FUNCTIONS AND WORKING OF THE BOMBAY STOCK EXCHANGE

Bombay Stock Exchange is established in 21st century as medium of Industrial Development, under sectors Transport Equipments, Capital Goods, Telecom, Healthcare, Housing Related, Finance Metal, Metal Products & Mining, FMCG, Information Technology, Power, Oil & Gas etc. Figures relating to the growth of primary capital market in India present an impressive picture. According to the figures, the resources raised by the non-government public limited companies increased eight fold between the fifth and sixth plan periods (1974-75 to 1978-79 and 1980-81 to 1984-85) from Rs. 551 crore to Rs. 4,690 crore. During the seventh plan period Rs. 26,800 crore of resources were estimated to have been raised including Rs. 12,000 crore through PSU bonds. This represents six-fold increase over the resources mobilised through the capital market during the sixth plan period. The trend seems to suggest that it should not be difficult for the market to provide over Rs. 50,000 crore to industry during the eighth plan period. There should be a healthy and strong secondary market mechanism to sustain this growth of primary market. Because, ultimately it is only the secondary market or stock exchanges that provide liquidity and price continuity for corporate securities. In other words, a healthy secondary market is a prerequisite for smooth functioning of the primary market, which in turn transmits favourable impulses to the secondary market. Again the ability of the corporate sector to raise the required resources from the capital market also depends on smooth and efficient functioning of the stock exchanges. But available evidence indicates that the performance of the stock exchanges is not in accordance with the role prescribed for them. According to Shri M.R. Mayya, Executive Director, Bombay Stock Exchange, one of the important functions to be discharged by the stock exchanges is providing a market place for purchase and sale of the securities, thus enabling their free transferability. Another major function supposed to be done by stock exchanges is the process of continuous price formation. But recent developments in important Stock Exchanges like Bombay Stock Exchange and Ahmedabad Stock Exchange indicate the failure of the stock exchanges to perform their role efficiently and smoothly.

Intense speculation led payment crises at these stock exchanges and put the exchanges in a complete mess. The Joint Secretary (Investments), Ministry of Finance, says in this connection that, some stock exchanges in the country, particularly Bombay and Ahmedabad, have experienced payments crisis in the recent past. These exchanges have also been
experiencing difficulties in the settlement of transactions within stipulated time. On account of these problems, the stock exchanges at Bombay and Ahmadabad had also remained closed for several days. Such a situation is not conducive to the orderly functioning of the stock market and for maintaining investor confidence.

The recent crisis was the outcome of intense speculative operations carried out at stock exchanges for long. Developments at Bombay Stock Exchange provide indications of how speculative forces are influencing stock exchange operations. These developments at Bombay Stock Exchange are very sensitive in nature. These developments assume more significance in the context of the fact that Bombay Stock Exchange is the biggest stock exchange of the country in terms of turnover and number of listed companies. A close examination of the bullish phase at Bombay Stock Exchange during June-October, 1990 period brings out some important observations. Between, June 1900 and September 1990, Bombay Stock Exchange Sensitive Index (BSESI) registered an unprecedented jump of 83.4 per cent. On June 1, 1990 the BSESI was at 799.5 points and on September 25, 1990 BSESI was at 1466.11 points. Upward march of BSESI continued unabated. On October 9, 1990, it reached 1602.64 points. This jump means 100.4 per cent increase over the June 1, 1990 value. It is noteworthy that such unprecedented increase was taking place during the period of intense political, social and economic uncertainties. To quote Dr. V.A. Avadhani, Director (Training), Institute of Bombay Stock Exchange, "economic and socio-political uncertainties overhanging the stock market had not had any adverse impact on it."

Between October 89 and September 90 period the share of ACC registered 604.9 per cent jump. Bajaj Auto registered 110.4 per cent jump during this period. Increase in Bombay Dyeing share was also worth noting during October 89 to September 90 period -- 226.8 per cent. Such increase, was clearly indicating that the sharp jumps registered at stock exchange do not have a solid backing of strong fundamentals. In a study on the chemicals and pharmaceuticals industry Dr. V.A. Avadhani, Director, (Training), Institute of Bombay Stock Exchange, concluded that there was a lack of co-relation between the price behaviour of chemical and pharmaceuticals shares and corporate fundamentals. The study which covered the period between March and September 1990 revealed that the bullish trends were out of proportion to the position reflected in the balance sheets of the 77 companies of chemicals and pharmaceuticals business.

Ultimately heavy speculative operations led to a number of problems. To quote a report, "investor confidence has collapsed as millions of small shareholders find that their certificates are barely worth the paper....Nor can they get payment for the shares which they
have sold as far back as November last. Those who were fortunate enough to have dealt with
the five brokers who were declared defaulters will get a mere Rs. 15,000 as compensation,
whatever their losses.....There is also a tendency to create the impression that the amounts
involved are minuscule compared to the overall size of the market. A closer look reveals a
different picture. From the peak of Rs. 75,123 crore in mid-October 1990, the market
capitalisation has fallen to Rs. 59,733 crore-- a loss of nearly Rs. 16,000 crores. Even if 90
per cent of this loss is notional, it still leaves Rs. 1,600 crore, which is the real loss borne by
millions of investors...It is common knowledge in the market that there are many more
brokers upto 20 per cent of the active brokers, say some, who are suffering some form of
payment problems.

There recent developments at BSE should remind us of the observations made by the
high powered committee on stock exchange reforms, namely, G.S. Patel committee. The
Committee had noted "Exchange speculation on the stock exchanges in India is the root cause
of frequent crises and consequent disruption of trading activities and distortion of price
structure. In fact the reports of the various committees appointed by the State and Central
Governments since 1924, such as the Atlay Committee, the Morison Committee, have all
highlighted the problem of speculation........... About 90 per cent of the trading activity on
most of the stock exchanges in the country is of purely speculative nature and said to be
concentrated on the specified shares numbering about 210 shares about 25 per cent would be
relatively more active than the other........Such concentration of speculative activity in a small
number of specified and non-specified scrips, resulting in artificial buoyancy neither provides
the correct index of the state of the health of the stock markets nor does it help much in
continuity of prices or in broadening of investor interest".

