Volume : 1 | Issue : 7 | Dec 2012 • ISSN No 2277 - 8160



Research Paper | Management

Working of Stock Exchange & Depository Services

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Meaning of Stock Exchange:
The stock exchange is the important segment of its capital market. If the stock exchange is well-regulated function smoothly, then it is an indicator of healthy capital market. If the state of the stock exchange is good, the overall capital market will grow and otherwise it can suffer a great set back which is not good for the country. The government at various stages controls the stock market and the capitals market.

A capital market deals in financial assets, excluding coin and currency. Banking accounts compromises the majority of financial assets. Financial assets are claim of holders over issuer. They enter low different segment of financial market.

Those having short maturities that are non transferable like bank savings and current accounts set the identification of the monetary financial assets. This market is known as money market, Equity, Preferential shares and bonds and debentures issued by companies and securities issued by the government constitute the financial assets, which are traded in the capital market.

Both money market and capital market constitute the financial market. Capital market generally known as stock exchange. This is an institution around which every activity of national capital market revolves. Through the medium stock exchange the investor gets on impetus and motivations to invest in securities without which they would not be able to liquidate the securities. If there would have been no stock exchange many of the savers would have hold their saving either in cash i.e. idle or in bank with low interest rate or low returns. The stock exchange provides the opportunity to investors for the continuous trading in securities. It is continuously engaged in the capital mobilization process.

Another consequence of non-existence of stock exchange would have been low saving of the community, which means low investment and lower development of the country.

S - Securities provide for investor.
T - Tax Benefits planning and exemption.
O - Optimum return on investment.
C - Cautious Approach.
K - Knowledge of Market.
Ex - Exchange of Securities Transacted.
C - Cyclopedia of Listed Companies.
H - High Yield.
A - Authentic Information
N - New Entrepreneur encouraged.
G - Guidance of Investor & Company.
E - Equity

History and Origin of Stock Exchange
The first stock exchange was established in London in the year 1773 just after establishment of London stock exchange various countries like France, Germany and USA also established their own stock exchange markets. In India, the first exchange established in Bombay in the year 1875 later, in year 1908, Calcutta stock exchange was established which was recognized in the company in 1923 mean which in 1920 the madras stock exchange limited in 1973. So far the government of India has recognized 22 stock exchanges, which was located at major business centers in different parts of country.

Till the mid fifties the stock exchange was governed by their own bye laws and regulations with very little interface by the government. In the year 1925, the government of Bombay promulgated an act securities contracts and control act, 1625 for regulation and the stock exchange. During the world was second trading outside the stock exchange flourished with adverse effect on investors' confidence due to base less issues and higher rate of liquidation of companies. In 1956, the central government passed contracts (regulation) act 1956, which came into force throughout the country on 20th Feb. 1957.

Recently the government of India has enacted an act (SEBI Act 1952), which provides for the establishment of a board to protect the interest of investor in securities, the SEBI has emerged as a monitoring institution of the country fir the development and regulation of stock market, SEBI has issued from time to time guideline to insider trading listing of securities, registration of intermediaries mutual funds etc.

Management of Stock Exchange
Management of stock exchange is done an elected body of members. These bodies are known by different names in different stock exchange for example, the BOMAY, INDORE and AHEMDABAD stock exchange are managed by a governing board. Council of management governs the MADRAS stock exchange. A committee manages the CALCUTTA stock exchange while the board of director manages stock exchange.

These governing bodies are powerful bodies enjoying extensive administrative power of management and control over their respective stock exchange the day-to-day function of the stock exchanges are executed by the sub-committee like the defaulters committee listing committee, settlement committee etc.

Stock Brokers
SEBI registered stock - brokers interested in providing Internet based trading services will be required to apply to the respective stock exchange for a formal permission. The stock exchange should grant approval or reject the application as the case may be, and communicate its decision to the member within thirty calendar days of the date of completed application submitted to the exchange.

The Exchange closely monitors outstanding position of top buying member-brokers and top selling member-brokers on a daily basis. For this purpose, it has developed various market monitoring reports based on certain pre-set parameters. These reports are scrutinized by officials of the Surveillance Dept. to ascertain whether a member-broker has built up excessive purchase or sale position compared to his normal level of business. Further, it is examined whether purchases or sales are concentrated in one or more scrips, whether the margin cover is adequate, whether transactions have been entered into on behalf of institutional clients and even the quality of scrips, i.e., liquid or illiquid is looked into in order to assess the quality of exposure. The Exchange also scrutinizes the pay-in position of the member-brokers and the member-brokers having larger funds pay-in positions are at times, at the discretion of the Exchange, required to make advance pay-in on T+1 day instead of on T+2 day.

