
Securities Market

An overview

Introduction

- Major Policy Changes since 2000
 - Introduction of Rolling Settlements & shortening of settlement cycles
 - Futures and options were introduced.
 - Setting up of CCIL for debt markets, interest rate derivatives & negotiated dealing system for bidding of gsecs.
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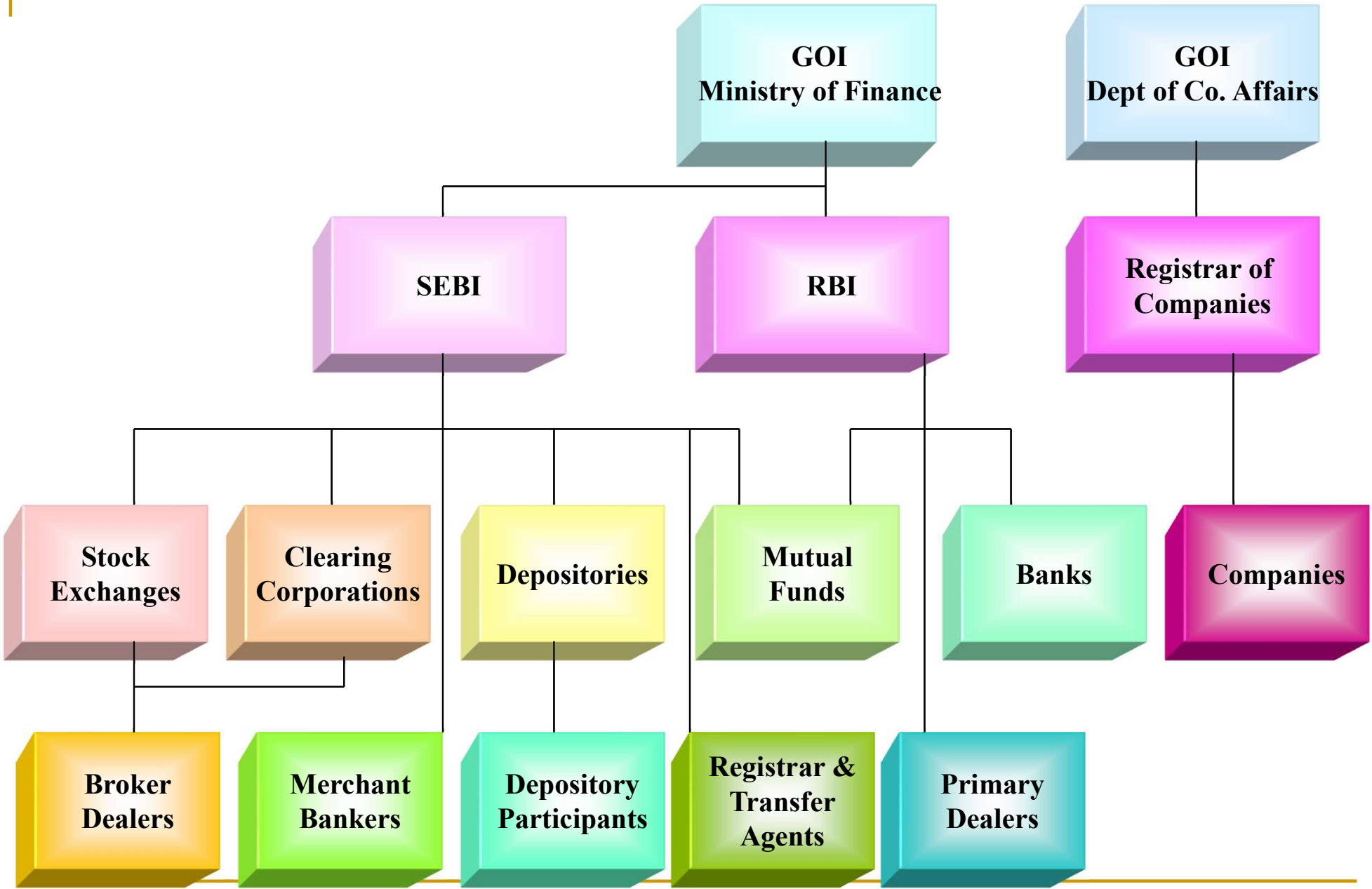
Product & Participants

