IPOs streamline the regulatory process, making it more accessible for smaller businesses. The listing requirements are tailored to the size and scale of SMEs.
2. **Market visibility:** Listing on a stock exchange provides SMEs with enhanced visibility and credibility, potentially attracting more customers, partners, and investors.

3. **Institutional support:** SME IPOs often receive institutional support and encouragement from regulatory bodies, making the process smoother for these enterprises.
4. **Retail participation:** SME IPOs are designed to encourage retail investors to participate, fostering a broad investor base.

Impact of SME IPO

The impact of SME IPOs on the securities market is multifaceted. Firstly, it facilitates the growth of small and medium enterprises by providing them with a vital source of capital. This, in turn, contributes to job creation, innovation, and economic development. SME IPOs also add diversity to the stock market, allowing investors to explore opportunities beyond large-cap stocks.

Furthermore, the visibility gained through a stock exchange listing can help SMEs build trust among customers, suppliers, and other stakeholders. It opens up avenues for collaboration and expansion, strengthening the overall ecosystem of small and medium enterprises.

IPO vs SME IPO

Criteria	Normal IPO
Company size	Large corporations
Validation	Stringent regulatory requirements
Minimum allotment	Higher number required
Application size	Large application amounts

SME IPOs have emerged as a boon for small and medium enterprises in India, providing them with a dedicated platform to raise capital and expand their operations. The streamlined listing criteria, coupled with specific platforms like the BSE SME and NSE emerge, make the process accessible for SMEs, fostering economic growth and development.

Investors looking for growth potential beyond traditional large-cap stocks can explore SME IPOs as a promising avenue. In essence, SME IPOs are not just a financial transaction but a catalyst for the growth and sustainability of the vibrant network of small and medium enterprises.

What is SME IPOs & How You to Apply?

SME IPO Exchanges: Where Are They Listed?

In the year 2012, the NSE and BSE jointly inaugurated two exchanges dedicated to the listing of SME IPOs. These are:

- The BSE SME platform operated by the Bombay Stock Exchange
- NSE EMERGE managed by the National Stock Exchange

Requirements for SME IPOs to go Public

SEBI Guidelines

- Minimum Issue Size: Rs. 10 crores and a maximum of Rs. 25 crores.
- Min No. of members for Issue – 50
- Minimum post-issue paid-up capital: Rs. 10 crore (higher than SEBI's Rs. 3 crore requirement).
- Minimum number of trading members: 25
- Minimum Application Value: Rs. 1 lakh for retail investors and Rs. 5 lakh for non-retail investors.
- Lock-in Period: Promoters' shares are subject to a lock-in period of 3 years from the date of listing.
- Track Record: At least 3 years of operations for the company or its promoters
- The SME cannot reapply for an IPO for a minimum period of six months if we reject the application. Additionally, the minimum application and trading lot size must not fall below ₹1 lakh.

BSE Guidelines

- Net Tangible assets of at least Rs.3 crores as per the latest audited financial results
- Net worth (excluding revaluation reserves) of at least Rs.3 crores as per the latest audited financial results.
- Track record of distributable profits in terms of sec. 123 of the Companies Act, 2013 for at least two years out of immediately preceding three financial years and each financial year has to be a period of at least 12 months. Extraordinary income will not be considered for the purpose of calculating distributable profits OR Net worth shall be at least Rs. 5 crores.
- The post-issue paid-up capital of the company shall be at least Rs.3 crores.

SME IPO Listing Process

Listing your SME on a stock exchange can be a great way to raise capital and boost your company's profile. Here's a breakdown of the SME IPO listing process:

Apply an Underwriter

Initiating the IPO process involves appointing a merchant banker, commonly known as an underwriter. This professional possesses expertise in market dynamics and can play a pivotal role in drafting IPO-related documents, including details about the face value and selling price of shares. Thus, the appointed underwriter ensures the accuracy and integrity of the data provided by the SME.

Prepare the DRHP

Before a company goes public, potential investors seek comprehensive information about its operations and prospects. Therefore, the underwriter creates a Draft Red Herring Prospectus (DRHP), allowing potential investors to analyze the company's financial data and conduct market evaluations for informed investment decisions.

Submit the DRHP

In the case of a regular IPO, companies submit the DRHP to the Securities and Exchange Board of India (SEBI). However, the Stock Exchange requires SMEs to submit and verify the DRHP.

Advertise the IPO and Announce the Launch Date

Upon approval of the draft by the Stock Exchange, the underwriters add details such as IPO opening and closing dates, issue price, etc., and launch the IPO on a predetermined date. Therefore, underwriters, banks, and the stock exchange only know information about the company's plan to go public at this stage.

Launch the IPO and Allot Shares

The final step is to launch the IPO on the opening date, allowing investors to subscribe to a minimum lot of shares before the closing date. After the closing date, a selected number of investors are assigned the shares during the allotment process. Once the company officially launches the IPO in the primary market and allocates shares to investors, it attains public status. Subsequently, other investors can purchase its shares in the secondary market.

What is Difference Between IPO and SME IPO?

SME IPOs differ from regular IPOs in several key ways, including the listing criteria, disclosure requirements, and the role of merchant bankers. SME IPOs are initial public offerings (IPOs) designed for SMEs. Here are the key differences between SME IPOs and regular IPOs:

SME IPOs	Regular IPOs
Target SMEs	Target larger companies
Fewer regulatory requirements	Stringent regulatory requirements
Simplified disclosure and compliance rules	Complex disclosure and compliance rules

Less expensive and time-consuming	More expensive and time-consuming
Limited market liquidity	Higher market liquidity
Aimed at retail investors	Aimed at institutional investors.
Listed on the NSE SME Exchange in India	Listed on NSE and BSE

How Does SME IPO Work?

The process of issuing new SME IPOs is similar to that of regular IPOs, but with some differences.

Procedure	Timeline
Conversion of Company into Public Limited Company, if applicable	X
Preparation of Documents for conversion and submission to ROC for approval i.e. Alteration of Memorandum, Articles & filing of necessary forms for appointment of aforesaid directors	X+5
ROC approval accorded for conversion	X+7
Identification & appointment of Registrar & Transfer Agents & Submission of Master Creation forms with NSDL, CDSL for establishing connectivity	X+7
Appointment of Managing Director, Whole Time Director, Independent Directors, Company Secretary & deciding about their remuneration, sitting fees etc.	X+12
Constitution of committees – Audit, Shareholder Grievance, Remuneration etc. As per SEBI Listing Obligations and Disclosure Requirements Regulations	X+15
Preparation of website of the Company & hosting code of conduct on the website	X+18
Signing of Tri-Partite Agreement with NSDL & CDSL and receipt of ISIN	X+18
Identification & appointment of peer review auditors & getting the financials of the last 5 years restated and for the last 1 year re-audited from peer review auditors as per SEBI (ICDR) Regulations, 2009	X+18

Appointment of Merchant Banker & Market Maker	X+18
Preparation of Project Report and Draft Red Herring Prospectus (DRHP) / Prospectus	X+35
Filing of Draft Red Herring Prospectus (DRHP) with stock exchange & SEBI (only for hosting)	X+35
Visit to the registered office of the Company by BSE officials and promoters interview with Listing Advisory Committee	X+55
In Principle approval from the stock exchange	X+65
Filing of Draft Red Herring Prospectus (DRHP) with ROC & getting it cleared from ROC	X+70
Filing of Final Prospectus with Stock Exchange and SEBI	X+75
Opening of the Issue	X+80
Closing of the Issue	X+83
Allotment of shares	X+90
Filing of listing application with the Stock exchange	X+93
Receipt of listing approval from the Stock exchange	X+95
Filing of corporate action form with NSDL & CDSL and demat credit of shares	X+96
Filing of trading application with the Stock exchange	X+98
Receipt of trading approval from Stock exchange	X+100

How to Invest in SME IPOs?

Here's how you can invest in an SME IPO:

1. Eligibility:

- Ensure you have a Demat account (contact your bank or preferred broker to open one if needed).
- Check the minimum application value of the specific IPO (usually Rs. 1 lakh for retail investors).

2. Platform:

- Access the IPO application through your broker’s online platform or mobile app.
- Some platforms might offer direct access to SME exchanges like BSE SME or NSE Emerge.

3. Application Process:

- Select the “SME IPO” section and find the specific IPO you’re interested in.
- Enter the number of lots (each lot represents a specific number of shares) you want to apply for.
- Double-check the details and confirm your application.
- You’ll need to make an upfront payment through your linked bank account (typically via UPI).

4. Allotment and Trading:

- Once the IPO closes, allotment results are announced. You’ll receive shares based on your application and available shares.
- If allotted, the shares will be credited to your Demat account. You can then hold them or sell them on the SME exchange through your broker.

However, this is a standard step-by-step guide. As always, it’s advisable that investors do their own research and/or consult their financial advisor before investing.

Impact of SME IPO

Many emerging businesses face the challenge of securing capital for their expansion. While larger startups can explore various avenues such as engaging with private equity investors to access additional funds, smaller enterprises have fewer alternatives. A dedicated platform tailored for such companies could prove beneficial for both these businesses and potential investors.

Additionally, the growing interest in investing in SMEs can be attributed to the expanding pool of SME stocks and higher returns. The encouraging backing from

both the exchange board and investors can suggest a favourable environment for SME-IPOs in the Indian market. These SMEs may hold significance for the nation's growth and contribute to increased employment opportunities in India.

Upcoming SME IPOs List

The new SME IPO list for 2023 has been listed below.

Issuer Company	Open Date	Close Date	Issue Size (in Cr)	Lot Size	Exchange
Kay Cee Energy & Infra Limited IPO	Dec 28, 2023	Jan 02, 2024	15.93	2000	NSE SME
Shri Balaji Valve Components Limited IPO	Dec 27, 2023	Dec 29, 2023	21.60	1200	BSE SME
Manoj Ceramic Limited IPO	Dec 27, 2023	Dec 29, 2023	14.47	2,000	BSE SME
HRH Next Services Limited IPO	Dec 27, 2023	Dec 29, 2023	9.57	3,000	NSE SME
AIK Pipes And Polymers Limited IPO	Dec 26, 2023	Dec 28, 2023	15.02	1,600	BSE SME
Sameera Agro And Infra Limited IPO	Dec 21, 2023	Dec 27, 2023	62.64	800	NSE SME
Trident Techlabs Limited IPO	Dec 21, 2023	Dec 26, 2023	16.03	4,000	NSE SME
Supreme Power Equipment Limited IPO	Dec 21, 2023	Dec 26, 2023	46.67	2,000	NSE SME
Indifra Limited IPO	Dec 21, 2023	Dec 26, 2023	14.04	2,000	NSE SME

Please note that the above list is for educational purposes only, and is not recommendatory. Please do your own research or consult your financial advisor before investing.

Note: The data on the upcoming SME IPO list in India in the list is from 22nd December 2023. However, for real-time updates on stock prices and market trends, visit the smallcase stocks collection today!

Advantages of SME IPO

SME IPO can provide several benefits to a small or medium-sized company. Some of these benefits include:

- **Access to Capital:** By going public, SMEs can access a broader pool of capital than through traditional bank loans or private equity.
- **Increased Visibility:** A public listing can help an SME increase its visibility and reputation in the market.
- **Liquidity:** Stock exchanges can provide liquidity to shareholders by trading the shares of a public company.
- **Valuation:** A public listing can increase the valuation of a company, making it more attractive to potential investors or buyers.
- **Employee Incentives:** A public listing can provide a platform for offering employee incentives such as stock options or performance-based bonuses.

Challenges and Risks of SME IPOs

While SME IPOs offer several benefits, they also come with challenges and risks. Some of the common challenges faced by SMEs during the IPO process include:

- **Cost:** The cost of going public can be substantial, including fees for underwriting, legal, and accounting services.
- **Time-Consuming:** The IPO SME process can be a bit time-consuming, requiring significant resources and attention from management.
- **Market Volatility:** The performance of an IPO can be affected by market volatility, therefore, this can impact the valuation of the company.
- **Regulatory Compliance:** An SME must comply with all applicable securities laws and regulations, which can be complex and time-consuming.

- **Liquidity Risk:** Shares of SMEs may not be as liquid as those of larger, more established companies, which can make it difficult for investors to buy or sell shares.

Tips for SMEs Considering an IPO

Before going public, SMEs should consider the following factors:

- **Timing:** The timing of an IPO is crucial. The company should be financially stable, with a strong track record of performance.
- **Valuation:** Appropriately value the company, considering its financial performance, growth prospects, and market conditions.
- **Best Practices:** SMEs should follow best practices when preparing for an IPO. Including developing a comprehensive business plan, building a strong management team, and establishing good governance practices.
- **Set Realistic Expectations:** Don't overestimate the immediate financial gains or expect overnight success. Thus, it's advisable to focus on long-term value creation and sustainable growth.
- **Build a Strong Investor Relations Strategy:** Build trust with investors by providing regular updates and ensuring accessible information.

SME IPOs can be an important tool for NSE SMEs to access public capital and grow their businesses. While new SME IPOs come with risks and challenges, SMEs can successfully navigate the SME IPO process. Following best practices and carefully evaluating their readiness can accomplish this. As SMEs continue to play a crucial role in the economy, SME IPOs will continue to be an essential tool for their growth and development.

What Is a Listed Security?

A listed security is a financial instrument that is traded through an exchange, such as the New York Stock Exchange (NYSE) or Nasdaq. A listed security may be a stock, bond, or a derivative. These listed securities can be bought and sold on the open

market. Private companies that go public must choose an exchange where they plan to be listed and meet its listing requirements. Companies that issue stock launch their listing through an initial public offering (IPO).

Understanding Listed Securities

As noted above, a listed security is any financial instrument that can be bought and sold on an exchange. Listed securities may be bonds or stocks. They may also be more complex assets, such as derivatives. These securities are vital as they provide much-needed liquidity to the financial markets. They also help connect buyers and sellers.

There are several steps and requirements that issuers need to meet before they can list their securities on an exchange like the NYSE or the Nasdaq. The following are the general steps they must take:

1. Choose an exchange where they wish to be traded
2. Hiring advisors and key personnel to facilitate a listing
3. Prepare documentation, including financial statements and reports
4. Register with the regulator (the Securities and Exchange Commission (SEC) in the United States)
5. Meet the listing requirements
6. Set up an IPO

After the IPO is complete, trading begins on the secondary market. Companies that are listed must follow through with regular filings and continue to meet the exchange's financial requirements. If the company fails to comply with these conditions, its security will be delisted. Delisted securities that can no longer be traded on an exchange may trade over the counter. The over-the-counter (OTC) market does not have listing requirements.

Types of Listed Securities

Stocks

Stocks are among the most common listed securities. Companies that want to list their shares must go through the IPO process, which means selling shares on the primary market. This process involves creating a plan to go public, completing all the necessary paperwork, and hiring an underwriter to oversee the process.

Once the IPO is completed, trading can begin on the secondary market. While an IPO is reserved for institutional investors, the secondary market is where investors and traders buy and sell their shares. This arena not only allows small investors to participate in the financial market, but it also gives the market liquidity.

Bonds

Bonds are debt securities. Companies that issue bonds essentially borrow money from the investor. The investor buys a bond for the face value (the principal amount). In exchange, they receive their principal investment and interest at regular intervals and/or at maturity.