Excessive speculative operations have been putting stock exchanges in a mess for a
long. It has been noted that the intense speculative operations are proving to be a serious
threat to the meaningful economic relevance and raison deter of the stock exchanges. It is
interesting to compare the observation made by G.S. Patel Committee with the observations
made by National Planning Committee in 1948, around four decades ago: "Viewed at close
quarters, in no sense of the term can the existing Indian stock exchanges and share markets be
regarded as institutions specialising in proving long-term industrial finance and sort-term
credit for working expenses. hardly any element in these institutions--they would be more
correctly described, if we call them organisation--works deliberately and scientifically as
industrial investor or provides advice for intending industrial investor.....No wonder these
institutions are favourite haunt to the speculators, who specialise in cornering...It is the most
respectable institution offering open facilities for daylight gambling.....If a sound system of industrial financing is to come into being, if our national economy is to be forever rid of this most dangerous plague spot, if the available surplus for investment is to be instantaneously mobilised and scientifically reinvested, the most urgent task before the Indian planning authority is to reorganise fundamentally the structure and working of these honourable asylums for gamblers.

The observations made by the Committee around four decades ago and the comparatively recent findings of G.S. Patel Committee establish that due to intense speculative operations stock exchange fail to perform the role as the nexus between community's saving and meaningful investment thereof. Rather they tend to be manipulated by speculative forces putting genuine investment activity in complete mess. A reasonable level of speculation at stock exchange is not a problem. But excessive speculative operations of brokers beyond their capacity tend to endanger stock exchange operations resulting in a number of problems as faced by investors and authorities at Bombay Stock Exchange. In the words of Shri M.R. Mayya, Executive Director, Bombay Stock Exchange, "The presence of a large number of professional operations with divergent views at any point of time as to the level of prices, with one set of them holding that the prices would rise and the other feeling that prices would fall and acting on such view by buying or selling continuously in the market help to bring about an orderly adjustment of prices. Without these speculative operations a stock exchange can become a disjuncted structure, the transactions on which would present a disorderly and a berated picture with prices displaying wide and hectic fluctuations." But what actually takes place is excessive speculation, which does not put check on wide and hectic fluctuations; on the contrary excessive speculation fuels hectic and wide fluctuations. It has often been observed that the management of stock exchanges fail to put a firm check on heavy speculative operations. To quote a report on recent Bombay Stock Exchange crisis, "the payment crisis in the BSE is a scandal of Himalayan proportions. The BSE establishment has tried to play it down and even given the impression that a handful of bad boys have failed to come up with a paltry sum of Rs. 7 crore..... The governing board, which is dominated by brokers and has a very poor representation of investors had decided to keep the markets closed till the payment crisis was sorted out. The board first closed the exchange immediately after the Gulf war broke out on January 16, though it was apparent to insiders than that the closure was more to do with broker problems".

The observations of G.S. Committee assume importance in this context. The Committee had observed: "One of the major factors contributing to situations of excessive
speculative activity and frequent crises on the stock exchanges is the failure on the part of the governing bodies to enforce strict observance of the rules, byelaws and regulations by the members of exchange. The system which is followed at present, for the purpose of controlling speculative business such as imposition of margins, levy of penalties and suspension of stock brokers has not been found effective as margins levied are too minimal and are imposed by the governing bodies after the damage is done to the market mechanism of the stock exchange by excessive speculation. Even when the margins are levied, they are not deterrent. In some cases unnecessary leniency is shown to the erring members indulging in heavy speculation, the penalties imposed being negligible.

The efficient functioning of a stock exchange creates a conducive climate for an active and growing primary market for new issues. An active and healthy secondary market in existing securities leads to positive environment among investors. The following are some of the important functions of a stock exchange. The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to already existing securities in the market. Volatility handling the Share price fluctuations >Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market. The membership of a stock exchange is well regulated and its dealings are well defined according to the existing legal framework. This ensures that the investing public gets a safe and fair deal on the market.

There are several functions of stock market, but the main stock market function as an economic function, Stock markets also providing facility for transferring of capital from investors to users of capital. They allow corporations looking to expand to raise capital from investors in the primary market and facilitate trade between buyers and sellers of stock in the secondary market.

Another function of a Stock market is its continuous pricing function. This market feature enables interested parties to know at any time, what the price of a stock is. Price quotes can be accessed through financial websites and financial TV or radio stations. This conveniently allows investors to know precisely how much their stock holdings are worth. Perhaps the most important of all the functions of stock market is its FAIR PRICING function. The workings of the stock market enable buyers and sellers of stock, to receive the
best price possible for a particular stock. This fair pricing function is as a result of the competition between the numerous buyers and sellers of stock who operate in the stock market daily.

Although dozens of stock markets exist in the U.S, the two most prominent stock markets are the New York Stock Exchange (NYSE) and the NASDAQ. Billions of dollars worth of stock are traded on both markets everyday and a lot of media attention is focused on each. Stocks of most of the major U.S corporations are listed on both these markets with the NASDAQ being favored by technology companies.

While they perform the same functions of stock market, the two exchanges are very different in how they operate. While the NASDAQ is a wholly electronic marketplace, matching buy and sells orders through its computer systems, the NYSE maintains a physical trading floor with human dealers that complete buy and sell orders in a lively fashion. The NYSE however, does also have an electronic trading system that now handles the bulk of all daily buy and sell orders.

**Contributes to Economic Growth:** A stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues. This leads to capital formation and economic growth. The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments. The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure liquidity and price continuity in the stock market. The economic relevance and raison d'etre of the institution of stock exchange lie in its effectiveness in performing successfully two basic functions:

(i) to facilitate resource raising from the community for financing corporate sector and government for various activities; and

(ii) to provide an organised market place for the investors to freely buy and sell securities.