- Need of securities market
 - Securities market provides channel for reallocation of savings to investments and entrepreneurship.
 - Savers and investors are not constrained by individual abilities but by economy's abilities to invest and save.
 - Categories of Participants
 - Issuers of securities
 - Investors in securities
 - Intermediaries
 - Products
 - Services of Intermediaries
 - Securities
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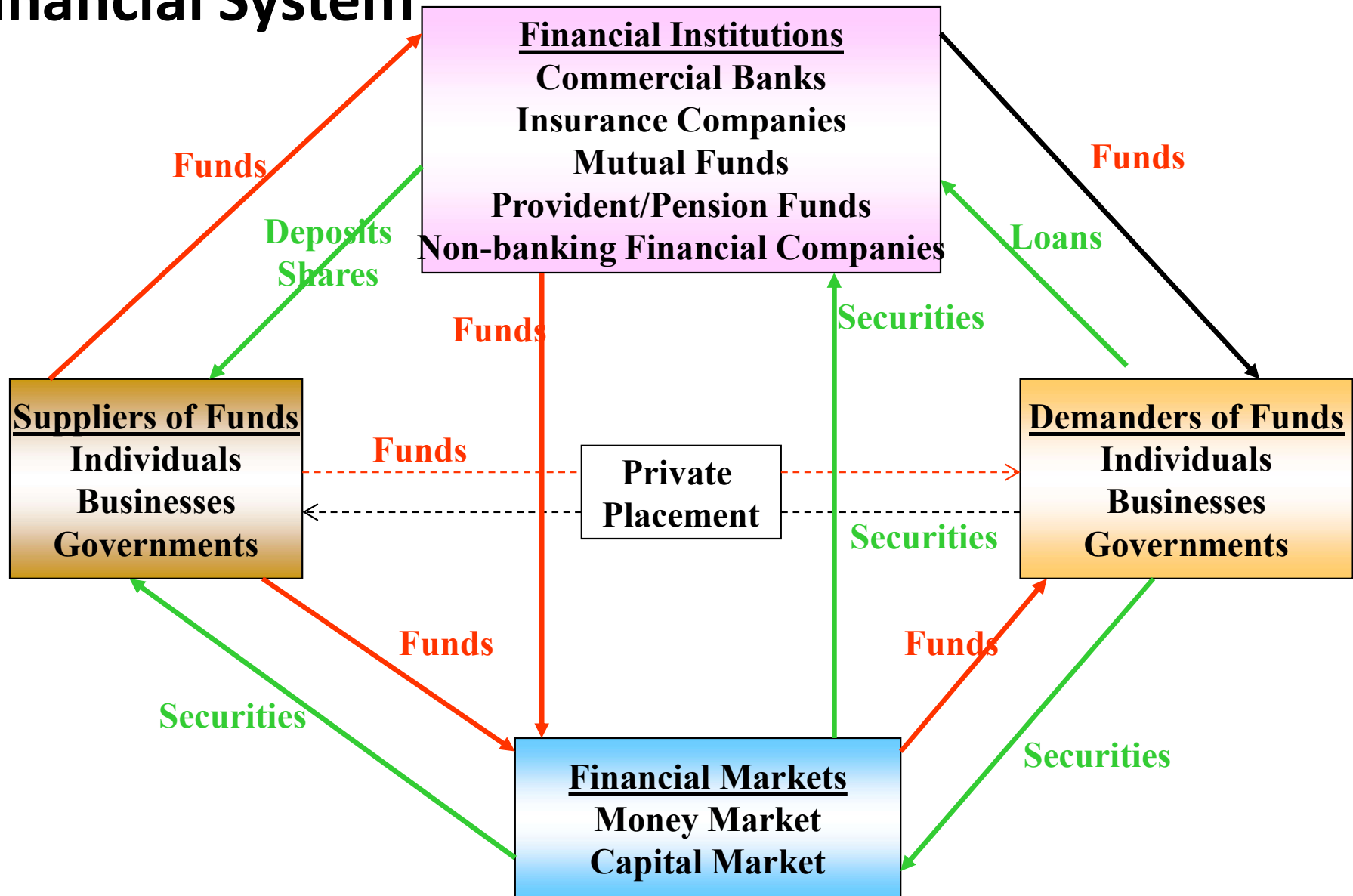
Types of Financial Markets

Capital Market	Money Market	Forex Market	Derivatives Market
Equity Debt Retail Corporate Banks FI FIs	T-Bills Call Money ICD, CP, CD Banks Corporate FI, FIs	Spots Forwards Banks Corporate FI, FIs	Agriculture Produces, Metals, Financial futures like Interest rate, currency, indices etc Banks, FIs Corporate

Structure of Indian Financial System:



Financial System



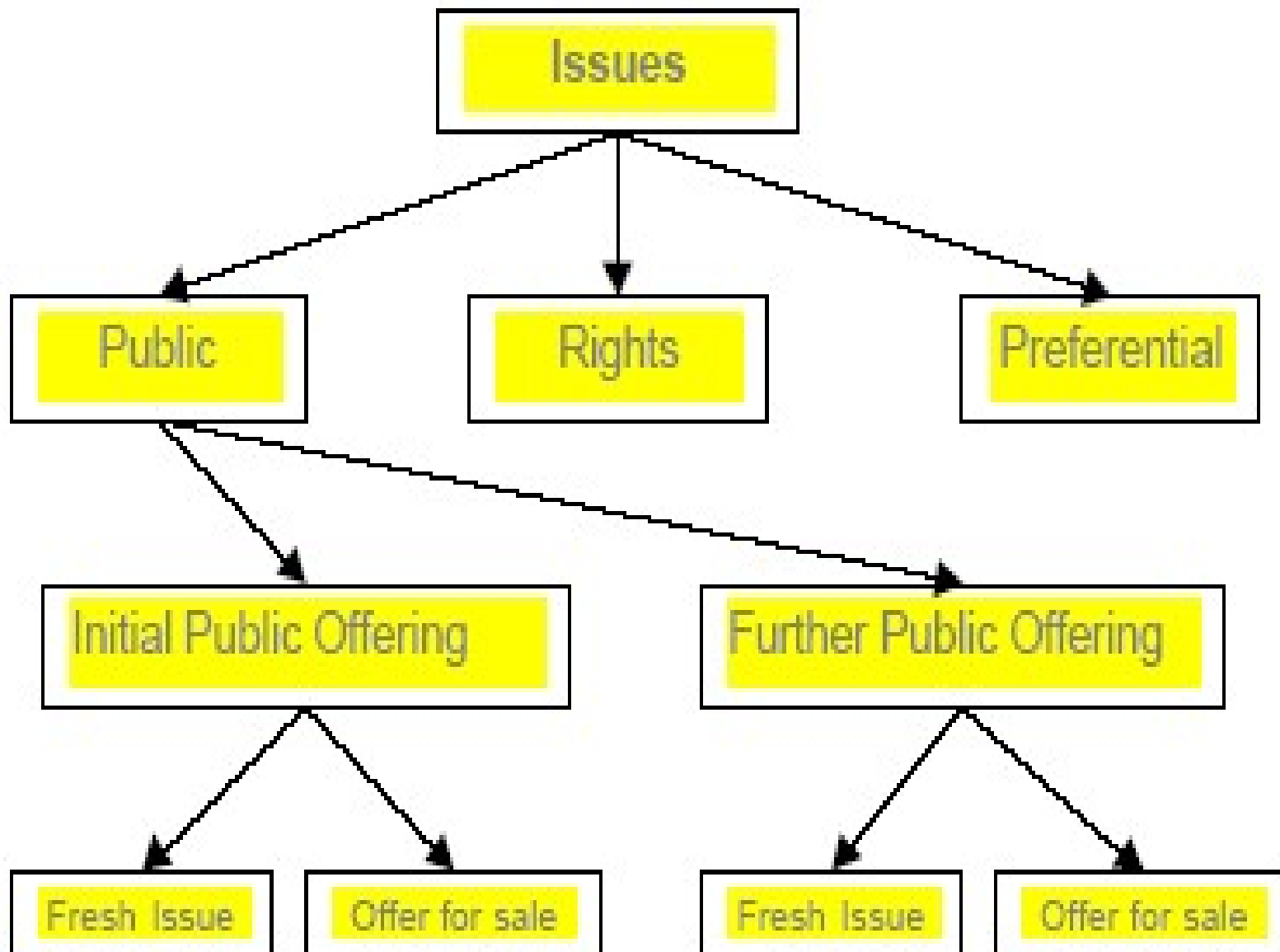
Primary Market

An Overview

Introduction

■ Issuers of Securities

- Government and Corporate
 - Issuers create and issue fresh Securities in exchange for funds
 - Public/Private Issue
 - Face Value/Premium/Discount
 - Equity/Debt/Hybrid
 - Domestic Market /International Market
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Issues Norms

- **Entry Norm I (EN I):** The company shall meet the following requirements:
 - (a) Net Tangible Assets of at least Rs. 3 crores for 3 full years.
 - (b) Distributable profits in at least three years
 - (c) Net worth of at least Rs. 1 crore in three years
 - (d) If change in name, at least 50% revenue for preceding 1 year should be from the new activity.
 - (e) The issue size does not exceed 5 times the pre- issue net worth
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Exceptions

The following are eligible for exemption from entry norms.

- (a) Private Sector Banks
 - (b) Public sector banks
 - (c) An infrastructure company whose project has been appraised by a PFI or IDFC or IL&FS or a bank which was earlier a PFI and not less than 5% of the project cost is financed by any of these institutions.
 - (d) Rights issue by a listed company
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Pricing of Issues

- Free Pricing
 - SEBI does not play any role in price fixation.
 - Fixed Price/Book Building
 - The company and merchant banker are however required to give full disclosures of the parameters which they had considered while deciding the issue price.
 - Book Building
 - 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 the securities is assessed on the basis of the bids obtained for the quantum of securities offered for subscription by the issuer. This method provides an opportunity to the market to discover price for securities.
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Book Building

- **Options in Book building**
 - 75 % Book Building
 - 100 % book Building
 - **Books remain open for 7 working days (Fixed price issue 10 days)**
 - **Only Electronic Bidding**
 - **Bids to be submitted through Syndicate members**
 - **Issue completed and trading commenced on T + 16 basis**
 - **Floor price disclosed one day prior to bid date**
 - **Price band of 20 %**
 - **Green Shoe option**
 - **An option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism in accordance with the provisions of Chapter VIII-A of DIP Guidelines, which is granted to a company to be exercised through a Stabilising Agent.**
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Difference between shares offered through book building and offer of shares through normal public issue

Features	Fixed Price Process	Book Building Process
Pricing	Price at which the securities are offered/allotted is known in advance to the investor	Price at which securities will be offered/allotted is not known in advance to the investor. Only an indicative price range is known.
Demand	Demand for the securities offered is known only after the closure of the issue	Demand for the securities offered can be known everyday as the book is built.
Payment	Payment if made at the time of subscription wherein refund is given after allocation.	Payment only after allocation.

Promoter

- The promoter has been defined as a person or persons who are in over-all control of the company
 - Promoters Contribution should not be less than 20% of post issue of capital in case of offers for sale and public issues by unlisted companies.
 - To bring Full amount of promoter contribution including premium one day prior to issue opening date.
 - Exceptions
 - Public issue of securities listed on a stock exchange for at least 3 years with a dividend payment record of 3 immediate preceding years
 - No identifiable promoter or group exist
 - Rights Issue
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Lock In of Securities

- Promoters minimum contribution in any public issue locked in for 3 years.
 - The Contribution over and above 20 % (minimum) is locked in for one year.
 - The locked in securities can be pledged with banks as collateral.