Bonds are issued by governments and corporations. They allow issuers to raise money for different reasons, including funding new purchases or growing their business. Since they are loans, the issuers must repay their investors (also known as bondholders and creditors) regardless of whether they earn a profit.

Derivatives

A derivative is a complex financial security. It is financial contract that is traded over an exchange. The value of the contract is dependent on the value of the underlying asset, which can include commodities, currencies, options, or futures. Contracts are agreed-upon by two parties—the buyer and seller.

Listing securities on the Nasdaq is considerably less expensive than listing on the NYSE. As such, newer companies often opt for the Nasdaq if they meet its requirements. Fees are based on a listing company's outstanding shares.

Requirements to Become a Listed Security

The exchange a company chooses can affect how investors perceive the stock. Some companies choose to cross-list their securities on more than one exchange. We've listed some of the basics of listing a security on the NYSE and the Nasdaq below. Keep in mind that listing requirements for other exchanges may differ.

On the New York Stock Exchange (NYSE)

Companies that want to be listed on the NYSE must go through several steps:

- **Step 1:** Choose a market. The pool includes the NYSE, the NYSE American, and the NYSE Arca.
- **Step 2:** Select a ticker symbol.
- **Step 3:** Apply to the exchange. This includes meeting certain requirements, such as paying listing fees, meeting minimum market capitalization thresholds, and shareholder lots among other things.
- **Step 4:** Pick a designated market maker (DMM), which acts as the primary maker for the security. ²

If a new listing is an IPO, the NYSE requires a guarantee from the IPO underwriter that the IPO will meet the board's standards.³

On the Nasdaq

The listing process can take anywhere from four to six weeks. Companies that want to list their securities must:

- Reserve their ticker symbol
- Submit an application
- Complete a listing agreement
- Provide a governance certification
- Pay the fee
- Fill out the logo submission form

These steps can be done on paper or electronically online.⁴

Just like the NYSE, issuers must meet the requirements of the financial market to which they apply. For instance, the requirements vary between the Nasdaq Global Select Market, the Global Select Market, the Nasdaq Global Market, and the Nasdaq Capital Market. These conditions include market cap, market value, market makers, and total assets among others.⁵

What Is Listing Of Securities?

Making stocks, bonds, or other financial instruments of a company available for trading on an approved stock market is referred to as listed securities. To receive authorization from the exchange, you must meet specific eligibility requirements and adhere to legal requirements. The issuing company and investors gain a lot from listing securities.

Objectives Of Listing Of Securities

- To provide liquidity to securities
- To provide a mechanism for effective control and supervision of trading
- To mobilize savings for economic development
- To provide free negotiability to stocks.
- Ability to raise further capital.

Terms And Condition To List Securities In Stock Exchange

- For **initial public offers (IPOs)** and follow-on public offerings (FPOS), the minimum paid-up capital for the firm must be INR 10 crore and INR 3 crore, respectively.
- The offering must be at least INR 10 crore in size.
- A minimum market capitalization of INR 25 crore is required for the company.

- The applicant, promoters, and/or group firms cannot break the listing agreement without permission.
- The issuer must abide by any laws, rules, and directives that may be relevant, such as those outlined in the **Securities Contracts (Regulations) Act of 1956**¹ and the Securities Contracts (Regulation) Rules of 1957.
- Before submitting their prospectus or Exchange (BSE) before using the BSE name offer for sale paperwork to the Registrar of Companies, companies must first receive permission from the Bombay Stock in those documents. Before registering with the Registrar of Companies, a letter of application must be sent to each stock market where the company seeks to be listed.
- The company must complete the allotment of securities in accordance with the Listing Agreement within 30 days of closing the public subscription list.
- Each financial year's 30th April is the deadline for all publicly traded companies to pay the BSE's annual listing fee.

Types of Listing Of Securities

- Initial listing
- Listing of Bonus shares
- Listing for merger or amalgamation
- Listing for Rights Issue
- Listing for public Issue

Benefits of Listing Securities

The benefits of listing securities on a stock market include the following:

- **Higher liquidity:** When securities are listed on a stock market, investors can buy or sell them more easily. The increased trading activity improves the assets' liquidity, increasing their allure to investors.
- **Heightened visibility:** A company's exposure and visibility to potential investors are increased by listing on a stock market. This heightened awareness might draw in new investors and present chances for the business to acquire more money.
- **Enhanced legitimacy:** A company and its securities gain legitimacy and credibility by being listed on a stock exchange. Investor confidence is bolstered by the stringent listing standards and regulations connected with exchanges, which add to the company's overall credibility.
- **Access to capital:** The opportunity to access new streams of finance is one of the significant advantages of listing securities. Broader pools of possible investors, including institutional investors, who are more inclined to invest in listed shares, become accessible when a company is listed on a stock market. This enlarged investor base increases the company's prospects of obtaining funding for growth, R&D, or other strategic projects.
- **Improved Market Awareness and Brand Reputation:** Listing on a stock exchange can improve market acceptance and brand awareness for a company. Because a listing is public, there is potential for more media interest and analyst focus. This increased visibility might bring in new clients, collaborators, and business prospects, which will help the organization expand and prosper as a whole.
- **Prospects for Expansion and Growth:** Listing on a stock market might lead to prospects for expansion and development. **Mergers, acquisitions,** and strategic alliances can be made more accessible due to expanded access to finance, higher liquidity, and raised visibility. A company's shareholder base can grow as a result of being listed on a stock exchange since it attracts

institutional investors and analysts who actively look for investment possibilities in listed companies.

The process of listing securities on a stock market is essential and has several advantages for both businesses and investors. It entails fulfilling particular eligibility requirements, providing required documents, going through examination and approval by the stock market, and abiding by regulatory requirements. From ordinary shares and bonds to ETFs, a variety of instruments can be offered. The ability to list securities gives businesses access to cash through initial public offerings, improves visibility and credibility, creates prospects for development and growth, and guarantees adherence to corporate governance rules. Additionally, it has benefits in law and regulation, promoting investor protection. For companies seeking expansion and for individuals searching for investment possibilities, the advantages of listing securities make it a worthwhile endeavor. Stock exchanges provide as venues for financial markets, facilitating capital creation, liquidity, and transparency. Although laborious, the listing procedure is essential for establishing a company's presence in the stock market and luring investors, which eventually helps to promote economic growth and development.

UNIT II – Primary Market

No	Question	Marks	Bloom's Level
1	Define primary market and state its importance.	5	K1, K2
2	What are IPO, FPO, and OFS?	5	K1
3	Distinguish between fixed price method and book building method.	5	K2
4	What is an offer document?	5	K1
5	State the role of merchant bankers.	5	K2
6	Explain the concept, functions, and importance of the primary market.	8	K2
7	Discuss the methods of flotation of securities.	8	K3
8	Explain the pricing of issues in the primary market.	8	K3
9	Describe the role of intermediaries in the new issue market.	8	K2
10	Discuss SME IPOs and the procedure for listing of securities.	8	K3

Unit – III - Secondary market

Secondary Market

A secondary market is a platform wherein the shares of companies are traded among investors. It means that investors can freely buy and sell shares without the

intervention of the issuing company. In these transactions among investors, the issuing company does not participate in income generation, and share valuation is rather based on its performance in the market. Income in this market is thus generated via the sale of the shares from one investor to another.

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

- Retail investors.

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

Different Instruments in the Secondary Market

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

- Fixed income instruments

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

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

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

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

- Variable income instruments

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

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

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

- Hybrid instruments

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

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

Functions of Secondary Market

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

Types of Secondary Market

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

- **Stock exchange**

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

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

- **Over-the-counter (OTC) market**

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

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

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

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

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

Examples of Secondary Market Transactions

Secondary market transactions provide liquidity to all kinds of investors. Due to high volume transactions, their costs are substantially reduced. Few secondary market examples related to transactions of securities are as follows.

In a secondary market, investors enter into a transaction of securities with other investors, and not the issuer. If an investor wants to buy Larsen & Toubro stocks, it will have to be purchased from another investor who owns such shares and not from L&T directly. The company will thus not be involved in the transaction.

Individual and corporate investors, along with investment banks, engage in the buying and selling of bonds and mutual funds in a secondary market.

Advantages of Secondary Market

- Investors can ease their liquidity problems in a secondary market conveniently. Like, an investor in need of liquid cash can sell the shares held quite easily as a large number of buyers are present in the secondary market.
- The secondary market indicates a benchmark for fair valuation of a particular company.
- Price adjustments of securities in a secondary market takes place within a short span in tune with the availability of new information about the company.
- Investor's funds remain relatively safe due to heavy regulations governing a secondary stock market. The regulations are stringent as the market is a source of liquidity and capital formation for both investors and companies.
- Mobilisation of savings becomes easier as investors' money is held in the form of securities.

Disadvantages of Secondary Market

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

Difference between Primary and Secondary Market

Primary Market	Secondary Market
Securities are initially issued in a primary market. After issuance, such securities are listed in stock exchanges for subsequent trading.	Trading of already issued securities takes place in a secondary market.
Investors purchase shares directly from the issuer in the primary market.	Investors enter into transactions among themselves to purchase or sell securities. Issuers are thus not involved in such trading.
The stock issue price in a primary market remains fixed.	Prices of the traded securities in a secondary market vary according to the demand and supply of the same.
Sale of securities in a primary market generates fund for the issuer.	Transactions made in this market generate income for the investors.

Issue of security occurs only once and for the first time only.	Here, securities are traded multiple times.
Primary markets lack geographical presence; it cannot be attributed to any organisational set-up as such.	A secondary market, on the contrary, has an organisational presence in the form of stock exchanges.

As for the platform provided by a secondary market, it facilitates stock trading and also enables converting securities into cash. Continuous trading in a secondary market also increases the liquidity of traded assets. Investors are thus encouraged to undertake investments in financial instruments available in secondary markets for substantial corpus creation. It is ideal to take the assistance of fund managers to make the most of investment in a volatile market scenario.

Trading System

NSE operates on the 'National Exchange for Automated Trading' (NEAT+) system, a fully automated screen based trading system, which adopts the principle of an order driven market. NSE consciously opted in favour of an order driven system as opposed to a quote driven system. This has helped reduce jobbing spreads not only on NSE but in other exchanges as well, thus reducing transaction costs.

The NEAT+ system has four types of market. They are:

Normal Market

All orders which are of regular lot size or multiples thereof are traded in the Normal Market. For shares that are traded in the compulsory dematerialised mode the market lot of these shares is one. 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.

Odd Lot Market

All orders whose order size is less than the regular lot size are traded in the odd-lot market. An order is called an odd lot order if the order size is less than regular lot size.

These orders do not have any special terms attributes attached to them. In an odd-lot market, both the price and quantity of both the orders (buy and sell) should exactly match for the trade to take place. Currently the odd lot market facility is used for the Limited Physical Market as per the SEBI directives.

Auction Market

In the Auction Market, auctions are initiated by the Exchange on behalf of trading members for settlement related reasons. There are 3 participants in this market.

- Initiator - the party who initiates the auction process is called an initiator
- Competitor - the party who enters orders on the same side as of the initiator
- Solicitor - the party who enters orders on the opposite side as of the initiator

The NSE trading system provides complete flexibility to members in the kinds of orders that can be placed by them. Orders are first numbered and time-stamped on receipt and then immediately processed for potential match. Every 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 different 'books'. Orders are stored in price-time priority in various books in the following sequence:

-Best Price

-Within Price, by 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 are entered, the order that is entered first gets the higher priority.

The Equities segment has following types of books:

Regular Lot Book

The Regular Lot Book contains all regular lot orders that have none of the following attributes attached to them.

- All or None (AON)
- Minimum Fill (MF)
- Stop Loss (SL)

Special Terms Book

The Special Terms book contains all orders that have either of the following terms attached:

- All or None (AON)
- Minimum Fill (MF)

Note: Currently, special term orders i.e. AON and MF are not available on the system as per the SEBI directives.

Stop-Loss Book

Stop Loss orders are stored in this book till the trigger price specified in the order is reached or surpassed. When the trigger price is reached or surpassed, the order is released in 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.

Odd Lot Book

The Odd lot book contains all odd lot orders (orders with quantity less than marketable lot) in the system. The system attempts to match an active odd lot order against passive orders in the book. Currently, pursuant to a SEBI directive, the Odd Lot Market is being used for orders that have quantity less than or equal to 500 viz. the Limited Physical Market.

Auction Book

This book contains orders that are entered for all auctions. The matching process for auction orders in this book is initiated only at the end of the solicitor period.

Order matching rules

The best buy order is matched with the best sell order. An order may match partially with another order resulting in multiple trades. For order matching, the best buy order is the one with the highest price and the best sell order is the one with the lowest price. This is because the system views all buy orders available from the point of view of a seller and all sell orders from the point of view of the buyers in the market. So, of all buy orders available in the market at any point of time, a seller

would obviously like to sell at the highest possible buy price that is offered. Hence, the best buy order is the order with the highest price and the best sell order is the order with the lowest price.

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

Order conditions

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

Time Conditions

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

GTC - A Good Till Cancelled (GTC) order is an order that remains in the system until it is cancelled by the Trading Member. It will therefore be able to span trading days if it does not get matched. The maximum number of days a GTC order can remain in the system is notified by the Exchange from time to time.

GTD - A Good Till Days/Date (GTD) order allows the Trading Member to specify the days/date up to which the order should stay in the system. At the end of this period the order will get flushed from the system. Each day/date counted is a calendar day and inclusive of holidays. The days/date counted are inclusive of the day/date on which the order is placed. The maximum number of days a GTD order can remain in the system is notified by the Exchange from time to time.

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

Note: Currently, GTC and GTD orders are not available on the system as per SEBI directives.

Price Conditions

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

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

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

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

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

Quantity Conditions

Disclosed Quantity (DQ)- An order with a DQ condition allows the Trading Member to disclose only a part of the order quantity to the market. For example, an order of 1000 with a disclosed quantity condition of 200 will mean that 200 is displayed to the market at a time. After this is traded, another 200 is automatically released and so on till the full order is executed. The Exchange may set a minimum disclosed quantity criteria from time to time.

MF - Minimum Fill (MF) orders allow the Trading Member to specify the minimum quantity by which an order should be filled. For example, an order of 1000 units with

minimum fill 200 will require that each trade be for at least 200 units. In other words there will be a maximum of 5 trades of 200 each or a single trade of 1000. The Exchange may lay down norms of MF from time to time.

AON - All or None orders allow a Trading Member to impose the condition that only the full order should be matched against. This may be by way of multiple trades. If the full order is not matched it will stay in the books till matched or cancelled.

Note: Currently, AON and MF orders are not available on the system as per SEBI directives.

Internet Based Trading (IBT)

The Securities & Exchange Board of India (SEBI) approved the report on Internet Trading brought out by the SEBI Committee on Internet Based Trading and Services In January 2000. Internet trading can take place through order routing systems, which will route client orders to exchange trading systems for execution. Thus a client sitting in any part of the country would be able to trade using the Internet as a medium through brokers' Internet trading systems.

SEBI-registered brokers can introduce Internet based trading after obtaining permission from respective Stock Exchanges. SEBI has stipulated the minimum conditions to be fulfilled by trading members to start Internet based trading and services, vide their circular no. SMDRP/POLICY/CIR-06/2000 dated January 31, 2000.

Online Trading is a method that facilitates buying and selling of financial instruments such as mutual funds, equities, bonds, Sovereign gold bonds, derivatives, stocks, ETFs and commodities through an electronic interface.