The functioning of the stock exchange has therefore to be such as to create a climate conducive to an active primary market (new issues market) and to ensure fair and efficient trading in securities in the secondary market (stock exchange) and to establish a harmonious relationship between the two. In other words, the institution of stock exchange is expected to facilitate the channelisation of savings especially from the household sector to meet the investment requirements of the productive sectors of the economy primarily by ensuring a
market place, that provides liquidity to capital market instruments through fair and transparent trading practices. The responsibility therefore to ensure the 'harmonious relationship' between new issues market and secondary market or stock exchange rests with the functioning of stock exchanges.

The functioning of the stock exchanges is managed and administered by the Governing body/board of directors of the exchange. The governing body of stock exchange is vested with wide powers. These powers include wide ranging discretionary powers also. The powers of governing body are to: (i) manage and control the functioning of the stock exchanges; (ii) regulate trading in securities; (iii) fine, suspend or expel members and take such other disciplinary actions as it deems fit; (iv) govern business conduct and relationship, settle disputes, if any, amongst members and between members and non-members; (v) make or amend any rules, bye laws, or regulations or suspend their operations with the approval of the government; (vi) interpret the rules, byelaws and regulations in its own discretion. In practice the powers of the body to manage and control are almost absolute.

It has been observed that public representatives do not take an active interest in the affairs of the stock exchange. Executive director's functioning also tends to get influenced by the brokers due to domination of brokers over the governing body. With the dominant and influential representation of brokers' in governing board, public representatives not taking active interest, and Executive Director dominated by brokers, the stock exchanges tend to work as organisation primarily concerned with the brokers' interests.

The eighties saw very significant changes and trends in new issues market. These can be termed as related broadly to a number of economic policy measures introduced during this period. Various such policy measures on one hand led to a sharp increase in the fund requirements of private corporate sector and on the other tried to make investment in corporate securities more attractive. Few such measures that led to sharp rise in fund requirements of the private corporate sector were the delicensing of a number of industries, liberal approach in regard to foreign collaborations, and allowing scope for dominant undertakings to go in for diversification projects. Increase in the rates of interest on debentures, various tax benefits associated with the investment in new issues like section 80 CC benefit for investment in new issues of equity shares of new companies and section 80L benefit in respect of dividends besides other factors attracted middle class investors to new issues market.

During the eighties private corporate sector was encouraged 'to draw a larger proportion of rising levels of household sector's savings by way of company securities.
Also worth mention are the suggestions and recommendations made by an important international financial institution - The World Bank during the eighties to encourage new issues market as source of finance for Indian private corporate sector. Measure like increase in the interest rate on convertible debentures was encouraged by The World Bank.xxii Critising the performance of Development Banks, the dominant source of finance for private corporate sector for long, The World Bank posed equity markets as alternative to the Development Banks.xxiii The World Bank suggested that the equity markets 'widen the options to savers by offering high return high risk financial assets. By competing for funds with the rest of the financial sector, they may increase the total supply of savings. In addition they improve the allocative efficiency of the financial sector by giving firms greater access to risk finance, they bring a new element of competition to the financial sector and thus provide firms with an alternative to long term borrowing and they improve the flow of financial information'.xxiv

Working Managements of Bombay Stock Exchange

Composition of governing bodies of stock exchanges reveal almost total dominance of brokers. This is one of the reasons of leniency of governing boards towards erring brokers. The issues relating to management of stock exchanges need serious attention of policy planners and the authorities responsible for administration of stock exchanges. It has been observed that the growth in primary market is not matched by qualitative improvement in the working and management of stock exchanges. The issues relating to management of stock exchanges assume greater significance in view of the fact that there are estimates of raising about Rs. 50,000 crore from capital market through, debentures, bonds and shares.15 In fact, the responsibilities of stock exchanges are increasing with the increasing investors participation in securities business. But stock exchanges do not seem to respond to these responsibilities. There is a need to develop stock exchanges on the basic broad guidelines which are supposed to give direction to our economic development so that our stock exchanges can play a more meaningful role in our economy. The broad guidelines include that "the basic criterion for determining lines of advance must not be private profit, but social gain and the pattern of development and the structure of socioeconomic relations should be so planned they result not only in appreciable increase in national income and employment but also in greater equality in incomes and wealth. Major decisions regarding production, distribution, consumption and investment -- and in fact all significant socio-economic relationships -- must be made by agencies informed by social purpose."xxv
In addition to individual stocks, the Bombay Stock Exchange also has a market in derivatives, which was the first to be established in India. Listed derivatives on the exchange include stock futures and options, index futures and options, and weekly options. Asian and Pacific Stock Exchange in BSE. It is also the first stock exchange to be recognized by the Government of India, under the Securities Contracts Act, 1956. BSE Online Trading System (BOLT) used by BSE is one of the few stock trading systems in the world that manages hybrid/mixed mode of trading.

The Bombay Stock Exchange is also actively involved with the development of the retail debt market. The debt market in India is considered extremely important, as the country continues to develop and depends on this type of investment for growth. Until recently, the debt market in India was limited to a wholesale market, with banks and financial institutions as the only participants. The Bombay Stock Exchange believes that a retail market will bring great opportunities to individual investors through better diversification.

We live in a global economy. The main aims and objectives of the Bombay Stock Exchange is to provide a market place for the purchase and sale of security evidencing the ownership of business property or of a public or business debt. It aims to promote, develop and maintain a well regulated market for dealing in securities and to safeguard the interest of members and the investing public having dealings on the Exchange. It helps industrial development of the country through efficient resource mobilization. To establish and promote honourable and just practices in securities transactions. Stock Exchanges recognised by the Government of India under the Securities Contracts (Regulation) Act, 1956, it was the first one to be recognised and it is the only one that had the privilege of getting permanent recognition ab-initio.xxvi The vision of the Bombay Stock Exchange is "Emerge as the premier Indian stock exchange by establishing global benchmarks." This means the exchange is thinking big in terms of customer service and trading activity. The market has not only experienced explosive growth in terms of trading volume, but also in terms of overall return to investors. After compensating for inflation, the BSE has averaged a 10.1% annual return when measured by Sensex, the most popular stock index in India, over the last 14 years. Other important indices originating from the Bombay exchange include the BSE 100, BSE 500, BSEPSU, BSEMDCAP, BSESMCAP, and BSEBANKEX. Protecting the interests of investors dealing in securities is one of the primary objectives of the exchange. The exchange provides this additional security by ensuring remedy of grievances, whether this is against member companies or member/brokers. Overall guidelines for the marketplace are established by the Securities and Exchange Board of India (SEBI).
The Bombay Stock Exchange has a national reach in India, claiming a presence in 296 towns and cities throughout the country. The exchange is operated through a unique and proprietary computer system known as the "BSE On Line Trading System" or BOLT. The exchange has also received ISO 9001:2000 certification in the areas of surveillance and clearing / settlement functions.