 - Merchant Banker
 - **Governed by SEBI Merchant Bank Regulations Act 1992**
 - **Need to be a Body Corporate other than NBFC**
 - **Required to have a compliance officer**
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Merchant Banker

■ Pre-issue process:-

- The due diligence of company's operations/ management/ business plans/ legal
- Drafting and design of Offer documents, Prospectus, statutory advertisements and memorandum containing salient features of the Prospectus.
- The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, RoC and SEBI including finalisation of Prospectus and RoC filing.
- Appointment of other intermediaries viz., Registrar(s), Printers, Advertising Agency and Bankers to the Offer is also included in the pre-issue processes.
- The LM also draws up the various marketing strategies for the issue.

■ Post issue:-

- Including management of escrow accounts, coordinate non-institutional allocation,
 - intimation of allocation and dispatch of refunds to bidders
 - Finalization of trading and dealing of instruments and dispatch of certificates and demat of delivery of shares, with the various agencies connected with the work such as the Registrar(s) to the Offer and
 - Bankers to the Offer and the bank handling refund business.
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Credit Rating

- Sebi Credit rating regulations ACT 1999
 - Promoted by PFI, SCB, Foreign Banks operating in India, Foreign credit rating agencies with 5 yrs of exp. Body corporate having continuous net worth of 100 crores for previous 5 yrs.
 - Minimum Net worth of 5 crores.
 - A CRA cannot rate
 - A security issued by its promoter
 - Security issued by an associate , subsidiary ,an associate promoter of CRA if they have a common chairman, director and employees.
 - For all debt issue greater than or equal to 100 crores , has to be rated by two different agencies.
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ADR/GDR

- Method of raising foreign currency resources
 - Foreign Convertible currency bonds
 - ADR/GDR
 - Depository Receipt – negotiable instrument in the form of a certificate denominated in US dollars
 - Certificates are issued by an overseas depository bank against underlying shares deposited by the issuing company with the bank
 - The DR's are issued by the bank to the investors
 - It is a non voting equity holding with all other benefits accrued.
 - Permits cross border trading and settlement , minimize transaction costs and broaden the capital base for Institutional Investors.
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Contd...

ADR	GDR
Negotiable U S certificate representing ownership of shares in a Non U S corp..	Issued to public or private to markets inside or outside U S
Quoted and traded in \$ in U S markets	Allows issuer to raise capital in two or more markets simultaneously
To facilitate the purchase, holding and sale of non U S Securities by U S investors.	Underlying shares correspond to GDR are fixed in ratio i.e. 1 GDR = 10 shares

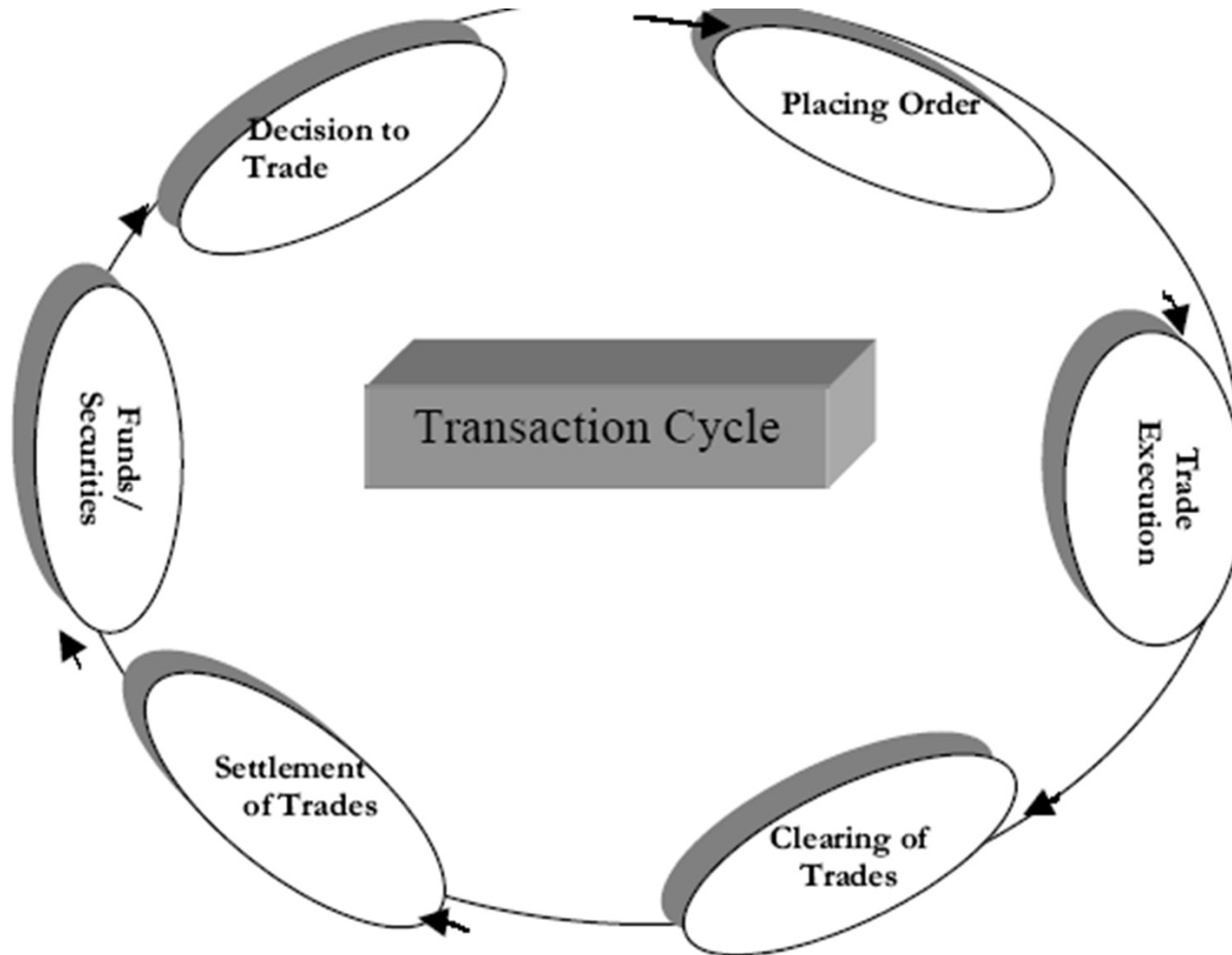
ADR's and GDR's are identical in legal, technical ,operational and administrative point of view