Online Trading has simplified a complex process into a few clicks.

A couple of decades ago, a buyer or seller had to reach out to a broker on the phone or physically to execute a trade, that demanded significant effort and time. Previously, a broker had access to modify and execute the trades. With online trading, the control is in your hand. This has ensured a better user experience and transparency.

Benefits of online trading

Online trading offers several benefits:

1. **Simple and convenient process:** Online trading provides an easy and convenient way to buy and sell financial instruments. You can place trades from the comfort of your home or office, eliminating the need to visit a physical brokerage. Online platforms are user-friendly and often provide research tools to aid your decision-making.
2. **Less expensive:** Online trading tends to have lower fees and commissions compared to traditional brokerage services. This cost-effectiveness can save you money in the long run, especially if you frequently trade.
3. **Complete control:** Online trading gives you full control over your investment decisions. You can execute trades at your preferred time, set your own strategies, and manage your portfolio without relying on a broker's assistance.
4. **Monitor investments all the time:** Online platforms enable you to monitor your investments in real-time. You can access account information, check stock prices, and track market developments at any moment, allowing you to make timely decisions based on up-to-the-minute data.

Understanding the journey of an online trade:

1. A buy/ sell order is initiated by the investor on Demat & Trading Account.
2. Once a relevant match is found, the trade is executed.
3. After execution, a trade confirmation is sent by the stockbroker to their clients.
4. Then, the clearing process is initiated by clearing member/ clearing corporation.
5. The Clearing Corporation settles the trade-in T+1 day (T= Date the order was placed, 1 day = 1 Working Day) and credits the shares in the Demat account of the buyer.
6. After the trade, the next step is to fulfill the financial obligations. This includes making sure buyers pay for the stocks they've purchased, and sellers receive the money for their sales.
7. Once the buyer has received the securities, and the seller has received the money, the trade is considered settled.

8. After all these steps are followed, the shares are transferred to the buyer's Demat account through depositories, and the money from selling the shares is credited to the seller's account.

Online Trading vs. Offline Trading

Online Trading:

- **Convenience:** Online trading is conducted through internet-based trading platforms offered by brokerage firms. It allows investors to buy and sell financial instruments from the comfort of their homes or offices, offering convenience and flexibility.
- **Speed:** Online trading is generally faster than offline trading. Orders can be executed instantly during functional trading hours, and investors can react quickly to market changes.
- **Cost-efficient:** Online trading often has lower brokerage fees and commissions compared to traditional offline trading methods. This can result in cost savings for investors.
- **Access to information:** Online traders have access to real-time market information, research tools, and historical data. This information is easily accessible, aiding informed decision-making.
- **Control:** Investors have complete control over their trades, with the ability to place orders, track portfolios, and manage investments independently.

Offline trading:

- **Manual process:** Offline trading involves placing orders through physical visits to a broker's office or via telephone calls. It is a more manual process.
- **Slower execution:** Trades may take longer to execute in offline trading due to the involvement of intermediaries, such as brokers.
- **Higher costs:** Commissions and fees in offline trading are typically higher than those in online trading, making it a costlier option.
- **Limited information:** Offline traders may have limited access to real-time market information and research tools. This can hinder their ability to make well-informed decisions.

- **Reliance on intermediaries:** In offline trading, investors often rely on brokers to place and manage their trades, reducing the level of control they have over their investments.

Benefits of Online Trading

- Online trading is cost, time, and effort efficient. It saves energy and brokerage fee
- Complete control over order placement and portfolio management
- Tracking every stock and their returns in your portfolio is hassle-free
- With lightning-fast payment gateways like UPI etc. fund transfer is swift and convenient
- Secured trading with transparency

Choose the Right Trading Platforms for Online Trading in India

The options available for online trading are aplenty however, you need to choose the right one and let us assist you in identifying the parameters to choose the right platform.

Simple and Easy to Use Interface

The most important aspect of choosing a broking agency is to check how simple is the platform and how uncomplicated is the user interface. You will be spending considerable time on the platform, and it should be simple enough for you to navigate.

Low Brokerage Fees

It is important to compare the brokerage fees of various broking agencies and then select one. As you will take multiple trades in the process the brokerage fees will turn out to be a concern, in the long run, thus, choosing the right platform, in the beginning, can save you a lot.

Market Features

There are various financial instruments on which you can trade in a stock market. It is important for the platform you choose to have diverse options available which simply means to allow you to provide access to all kinds of instruments. E.g., Bajaj Financial Securities Limited provides you with best-in-class interest rates for Margin Trade Financing (MTF).

Technological Features

Speed is critical for online trading, and this can be achieved only through apex technology. Technology is also critical to upholding the security requirements of a user and this should be non-negotiable.

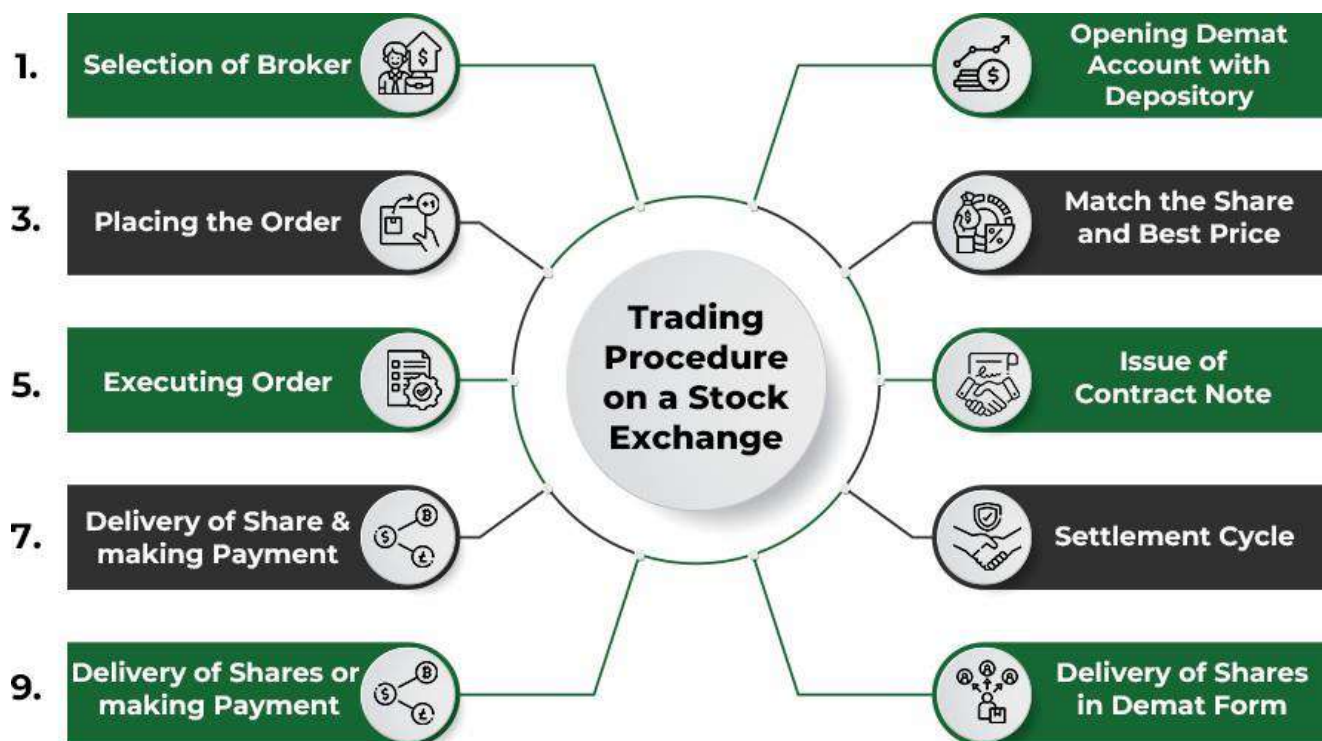
Trading Procedure on a Stock Exchange

A market that serves as a link between the savers and borrowers by transferring the capital or money from those who have a surplus amount of money to those who are in need of money or investment is known as **Financial Market**. Simply put, Financial Market is a market that creates and exchanges financial assets. In general, the investors are known as the surplus units and business enterprises are known as the deficit units. Hence, a financial market acts as a link between surplus units and deficit units, and brings the borrowers and lenders together.

Stock Exchange

The **Securities Contract and Regulation Act** defines a stock exchange as, “An organisation or body of individuals, whether incorporated or not established for the purpose of assisting, regulating, and controlling of business in buying, selling, and dealing in securities.”

Trading Procedure on a Stock Exchange



Before the companies start selling the securities through the stock exchange, they have to first get their securities listed on the stock exchange. The name of the company is included in listed securities only when the authorities of the stock exchange are satisfied with the financial soundness and various other aspects of the company.

Earlier, the buying and selling of securities were done on the trading floor of the stock exchange. However, in present times, it is done through computers and consists of the following steps:

1. Selection of Broker

One can buy and sell securities only through the brokers registered under SEBI and who are members of the stock exchange. A broker can be a partnership firm, an individual, or a corporate body. Hence, the first step of the trading procedure is the selection of a broker who will buy/sell securities on the behalf of a speculator or investor. Before placing an order to the registered broker, the investor has to provide some information, including PAN Number, Date of Birth and Address, Educational Qualification and Occupation, Residential Status (Indian/NRI), Bank Account Details, Depository A/c details, Name of any other brokers with whom they have registered, and Client code number in the client registration form. After getting information regarding all the said things, the broker opens a trading account in the name of the investor.

2. Opening Demat Account with Depository

An account that must be opened with the Depository Participant (including stock brokers or banks) by an Indian citizen for trading in the listed securities in electronic form is known as **Demat (Dematerialised) Account** or **Beneficial Owner (BO) Account**.

The second step of the trading procedure is the opening of a Demat Account. The Depository holds the securities in electronic form. A **Depository** is an organisation or institution, which holds securities like bonds, shares, debentures, etc. At present there are two Depositories; namely, **NSDL (National Securities Depository**

Ltd.) and CDSL (Central Depository Securities Ltd.). The Depository and the investor do not have direct contact with each other and interact with each other through Depository Participants only. The Depository Participant will have to maintain the securities account balances of the investor and intimate investor from time to time about the status of their holdings.

3. Placing the Order

The next step after the opening of a Demat Account is the placing of an order by the investor. The investor can place the order to the broker either personally or through email, phone, etc. The investor must make sure that the order placed clearly specifies the range or price at which the securities can be sold or bought. **For example,** an order placed by Kashish is, “Buy 200 equity shares of Nestle for no more than ₹200 per share.”

4. Match the Share and Best Price

The broker after receiving an order from the investor will have to then go online and connect to the main stock exchange to match the share and best price available.

5. Executing Order

When the shares can be bought or sold at the price mentioned by the investor, it will be communicated to the broker terminal, and then the order will be executed electronically. Once the order has been executed, the broker will issue a trade confirmation slip to the investors.

6. Issue of Contract Note

Once the trade has been executed within 24 hours, the broker will issue a contract note. A contract note consists of the details of the number of shares bought or sold, the date, time of the deal, price of securities, and brokerage charges. A contract note is an essential legal document. It helps in settling disputes claims between the investors and the brokers. A contract note also consists of a printed unique order code number assigned to each transaction by the Stock Exchange.

7. Delivery of Share and making Payment

In the next step, the investor has to deliver the shares sold or has to pay cash for the shares bought. The investor has to do so immediately after receiving the contract note or before the day when the broker shall make delivery of shares to the exchange or make payment. This is known as **Pay in Day**.

8. Settlement Cycle

The payment of securities in cash or delivery of securities is done on Pay in Day, which is before T+2 Day. It is because the settlement cycle is T+2 days on w.e.f April 2003 rolling settlement basis. **For example**, if the transaction took place on Tuesday, then the payment must be done before Thursday, i.e., T+2 days (Transaction plus two more days).

9. Delivery of Shares or Making Payment

On the T+2 Day, the Stock Exchange will then deliver the share or make payment to the other broker. This is known as **Pay out Day**. Once the shares have been delivered of payment has been made, the broker has to make payment to the investor within 24 hours of the pay out day, as he/she has already received payment from the exchange.

10. Delivery of Shares in Demat Form

The last step of the trading procedure is making delivery of shares in Demat form by the broker directly to the Demat Account of the investor. The investor is obligated to give details of his Demat Account and instruct his Depository Participant (DP) for taking delivery of securities directly in his beneficial owner account.

What is trade settlement?

Trade settlement is a process that takes place after two parties have agreed on the terms of a trade transaction, including the price at which the transaction took place, and the quantity of the securities involved. It is an essential part of the trading process as it ensures that all the terms of the transaction are met, and ownership of the

securities is transferred from the seller to the buyer. Trade settlement is a critical component of the stock market, and without it, the stock market can't function.

Trade settlement

Trade settlement is a two-way process that involves the exchange of cash and securities between the buyer and the seller. When a trade is executed, the buyer and the seller agree on a trade price, and the securities that have been bought and sold. Once the trade has been executed, the settlement process starts to ensure that the terms of the trade are met, and the exchange of cash and securities is completed.

What is the settlement date?

The settlement date is the date on which the trade settlement is completed, and ownership of the securities is transferred from the seller to the buyer. It is the date on which the cash is paid, and the securities are delivered. The settlement period through securities and funds pay-in and pay-out has to be done on T+1. The T stands for "transaction", and the number represents the number of days between the trade date and the settlement date. For instance, T+1 settlement means that the settlement will occur one business day after the trade date.

What is settlement in stock market and the different types?

In the stock market, settlement refers to the process of transferring the ownership of securities from the seller to the buyer. There are two types of settlement - Rolling Settlement and Account Settlement.

Rolling settlement is a process where trades are settled on T+1 day. In this process, the settlement period keeps rolling forward every day. For example, if the rolling settlement period is T+2, then at the end of day one of the settlement period, the period would be T+1, and at the end of day two, the period would be T+2.

What is trade settlement process on BSE?

The trade settlement process on the Bombay Stock Exchange (BSE) is based on the rolling settlement system. The settlement period for the BSE is T+1, which means that the trades are settled within one business day of the trade date. The settlement cycle is divided into different phases. These include trade date, pay-in, and pay-out. During

the pay-in phase, the buyers must pay the funds for the securities they have purchased, and during the pay-out phase, the sellers receive the funds for the securities they have sold.

What is trade Settlement in NSE?

The National Stock Exchange (NSE) has a similar trade settlement process to that of the BSE. The settlement period for the NSE is also T+1. The settlement cycle in NSE is divided into five phases - trade date, trade confirmation, pay-in, pay-out, and closeout. During the pay-in phase, the buyers must pay the funds for the securities they have purchased, and during the pay-out phase, the sellers receive the funds for the securities they have sold.

Settlement violations

In the trade settlement process, there can be settlement violations that can occur due to various reasons, such as short selling, bad delivery, and auction settlement. A short sell violation happens when the seller sells securities that they do not own or have not borrowed to sell. A bad delivery violation happens when the securities delivered do not match the seller's obligations to deliver, and auction settlement happens when the trades cannot be settled in the regular settlement process, and an auction is conducted to settle the trade.

Trade settlement is an integral part of the trading process in the stock market. It involves the exchange of cash and securities between the buyer and the seller. The settlement process is divided into different phases, such as trade date, pay-in, and pay-out.