Basic Requirements for Stock Brokers
Trading will be on existing stock exchanges through order routing system for execution of trades. Therefore, stockbrokers are to comply with the following before the start of trade on Internet.

1. The broker must have a net worth of Rs. 50 lakh if he wants to avail the facility of Internet for his own.
2. Provision for maintenance of adequate backup system.
3. The software system to be used by him should be secured and reliable.
4. To employ the qualified staff for this purpose.
5. To send order/trade confirmation to the client also through e-mail.
6. The contract notes must be issued to the clients as per existing regulation within 24 hours of the execution of trades.
7. The broker and his client should use authentication technologies.

The above are some of the important pre-requisites for the stockbroker should intend to take benefits of trading on Internet. However, detailed guidelines issued by the SEBI for the stock exchange.

Kinds of Stock Brokers
1. Commission Broker
Near about all the brokers buy and sell securities for earning a commission for investor point of view he is the most important person and responsibility is to buy and sell stoke for his customer. It means that he acts as an agent of investor and earns commission for his services rendered. The broker is also an independent dealer in securities. He purchases and sells securities in his own name but he is not allowed to deal with non-member.

2. Jobber
He is a professional speculator who works for a profit called ¥turn¥ he makes a continuous auction in the market in the stoke in which he specialized. He trades in the market evens for small difference in the prices and helps to maintain liquidity in the stoke exchange.

3. Floor Broker
The floor broker buying and selling shares for the other broker on the floor of the exchange. He is an individual member owns his seat and receives his own commission on the orders he execute. He helps other brokers when they are buyers and as compensation receives a portion the broker.

4. Odd lit dealer
For trading in stock exchange there a certain number of share a fixed to be transacted in a lot, this is known as round lat which is usually a, 100 share a. Anything less than the round lot are add lot. If a person is in possession of add lot of share i.e. 10, 20, 30, 40 etc. They he will has to look for the add lot dealer.

5. Budliwala
He is the person who finance or provide credit facilities to market for this service he charges a fees called contango or backwardation charges. The budliwala gives a fully secured loan for period of 2 to 3 weeks.

6. Arbitrageur
A person who is specialist in dealing with securities in different stoke exchange centers at the same time. He makes a profit by the difference in the piece prevailing in different centers of the market activity. For example the rte of a certain scrip is higher in some stoke exchange than other on. In this case the broker will buy the scrip from the marked lower price and will sell the scrip in the market at higher price. The profit of the arbitrageur depends on the ability to get the prices from different centers before trading in other stoke exchanges.

Stock Trading
Overview
The marketing of the securities on the stock exchange can be done through member of the stock exchange. These members can be either individuals or corporate bodies.

For the process of trading in stock exchange there is the basic need for a transaction between an individual and the broker execute customers order to buy or sell on the stock exchange trading ring. The exchange of scrip between the member of the exchange in from of buying or selling is called trading.

Broker is the member of recognized stock exchange and helps the customers in buying or selling the securities for the brokerage that he receives.

Trading Method
Listing securities are traded on the floor of recognized stock exchange where its member traded. An investor is not permitted to enter the floor of stock exchange and he has trust the broker to:
* Negotiate the best price for the trade.
* Settle the account, i.e. payment for securities sold on due date.
* Take delivery of securities purchase.

Types of Trading
Trading in stock exchange is conducted in two ways:
* Ready delivery contract.
* Forward delivery contract.

Basket Trading System
The Exchange has commenced trading in the Derivatives Segment with effect from June 9, 2000 to enable the investors to, inter-alias, hedge their risks. Initially, the facility of trading in the Derivatives Segment was confined to Index Futures. The investors in cash market had felt a need to limit their risk exposure in the market to movement in Sensex.

To participate in this system, the member-brokers need to indicate number of Sensex basket(s) to be bought or sold, where the value of one Sensex basket is arrived at by the system by multiplying Rs.50 to prevailing Sensex. For e.g., if the Sensex is 4000, then value of one basket of Sensex would be 4000 x 50= i.e., Rs. 2,00,000/-. The investors can also place orders by entering value of Sensex portfolio to be brought or sold with a minimum value of Rs. 50,000/- for each order.

The Basket Trading System provides the arbitrageurs an opportunity to take advantage of price differences in the underlying Sensex and Futures on the Sensex by simultaneous buying and selling of baskets comprising the Sensex scrips in the Cash Segment and Sensex Futures. This is expected to provide balancing impact on the prices in both cash and futures markets.

Procedure of Trading
1. Select of broker
2. Opening an Account with the Broker
3. Selection of Securities
4. Selection of Time for Trading
5. Placing an Order
6. Preparation of Contract Note
7. Settlement

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