Secondary Market

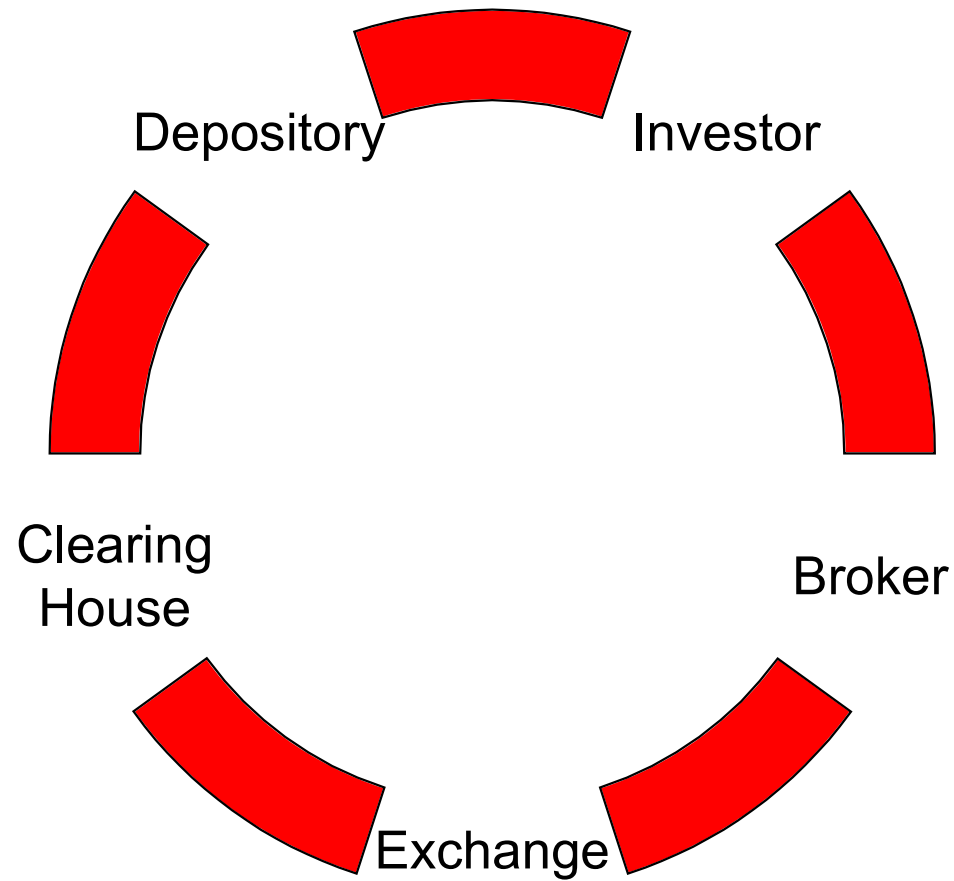
Overview of :

- 1.) Trading and Settlement.
 - 2.) Order Management.
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Transaction Cycle