While trade settlement is a complex process, it is the backbone of the stock market, and without it, the entire trading process would be in chaos.

What is screen-based trading system (SBTS)

Before the NSE was set up, trading on the 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. The practice of physical trading imposed limits on trading volumes as well as, the speed with which new information was incorporated into prices.

To obviate this, the NSE introduced screen-based trading system (SBTS) where a member can punch into the computer the quantities of shares and the prices at which he wants to transact. The transaction is executed as soon as the quote punched by a trading member finds a matching sale or buys quote from counterparty. SBTS electronically matches the buyer and seller in an order-driven system or finds the customer the best price available in a quote-driven system, and hence cuts down on time, cost and risk of error as well as on the chances of fraud.

Benefits of SBTS:

- SBTS enables distant participants to trade with each other, improving the liquidity of the markets.
- The high speed with which trades are executed and the large number of participants who can trade simultaneously allows faster incorporation of price-sensitive information into prevailing prices.
- This increases the informational efficiency of markets. With SBTS, it becomes possible for market participants to see the full market, which helps to make the market more transparent, leading to increased investor confidence
- The NSE started nation-wide SBTS, which have provided a completely transparent trading mechanism. Regional exchanges lost a lot of business to NSE, forcing them to introduce SBTS

Introduction to Types of Brokers in Stock Exchange

Welcome to the dynamic world of stock brokerages, where financial transactions and investments are facilitated through a diverse array of intermediaries. Stockbroking for intermediaries is a pivotal function, connecting investors with the bustling secondary market. In this realm, various type of stock brokers plays distinct roles, shaping the landscape of stock trading and investment. Understanding the nuances of these brokers is essential for navigating the complexities of the secondary market and making informed investment decisions. From full-service brokers to discount brokers, each type brings a unique set of services and advantages to cater to the diverse needs of investors.

Types of Brokers in Stock Market

In the intricate world of the stock market, share market brokers play a pivotal role as intermediaries, connecting investors with the vast realm of financial instruments. Understanding the different types of brokers in stock market is essential for investors looking to navigate the market effectively. Let's explore the kinds of brokers in stock exchange and the unique services they offer.

Full-Service Brokers

Full-service brokers are the comprehensive solution providers in the stock market arena. These brokers offer a wide range of services, including investment advice, research reports, and personalized financial planning. Investors opting for full-service brokers benefit from a hands-on approach, gaining access to expert guidance for strategic decision-making. However, these services often come with higher fees and commissions.

Discount Brokers

On the opposite end of the spectrum, discount brokers cater to cost-conscious investors. These brokers provide a no-frills, execution-only service, allowing clients to trade at lower costs. While discount brokers may lack the personalized advice of full-service counterparts, they appeal to self-directed investors who prefer a more hands-on approach to their portfolios.

Online Brokers

The rise of the internet has given birth to online brokers, revolutionizing the way investors engage with the stock market. Online brokers provide a digital platform for clients to execute trades, access market information, and manage their portfolios. With user-friendly interfaces and real-time data, online brokers empower investors to take control of their investments with convenience and efficiency.

Robo-Advisors

In the era of artificial intelligence, robo-advisors have emerged as a novel category of brokers. These automated platforms utilize algorithms to analyze market trends, assess

risk tolerance, and construct diversified portfolios. Robo-advisors are particularly appealing to tech-savvy investors seeking a low-cost, hands-off investment solution.

Institutional Brokers

Institutional brokers cater to large institutions, such as mutual funds, pension funds, and hedge funds. These brokers facilitate large-scale transactions in the financial markets, providing access to liquidity and specialized services tailored to the unique needs of institutional investors. The scale of transactions often leads to negotiated commissions.

Specialty Brokers

Specialty brokers focus on specific asset classes or markets. Whether it's commodities, foreign exchange, or options trading, these brokers possess specialized knowledge and expertise in their chosen niche. Investors seeking exposure to a particular market segment often turn to specialty brokers for tailored services.

Direct Market Access (DMA) Brokers

Direct Market Access (DMA) brokers offer a direct link to financial exchanges, allowing clients to execute trades with minimal latency. Typically, these brokers cater to institutional clients and high-frequency traders who require swift execution and access to the order book. DMA brokers provide a direct pipeline to the heart of the market.

Prime Brokers

Prime brokers serve hedge funds and other large investors, providing a suite of services, including securities lending, custodial services, and trade execution. Prime brokers act as a one-stop-shop for institutional clients, streamlining their interactions with the financial markets.

Navigating the stock market involves choosing a broker that aligns with your investment goals, preferences, and level of expertise. The diversity of brokers in stock exchange ensures that there's a suitable option for every investor, from those seeking comprehensive guidance to others who prefer a more self-directed approach.

In the ever-evolving landscape of the stock market, the key is to align your choice of broker with your investment strategy. Whether you opt for the personalized services of a full-service broker, the cost efficiency of a discount broker, or the automated approach of a robo-advisor, understanding the types of broker in stock market empowers you to make informed decisions in your financial journey.

Brokers in the Stock Market: Who are They?

Imagine you're at a big auction where people buy and sell things like rare toys and valuable artwork. Now, picture the stock market as a similar place, but instead of toys, people trade "stocks" or "shares" of companies.

A stock broker is like a helper at this auction. They assist you in buying or selling stocks in the stock market. They have access to the special area where all the trading takes place, called the stock exchange.

Different Types of Share Market Brokers

There are several types of brokers in stock market who facilitate buying and selling of securities. Here are the main types of brokers:

1. **Full-Service Brokers:** These brokers offer a wide range of services, including research, advisory, portfolio management, and personalised assistance. They typically charge higher brokerage fees compared to other types of brokers due to the additional services they provide.
2. **Discount Brokers:** Discount brokers offer trading services at a lower cost, often with a fixed brokerage fee or a very low percentage of the trade value. They provide a no-frills trading platform without the extensive research and advisory services offered by full-service brokers.
3. **Online Brokers:** These brokers provide online trading platforms that allow investors to place orders, track their investments, and manage their portfolios electronically. Both full-service and discount brokers can fall under this

category, but many discount brokers are specifically known for their online trading platforms.

4. **Traditional Brokers:** Traditional brokers operate through physical offices and offer in-person assistance for trading and investment-related activities. While this model is becoming less common with the rise of online trading, some investors still prefer this personal touch.
5. **Bank-Based Brokers:** Some large banks in India have their own brokerage arms. They offer trading services along with banking facilities, making it convenient for customers to manage their finances and investments in one place.
6. **Commodity Brokers:** These brokers specialize in facilitating the trading of commodities such as gold, silver, agricultural products, and other raw materials in the commodity markets.
7. **Currency Brokers:** Currency brokers focus on facilitating trading in foreign exchange (forex) markets, allowing investors to trade different currency pairs.
8. **Institutional Brokers:** These brokers cater primarily to institutional investors such as mutual funds, insurance companies, and pension funds. They handle large volumes of trades and often provide customized solutions for their institutional clients.
9. **Retail Brokers:** Retail brokers primarily serve individual retail investors. They offer services designed for small-scale investors who trade in relatively smaller quantities compared to institutional investors.
10. **Sub-Brokers:** Sub-brokers are individuals or entities authorised by stockbrokers to provide trading services to clients. They operate under the umbrella of a main broker and earn a commission for the trades they execute.

Direct Market Access (DMA) Brokers: These brokers offer direct market access to clients, allowing them to place orders directly on the stock exchange's trading platform. This can be beneficial for high-frequency traders and institutional investors who require faster execution and more control over their trades.

Discount Broker vs Full Service Broker

Aspect	Discount Brokers	Full-Service Brokers
Services	Basic trading platform	Extensive services and research
Brokerage Fees	Low fixed fees or commissions	Higher brokerage fees
Research & Advice	Limited to none	Comprehensive research & advice
Personalized Support	Limited	Dedicated customer assistance
Trading Experience	Self-directed	Assisted trading and guidance
Investment Guidance	Limited	Professional investment advice
Portfolio Management	Usually not offered	Portfolio management services
Target Audience	Active traders and investors	Investors seeking guidance
Additional Services	Primarily online services	In-person and online services

Exploring Other Broker Types

Outside the stock market, brokers operate in various industries. In real estate, brokers represent property sellers, determining values, listing properties, and advising on offers.

The Role of Brokers in the Stock Market

A stockbroker, often referred to simply as a broker, acts as an intermediary between investors and the securities market. Their primary responsibility involves executing buy and sell orders on behalf of clients. Investors rely on their expertise to make informed decisions in the stock market, benefiting from their deep understanding of market dynamics and trends.

Role of brokers in the stock market:

- **Buying and Selling:** Brokers are like helpers who assist people in buying and selling stocks (shares) of companies in the stock market.
- **Middlemen:** They act as middlemen between investors and the stock market. They connect buyers and sellers to make trading possible.

- **Access to Stock Exchange:** Brokers have special access to the stock exchange, which is like the marketplace for stocks. They can place orders to buy or sell stocks on behalf of investors.
- **Order Placement:** When you want to buy or sell stocks, you tell your broker what you want to do. They then place the order for you in the stock exchange.
- **Executing Orders:** Brokers ensure that your orders are placed correctly and at the right price. They make sure the transactions happen smoothly.
- **Trading Platforms:** Brokers provide online platforms where investors can log in to see their investments, place orders, and track their portfolio.
- **Different Types:** There are full-service brokers who offer a lot of help and advice, and discount brokers who focus more on the actual trading process.
- **Fees:** Brokers charge fees for their services. It's important to understand the fees they charge before you start trading.
- **Demat Account:** Brokers help you open a "Demat" account, which holds your stocks electronically. It's like a digital wallet for your shares.
- **Safety and Regulations:** Brokers work under regulations to ensure fair and safe trading in the stock market.
- **Convenience:** Brokers make it convenient for regular people to invest in stocks without needing to understand all the technical details of the stock market.

UNIT III – Secondary Market

No	Question	Marks	Bloom's Level
1	Define secondary market.	5	K1
2	State the functions of stock exchanges.	5	K1
3	What is screen-based trading?	5	K1
4	List the types of stock market orders.	5	K1
5	Who are stock brokers?	5	K1
6	Explain the concept, functions, and importance of the secondary market.	8	K2
7	Describe the mechanics of stock market trading.	8	K3
8	Explain the settlement procedure in stock exchanges.	8	K3
9	Discuss internet-based trading in detail.	8	K2
10	Explain the types of brokers in the stock market.	8	K2

Unit – IV Regulatory Framework

Overview of the SEBI

The Securities and Exchange Board of India owned by the Government of India was established on 12th April 1992 under the Securities and Exchange Board of India Act, 1992 to protect the interests of the investors in securities along with promoting and regulating the securities market. Headquartered in Mumbai, the Securities and Exchange Board of India (SEBI) has four regional offices located in Ahmedabad, Chennai, Delhi and Kolkata. SEBI was initially formed in the year 1988 as a non-statutory body for the regulation of the securities market and later acquired statutory

status on 30th January 1992. To know more about SEBI, refer to the table given below:

SEBI

SEBI full form	Securities And Exchange Board of India
Year of formation	1988
Headquarters	Mumbai, Maharashtra
SEBI Chairman	Ms. Madhabi Puri Buch
Sector	Securities Market

Formation of SEBI

The Securities and Exchange Board of India (SEBI) was first established as a non-statutory body in 1988 for the regulation of the securities market. It acquired the statutory powers on 30th January 1992 in accordance with the SEBI Act 1992. SEBI became an autonomous body on 12 April 1992 and was soon constituted as the regulator of capital markets under the Government of India. The headquarters of the Security and Exchange Board of India is located in Mumbai, Maharashtra and has four regional offices in New Delhi, Kolkata, Chennai and Ahmedabad.

During the Financial Year 2013-2014, SEBI opened several local offices in the cities namely- Jaipur, Bangalore, Guwahati, Bhubaneshwar, Patna, Kochi and Chandigarh.

Structural Organisation of SEBI

SEBI is an autonomous organization that works under the administration of the Union Finance Ministry. The Security and Exchange Board of India (SEBI) is managed by the following members:

1. The chairman was nominated by the Union Government of India.
2. Two members, i.e., Officers from the Union Finance Ministry.
3. One member from the Reserve Bank of India.
4. The remaining five members are nominated by the Union Government of India.
Three of the five members should be full-time members.

Ms Madhabi Puri Buch is the current SEBI Chairman who was appointed to take charge of the chairman's office on 02 March 2022, by replacing the former chairman Ajay Tyagi.

To know about the Major Stock Exchanges in India, visit the linked article.

SEBI Functions & Powers

The scope of SEBI's activities is rather wide. It is empowered to frame rules, regulations, guidelines and direction etc. in respect of both primary and secondary securities markets. Intermediaries and certain financial institutions operating in securities markets are also subjected to SEBI's directions and norms. SEBI has the power to regulate the following branches:

- Depositories, participants and custodians
- Debenture trustees and trust deeds
- Insider trading, FII's merchant bankers and mutual funds
- Portfolio managers, investment advisors, registrars to capital issues and share transfer agents
- Stockbroker, sub-brokers, underwriters, bankers to the issues and venture capital funds and
- Substantial acquisition of shares and takeovers.

It also issues guidelines for disclosure of information and operational transparency for investor protection, pricing of issues, bonus and preferential issues and other financial instruments.

According to the Preamble of SEBI, one of the major functions of the Security and Exchange Board of India is to protect the interests of investors in securities along with promoting the development and regulation of the securities market.

SEBI is also responsible for the needs of the following three groups which constitute the securities market:

- Issuers of securities
- Investors
- Market intermediaries

The economy of India covers an important part of the UPSC Syllabus.

Candidates preparing for UPSC 2021 should also keep a track of the latest current affairs to know about any new developments in the country.

**SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF
CAPITAL AND DISCLOSURE REQUIREMENTS)
REGULATIONS, 2018**

CHAPTER I - PRELIMINARY

Short title and commencement

1. (1) These regulations may be called the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.
- (2) They shall come into force on the sixtieth day from the date of its publication in the Official Gazette.