The exchange is managed professionally under the direction of its Board of Directors that is made of eminent people from the industries and commerce and headed by the Managing director and CEO. The Board formulates all the strategies and keeps an over all control on the functioning of the exchange. The policy of the exchange has been formed to ensure optimum internality and transparency in the processes. The Bombay stock exchange has nation presence in around 417 cities and towns in India. The exchange has been providing the investors an efficient market for trading in equity, debt instruments and derivatives.

### BSE Index

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<tr>
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</tr>
<tr>
<td>BSE 100</td>
<td>100</td>
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<tr>
<td>BSE 200/Dollex</td>
<td>200</td>
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<tr>
<td>BSE 500</td>
<td>500</td>
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<tr>
<td>BSE IT</td>
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<td>BSE CG</td>
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<td>BSE FMCG</td>
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### BSE Index Movement

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### BSE Index Fortnightly

#### BSE Top Gainers

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<td>BSE 100</td>
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<tr>
<td>BSE 200</td>
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<tr>
<td>BSE 500</td>
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<td>Group A</td>
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<tr>
<td>Group B1</td>
<td></td>
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<td>Group B2</td>
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#### BSE Top Losers

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<tr>
<th>Index</th>
<th>Value</th>
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</thead>
<tbody>
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<td>BSE 100</td>
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<td>BSE 200</td>
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<tr>
<td>BSE 500</td>
<td></td>
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<tr>
<td>Group A</td>
<td></td>
</tr>
<tr>
<td>Group B1</td>
<td></td>
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</table>
BSE Trading Hours / Session Timing

The following is a table of the session timing / hours of operation for trading that occurs on the BSE. These times apply to both the equities and derivatives markets. They also indicate the schedule for the start and finish of electronic trading sessions on the BSE.

New Functions of BSE

Besides the individual stocks, Bombay Stock Market deals in derivatives, stock futures and options, index futures and options, and weekly options as well. The debt market is an additional feature of BSE, which offers investment solutions for growth and development. BSE speculates that the retail market will fetch great prospects to individual investors, by way of better diversification. Its nation-wide reach makes this market present across 417 cities and towns of the country.

SENSEX

1. Equities of companies listed on Bombay Stock Exchange Ltd. (excluding companies classified in Z group, listed mutual funds, scrips suspended on the last day of the month prior to review date, scrips objected by the Surveillance department of the Exchange and those that are traded under permitted category) shall be considered eligible.

2. Listing History: The scrip should have a listing history of at least three months at BSE. An exception may be granted to one month, if the average free-float market capitalization of a newly listed company ranks in the top 10 of all companies listed at BSE. In the event that a company is listed on account of a merger / demerger / amalgamation, a minimum listing history is not required.

3. The scrip should have been traded on each and every trading day in the last three months at BSE. Exceptions can be made for extreme reasons like scrip suspension etc.

4. Companies that have reported revenue in the latest four quarters from its core activity are considered eligible.

5. From the list of constituents selected through Steps 1-4, the top 75 companies based on free-float market capitalisation (avg. 3 months) are selected as well as any additional companies that are in the top 75 based on full market capitalization (avg. 3 months).
6. The filtered list of constituents selected through Step 5 (which can be greater than 75 companies) is then ranked on absolute turnover (avg. 3 months).

7. Any company in the filtered, sorted list created in Step 6 that has Cumulative Turnover of >98%, are excluded, so long as the remaining list has more than 30 scrips.

8. The filtered list calculated in Step 7 is then sorted by free float market capitalization. Any company having a weight within this filtered constituent list of <0.50% shall be excluded.

9. All remaining companies will be sorted on sector and sub-sorted in the descending order of rank on free-float market capitalization.

10. Industry/Sector Representation: Scrip selection will generally attempt to maintain index sectoral weights that are broadly in-line with the overall market.

11. Track Record: In the opinion of the BSE Index Committee, all companies included within the SENSEX should have an acceptable track record.

Understanding Free-float Methodology

Free-float methodology refers to an index construction methodology that takes into consideration only the free-float market capitalization of a company for the purpose of index calculation and assigning weight to stocks in the index. Free-float market capitalization takes into consideration only those shares issued by the company that are readily available for trading in the market. It generally excludes promoters' holding, government holding, strategic holding and other locked-in shares that will not come to the market for trading in the normal course. In other words, the market capitalization of each company in a free-float index is reduced to the extent of its readily available shares in the market.

Globally, the free-float Methodology of index construction is considered to be an industry best practice and all major index providers like MSCI, FTSE, S&P and STOXX have adopted the same. MSCI, a leading global index provider, shifted all its indices to the Free-float Methodology in 2002. The MSCI India Standard Index, which is followed by Foreign Institutional Investors (FIIs) to track Indian equities, is also based on the Free-float Methodology. NASDAQ-100, the underlying index to the famous Exchange Traded Fund (ETF) - QQQ is based on the Free-float Methodology.

Subsequently all BSE indices with the exception of BSE-PSU index have adopted the free-float methodology.

