

# STOCK EXCHANGES

## Meaning:

It refers to an association or organization established for the purpose of assisting, regulating, and controlling business in trading of securities.

Stock Exchanges can be defined as privately organized markets which are used to facilitate trading in securities.

Example: NSE, BSE, Regional stock Exchanges etc.

## Features of stock exchange

Characteristics or features of stock exchange are:-

1. Market for securities
2. Deals in second hand securities
3. Regulates trade in securities
4. Allows dealings only in listed securities
5. Transactions effected only through members
6. Association of persons
7. Recognition from central government
8. Working as per rules
9. Specific location
10. Financial barometers
11. Membership of the exchange

**1. Market for securities:** stock exchange is a market, where securities of corporate bodies, government and semi-government bodies are bought and sold.

**2. Deals in second hand securities:** it deals with shares, debentures bonds and such securities already issued by the companies. In short it deals with existing or second hand securities and hence it is called secondary market.

**3. Regulates trade in securities:** stock exchange does not buy or sell any securities on its own account. It merely provides the necessary infrastructure and facilitates for trade in securities to its members and brokers who trade in securities. It regulates the trade activities so as to ensure free and fair trade.

**4. Allows dealings only in listed securities:** in fact, stock exchanges maintain an official list of securities that could be purchased and sold on its floor. Securities which do not figure in the official list of stock exchange are called unlisted securities. Such unlisted securities cannot be traded in the stock exchange.

**5. Transactions effected only through members:** all the transactions in securities at the stock exchange are effected only through its authorized brokers and members. Outsiders or direct investors are not allowed to enter in the trading circles of the stock exchange. Investors have to buy or sell the securities at the stock exchange through the authorized brokers only.

**6. Association of persons:** a stock exchange is an association of persons or body of individuals which may be registered or unregistered.

**7. Recognition from central government:** stock exchange is an organized market. It requires recognition from central government.

**8. Working as per rules:** buying and selling transactions in securities at the stock exchange are governed by the rules and regulations of stock exchange as well as SEBI guidelines. No deviation from the rules and guidelines is allowed in any case.

**9. Specific location:** stock exchange is a particular market place where authorized brokers come together daily (i.e. on working days) on the floor of market called trading circles and conduct trading activities. The prices of different securities traded are shown on electronic boards. After the working hours markets is closed. All the working of stock exchanges is conducted and controlled through computers and electronic system.

**10. Financial barometers:** stock exchange is the financial barometers and development indicators of national economy of the country. Industrial growth and stability is reflected in the index of stock exchange.

**11. Membership of the exchange:** it is open to corporate entities, individuals and partnership firms who fulfill the eligibility criteria laid down by SEBI and NSE.

### **Functions of stock exchange**

{**Note:** refer to secondary market functions}

### **Regulatory framework of stock exchange**

#### **The governing body of the stock exchange**

The governing body of the stock exchange consists of 13 members of which 6 members of the stock exchange are elected by the members of the stock exchange.

- (a) Central government nominates not more than 3 members
- (b) The board nominates 3 public representatives
- (c) SEBI nominates persons not exceeding 3 and
- (d) The stock exchange appoints one executive director.

#### **Recognition of stock exchange-procedures**

The stock exchanges in India have to be recognized by the central government under the securities contract regulation act, 1956 and SEBI and they have to comply with the provisions of SCRA and also the bye-laws and regulations duly approved by the government.

Any stock exchange needs recognition under SEBI act has to submit the application along with the bye-laws of the stock exchange for its operation and a copy of the rules relating to its constitution, governing body, powers and duties of the office bearers, the admission procedure etc.

#### **Membership rules in a stock exchange**

To be a member a person has to conform certain rules and regulations specified under the securities exchange board of India. These rules are as follows,

1. He should not be less than 21 years of age, Indian citizen, not bankrupt
2. Not compounded with the creditors
3. Not compounded with creditors, fraud or dishonesty
4. Not a defaulter of any other stock exchange.

### **Listing of securities**

When listing is granted to a company, it means that the securities are included in the official list of the stock exchange for the purpose of trading. Security listing ensures that, a company is solvent and its existence is legal. Government security is not required to be listed.

### **NATIONAL STOCK EXCHANGE (NSE)**

National stock exchange incorporated in the year 1992, provides trading in equity as well as debt market. Maximum volumes take place on NSE and hence enjoy leadership position in the country today.

### **Features of National Stock Exchange;**

- NSE was set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach.
- The exchange is very transparent in its transactions, speed and efficiency, safety and market integrity. It has set up facilities that server as model for the securities industry in terms of systems, practices and procedures
- NSE has played a catalytic role in reforming the Indian securities market in terms of microstructure, are practices and trading volumes.
- The market today uses state-of-art information technology to provide an efficient and transparent trading, clearing and settlement mechanism, and has witnessed several innovations in products and services.

### **BOMBAY STOCK EXCHANGE (BSE)**

BSE on the other hand was set up in the year 1875 and is the oldest stock exchange in asia.it has evolved in to its present status as the premier stock

exchange. At BSE you will find some scripts listed that are not available on NSE. Also BSE has the largest number of scripts which are listed.