Definitions

2. (1) In these regulations, unless the context otherwise requires:
 - (a) “Act” means the Securities and Exchange Board of India Act, 1992 [15 of 1992];
 - (b) “advertisement” includes notices, brochures, pamphlets, show cards, catalogues, hoardings, placards, posters, insertions in newspaper, pictures and films in any print media or electronic media, radio, television programme;
 - (c) “anchor investor” means a qualified institutional buyer who makes an application for a value of at least ten crore rupees in a public issue on the main board made through the book building process in accordance with these regulations or makes an application for a value of at least two crore rupees for an issue made in accordance with Chapter IX of these regulations;
 - (d) “application supported by blocked amount (ASBA)” means an application for subscribing to a public issue or rights issue, along with

- an authorisation to self-certified syndicate bank to block the application money in a bank account;
- (e) “associate” means a person which is an associate of the issuer and as defined under the Companies Act, 2013;
 - (f) “Board” means the Securities and Exchange Board of India established under the Act;
 - (g) “book building” means a process undertaken to elicit demand and to assess the price for determination of the quantum or value or coupon of specified securities or Indian Depository Receipts, as the case may be, in accordance with these regulations;
 - (h) “composite issue” means an issue of specified securities by a listed issuer on public-cum- rights basis, wherein the allotment in both public issue and rights issue is proposed to be made simultaneously;
 - (i) “control” shall have the same meaning as assigned to it under the Securities and Exchange Board of India (Substantial Acquisitions of Shares and Takeovers) Regulations, 2011;
 - (j) “convertible debt instrument” means an instrument which creates or acknowledges indebtedness and is convertible into equity shares of the issuer at a later date at or without the option of the holder of the instrument, whether constituting a charge on the assets of the issuer or not;
 - (k) “convertible security” means a security which is convertible into or exchangeable with equity shares of the issuer at a later date, with or without the option of the holder of such security and includes convertible debt instrument and convertible preference shares;
 - (l) “designated stock exchange” means a recognised stock exchange having nationwide trading terminals chosen by the issuer on which securities of an issuer are listed or proposed to be listed for the purpose of a particular issue of specified securities under these regulations: Provided that, the issuer may choose a different recognised stock exchange as a designated stock exchange for any

subsequent issue of specified securities;

- (m) “draft letter of offer” means the draft letter of offer filed with the Board in relation to a rights issue under these regulations;
- (n) “draft offer document” means the draft offer document filed with the Board in relation to a public issue under these regulations;
- (o) “employee” means a permanent employee, working in India or outside India, of the issuer or of the promoters or subsidiary company of the issuer, or a director of the issuer, whether whole-time or not and does not include (i) promoters, (ii) a person belonging to the promoter group; or (iii) a director who either himself/herself or through their relatives or through any body corporate, directly or indirectly, holds more than ten per cent. of the outstanding equity shares of the issuer; Provided that for the purposes of stock option schemes, employee shall have the same meaning as assigned to under the ¹[Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021];
- (p) “fugitive economic offender” shall mean an individual who is declared a fugitive economic offender under section 12 of the Fugitive Economic Offenders Act, 2018 (17 of 2018);
- (q) “further public offer” means an offer of specified securities by a listed issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such specified securities in a listed issuer;
- (r) “general corporate purposes” include such identified purposes for which no specific amount is allocated or any amount so specified towards general corporate purpose or any such purpose by whatever name called, in the draft offer document, draft letter of offer, ²[the offer document, or the letter of offer:]

Provided that any issue related expenses shall not be considered as a part of general corporate purpose merely because no specific amount

has been allocated for such expenses in the draft offer document, draft letter of offer, ³[the offer document, or the letter of offer;]

- (s) “green shoe option” means an option of allotting equity shares in excess of the equity shares offered in the public issue as a post-listing price stabilizing mechanism;
- (t) "group companies", shall include such companies (other than promoter(s) and subsidiary/subsidiaries) with which there were related party transactions, during the period for which financial information is disclosed, as covered under the applicable accounting standards, and also other companies as considered material by the board of the issuer;
- (u) “housing finance company” means a deposit taking housing finance company registered with the National Housing Bank for carrying on the business of housing finance;
- (v) “infrastructure sector” shall include the following facilities/services:
 - i) transportation (including inter modal transportation), including the following:
 - A) roads, national highways, state highways, major district roads, other district roads and village roads, including toll roads, bridges, highways, road transport providers and other road-related services;
 - B) rail system, rail transport providers, metro rail roads and other railway related services;
 - C) ports (including minor ports and harbours), inland waterways, coastal shipping including shipping lines and other port related services;
 - D) aviation, including airports, heliports, airlines and other airport related services;
 - E) logistics services;
 - ii) agriculture, including the following:

- A) infrastructure related to storage facilities;
 - B) construction relating to projects involving agro-processing and supply of inputs to agriculture;
 - C) construction for preservation and storage of processed agro-products, perishable goods such as fruits, vegetables and flowers including testing facilities for quality;
- iii) water management, including the following:
- A) water supply or distribution;
 - B) irrigation;
 - C) water treatment, etc.
- iv) telecommunication, including the following:
- A) basic or cellular, including radio paging;
 - B) domestic satellite service (i.e., satellite owned and operated by an Indian company for providing telecommunication service);
 - C) network of trunking, broadband network and internet services;
- v) industrial, commercial and social development and maintenance, including the following:
- A) real estate development, including an industrial park or special economic zone;
 - B) tourism, including hotels, convention centres and entertainment centres;
 - C) public markets and buildings, trade fair, convention, exhibition, cultural centres, sports and recreation infrastructure, public gardens and parks;
 - D) construction of educational institutions and hospitals;
 - E) other urban development, including solid waste management

- systems, sanitation and sewerage systems, etc.;
- vi) power, including the following:
- A) generation of power through thermal, hydro, nuclear, fossil fuel, wind and other renewable sources;
 - B) transmission, distribution or trading of power by laying a network of new transmission or distribution lines;
- vii) petroleum and natural gas, including the following:
- A) exploration and production;
 - B) import terminals;
 - C) liquefaction and re-gasification;
 - D) storage terminals;
 - E) transmission networks and distribution networks including city gas infrastructure;
- viii) housing, including the following:
- A) urban and rural housing including public or mass housing, slum rehabilitation etc;
 - B) other allied activities such as drainage, lighting, laying of roads, sanitation facilities etc.;
- ix) services provided by recognised stock exchanges and registered depositories, in relation to securities;
- x) other miscellaneous facilities or services, including the following:
- A) mining and related activities;
 - B) technology related infrastructure;
 - C) manufacturing of components and materials or any other utilities or facilities required by the infrastructure sector like energy saving devices and metering devices, etc.;
 - D) environment related infrastructure;

- E) disaster management services;
- F) preservation of monuments and icons;
- G) emergency services (including medical, police, fire, and rescue);
- xi) such other facility or service which, in the opinion of the board, constitutes infrastructure sector;
- (w) “initial public offer” means an offer of specified securities by an unlisted issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such specified securities in an unlisted issuer;
- (x) ⁴[“innovators growth platform” means the trading platform for listing and trading of specified securities of issuers that comply with the eligibility criteria specified in regulation 283;]
- (y) “institutional investor” means (i) qualified institutional buyer; or (ii) family trust or intermediaries registered with the Board, with net worth of more than five hundred crore rupees, as per the last audited financial statements, for the purposes of listing and/or trading on ⁵[innovators growth platform] in terms of Chapter X;
- (z) “issue size” includes offer through offer document and promoters’ contribution brought in as part of the issue;

The stock market is a complex and dynamic financial ecosystem that plays a pivotal role in the global economy. Within this intricate system, various participants work together to facilitate the buying and selling of financial instruments like stocks, bonds, and commodities.

Understanding the Stock Market Intermediaries

One critical group among the stock market participants is the **stock market intermediaries**. To succeed in the stock market, it's important to understand intermediaries. They guide you and help you make informed decisions.

In this blog, let's explore them in detail.

Types of Intermediaries in Stock Market

There are several types of intermediaries in stock market, each serving a unique purpose. Let's explore some of the key ones:

1. Stockbrokers

Stockbrokers execute buy and sell orders for stocks and other assets on behalf of investors. They also offer vital guidance and support in making investment decisions for both individual and institutional investors.

2. Investment Banks

Investment banks help companies raise capital by underwriting initial public offerings (IPOs) and issuing new securities. Additionally, they provide advisory services for mergers and acquisitions, helping companies navigate complex financial transactions.

3. Market Makers/Dealers

Market makers are mediators who preserve market liquidity. They regularly purchase and sell particular assets, reducing the difference between the bid and the asking price and enabling trading at any time.

Financial Intermediaries in Stock Market

Apart from intermediaries directly involved in securities trading, some financial intermediaries facilitate investment in the stock market indirectly. These include:

- **Mutual Funds**

Mutual funds are one of the most important financial intermediaries in stock market. They pool money from multiple investors and invest in a diversified portfolio of stocks and other securities.

- **Pension Funds**

Pension funds manage retirement savings on behalf of employees. They often invest in the stock market to generate returns that will fund future pension obligations.

Introduction to Intermediaries

Intermediaries are the middlemen between any two parties that are partaking in a transaction. These middlemen act as the bridge between them and help in exchanging necessary information towards fulfilling the objective of a common goal. In a stock market, or business, or any traditional marketplace, these intermediaries act as the connecting links between the producers and consumers. They facilitate intermediate action or transactions between those parties.

To understand their functions in the marketplace and the role they play in providing a common platform to the players, one has to understand the types of Intermediaries. Depending on the type of intermediary, their functions are also predefined. You should also note that there can be intermediaries at various levels of a supply or distribution chain. Hence, these levels could be a parameter to decide the roles of an intermediary.

Who are Intermediaries in a Stock Market?

An intermediary in a stock market is a person or an organization which helps people to invest their money in various company stocks. A person involved in such intermediary activities is usually called a fund manager.

Generally, among the types of Intermediaries in stock market, it can be one of the following -

- **Underwriter:** As the name implies, underwriters are entities directly associated with a company or an organization. Their primary function is to manage people and talk to them regarding investment in multiple schemes or so.

In India, for instance, an insurance company can be an underwriter. It charges a certain fee for providing you with insurance services under certain terms and conditions.

- **Merchant bankers:** These are institutions that extend funds to a company in place of loans and share the ownership of that particular company. So, they

gain a right to have a say in the corporate affairs of that organization where they have invested.

Hence, merchant bankers become a link between large organizations and external markets. For instance, in India, State Bank of India, ICICI Bank, Punjab National Bank are some of the merchant bankers.

- **Portfolio Managers:** It can be a person or a group of people or even an institution that manages money to be traded in the stock market. These intermediaries discuss the entire plan of investment with their team or with the organization and then they trade in stocks or securities in the market. Also, these types of Intermediaries invest in bonds, derivatives, mutual funds, etc to make more money out of their investments.
- **Debenture Trustees:** These personnel are registered with the Securities and Exchange Board of India (or SEBI) and function based on the rules cited in SEBI Guidelines, 1993. These personnel are monitored by SEBI on their functions of creating security, complaints redressal, interest payments and debenture redemption. They act as the connecting links between debenture holders and the organization or company whose debentures have been purchased by those holders.
- **Sub Broker:** A sub-broker is not directly linked to the stock exchanges but is a proxy member who has the necessary knowledge to act on behalf of the trading member. He can assist trading members and also investors in matters of securities dealing.
- **Stockbroker:** Such brokers are part of the stock market as they assist in trading of securities. Although they charge a specific fee for facilitating such trading, their work is more effective than others. One of the most viable reasons behind such efficiency is their knowledge of the stock market. A trader lacks such knowledge and is likely to end up buying or selling securities at a higher price than it should be. In such conditions, an intermediate can help in linking the stock exchanges and traders rightfully.

What are the Types of Intermediaries?

Based on the functions and areas the intermediaries perform their tasks, they are divided into specific categories, that are listed below -

- 1. Agents and Brokers:** These are personnel who are directly associated with the organization or stock exchanges. They function to link the buyer and sellers. Agents and brokers also handle the necessary paperwork.
- 2. Distributors:** They are appointed by the manufacturing company directly and act as a link between the wholesalers and the company itself. For instance, businessmen purchase from the company and distribute it to the wholesalers for further selling.
- 3. Retailers:** These are the connecting links between the consumers and wholesalers. Their job is to purchase goods from wholesalers and sell it to the end-customers.
- 4. Resellers and Wholesalers:** Wholesalers purchase from distributors and sell it to multiple retailers. They buy goods in bulk and sell them after that to other businesses or retailers.

Among the types of intermediaries, agents and brokers are the first of their kind and people generally consider them as the only kind of intermediaries.

The Financial Intermediaries' Role

The distinctiveness of financial intermediaries such as banks and insurance companies is the cause for their all-pervasive nature. As previously stated, banks frequently act as "intermediaries" between individuals who have resources and those who seek them. Financial intermediaries, such as banks, are asset-based or fee-based, depending on the type of service they provide and the type of clientele they serve. Institutions such as banks and insurance companies are asset-based financial intermediaries, whereas fee-based financial intermediaries charge a fee. Portfolio management and syndication services are provided through intermediaries.

Recent Developments

Recent trends in the evolution of financial intermediaries, particularly in the developing world, have demonstrated that these institutions can play a critical role in

poverty reduction and other debt reduction programmes. Some measures, such as reaching out to the people with microcredit, have improved the economic well-being of formerly marginalized groups of the population. Furthermore, financial intermediaries such as banks are maturing into "financial hyper marts," or umbrella institutions that cater to the complete demands of both investors and borrowers.

Financial intermediaries play an important role in today's global economy. They are the "lubricants" that enable the economy to function. Due to the increased complexity of financial transactions, financial intermediaries must constantly reinvent themselves and respond to new needs. The investors' different portfolios and needs financial intermediaries bear a large amount of responsibility for both borrowers and lenders. The name "intermediary" implies that these institutions are critical to the economy's operation, and they, along with the monetary authorities, must ensure that credit reaches the poor without harming investors' interests. This is one of the most significant issues they face.

Role of Intermediaries in Stock Market

Trading has become easy as pie with the advent of technology. But from the time you place a trade to the securities getting credited to your Demat account, several entities are responsible for the seamless flow of your transaction. These entities are the financial intermediaries of the stock market. Let us learn about a few in this article.

The SEBI Act, 1992, broadly mentions stockbrokers, authorised persons (sub- brokers), share transfer agents, bankers to an issue, trustees of trust deeds, issue registrars, merchant bankers, underwriters, portfolio managers, investment advisers, depositories, custodians of securities, foreign institutional investors, credit rating agencies as ***'Intermediaries of SEBI'***.

Of the many intermediaries, let us learn about the four intermediaries you will have to deal with often,

- Stock Brokers
- Depository and Depository Participant
- Bank
- Clearing Corporations

1. Stockbrokers

As per SEBI mandate, only stockbrokers can execute a trade on exchanges. So, you'll need to place your orders through a stockbroker. A stockbroker is an intermediary responsible for mediating between the bourse and the trader.

A corporate entity must fulfil the criteria laid down by the exchanges to obtain a license to become a stockbroker. Find more about the stockbroker [here](#).

To trade in stocks, you will have to open a trading account with a stockbroker.

Learn more about the benefits and features of a trading account [here](#). Learn how to open a trading account [here](#).

2. Depository and Depository Participants

Companies allot share certificates to their investors to authenticate their partnership with the company to the extent of shares bought by them. Earlier, the companies issued physical share certificates. But they have now been converted to digital format and are transferred directly to the Demat account. This process is more convenient and transparent. Converting physical share certificates to digital format is called 'Dematerialisation', often abbreviated as DEMAT.

To ensure accessible and secure storage of electronic share certificates, Depository came into existence. They are governed and regulated by SEBI. Depositories store the dematerialised share certificates in a dedicated account called a DEMAT account. It is responsible for holding the records of all the securities in digital form and manages and regulates all the DEMAT accounts.

Like a stockbroker, a Depository Participant (DP) is also an intermediary, mediating between the Depository and investor. A DP is an agency of Depository that lets you set up a DEMAT account.

At present, there are two depositories in India,

1. National Securities Depository Limited(NSDL)
2. Central Depository Service Limited (CDSL)

3. Banks

You need to transfer funds to your stockbroker to buy shares. The stockbroker credits funds to you when you sell shares. For the fund transactions between you and your

stockbroker, you need a bank account. Hence, banks are one of the critical intermediaries that facilitate fund transfer in capital markets.

You can link multiple bank accounts to your Angel One trading account to transfer funds. While withdrawing, Angel One gives you the option to select a bank account in which you want to receive the funds. The amount will get credited to the bank account you have chosen. Angel One allows the online transfer of funds to your trading account via net banking and UPI.