Shareholding of investors that would not, in the normal course come into the open market for trading are treated as 'Controlling/ Strategic Holdings' and hence not included in
free-float. Specifically, the following categories of holding are generally excluded from the definition of Free-float:

- Shares held by founders/directors/acquirers which has control element
- Shares held by persons/bodies with "Controlling Interest"
- Shares held by Government as promoter/acquirer
- Holdings through the FDI Route
- Strategic stakes by private corporate bodies/individuals
- Equity held by associate/group companies (cross-holdings)
- Equity held by Employee Welfare Trusts
- Locked-in shares and shares which would not be sold in the open market in normal course.

**Determining Free-float Factors of Companies**

- BSE has designed a Free-float format, which is filled and submitted by all index companies on a quarterly basis. (Format available on [www.bseindia.com](http://www.bseindia.com)). BSE determines the Free-float factor for each company based on the detailed information submitted by the companies in the prescribed format. Free-float factor is a multiple with which the total market capitalization of a company is adjusted to arrive at the Free-float market capitalization. Once the Free-float of a company is determined, it is rounded-off to the higher multiple of 5 and each company is categorized into one of the 20 bands given below. A Free-float factor of say 0.55 means that only 55% of the market capitalization of the company will be considered for index calculation.

**Free-float Bands:**

<table>
<thead>
<tr>
<th>% Free-Foot</th>
<th>Free-Foot Factor</th>
<th>% Free-Foot</th>
<th>Free-Foot Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;0 - 5%</td>
<td>0.05</td>
<td>&gt;50 - 55%</td>
<td>0.55</td>
</tr>
<tr>
<td>&gt;5 - 10%</td>
<td>0.10</td>
<td>&gt;55 - 60%</td>
<td>0.60</td>
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<tr>
<td>&gt;10 - 15%</td>
<td>0.15</td>
<td>&gt;60 - 65%</td>
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<tr>
<td>&gt;15 - 20%</td>
<td>0.20</td>
<td>&gt;65 - 70%</td>
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<tr>
<td>&gt;20 - 25%</td>
<td>0.25</td>
<td>&gt;70 - 75%</td>
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<tr>
<td>&gt;25 - 30%</td>
<td>0.30</td>
<td>&gt;75 - 80%</td>
<td>0.80</td>
</tr>
<tr>
<td>&gt;30 - 35%</td>
<td>0.35</td>
<td>&gt;80 - 85%</td>
<td>0.85</td>
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</table>
SENSEX calculation needs to be adjusted for issue of Bonus or Rights shares If no adjustments were made, a discontinuity would arise between the current value of the index and its previous value despite the non-occurrence of any economic activity of substance. At the BSE Index Cell, the base value is adjusted, which is used to alter market capitalization of the component stocks to arrive at the SENSEX value. The BSE Index Cell keeps a close watch on the events that might affect the index on a regular basis and carries out daily maintenance of all BSE Indices.

- **Adjustments for Rights Issues** - When a company, included in the compilation of the index, issues right shares, the free-float market capitalization of that company is increased by the number of additional shares issued based on the theoretical (ex-right) price. An offsetting or proportionate adjustment is then made to the Base Market capitalization (see 'Base Market capitalization Adjustment' below).

- **Adjustments for Bonus Issue** - When a company, included in the compilation of the index, issues bonus shares, the market capitalization of that company does not undergo any change. Therefore, there is no change in the Base Market capitalization, only the 'number of shares' in the formula is updated.

- **Other Issues** - Base Market capitalization adjustment is required when new shares are issued by way of conversion of debentures, mergers, spin-offs etc. or when equity is reduced by way of buy-back of shares, corporate restructuring etc.

**Market capitalization :BSE**

- **BSE Sensex (SENSEX-BY)** - Tracks 30 stocks on the Bombay Stock Exchange which represent various sectors of the Bombay Stock Exchange. The stocks in BSE Sensex approximately account for one fifth of the capitalization of the exchange.

- **BSE Mid-Cap Index (BSEMIDCAP-BY)** - Tracks performance of companies with relatively mid-size market capitalization.

- **BSE Small-Cap Index (BSESMLCAP-BY)** - Tracks performance of companies with relatively small-size market capitalization.

<table>
<thead>
<tr>
<th></th>
<th>0.40</th>
<th></th>
<th>0.90</th>
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<tbody>
<tr>
<td>&gt;35 - 40%</td>
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<td>&gt;85 - 90%</td>
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<tr>
<td>&gt;40 - 45%</td>
<td>0.45</td>
<td>&gt;90 - 95%</td>
<td>0.95</td>
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<tr>
<td>&gt;45 - 50%</td>
<td>0.50</td>
<td>&gt;95 - 100%</td>
<td>1.00</td>
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Adjustment for Bonus, Rights and Newly Issued Capital
- **BSE-100 Index (BSE100-BY)** - Tracks 100 stocks on the Bombay Stock Exchange (BSE). The companies are selected with specific selection criteria.

- **BSE-200 Index (BSE200-BY)** - Tracks 200 stocks on the Bombay Stock Exchange (BSE). The companies are selected with specific selection criteria.

- **Dollex-30 (DOL30-BY)** - BSE Sensex (SENSEX-BY) quoted in U.S. Dollars

- **Dollex-100 (DOL100-BY)** - BSE-100 Index (BSE100-BY) quoted in U.S. Dollars

- **Dollex-200 (DOL200-BY)** - BSE-200 Index (BSE200-BY) quoted in U.S. Dollars

- **BSE TECk Index (BSETECK-BY)** - Tracks most frequently traded stocks in Telecom, Media, and Telecommunications (TMT) sectors.

- **BSE PSU Index (BSEPSU-BY)** - Tracks major Public Sector Undertakings listed on Bombay Stock Exchange (BSE). The index consists of companies in which Indian Central Government has greater than or equal to 51% stake and are part of **BSE-500 Index**.

BSE is the largest stock exchange in India and Asia as well. BSE Sensex is calculated out of 30 stocks on daily basis.