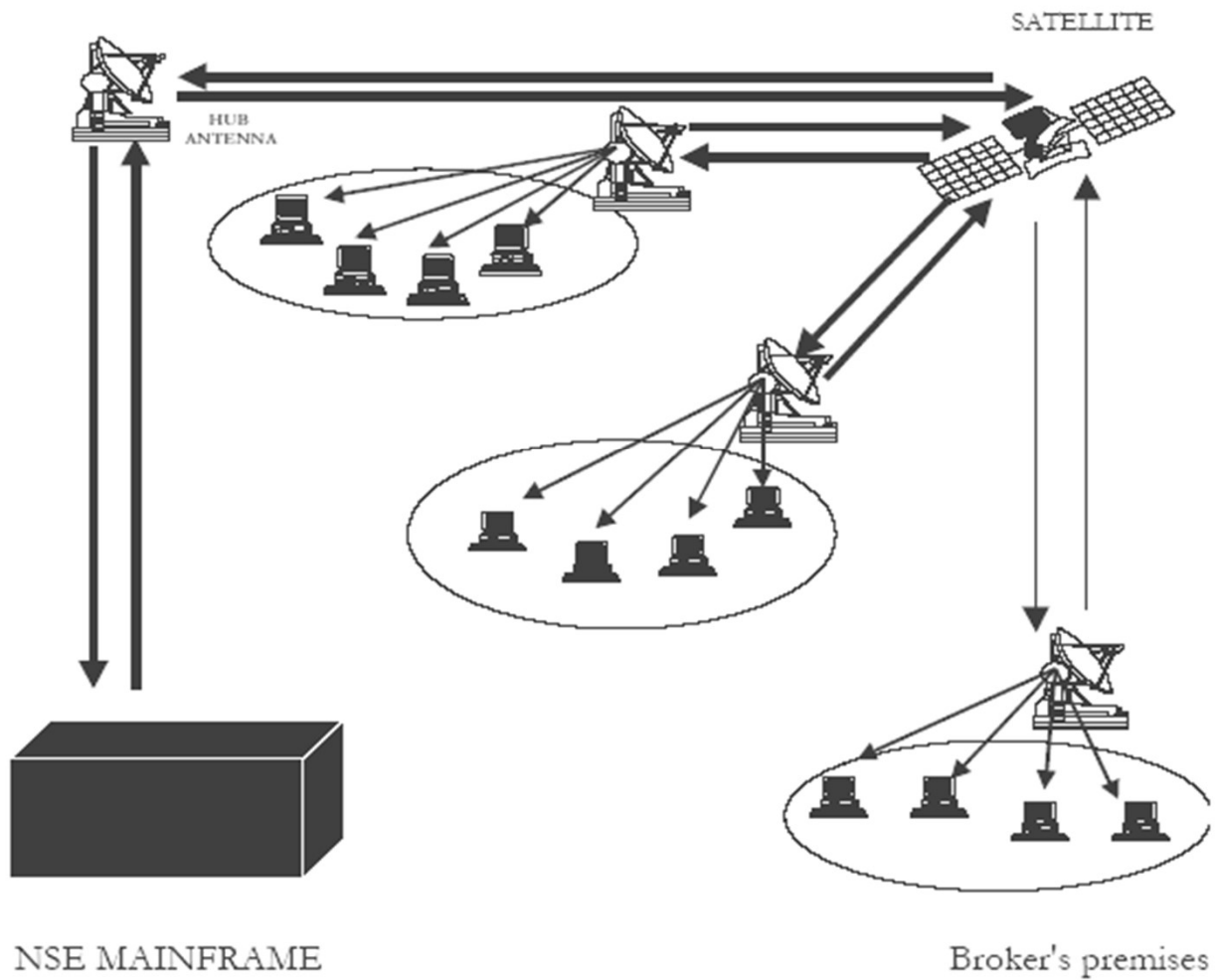


Trading & Settlement Process



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Figure 1.1: Trading Network



Market Participants

- Exchange – NSE/BSE
 - Depository – NSDL/CDSL
 - Custodian
 - Depository Participants
 - Clearing Corporation – NSCCL/BOI share Holding
 - Stock Broker
 - A broker is an intermediary who arranges to buy and sell securities on behalf of clients (the buyer and the seller) also known as CM – Clearing Member
 - Sub –Broker
 - Investors
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Trading At NSE

- The trading on stock exchanges in India used to take place through open outcry
 - NSE introduced a nation-wide on-line fully-automated screen based trading system (NEAT)
 - SBTS electronically matches orders on a strict price/time priority
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Order Placement

- NSE has main computer which is connected through Very Small Aperture Terminal (VSAT) installed at its office.
 - Brokers have terminals (identified as the PCs in the Figure 1) installed at their premises which are connected through VSATs/leased lines/modems.
 - An investor informs a broker to place an order on his behalf. The broker enters the order through his PC, which runs under Windows NT and sends signal to the Satellite via VSAT/leased line/modem. The signal is directed to mainframe
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Contd

- The order confirmation message is immediately displayed on the PC of the broker.
 - This order matches with the existing passive order(s), otherwise it waits for the active orders to enter the system.
 - On order matching, a message is broadcast to the respective member.
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Contd

- All orders received on the system are sorted with the best priced order getting the first priority for matching i.e., the best buy orders match with the best sell order. Similar priced
 - orders are sorted on time priority basis, i.e. the one that came in early gets priority over the later one.
 - Orders are matched automatically by the computer keeping the system transparent, objective and fair.
 - Where an order does not find a match, it remains in the system and is displayed to the whole market, till a fresh order comes in or the earlier order is cancelled or modified.
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Clearing & Settlement