4. Clearing Corporations

We know that banks establish a clearinghouse to settle mutual claims. Likewise, in capital markets, Clearing Corporations ensure that the trade is closed between two parties.

For instance, person A wants to buy 100 shares of XYZ company at Rs 100 per share. Meanwhile, B wants to sell 100 shares of XYZ company at Rs 100 per share.

Clearing Corporation plays the following roles to complete the trade:

- Identifies buyers and sellers matching their ask and bid process
- Acts as a seller to A and buyer to B, guaranteeing the trade, ensuring no default. It also maintains funds to assure transactions in the event of a default
- It ensures funds get credited to the B and shares are credited to the DEMAT account of A

Clearing Corporations prevent defaults by ensuring that buyers have the necessary funds to pay for their trades and sellers have the assets they intend to sell. They are the intermediaries responsible for the credibility of the market ecosystem.

The two primary clearing corporations, the National Security Clearing Corporation Limited (NSCCL), is a subsidiary of the National Stock Exchange, and the Indian Clearing Corporation Limited (ICCL), a subsidiary of the Bombay Stock Exchange.

The intermediaries handle different operations and work interconnectedly to ensure the seamless functioning of the securities market. Through these entities, SEBI regulates the market functions.

What is Investor Protection?

The investor insurance money is a symbol of assurance. In simpler words investor protection implies that up to a specific breaking point, you get your cash back if the dealer goes into Bankruptcy or submits extortion. It is a significant Factor to consider when you open a Trading Account or a record with an online dealer. At the point when you open an exchanging account at a brokerage, you normally get financial backer security.

What is SEBI?

The Securities and Exchange Board of India is a legal administrative body set up on the 12th of April, 1992. The main purpose of SEBI is to manage and regulate the securities and commodity market of India while forming guidelines and rules. The administrative center of SEBI is in Bandra Kurla Complex, Mumbai.

SEBI has a corporate structure involving different divisions, each overseen by an office head. There are about 20+ divisions. A portion of these offices are company account, financial and strategy investigation, Obligation and mixture protections, authorization, HR, s

peculation about the executives, product subsidiaries market guideline, legitimate issues, etc.

What are the functions of SEBI?

SEBI is basically set up to ensure the interests of financial backers in the protections market.

- It advances the improvement of the protections market and controls the business.
- SEBI gives a stage to stockbrokers, sub-dealers, Portfolio chiefs, speculation consultants, share market specialists, brokers, trader financiers, trustees of trust

deeds, recorders, guarantors, and other related individuals to enlist and manage work.

- It controls the activities of safes, members, caretakers of protections, unfamiliar portfolio financial backers, and FICO assessment organizations.
- It blocks internal trade securities, for instance fake and preposterous trade practices related to the insurance market. It prevents inward exchanges protections like Fake and unreasonable exchange transactions identified within the market.
- It guarantees that financial backers are instructed on the mediators of protections markets.
- It screens considerable acquisitions and take-over of organizations.
- SEBI deals with innovative work to guarantee the protections market is proficient consistently

The Role of SEBI in Investor Protection

SEBI has given out various methods and measures to ensure the investor protection from time to time. It has published various directives, driven many investor awareness programmes, set up investor protection Fund (IPF) to compensate the investors. We will look into the investor protection measures by SEBI in detail:

To begin with, SEBI constructs the limit of financial backers through instruction and attention to empower a financial backer to take educated choices. SEBI tries to guarantee that the financial backer gets the hang of contributing. In simpler words, SEBI ensures that the investor gets and utilizes data needed for contributing and assesses different speculation alternatives to suit his particular objectives.

It helps the investor find out his privileges and commitments in a specific venture, bargains through enlisted mediators, plays it safe, looks for help if there should be an occurrence of any complaint, and so on.

SEBI has been putting together financial backer schooling and mindfulness workshops through financial backer affiliations and market members, and has been urging market members to sort out comparable projects.

The Securities Contracts (Regulation) Act, 1956

Introduction

The Securities Contracts (Regulation) Act, was enacted in the year 1956. It is also referred to as the SCRA and is one of the first few rules and regulations or legislations made in the Indian capital markets.

The SCRA regulates the contracts executed in the Indian securities markets and stock exchanges. Therefore, all those securities that are defined by the Securities and Exchange Board of India (SEBI) have to necessarily follow the terms and conditions specified under the securities contract or the SCRA.

Definition of Securities

This definition of securities is utilised for all purposes of the Securities and Exchange Board of India (SEBI) Act, and several rules and regulations set out as per the SEBI Act. The Companies Act defines securities to carry the same meaning as defined under the SCRA, and it includes hybrids as well.

Hybrids are securities that have the characteristics of more than one security, including derivatives. A major example of hybrids can be convertible debentures. These have the characteristics of both stocks and debentures.

The SCRA includes shares, stocks, bonds, scrips, debentures, debenture stocks, or any other marketable security of a listed company.

Contracts

The SCRA defines 'contracts' as a means to an agreement pertaining to the sale or purchase of securities. Contracts are of three types, and they are as follows:

i) Spot contract: These are the contracts that provide for the real delivery of assets or securities in exchange for payments on the same day of the contract being executed or on a future date.

ii) Ready delivery contract: These are the contracts that are to be executed immediately or within a specified timeframe.

iii) Forward contracts: These are the contracts under which the parties involved would agree to execute the contract on a specified date in future.

Important Definitions

Some of the important definitions under The Securities Contracts (Regulation) Act, 1956 include:

Contract means a contract for or relating to the purchase or sale of securities.

Corporatisation means the succession of a recognised stock exchange, being a body of individuals or a society registered under the Societies Registration Act, 1860 (21 of 1860), by another stock exchange, being a company incorporated for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities carried on by such individuals or society.

Demutualisation means the segregation of ownership and management from the trading rights of the members of a recognised stock exchange in accordance with a scheme approved by the Securities and Exchange Board of India.

Derivative includes,

(i) 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,

(ii) a contract which derives its value from the prices, or index of prices, of underlying securities,

(iii) commodity derivatives, and

(iv) such other instruments as may be declared by the Central Government to be derivatives.

Non transferable specific delivery contract means a specific delivery contract, the rights or liabilities under which or under any delivery order, railway receipt, bill of lading, warehouse receipt or any other documents of title relating thereto are not transferable.

Scheme means a scheme for corporatisation or demutualisation of a recognised stock exchange which may provide for

- (i) the issue of shares for a lawful consideration and provision of trading rights in lieu of membership cards of members of a recognised stock exchange,
- (ii) the restrictions on voting rights,
- (iii) the transfer of property, business, assets, rights, liabilities, recognitions, contracts of the recognised stock exchange, legal proceedings by, or against, the recognised stock exchange, whether in the name of the recognised stock exchange or any trustee or otherwise and any permission given to, or by, the recognised stock exchange, (iv) the transfer of employees of a recognised stock exchange to another recognised stock exchange; and (v) any other matter required for the purpose of, or in connection with, the corporatization or demutualisation, as the case may be, of the recognised stock exchange.

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 receipt as defined in clause (zg) of section 2 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act,
- (v) units or any other such instrument issued to the investors under any mutual fund scheme,
- (vi) any certificate or instrument (by whatever name called), 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 may be,
- (vii) Government securities,
- (viii) such other instruments as may be declared Government to be securities, and
- (ix) rights or interests in securities.

Specific Delivery Contract means a commodity derivative which provides for the actual delivery of specific qualities or types of goods during a specified future period at a price fixed thereby or to be fixed in the manner thereby agreed and in which the names of both the buyer and the seller are mentioned.

Spot Delivery Contract means a contract which provides for,

(i) actual delivery of securities and the payment of a price therefor 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 therefor 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.

(ii) 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.

Transferable Specific Delivery Contract means a specific delivery contract which is not a non-transferable specific delivery contract and which is subject to such conditions relating to its transferability as the Central Government may by notification in the Official Gazette, specify in this behalf.

Recognized Stock Exchange

Any stock exchange that desires to be recognized under this Act can apply to the Central Government in the prescribed form along with a list of particulars that include:

1. the governing body of such stock exchange, its constitution, and powers of management and the manner in which its business is to be transacted,
2. the powers and duties of the office-bearers of the stock exchange,
3. the admission into the stock exchange of various classes of members, the qualifications for membership, and the exclusion, suspension, expulsion, and re-admission of members therefrom or thereinto, and

4. the procedure for the registration of partnerships as members of the stock exchange in cases where the rules provide for such membership; and the nomination and appointment of authorized representatives and clerks.

The grant of recognition to stock exchanges is dependent upon the satisfaction of the Central Government. There are requirements of all recognized stock exchanges to be corporatized and demutualized under the SCRA.

If the Central Government is of the opinion that the recognition granted to a stock exchange should be withdrawn in the interest of trade or the public interest, the Central Government is empowered to withdraw the recognition by serving a notice to the concerned stock exchange and giving a reasonable opportunity of being heard.

The withdrawal has to be made by way of notification in the Official Gazette. If the recognized stock exchange fails to demutualize or corporatize, the Central Government is empowered to withdraw the recognition in such cases too.

Recognized stock exchanges are empowered to make bye-laws for the regulation and control of contracts which include the following:

1. The opening and closing of markets and the regulation of the hours of trade
2. A clearing house for the periodical settlement of contracts and differences thereunder, the delivery of and payment for securities, the passing on of delivery orders and the regulation and maintenance of such clearing house
3. The submission to the Securities and Exchange Board of India by the clearing house as soon as may be after each periodical settlement of all or any of the following particulars as the Securities and Exchange Board of India may, from time to time, require
4. The publication by the clearing house of all or any of the particulars submitted to the Securities and Exchange Board of India
5. The regulation or prohibition of blank transfers
6. The number and classes of contracts in respect of which settlements shall be made or differences paid through the clearing house
7. The regulation, or prohibition of budlas or carry-over facilities

8. The fixing, altering or postponing of days for settlements
9. The determination and declaration of market rates, including the opening, closing highest and lowest rates for securities
10. The terms, conditions and incidents of contracts, including the prescription of margin requirements, if any, and conditions relating thereto, and the forms of contracts in writing
11. The regulation of the entering into, making, performance, rescission and termination, of contracts, including contracts between members or between a member and his constituent or between a member and a person who is not a member, and the consequences of default or insolvency on the part of a seller or buyer or intermediary, the consequences of a breach or omission by a seller or buyer, and the responsibility of members who are not parties to such contracts
12. The regulation of taravani business including the placing of limitations thereon
13. The listing of securities on the stock exchange, the inclusion of any security for the purpose of dealings and the suspension or withdrawal of any such securities, and the suspension or prohibition of trading in any specified securities
14. The method and procedure for the settlement of claims or disputes, including settlement by arbitration
15. The levy and recovery of fees, fines and penalties
16. The regulation of the course of business between parties to contracts in any capacity
17. The fixing of a scale of brokerage and other charges
18. The making, comparing, settling and closing of bargains
19. The emergencies in trade which may arise, whether as a result of pool or syndicated operations or cornering or otherwise, and the exercise of powers in such emergencies, including the power to fix maximum and minimum prices for securities

20. The regulation of dealings by members for their own account; (u) the separation of the functions of jobbers and brokers
21. The limitations on the volume of trade done by any individual member in exceptional circumstances
22. The obligation of members to supply such information or explanation and to produce such documents relating to the business as the governing body may require
23. Power to establish an additional trading floor
24. Power to delist securities after recording reasons

Powers granted by the SCRA

Powers granted to the Central Government by the SCRA:

1. Granting recognition to stock exchanges
2. Withdrawing recognition given to stock exchanges
3. Power to call for periodical returns and conducting direct inquiries
4. Power to require the furnishing of annual reports of recognised stock exchanges
5. Power to make rules and to direct rules to be made
6. Power to supersede governing body of a recognised stock exchange
7. Power to suspend the business of recognised stock exchanges
8. Power to notify contract as illegal in certain circumstances in notified areas
9. Power to prohibit contracts in certain cases
10. Power to license dealers in securities in certain areas
11. Power to grant immunity
12. Power to delegate its powers to the Securities and Exchange Board of India and the Reserve Bank of India
13. Power to make rules

14. Power to vary or set aside the decision of refusal to list securities made by the recognised stock exchange on appeal
15. Power to grant or refuse listing of securities in appeal

Powers granted to the Securities and Exchange Board of India (SEBI) by the SCRA:

1. Power to approve the transfer of duties and functions of a clearing house to a clearing corporation
2. Power to approve the making of bye-laws by recognised stock exchanges for the regulation and control of contracts
3. Power to make or amend bye-laws of recognised stock exchanges
4. Power to issue directions to stock exchanges, clearing corporations, agencies, persons or classes of persons associated with the securities market
5. Power to issue directions to companies whose securities are listed or proposed to be listed in a recognised stock exchange
6. Power to approve the establishment of additional trading floor in recognised stock exchanges
7. Power to appoint adjudicating officers
8. Power to make regulations

Powers granted to the Securities Appellate Tribunal by the SCRA:

1. Power to summon and enforce the attendance of any person and examine him on oath
2. Power to require the discovery and production of documents
3. Power to receive evidence on affidavits
4. Power to issue commissions for the examination of witnesses or documents
5. Power to review its decisions
6. Power to dismiss application for default or deciding it ex- parte

7. Power to set aside any order of dismissal of any application for default or any order passed by it ex- parte
8. Power to vary or set aside decision of refusal to list securities made by the recognised stock exchange on appeal
9. Power to grant or refuse listing of securities in appeal
10. Power to exercise any other prescribed matter

Listing of Securities and Appeals

The first condition of listed securities is that if a person wishes to apply for such listed securities, then such a person has to comply with the conditions of the listing agreement with that stock exchange.

If a recognized stock exchange in pursuance of its bye-laws refuses to list the securities of any public company, then the recognized stock exchange has to give its reasons to the public company and the public company may choose to appeal to the Central Government within fifteen days of the furnishing of reasons for refusal by the recognized stock exchange.

The public company may also choose to appeal to the Securities Appellate Tribunal within 15 days.

If any person is aggrieved by the decision of the Securities Appellate Tribunal then such person may prefer to file an appeal before the Supreme Court within 60 days of the date of communication of the order of the Tribunal on questions of law arising in the order.