**BSE Hours of Operation**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Time</th>
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</thead>
<tbody>
<tr>
<td>Beginning of the Day Session</td>
<td>8:00 - 9:00</td>
</tr>
<tr>
<td>Login Session</td>
<td>9:00 - 9:15</td>
</tr>
<tr>
<td>Trading Session</td>
<td>9:15 - 15:30</td>
</tr>
<tr>
<td>Position Transfer Session</td>
<td>15:30 - 15:50</td>
</tr>
<tr>
<td>Closing Session</td>
<td>15:50 - 16:05</td>
</tr>
<tr>
<td>Option Exercise Session</td>
<td>16:05 - 16:35</td>
</tr>
<tr>
<td>Margin Session</td>
<td>16:35 - 16:50</td>
</tr>
<tr>
<td>Query Session</td>
<td>16:50 - 17:35</td>
</tr>
<tr>
<td>End of Day Session</td>
<td>17:35</td>
</tr>
</tbody>
</table>

The hours of operation for the BSE quoted above are stated in terms of the local time in Mumbai, India (also known as Bombay). This translates into a standard time zone UTC/GMT +5:30.

**Bombay Stock Exchange Profile**:

Address: Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai 400001
Information technology (IT) in the broking space changed the very face of it. Stock-broking business has undergone a sea change over the last decade on the back of IT. First, the shift was from floor-based to screen-based trading in 1994 which brought transparency in trade execution and raised the confidence of investors.

The nature of Indian markets currently is unique with a large retail investor population that saves money but deploys very less in financial market instruments. Therefore, for true financial inclusion, it is essential to make available investment products across multi-asset classes, and easier access for penetration and growth. Mobile-based trading is essentially an extension of internet based trading. Most recent, introduction of mobile trading by BSE is the latest revolution in the market. It will enable not only trading but access to information, especially in the hands of retail investors. India has over 650 million mobile users as against 100 million internet subscribers. This facility will provide the benefit and convenience of trading on the move to different market participants, thereby enabling them to avoid missing out on opportunities. Millions of Indian investors will be able to trade using their mobile phones. This will not only increase retail participation but also investor base going ahead.

When a company makes a decision to raise capital by issuing stock, it is competing with many other companies for investors' money. To maximize demand for its stock, this company needs to decide on which stock exchange it will offer its shares to investors. In general, larger exchanges mean more market activity. This means a company would want to be included in the largest stock exchange possible.

- Additional Resources
- Stock Exchange
Most major stock exchanges have high standards that a company needs to meet before they will carry the stock. This presented a smaller number of exchanges with the opportunity to be niche players. These exchanges tend to be less selective in listing a company. Not all companies will pass the requirements of the NYSE Euronext, but other exchanges will help fill that void.

We're going to provide a listing of the largest stock exchanges you'll find in Bombay and throughout the world. Some of these exchanges have physical trading floors, while others operate as a virtual stock exchange; relying heavily on sophisticated computer networks to conduct business.

The exchange dates back to 1875, when it was known as the Native Share and Stock Brokers Association. The BSE is also one of the busiest stock exchanges in the world, currently ranking around number five in terms of annual transactions.

As the first stock exchange in India, the Bombay Stock Exchange is considered to have played a very important role in the development of the country's capital markets. The invention of Money is considered as a fundamental one around which economic science clusters. We are told, "Money is a symbol or token of credit, that is to say, of human trust in relation to human needs and desires... As a symbol, money is exceedingly useful and powerful in human affairs. All symbols are psychologically carriers of energy. Credit or expectancy is itself a most potent energizer. The subtle of money credit has been one of the major causes and agencies for the immense development of the past five hundred years in science,, machinery, industry, transportation and commerce. Thus, money removed the difficulties of barter system and made exchange easier and thereby widened the demand for goods™. Gradually, this exchange converted almost everything with money. In this context, further, exchange of shares, a single unit of ownership in a corporation, mutual fund, or other organization, started in stock exchanges. A joint stock company divides its capital into shares, which are offered for sale to raise capital, termed as issuing shares. Thus, a share is an indivisible unit of capital, expressing the proprietary relationship between the company and the shareholder. The denominated value of a share is its face value: the total capital of a company is divided into number of shares.
Shares or stocks are being traded at a common place, called stock exchange. A stock exchange has been defined by the Securities Contract (Regulation) Act, 1956 as an organization, association or body of individuals established for regulating, and controlling of securities. The stock exchange provide an organised market place for the investors to buy and sell securities freely. The market for these securities in almost perfectly competitive one because a large number of sellers and buyer participate. The shares listed however, are not really homogenous like a commodity are not really homogenous like a commodity in a perfectly competitive market. They very broadly in terms or credit rating and often involve carrying costs.

In the stock exchange, there is active bedding and two way auction trading takes place. The bargains that are struct are the fairest price determined by the basic laws of supply and demand. The stock exchanges provide an auction market in which members of the stock exchange participate to ensure continuity of price and liquidity to investors.

The efficient functionality of the stock exchange creates a climate conducive for an active and growing primary market for new issues. An active and healthy secondary market in existing securities leads to a better psychology of expectations. Consideration broadening of investment enquiries renders the task of raising resources by entrepreneurs easier. Good performance and outlook for equities in the stock exchanges impart buying to the new issue market.

**Functions of SEBI**

SEBI has been obligated to protect the interests of the investors in securities and to promote and development of, and to regulate the securities market by such measures, as it thinks fit. SEBI, in particular, has powers for:-

(a) Regulating the business in stock exchanges and any other securities markets;
(b) Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner;
(c) Registering and regulating the working of the depositories, participants, custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries as SEBI may, by notification, specify in this behalf;
(d) Registering and regulating the working of venture capital funds and collective investment schemes including mutual funds;
(e) Promoting and regulating self-regulatory organizations;
(f) Prohibiting fraudulent and unfair trade practices relating to securities markets;
(g) Promoting investors' education and training of intermediaries of securities markets;
(h) Prohibiting insider trading in securities;
(i) Regulating substantial acquisition of shares and take-over of companies;
(j) Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds and other persons associated with the securities market and intermediaries and self- regulatory organizations in the securities market;
(k) Performing such functions and exercising according to Securities Contracts (Regulation) Act, 1956, as may be delegated to it by the Central Government;
(l) Levying fees or other charges for carrying out the purpose of this section;
(m) Conducting research for the above purposes;
(n) Calling from or furnishing to any such agencies, as may be specified by SEBI, such information as may be considered necessary by it for the efficient discharge of its functions;
(o) Performing such other functions as may be prescribed.