- The clearing and settlement mechanism in Indian securities market has witnessed significant changes and several innovations during the last decade.
 - T+2 rolling settlement has now been introduced for all securities. The members receive the funds/securities in accordance with the pay-in/pay-out schedules notified by the respective exchanges.
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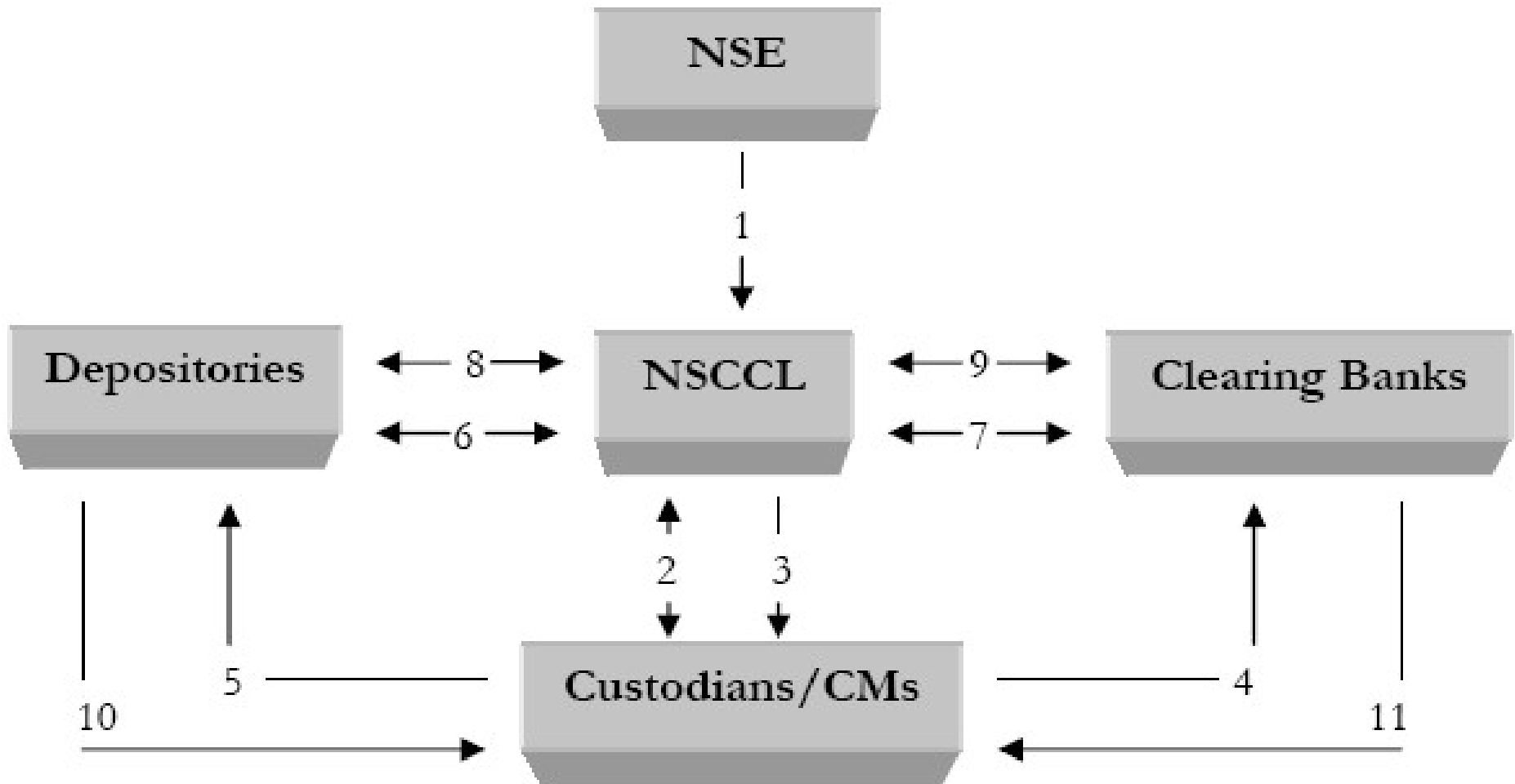
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- The obligations of members are downloaded to members/custodians by the clearing agency
 - The members/custodians make available the required securities in their pool accounts with depository participants (DPs) by the prescribed pay-in time for securities.
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Contd ...

- The depository transfers the securities from the pool accounts of members/custodians to the settlement account of the clearing agency.
 - The securities are transferred on the pay-out day by the depository from the settlement account of the clearing agency to the pool accounts of members/custodians.
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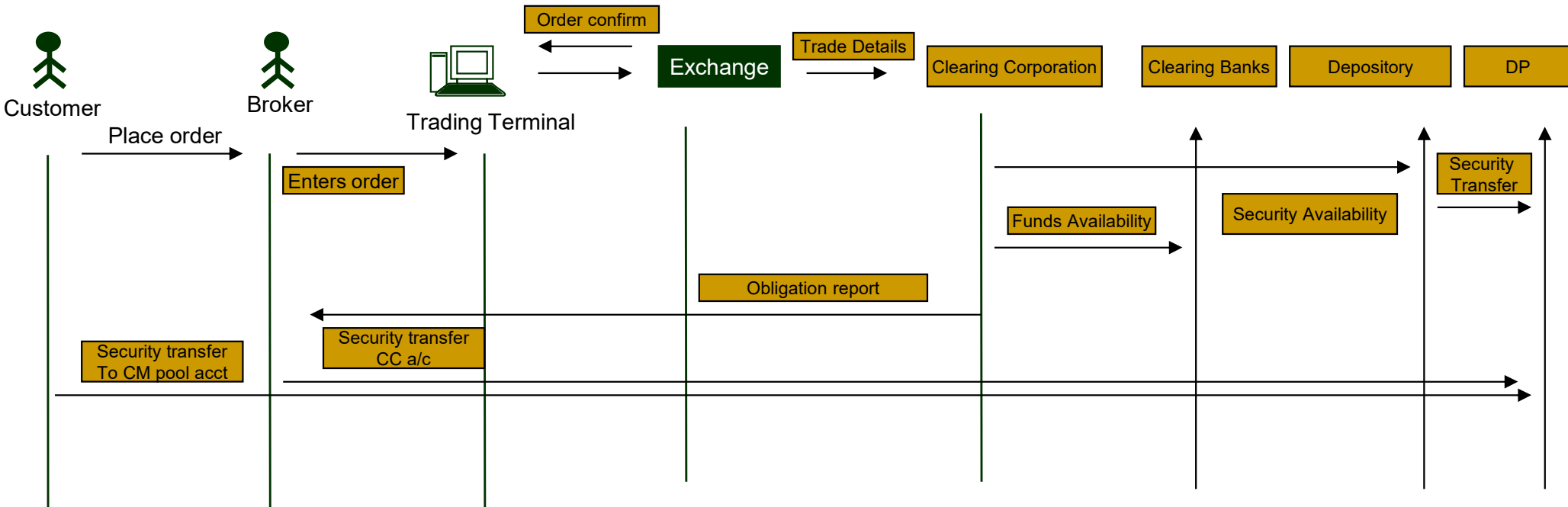
Settlement Process in CM segment of NSE