Penalties under the SCRA

The offenses and penalties under the SCRA include:

Particulars of the Offence	Penalty
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<p>If a person fails to comply with any requisition made under sub-section (4) of section 6</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>
<p>If a person enters into any contract in contravention of any of the provisions contained in section 13 or section 16</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>
<p>If a person contravenes the provisions contained in section 17 or section 17A or section 19</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>
<p>If a person enters into any contract in derivative in contravention of section 18A or the rules made under section 30</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>
<p>If a person owns or keeps a place other than that of a recognised stock exchange which is used for the purpose of entering into or performing any contracts in contravention of any of the provisions of this Act and knowingly permits such place to be used for such purposes</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>
<p>If a person manages, controls, or assists in keeping any place other than that of a recognised stock exchange which is used for the purpose of entering into or performing any contracts in contravention of any of the provisions of this Act</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>

<p>or at which contracts are recorded or adjusted or rights or liabilities arising out of contracts are adjusted, regulated or enforced in any manner whatsoever</p>	
<p>If a person not being a member of a recognised stock exchange or his agent authorised as such under the rules or bye-laws of such stock exchange or not being a dealer in securities licensed under section 17 wilfully represents to or induces any person to believe that contracts can be entered into or performed under this Act through him</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>
<p>If a person not being a member of a recognised stock exchange or his agent authorised as such under the rules or bye-laws of such stock exchange or not being a dealer in securities licensed under section 17, canvasses, advertises or touts in any manner either for himself or on behalf of any other persons for any business connected with contracts in contravention of any of the provisions of this Act</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>
<p>If a person joins, gathers or assists in gathering at any place other than the place of business specified in the bye-laws of a recognised stock exchange any person or persons for making bids or offers or for entering into or performing any contracts in contravention of any of the provisions of this Act</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>

<p>If any person enters into any contract in contravention of the provisions contained in section 15, section 21, section 21A or section 22</p>	<p>Imprisonment for a term extendable up to 10 years or fine extendable up to rupees 25 crores or both.</p>
<p>If any person is required to furnish any information, document, books, returns or report to the recognised stock exchange or the Board, fails to furnish it within the specified time or furnishes false, incorrect or incomplete information</p>	<p>Not less than 1 lakh rupees but extendable up to 1 lakh rupees each day of offence subject to a maximum of 1 crore rupees.</p>
<p>If any person who is required to enter into an agreement with his client, fails to enter into such an agreement</p>	<p>Not less than 1 lakh rupees but extendable up to 1 lakh rupees each day of offence subject to a maximum of 1 crore rupees.</p>
<p>If any stock broker or sub- broker or a company whose securities are listed or proposed to be listed in a recognised stock exchange, after having been called upon by the Securities and Exchange Board of India or a recognised stock exchange in writing, to redress the grievances of the investors, fails to redress such grievances within the time stipulated by the Securities and Exchange Board of India or a recognised stock exchange</p>	<p>Not less than 1 lakh rupees but extendable up to 1 lakh rupees each day of offence subject to a maximum of 1 crore rupees.</p>
<p>If any person, who is registered under section 12 of the Securities and Exchange Board of India Act, 1992 as a stock broker or sub-broker, fails</p>	<p>Not less than 1 lakh rupees which may extend up to 1 crore rupees.</p>

<p>to segregate securities or moneys of the client or clients or uses the securities or moneys of a client or clients for self or for any other client</p>	
<p>If a company or any person managing collective investment scheme or mutual fund or real estate investment trust or infrastructure investment trust or alternative investment fund fails to comply with the listing conditions or delisting conditions or grounds or commits a breach thereof</p>	<p>Not less than 5 lakh rupees which may extend up to 25 crore rupees.</p>
<p>If any issuer dematerialises securities more than the issued securities of a company or delivers in the stock exchanges the securities which are not listed in the recognised stock exchange or delivers securities where no trading permission has been given by the recognised stock exchange</p>	<p>Not less than 5 lakh rupees which may extend up to 25 crore rupees.</p>
<p>If a recognised stock exchange fails or neglects to furnish periodical returns or furnishes false, incorrect or incomplete periodical returns to the Securities and Exchange Board of India or fails or neglects to make or amend its rules or bye- laws as directed by the Securities and Exchange Board of India or fails to comply with directions issued by the Securities and Exchange Board of India</p>	<p>Not less than 5 lakh rupees which may extend up to 25 crore rupees.</p>
<p>Where a stock exchange or a clearing corporation fails to conduct its business with its members or any issuer or its agent or any person associated with the securities markets in</p>	<p>Not less than 5 crore rupees which may extend up to 25 crore rupees or three times the amount of gains made out</p>

accordance with the rules or regulations made by the Securities and Exchange Board of India and the directions issued by it under this Act, the stock exchange or the clearing corporations, as the case maybe	of such failure, whichever is higher.
Whoever fails to comply with any provision of this Act, the rules or articles or bye- laws or the regulations of the recognised stock exchange or directions issued by the Securities and Exchange Board of India for which no separate penalty has been provided	Not less than 1 lakh rupees which may extend up to 1 crore rupees

Important judgments under SCRA

Some of the important judgments under the Securities Contracts (Regulations) Act, 1956 are:

MCX Stock Exchange Limited Versus Securities & Exchange Board of India, Writ Petition No. 213 of 2011 dated 14th March, 2012 (Bombay High Court)

The Bombay High Court in this case, clarified the validity of option contracts under the Securities Contracts (Regulation) Act, 1956 and stated that option contracts are different from forward contracts. The distinction was specified because forward contracts are prohibited under the Act and the Bombay High Court held that option contracts are valid contracts under the Act.

The Madras Stock Exchange Limited Versus S.S.R. Rajakumar, Original Side Application No. 64 of 1995 dated 25th February, 2003 (Madras High Court)

The Madras High Court, in this case, reversed the wrongful expulsion of the respondent who was made liable to pay the applicant a sum of Rs. 30 lakhs by a subordinate court. The Madras High Court further held that the officers of a recognised stock exchange cannot be held liable for following the Articles of the recognised stock exchange.

Parikh Versus Union of India, Special Civil Application No. 17040 of 2012 with Writ Petition (Public Interest Litigation) No. 211 of 2012 dated 07th May, 2014 (Gujarat High Court)

In this case before the Gujarat High Court, the Petitioner had challenged the legality and validity of certain circulars and the Securities Contracts (Regulation) (Stock Exchange and Clearing Corporations) Regulations, 2012 issued by the Securities and Exchange Board of India stating that they are inconsistent with the provisions of the Indian Constitution, Securities Contracts (Regulation) Act, 1956 and the erstwhile Companies Act, 1956. The Gujarat High Court dismissed the petition of the Petitioner in this case and upheld the validity of all the challenged circulars and regulations.

UNIT IV – Regulatory Framework

No	Question	Marks	Bloom's Level
1	What is SEBI? State its objectives.	5	K1
2	Write a short note on ICDR Regulations, 2018.	5	K2
3	What is the Securities Contracts Regulation Act (SCRA)?	5	K1
4	Explain investor protection measures by SEBI.	5	K2
5	What is SEBI (LODR) Regulations, 2015?	5	K1
6	Explain the role of SEBI in regulating the securities market.	8	K2
7	Discuss SEBI (ICDR) Regulations, 2018 in detail.	8	K3
8	Explain SEBI's measures for investor protection.	8	K2
9	Discuss the provisions of Securities Contracts Regulation Act.	8	K3
10	Explain SEBI (LODR) Regulations, 2015 and their importance.	8	K2

Unit – V – Demat Trading

What is Demat account?

A Demat account helps investors hold shares and securities in an electronic format. It is also commonly known as a Dematerialised account. This account helps keep track of an investor's holdings in shares, exchange-traded funds, bonds, and mutual funds in one place.

Importance of a Demat account

1. Digitally secure way of holding shares and securities.
2. Eliminates theft, forgery, loss, and damage to the physical certificates.
3. Quick transfer of shares.

4. It eliminates unnecessary paperwork.
5. Online opening of Demat account is simpler and faster.
6. It eases and streamlines the process of share trading.

What is Dematerialisation (Demat)?

Dematerialisation is the process of converting the physical share certificates into electronic form, making it easy to maintain and access them from anywhere. Earlier, shares were held in the form of physical certificates, which were cumbersome to store and transfer. The advent of a Demat account made it a lot easier to handle shares. An

investor who wants to convert his physical shares into digital form needs to open a Demat account with a depository participant (DP).

Features of Demat account

A Demat account is an important tool for safekeeping shares. Demat accounts ease the process of share trading and make it quicker as well. Initially, shares were held in a physical form via share certificates. That made the entire procedure tedious and time-consuming. To eliminate such limitations, the National Securities Depository Limited (NSDL) was established in 1996. They brought the concept of Demat accounts that enabled electronic storage of shares and securities of companies. In India, if you want to invest in the stock market, it is compulsory to open a Demat account.

Benefits of a Demat account

- **No paper worries:**

Before the advent of the Demat account, shares existed as physical paper certificates. If you held shares of a company, you had to safe keep a dozen of paper certificates. These were vulnerable to tampering, theft, loss, and forgery. Moreover, the transfer of shares involved lengthy paperwork that was prone to error and delays. With a Demat account, you can store all these shares electronically in a safe and secure digital repository.

- **Easy storage & transfer:**

This allows you to store any number of shares, so you can trade in volumes and monitor the details of all the shares you hold in a Demat account. It further facilitates the swift transfer of shares while trading online.

- **Bonus stock-splits get automatically updated:**

If an initiative of the company whose shares you are holding brings in a change to its stocks such as bonus issue, stock split, etc., it will be updated automatically in your Demat account.

- **All-in-one storage for your investments:**

Besides the shares, the Demat account can also hold multiple assets, like bonds, mutual funds, exchange traded funds, government securities, etc.

- **Easy access online:**

You can access your Demat account anytime, anywhere, through your smartphone or laptop.

- **Nominate with ease:**

A Demat account also provides the nomination facility as per the process described by the depository. In case of the investor's demise, the appointed nominee will receive the shareholding in the Demat account.

How does a Demat Account work?

Demat accounts are primarily used to hold the bought shares.

- In case you want to buy or sell a specific share, you need to login to your Demat and trading account, which is also linked to your bank account
- When a 'buy', or 'sell' request is placed in a trading account, the Depository Participant, forwards this to the stock exchange on an immediate basis
- Suppose the order is to 'buy', the stock exchange then searches a seller who wants to sell shares and if price matches, it is sent to clearance houses to debit those many shares from the seller's Demat Account and credit them to the buyer's Demat Account
- Please note, the buyer and the seller may hold Demat Accounts with Depository Participants belonging to different depositories

Types of Demat account

In India, there are three major types of Demat accounts offered by Depository Participants.

- **Regular Demat accounts**

These are meant for Indian residents. If you are dealing with investment and equity trading, a regular Demat Account is the best option for you. Here the charges are dependent on the type subscribed, volume that is there in the account and the various terms and conditions set by the depository and the DP (Depository Participant).

- **Repatriable Demat account**

This kind of Demat Account is good for NRIs, who wishes to invest in the Indian Stock Market quickly from any part of the world. Such an account is

useful for NRIs as with the help of such an account, they can transfer their funds to various foreign countries. But NRIs looking to hold a Repatriable Demat Account need to possess an associated NRE bank account.

- **Non-repatriable Demat account**

This is similar to a repatriable Demat Account and is also for NRIs. However, this account doesn't allow you to transfer funds abroad. This requires you to link it to a Non-resident Ordinary (NRO) bank account.

Documents required for Demat account opening

To open a Demat Account without any hassle, you should have some essential documents. Listed below are the documents that's required to open a Demat account with Bajaj Financial Securities Limited.

- PAN card
- Proof of address (Aadhar card, driving license, passport)
- Photograph
- Signature on white paper
- Income proof, for activation of futures and options segment

How to use a Demat account?

Using a Demat account is simple. Your Demat account gets linked with your open trading account online, which in turn gets linked with your bank account. To begin trading, you need to transfer funds from your bank to the trading account.

After adding funds, you can place an order to buy shares using your trading account. Once the order gets executed, the shares will get transferred to your demat account by the end of T+1 days, where T is the day the order got executed. Since both demat and trading account are closely integrated, all these actions happen swiftly and seamlessly. Similarly, you can sell a share in your demat account by placing a sell order in the stock exchange using your trading account.

Features of Demat account

By opening a Demat account, you can access many useful features.

- **Share transfer:** You only need to send in a duly signed Delivery Instruction Slip (DIS) to your depository participant to transfer your shares.

- **Loan collateral:** You can pledge the securities you hold in a Demat account and use them as collateral for securing a loan from a financial institution.
- **Temporary freeze:** You can temporarily freeze your Demat account for a specific duration. However, this feature is generally only made available if you hold a specific number of shares in your account.
- **Quick transfer of benefits:** Best Demat accounts offer a swift transfer of benefits such as dividends, bonus issue of shares, stock splits, interest, and refunds.
- **Speed e-facility:** NSDL allows you to send instruction slips to your depository participant electronically. This not only makes the entire process faster but also less cumbersome.
- **Easier holding:** Maintaining physical certificates is cumbersome and risky. Opening a Demat account digitises the certificates enabling easier holding and added security.
- **Multiple Access Points:** Being completely digital, Demat accounts can be accessed from anywhere using any digital device like computers, mobile phones, or other smart devices.



Benefits of a Demat Account

In addition to being an indispensable part of the share market, Demat accounts come with several benefits:

1. Swift settlements and deliveries
2. Increased share trading volume and market participation
3. Increased transparency
4. Eliminates paperwork
5. Quick and easy communication with investors
6. Little to no risks are involved
7. Builds trust and increases investor confidence

Buying stocks in the share market can be done only through a Trading Account which is later held in a Demat account. Therefore, to realize the full potential of a Demat account, it is imperative to link it with a trading account.

What is a Depository?

In recent years, Indian individuals have increasingly embraced the stock market as a means to enhance their wealth, owing to the diminished ability of traditional investments to deliver returns that outpace inflation. Yet, more than merely engaging in stock market investment is required; a comprehensive understanding of stock market dynamics and associated terminology is imperative to yield profits. As astute investors, mastering the significance of depository within the stock market framework and comprehending its operational role is essential.

Depository Meaning and their Types

A depository company securely holds and stores assets on behalf of investors. This institution offers security safety and administration services, maintaining ownership records and facilitating necessary securities transfers. Additionally, the depository provides liquidity within the stock market, protects deposited funds, invests in diverse securities, and extends loans to individuals.

The National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL) are India's two premier depositories.

Role of Depositories

Depositories play a pivotal role in the Indian stock market by providing essential infrastructure and services that help in the efficient functioning of securities trading and settlement. Some of their key role includes:

1. **Dematerialization:** One of the primary functions of depositories is to convert physical securities (paper certificates) into electronic form, a process known as dematerialization. This process eliminates the risks and inefficiencies associated with physical certificates, such as theft, loss, forgery, and delays in transfer. Investors can hold their securities electronically in a demat account, which is similar to a bank account for securities.
2. **Electronic Settlement:** Depositories facilitate electronic trade settlement by enabling seamless securities transfer between buyers and sellers. When a trade occurs on a stock exchange, the depository ensures that the ownership of the securities is transferred from the seller's demat account to the buyer's demat account.

3. **Centralized Record Keeping:** Depositories maintain a centralized electronic record of all securities investors hold. This record includes details of the investor's holdings, transactions, and other relevant information. This centralization makes tracking and managing securities easier, reducing administrative complexities.
4. **Transfer and Pledging of Securities:** Investors can transfer securities held in their demat accounts to other accounts easily through depositories. Additionally, they can pledge their securities for obtaining loans by creating a pledge in favor of the lender. This process simplifies the collateral management system.
5. **Corporate Actions:** Depositories are crucial in facilitating corporate actions such as dividends, bonus issues, rights issues, and mergers. They ensure that investors receive the benefits and entitlements associated with their holdings promptly and accurately.
6. **Reduction of Settlement Risks:** By eliminating physical securities and streamlining the settlement process, depositories significantly reduce settlement risks, counterparty risks, and overall systemic risks in the stock market.
7. **Interoperability:** Depositories work closely with stock exchanges and clearing corporations to enable smooth settlement and interoperability between different market participants. This integration ensures that trades executed on one exchange can settle seamlessly through the depository, regardless of where the trading occurred.

Depository Working Mechanism

To avail of the services of a depository, you need to open a Demat account with a depository participant, also known as a brokerage house. Once you have a Demat account, the depository acts as a link between you and the DP.