While exercising these powers, SEBI has the same powers as are vested in civil court under the Code of Civil Procedure, 1908 while trying a suit, in respect of the following matters:

(a) The discovery and production of books of account and other documents, at such place and such time as may be specified by SEBI,
(b) Summoning and enforcing the attendance of persons and examining them on oath, and
(c) Inspection of any books, registers and other documents of any person referred to in section 12.

**Surveillance at BSE**

The main objective of the Surveillance function of the Exchange is to promote market integrity in two ways, first, by monitoring price and volume movements (volatility) as well as by detecting potential market abuses at a nascent stage, with a view to minimizing the ability of the market participants, both in Cash and Derivative market, to influence the price of the scrip/ series in the absence of any meaningful information, and second, by managing default risk by taking necessary actions timely. All the instruments traded in the equity segment of Cash and Derivative market come under the Surveillance umbrella of BSE. Surveillance activities at the Exchange are divided broadly into two major segments, namely, price monitoring and position monitoring. Price monitoring is manly related to the price
movement/ abnormal fluctuation in prices or volumes etc. whereas the position monitoring relates mainly to abnormal positions of members, etc. in order to manage default risk Market Abuse

- Price Monitoring
- On-Line Surveillance
- Off-Line Surveillance
- Derivative Market Surveillance

Investigation

- Surveillance Actions
- Rumor Verification
- Pro-active Measures
- Position Monitoring
- Statement of Top 100 Purchasers/ Sellers
- Concentrated Purchases / Sales
- Purchases / Sales of Scrips having Thin Trading Purchases
- Trading in B1 , B2 & Z group scrips
- Pay-in liabilities above a Threshold Limit
- Verification of Institutional Trades
- Snap Investigation
- Market Intelligence

Functions of Secondary Markets

The three impartment functions of secondary market are price discovery process which results form the interactions of buyer and sellers the market when they trade assets, provision of liquidity by providing a mechanism for an investor to sell financial assets and finally low cost of transactions and information. Continuous Market.

The basic function of a stock market is the creation of a continuous market where securities are bought and sold and sold in volume with little variation in current market price as trades succeed one another. A continuous market provides liquidity through sale or purchase of securities, quickly and easily of a price that varies little form the previous selling price. The indicators of a continuous market are - Frequency of sales, Narrow spread between bids and offers and Minimum price changes between transaction as they account.

Frequency of Sales
The primary criterion for a good market is whether an investor can sell their portfolio holding with minimal price fluctuation at the time of sale. Liquidity occupies a central place in evaluating the efficiency of an exchange.

The characteristics of a liquid market are depth, breadth, and resiliency. A market has depth if buy and sell orders are forthcoming around the price at which the share is transacting. A market has depth if buy and sell orders one fourth coming should be in adequate volume which gives breadth to the market. If adequate volume needed to provide liquidity is not there the markets are called thin markets. The responsible of orders to price changes renders the market resilient?

**Empirical Measurement of Liquidity**

Empirically, liquidity is measured by the number of days a company share is traded set of the number of days in the year during which the market is open. Normally a share is considered actively traded and liquid if it is traded on 50 percent of the days when the market is open. Liquidity of the market is also measured by the variation of price from one trade to another. If the difference between the lowest asked (or offered) price and the highest bid price is wide, the market is said to lack depth and is considered shallow. Actually, the bid-asked spread is an inverse measure of liquidity.

**Fair Price Determination**

The prices in the stock market are determined by the interplay of forces of supply and demand. In the stock exchange, there is active bidding and a two-way auction trading takes place. The result is as near a market for free competition that are struck are the fairest price determined by the basic laws of supply and demand.

The functioning of the market has been subject at times to manipulation. Bull runs, to push up prices to create an artificial value, have been witnessed on a large scale in 1991-92. On the other hand, prices in the market were pushed down by bear raids as without regard to fundamental values. Manipulation can not, of course, occur if the exchanges are alert. In the long run, interest of the securities market, no scope should be given for operation to indulge in practice of price manipulation.

The performance of the functions of the stock exchange is also subject to hindrance by speculation which drives up prices above investment worth at times and below it at other times. For considerable stretches of time, the stock market prices in the past were dormant, especially before 1987. And since 1988-89 they have been above investment worth in 1991 some shares are 50-90 times their earning.
There is no obvious relationship between book values, per value and market value for many shares. The price rise especially in 1990-91 and 1991-92 was an account of surge in demand for shares occasioned by massive flow of funds into the stock markets from individuals investors (some of whom disinvested) their investment in contract business transport and other retail trades) and mutual fund without any corresponding increase in the supply of scrips. The massive inflow of fund in to the prospect of capital gains. But there were not enough shares to absorb the demand. It was typically a situation of too much money chasing to few scrips. Normally, one would leave the situation to forces of the market what buyer and seller are willing to bid and offer. But in our country, we would like to make shares attractive for investment by foreign institutional investors who valuable our market in relation to other emerging markets. Even now (may 1998) price earning ratio have moved to a range considered high. In this context stabilisation of stock market price around a reasonable level of mid teen would be desirable.

**Aid to financing Industries**

Listed companies find it easy to sell further issues of their shares in the primary market. An active market in the shares of the company and good market price of the shares reflecting the past performance and future prospects renders the task of raising funds through further issues easier. Right themselves have an immediate and wide market in the stock exchanges unless the price including premium does not reflect a fair value.

By creating a continuous market for the right s stock exchanges enable a company to market further issues successfully.

Liquidity plays a major role in improving allocation of capital and enhances prospects for long term economic growth. Companies enjoys permanent access to capital raised through equity issues. Stock market liquidity results in an increase in investment by making it less risky and more profitable. Liquid market improve the allocation of capital and long term growth by facilitating longer term and more profitable investment.