Process

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



Auctions

- Initiated by Exchange on behalf of trading members for settlement related reasons.
 - On the securities pay-in day, NSCCL identifies short deliveries and the respective clearing member is debited by an amount equivalent to the securities not delivered by him and valued at a valuation price
 - NSCCL conducts a buying-in auction for security shortages on the day after the pay-out day through the NSE trading system. If the buy-in auction price is more than the valuation price, the member is required to make good the difference.
 - Close Out – all shortages not bought are deemed closed at highest price of the trading period or closing price on auction day plus 20%
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Order Management

- NSE is Order driven market
 - Order management consists of
 - Entering orders
 - Order modification
 - Order cancellation
 - Order matching
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Entering Order

- Active vs. Passive Order (price, time stamping)
 - Order Book
 - Regular lot, Stop loss, special terms, retail debt order, auction orders
 - Symbol and Series
 - Quantity
 - Price
 - Principal or Client
 - Order types/conditions
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Order modification

- Modify during market hours
 - Change unexecuted quantity, price
 - Cannot change client code
 - Cannot exceed price limits
 - User value is adjusted
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Order Types/Conditions

Time

- Day, IOC

Price

- Market, Stop loss, Limit, ATO

Quantity

- DQ, MF, AoN, Quantity Freeze

Other conditions

- Pro, Client, Warehouse
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Order Matching

- Touch Line
 - Best buy order, Best sell order
- By Price
- By Time

Trade Management

- Matching of orders
 - Trade verification
 - Trade Modification
 - Trade Cancellation
-

My Broker Login As E50034 - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Address http://trade.motilaloswal.com/stocks/LoginRedirect

File View Tools Help

SENSEX 7215.01(4.24) **NIFTY** 2213.25(1.35)

Buy | Sell | Ord | MBP | Net | Trade | Margin | DP | Bank | Help | Logout

My Market Watch 1 Set as Default

Symbol	Buy Qty	Buy Price	Sell Price	Sell Qty	LTP	LT Qty	Tot Trd Qty	Change %	Close Price	Open Price	Hi Price
SBIN	200	711.05	711.25	175	711.00	1	1146125	0.67	706.25	710.05	711.00
RELIANCE	10	639.75	639.80	19	639.80	25	1356343	-0.05	640.10	642.00	642.00
HINDLEVER	1560	163.75	163.80	565	163.80	125	526172	-0.64	164.85	164.05	164.05
TIMEXWATCH	500	21.35	21.75	300	21.35	0	9111	0.00	0.00	0.00	0.00
SRF	1866	216.10	216.35	2052	216.35	48	14372518	13.30	190.95	194.00	222.00
SRFJULFUT	1500	215.35	215.40	4500	215.40	3000	22113000	12.48	191.50	195.00	222.00
ASSAMCO	515	261.20	262.20	2	261.50	10	228284	-1.32	265.00	260.00	270.00
TCS	39	1333.00	1333.95	188	1333.00	14	135954	-1.43	1352.40	1358.80	1360.00
TITAN	250	393.00	393.70	200	392.55	48	446358	2.16	384.25	394.70	399.00
TISCO	620	346.75	346.80	193	346.75	380	1521565	0.76	344.15	345.00	346.00
NDTV	30	237.75	237.90	1388	237.90	9	1198193	0.11	237.65	248.00	248.00
MID-DAY	100	72.20	72.25	1	72.25	1	355170	-3.09	74.55	75.00	75.00
RELCAPITAL	400	378.60	378.75	1960	378.75	25	2334335	0.64	376.35	376.00	380.00
BAJAJHIND	144	154.65	154.80	100	154.65	25	573131	3.93	148.80	151.00	151.00
M&M	100	585.20	585.90	824	585.90	1	229516	2.34	572.50	572.50	580.00
HINDOILEXP	499	159.50	159.55	720	159.55	1	289010	-0.81	160.85	160.70	160.70
IPCL	2746	178.05	178.15	8425	178.05	10	3671958	3.64	171.80	171.00	171.00
BHARTI	50	243.70	244.00	284	244.00	18	306888	-0.57	245.40	246.00	246.00
SYNDIBANK	261	56.15	56.20	724	56.15	800	510312	-0.27	56.30	56.50	56.50
INDUSINDBK	799	70.10	70.15	2979	70.10	200	1347825	2.41	68.45	69.00	70.00
VRCLINFRA	1	494.05	494.80	44	494.05	25	70641	0.19	493.10	490.20	500.00

28. Please open port 8123 to receive broadcast and interactive messages.

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