### **Features of Bombay stock exchange;**

- Bombay stock exchange, now known as 'BSE Limited'.
- It is the oldest stock exchange in the entire Asia.
- It is located in Dalal Street, Mumbai.
- It has the largest number of companies of the world listed on it.
- The BSE Sensex, which is otherwise known as 'BSE 30', is most commonly used term while referring to the trading volume in India and Asia.
- When compared with NSE (National stock exchange), BSI has quite similar statistics in terms of total market capitalization but in terms of share volumes, NSE is almost twice of BSE.
- As per the securities contracts regulation Act, BSE is the first stock exchange to be recognized by the government of India in 1956.
- BSE switched to electronic trading system in 1995 and took only fifty days for this transition.
- 'BOLT' or the 'BSE On line trading' is the automated version of the trading platform, which is screen based and currently has a capacity of 8 million orders per day.

### **Over The Counter Exchange of India (OTCEI)**

The (OTCEI) over the counter exchange of India, is based on Mumbai, Maharashtra. It is India's first exchange for small companies, as well as the first screen-based nationwide stock exchange in India.

OTCEI is promoted by the unit trust of India, the industrial credit and Investment Corporation of India, the industrial development bank of India, the industrial finance corporation of India, and other institutions, and is a recognized stock exchange under SCR act.

***Benefits of stock Exchanges***(Refer to class work-Chart)

## **Advantages of OTCEI:**

- Greater liquidity and lesser risk of intermediary charges due to widely spread trading mechanism across India.
- The screen-based scrip less trading ensures transparency and accuracy of prices
- Faster settlement and transfer process as compared to other exchanges
- Shorter allotment procedure (in case of new issue) than other exchanges
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## **+ Meaning of important terms**

### **I. Online trading –**

Online trading is basically the act of buying and selling financial products through an online trading platform. These platforms are normally provided by internet based brokers and available to every single person who wishes to trade in the stock market, to buy shares and debentures. It is also available in the platform like FOREX, which provides a variety of financial products including shares, commodities indices and FOREX.

#### **Advantages of online trading:**

- The stock markets are open 24/7
- Online trading platforms
- Speedy transactions
- Real-time progress

#### **Disadvantages of online trading:**

- Loss of funds
- Trading can become addictive
- Computerized trading
- Trading news and updates

### **II. Insider trading –**

Insider trading is the illegal practice of trading on the stock exchange to one's own advantage through having access to confidential information. Insider trading refers to the trading of securities by corporate insiders such as managers or executives.

This illegal buying and selling of a company shares by people who have special information because they are involved with the company: individuals who engage in illegal insider trading attempt to benefit from trades based on information about a company not yet made public.

### III. **Short selling in trade** –

When a trader sells a security with the intension of repurchasing it later at a lower price, it is called as short selling.

The short selling is part and parcel of stock markets where in many traders sell various stocks at current market price, with an expectation that the prices would fall and they would buy it back at lesser prices and make some profits.

### IV. **Stock Brokers** –

A stock broker is a professional who executes buy and sell orders for stocks and other securities on behalf of clients. A stock broker may also be known as registered representative, investment advisor or simply broker. Stock brokers are usually associated with a brokerage firm and handle transactions for retail and institutional customers alike. Stockbrokers often receive commission for their services.

### V. **Speculation**–

Speculation refers to buying the securities when prices are low and sell the same when there is increase in price. Difference between buying price and selling price will be speculation profit.

Speculation refers to act of conducting a financial transaction that has substantial risk of losing value but also holds the expectation of a significant gain.

### **Kinds of speculators/brokers in stock exchange**

- **Jobber:** jobber is a professional speculator who has complete information regarding the particular shares he deals. He transacts the shares of profit. He conducts the securities in his own name. He is the member of the stock exchange.
- **Broker:** broker is a person who transacts business in securities on behalf of his clients and receives commission for his services. He deals between jobbers and members outside the house. He is an experienced agent of the public.
- **Bull:** He is always in a position to dispose securities which he does not possess. He makes profit on each transaction. He sells the various securities for the objectives of taking advantages of an expected fall in prices.
- **Lame duck:** when bear fails to meet his obligations he struggles to meet finance like lame duck. This may happen when he has been concerned. Generally a bear agrees to dispose of certain shares on specific date. But sometimes he fails to deliver due to non-availability of shares in the market. If the other party refuses to postpone the delivery then lame duck suffers heavy losses.
- **Stag:** he is also a speculator. He purchases the shares of newly floated company and shown himself a genuine investor. He is not willing to become an actual shareholder of the company. He purchases the shares to sell them above the par value to earn premium. A stag also suffers losses.
- **Contango:** contango means to come over dealing to the settlement. The broker is paid a reward to carry the settlement, it is also known as contango. It is paid the buyers; to the brokers. In some cases buyers are unable to make the payment of securities on any particular date. So he requests the brokers to carry on the dealing to the next settlement.