Understanding Depositories

Depositories are buildings, offices, and warehouses that allow consumers and businesses to deposit money, securities, and other valuable assets for safekeeping. Depositories may include banks, safehouses, vaults, financial institutions, and other organizations.

Depositories serve multiple purposes for the general public. First, they eliminate the owner's risk of holding physical assets by providing a safe place to store them. For

instance, banks and other financial institutions give consumers a place to deposit their money by offering time deposit and demand deposit accounts.

A time deposit is an interest-bearing account with a specific date of maturity, such as a certificate of deposit (CD). A demand deposit account holds funds until they need to be withdrawn, such as with a checking or savings account.

Deposits can also be securities, such as stocks or bonds. When these assets are deposited, the institution holds the securities, either in electronic form, also known as book-entry form, or in paper form, such as a physical stock certificate.

Depository organizations also help create liquidity in the market. Customers give their money to a financial institution; the company holds it for a time and returns it when the customer wants it back. These institutions accept customers' money and pay interest on their deposits over time. While holding the customers' money, the institutions lend it to others in the form of mortgage or business loans, generating more interest on the money loaned than the interest they paid to customers.

Example of a Depository

Euro clear is a clearinghouse that acts as a central securities depository for its clients, many of whom trade on European exchanges. Most of its clients are banks, broker-dealers, and other institutions professionally engaged in managing new issues of securities, market-making, trading, or holding a wide variety of securities.¹

Euro clear settles domestic and international securities transactions, covering bonds, equities, derivatives, and investment funds. Domestic securities from more than 40 markets are accepted in the system, covering a broad range of internationally traded fixed- and floating-rate debt instruments, convertibles, warrants, and equities. This includes domestic debt instruments, short- and medium-term instruments, equities and equity-linked instruments, and international bonds from the major markets of Europe, Asia-Pacific, Africa and the Americas.¹

Special Considerations

Transferring the ownership of shares from one investor's account to another account when a trade is executed is one of the primary functions of a depository. This helps reduce the paperwork for executing a trade and speeds up the transfer process.

Another function of a depository is the elimination of the risk of holding the securities in physical form. These risks can include theft, loss, fraud, damage, or delay in deliveries.

An investor who wants to purchase precious metals can purchase them in physical bullion or paper form. Gold or silver bars or coins can be purchased from a dealer and kept with a third-party depository. Investing in gold through futures contracts is not equivalent to the investor owning gold. Instead, gold is owed to the investor.

A trader or hedger looking to take actual delivery on a futures contract must first establish a long (buy) futures position and wait until a short (seller) tenders a notice to delivery. With gold futures contracts, the seller is committing to deliver the gold to the buyer at the contract expiry date. The seller must have the metal—in this case, gold—in an approved depository. This is represented by holding COMEX-approved electronic depository warrants, which are required to make or take delivery.²

What is Custodian?

A custodian, also known as a **custodian** bank, refers to a financial institution that holds the possession of customers' securities to reduce the possibility of theft or loss. The securities and other assets can be held in electronic or physical form. Custodians generally will be large, reputable firms since they are responsible for safeguarding the assets worth several million or even billions of dollars.

How Does It Work?

In addition to safekeeping securities, custodians also offer services, such as **transaction** settlements, **account** administration, **dividend** collection, **interest** payments, foreign exchange, and tax assistance. Based on the **services** desired by the clients, the fees charged also varies. Some firms charge a quarterly fee based on the aggregate **value** for the **holdings** in custody.

With a power of attorney, a custodian may also **gain** rights to assert possession over

the assets. That means the custodian can perform actions in the client's place, such as changing investments or making payments.

If the investment advisor is given the responsibility of customer funds, the advisor must follow the custody rules stated by the Securities and Exchange Board of India (SEBI). There are limited entities that can be considered as a qualified custodian, such as banks, registered brokers, registered dealers, and certain individuals.

Such entities will be responsible for supplying notices to the customers when certain activities are conducted on their behalf or while using their assets. Also, account statements must be sent to the customers to keep them informed about the current holdings of their assets.

SEBI Guidelines For A Demat Account In India

Demat accounts are regulated by SEBI, the Securities and Exchange Board of India. A Demat account is an electronic repository required to hold securities, replacing physical certificates. According to SEBI requirements for Demat accounts, you must link your PAN card to your Demat account by KYC rules. SEBI rules for Demat accounts aim to ensure transparency, efficiency, and investor protection. In this article, we will understand all the SEBI rules for Demat accounts that you need to follow for smooth transactions.

SEBI Guidelines for Demat Account Opening

Some documents are required to ensure a uniform process and smooth submission of information. Additionally, these documents are issued by the government. They are as follows:

1. Application form
2. Proof of address
3. PAN card
4. Bank Statement

As per SEBI rules for a Demat account, these documents must be provided to your broker. Upon verification and authentication of these documents, an account will be opened in your name, typically through a trading app.

Moreover, with the same broker/DP or another, you can open multiple accounts in the same name. However, you've got to comply with all KYC rules. According to SEBI, this includes proof of identity, address, PAN, and more.

SEBI Rules for Demat Account Closing

If you wish to stop trading in the stock market, close your Demat account. The SEBI rules for closing a Demat account are as follows:

- To close a Demat account, fill out a form.
- The DP ID and client ID must match the information in the record.
- Describe why you want to close your account.
- In case there is a balance in the Demat account, it will be transferred to the provided account information.
- The account would take 7-10 business days to become inactive.

Note: Clear any dues before closing the Demat account. You must also overlook the SEBI guidelines for demat account opening/closing or trading activity.

SEBI Guidelines for Demat Account Nominee

- As of 1st October 2021, no nomination is required for your Demat account. If you still want to assign a nominee in demat, you can, but it isn't mandatory.
- To assign a nominee, there is a specific format; at the same time, there is a specific format to declare that you do not wish to participate. Also, your Demat account may be frozen if you fail to provide a nominee (up to 3) or a declaration.
- Demat account holders only need to sign the form or register their thumb impressions. If that doesn't work, the witness has to sign the nomination form.

SEBI Circular for Demat of Shares

As per a SEBI circular for the Demat of shares, physical shares cannot be transferred. In this SEBI circular for Demat of shares, if shares have a lock-in period, the RTA will tell the depository when reviewing and confirming the demat request about the lock-in period. After the transfer registration, shares with stringent lock-in periods will be held in demat format for six months.

SEBI Rules for BSDA Demat Account

A BSDA is a Basic Service Demat Account. For a BSDA, you can't keep more than Rs. 2,00,000. Here are the rules for BSDA Demat account:

- You can only have one BSDA demat account across all depositories.
- BSDA demat accounts have different AMCs based on account holdings.
- AMC is 0 for less than Rs 50,000
- Rs 50,000-Rs 2,00,000: AMC up to Rs 100
- Above Rs 2,00,000: Normal AMC is applicable.

SEBI Rules to Open Demat Account for Minor

Here are SEBI rules for minors:

- An account in a minor's name can only be opened by their natural guardians (parents) or court-appointed guardians.
- Accounts stop operating when minors turn 18. You can start a new account and transfer your previous holdings over.
- Minors and depository participants need to sign a new agreement to continue the old account.
- For a minor Demat account, the form is the same, but two KYCs are required: one from the minor (signed by their guardian), and another from their guardian.
- The documents are the same. During the application process, the guardian has to fill out the paperwork and provide evidence of the minor's date of birth.
- Minor Demat accounts can't be linked to trading account.
- A minor can't be a joint holder.

SEBI Rules for NRI Demat Account

NRI's can have Demat accounts too. However, Demat accounts in India aren't easy for them. They have to stick to SEBI rules for demat accounts. Here are the rules:

- NRI's can't trade commodities or currencies. Among the instruments they can trade are Government securities, ETFs, PSU bonds, mutual funds, and cash.
- In the Indian Market indices, NRI's are prohibited from owning more than 5% of the stock.
- For NRI Demat accounts, intraday trading and short selling are not permitted.
- The NRI must maintain separate Demat accounts for repatriable and non-repatriable products.

- They should only approach one authorised dealer for PIS (Portfolio Investment Scheme).
- Upon returning to India and becoming a resident, NRIs should contact their nearest broker branch and notify them of their new status.
- Once the request is received, a simple Demat account will be opened to facilitate the transfer of financial securities.

SEBI Guidelines for Demat Account Charges

The SEBI guidelines for Demat account charges are as follows:

- SEBI circular on Demat charges states that you don't have to pay anything to open a Demat account.
- However, you'll have to pay for maintenance. It's called AMC, or annual maintenance charges, and they vary from broker to broker.
- Moreover, you'll get charged for every sale and every dematerialization & materialisation of your securities according to the SEBI circular on Demat charges.
- You won't have to pay anything to close your Demat account except any dues.

To regulate Demat accounts in India, SEBI has implemented rules and guidelines. These rules address various aspects, such as opening and closing accounts, nominee assignments, transferring physical shares, BSDA demat accounts, minor accounts, NRI accounts, and charges. Following these SEBI rules for Demat accounts assures investors that their Demat account transactions are transparent, efficient, and protected with the help of a share trading app.

Demat Account Concepts & Processes

You've probably heard about Demat Accounts, but do you really know what they are and how they can help you? This article will help simplify the complexities of Demat accounts, shedding light on various concepts and procedures of a Demat account.

Aims and Objectives of a Demat Account

A Demat account, short for "dematerialised account," is like a digital storage for different financial assets —like stocks, bonds, mutual funds, and exchange-traded funds (ETFs). The main goal of a Demat account is to get rid of paper certificates,

making things smoother, reducing the chances of losing or damaging certificates, and making trading easier.

Transfer, Closure, cum Waiver (TCW) Procedure

You have the option to shift your holdings from one Demat account to another institution without incurring extra fees. By making this decision, the Beneficiary Owners' (BO) accounts at both the current Depository Participant (DP) and the new DP will be the same. If you intend to transfer a joint Demat account, you must establish a new account with the exact same names.

Demat Account Opening Procedure

The process of starting a Demat account follows some clear steps. These steps make sure you are who you say you are and follow the rules. Listed below are the steps to open a Demat account:

- **Choosing A Depository Participant (DP):**

A DP is a middleman registered with a depository, like NSDL or CDSL, who helps with Demat services. You need to pick a good DP that suits you.

- **Completing The Application Form:**

Acquire the application form required for opening a Demat account from your chosen DP. Fill in your personal details, along with copies of documents like the PAN card, Aadhar card, and other necessary credentials.

- **Verifying KYC Details:**

The Know Your Customer (KYC) verification is an important step in initiating your account. Presenting the required documents for verification serves a dual purpose: it prevents illegal activities and shows your adherence to regulatory standards.

- **Signing The Agreement:**

The formal agreement between you and the DP, referred to as the DP-client agreement, should be duly completed. This agreement outlines the terms and conditions that govern your Demat account, ensuring transparency and mutual understanding.

- **In-Person Verification (IPV):**

Some DPs might require in-person verification with your original documents to ensure everything is real.

- **Starting Your Account:**

Once they check your details and documents, you get an account number and other relevant details. This means your Demat account is operational and ready to go.

Depository Concepts

Understanding depositories is crucial when we talk about Demat accounts. A depository holds securities in electronic form, making sure everything is safe and easy to store and transact. In India, there are two main depositories: National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). These depositories work with their DPs to facilitate the functioning of Demat accounts.

Getting into Securities' Dematerialization

Converting physical share certificates into digital ones is what we call dematerialization. In this process, you give your physical certificates to the DP, who then asks the depository to make them digital. Once approved, the electronic securities are reflected in your Demat account. This eliminates the risks associated with physical certificates, such as loss, theft, or forgery.

Procedure of Dematerialization

To start the process of dematerialization, follow these steps:

- **Filling The Dematerialization Request Form:**

Obtain the Dematerialization Request Form (DRF) from your DP and fill in what securities you want to dematerialize.

- **Handing Over Physical Certificates:**

Attach the physical certificates to the DRF and give them to your DP. Make sure you have signed across the face of each certificate.

- **Checking And Processing:**

The DP verifies the details and sends the DRF to the depository. The depository cross-verifies the details with the issuer and processes the dematerialization request.

- **Getting Digital Credits:**

Upon successful processing, the electronic equivalent of the securities is credited to your Demat account.

Dematerialisation Credit

When your Demat account is credited with dematerialised securities, you'll receive a statement containing details of the credited securities. This statement acts as proof of ownership, and you can use it for various purposes, including tracking your investments and proving your ownership in case of disputes.

Transmission cum Demat

In the unfortunate event of the account holder's demise, the securities held in their Demat account need to be transferred to the nominee or legal heir. This process is known as transmission cum Demat. The nominee or legal heir needs to provide the necessary documents, such as the death certificate, legal heir certificate, and transmission request form, to the DP for processing.

Transposition cum Demat

Transposition cum Demat refers to changing the order of securities' ownership in a Demat account. This could involve changing the sequence of names or the order of ownership percentages. The account holder needs to submit a transposition request form to the DP along with the required documents for demat account processing.

Re-materialisation

Even though digital securities are the norm, sometimes you might want physical certificates. This is when re-materialization comes in. Here's what you need to do:

- **Filling The Re-Materialisation Request Form:**

Get the Re-materialisation Request Form (RRF) from your DP and fill in the details of the securities you want to re-materialize.

- **Sending The Request:**

Hand over the filled RRF to your DP, and they take it from there.

- **Verification And Processing:**

The DP forwards the request to the depository. Once verified, the depository informs the registrar and transfer agent (RTA) of the issuer, who then prints the physical certificates.

- **Getting Physical Certificates:**

These physical certificates are sent to your registered address.

Freezing and De-freezing

Investors have the option to freeze or de-freeze their Demat accounts. Freezing prevents any debit or credit transactions in the account, providing an added layer of security. De-freezing reverses the freezing status, allowing transactions to take place.

Closure

When you're done with your Demat account, you need to close it properly. Typically, this involves submitting a closure request form, surrendering unused delivery instruction slips, and settling any pending dues. Once the closure request is processed and all formalities are completed, your Demat account will be closed.

In the world of investing, Demat accounts play a big role. They make things smoother and safer. Whether you're safeguarding your financial future or diversifying your investment portfolio, understanding the concepts and processes associated with Demat accounts is a fundamental step. By familiarising yourself with the Demat account opening procedure, dematerialization, Dematerialization, and other key processes, you empower yourself to navigate the financial markets with confidence and efficiency.

UNIT V – Demat Trading

No	Question	Marks	Bloom's Level
1	Define Demat trading.	5	K1
2	What is a depository?	5	K1
3	State the role of custodians in Demat trading.	5	K2
4	List the advantages of Demat accounts.	5	K1
5	What is ASBA in Demat trading?	5	K1
6	Explain the concept and significance of Demat trading.	8	K2
7	Discuss the role of depositories in Demat trading.	8	K2
8	Explain SEBI guidelines relating to Demat trading.	8	K3
9	Describe the procedure of Demat trading step by step.	8	K3
10	Analyze the benefits of Demat trading over physical trading.	8	K4

EDITED BY

Dr.M.NITHYA M.COM.,M.Phil.,M.B.A.,TN-SET.,Ph.D

ASSISTANT PROFESSOR (T)

DEPARTMENT OF COMMERCE

MANONMANIAM SUNDARANAR UNIVERISTY

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