**Other Functions:**

Other functions performance by stock exchange are that the market paces established in trading are useful for tax purposes. The stipulation on disclosures and transparency ensure availability of information on the listed companies particularly in regard to financial condition and protect investors interest by eliminating dishonest and irregular practices in the brokerage trade.

**Efficient Transformation in to Real Capital**
The ability of the financial intermediaries to ensure the most efficient transformation of mobilised funds into real capital has not however received the attention it deserves. Institutional mechanisms to ensure end use of funds have not been efficient in their functioning leaving investors unprotected. Efficient financial intermediation involves reduction of the transaction cost of transferring funds from original source to financial investors. The total cost of intermediation is influenced by financial layering which makes the individuals additive in the total cost of intermediating between saver and ultimate borrower the aggregate saver and ultimate borrower the aggregate cost of financial intermediation from the original saver to ultimate investor is much higher in developing countries than in developed countries. Financial services contributed 6 per cent of GNP (1995) as compared to 3.7 percent before liberalisation in late eighties. Theories of endogenous growth have established linkages between financial intermediation and economic growth.

**Market Efficiency**

An efficient capital market is one where prices fully and instantaneously reflect all available relevant information the two characteristics of efficient markets are external efficiency and internal efficiency. A market has external efficiency when buyers and seller will trade securities at prices reflecting a fair or equilibrium price.

The expected return has to be commensurate with the security risk. Internal efficiency characterises a market if transactions costs (commission, clearing fee and bio task spread) and taxes are low enough so as not to distort the import the new information provides about the value of the financial asset Market efficiency ensure that investors as well as economy benefit when capital is exchanges.

**Perfect Capital Market**

On the other hand, a perfect capital Market which is only a concept constitutes a benchmark for evaluating the operation of capital market which has not taxes, transaction costs regulations, assets are perfectly divisible, existence of a number of buyer and sellers and free access to information. A perfect capital market is externally efficient because the prices of assets are equal to risk adjusted rates of return for all participant. It is internally efficient because transaction costs are zero and there are no taxes. The real word, however, is characterised by imperfections. But market can be efficient if costs of imperfections are small. Assets prices can still convey information about company. The cost should be enough to provide a fair rate of return to ensure internal efficiency of the market flow of low cost information to a sufficient number of market participants leads to determination of prices reflecting the economic value of the asset. Trading on the basis insider information is
prohibited because the information is not available to all market participants. External efficiency is facilitated by liquid market the characteristics of liquid market as we have noted above are depth, breadth and resiliency.

**Working of the stock exchange (Patel committee)**

It has been observed by several committees in the past that our stock exchanges do not ensure liquidity and the investor can liquidate his shares only at a loss and after considerable delay. The high powered committee on stock exchange reforms Patel Committee in 1984 pointed out that lack of liquidity in a number of securities listed on the stock exchange as a major problem confronting the investors.

**Thin Trading**

The phenomenon of Scrips having few and intermittent bids or offers is referred to as thin trading? thin trading fails to assure liquidity and has undesirable consequence all around for the investor inability to convert his investment in to cash at an economical cost for the companies non availability of market valuation would render raising of additional funds for expansion or diversification difficult and distorts financial planning and for the stock exchanges the image is damage because it reflect adversely on their efficiency.

It should be not ed however, that trading is a function of demand and supply. In discussion on the problem of thin trading there is an implicit assumption that all securities are alike and or more or less like a homogenous commodity as assumed in the theoretical model of perfect competition securities would be comparable to a certain extent if we ensure that companies before being listed have a good track record in the sense that they have been in operation for two or three years, made profits and have good balance sheets that is how things are in stock Markets abroad but in our country companies get listed before operation short. The situation is little better now since the financial institutions lend first and let the units raise equity just before start up. Earlier they wanted to postpone lending and so let the unit raise equity first. But even after successful operation for a year or two or much later, a unit can go bust abroad, one can close shop with the help of bankruptcy low in our country, exit does not exit and a social stigma is attached to bankruptcy. .The financial institution also penalise the entrepreneur if his venture fails by refusing a second chance. The provisions we have for winding up under the company law are so time consuming that several non operational companies are shown under listed companies.

Returning to the question of trading, stock exchange offer a market place to conduct auction of securities to its members. It can not by it self create demand or supply for scrips. A
large number of scrips listed are just bad eggs and no amount of improve of facilities would bring in buyers.

In case of good scrips the situation is different they are in short supply because they are Good and the owners, be they owners of the company or institutions, so do not want to part with them. Sometimes, the owners may be motivated to keep out outsiders since they like to preserve it as closely held company we can not compel them to sell their holding perhaps we may be able to do that with public financial institutions, but with the entry of private sector mutual funds that would be difficult. It is as good as asking them to forego profit. One has to accept the laws of demand and supply and unless a buyer voluntarily comes forward, there is a no way to sell a share the situation does not alter even if we adopt the system of market makers. It works abroad because as we mentioned above, basically an equity share represent interest in an operational company with profit making opportunities. In our country the cost of acquiring a long position which is difficult to liquidate is heavy. Jobbers are also unwilling to take a position in twiny traded shares because of inadequate availability of credit and its high cost.

A stock exchange is an institution which provides a platform for buying and selling of existing securities. As a market, the stock exchange facilitates the exchange of a security (share, debenture etc.) into money and vice versa. Stock exchanges help companies raise finance, provide liquidity and safety of investment to the investors and enhance the credit worthiness of individual companies.

According to Securities Contracts (Regulation) Act 1956, stock exchange means any body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling or dealing in securities.

The Indian stock market depends on three factors -

- Funding into stock from all over the world
- Corporate houses performance
- Monsoons

The stock market in India does business with two types of fund namely private stock fund and venture capital fund. It also deals in transactions which are based on the two major indices - Bombay Stock Exchange (BSE) and National Stock Exchange of India Ltd. (NSE).

Bombay Stock Exchange, one of the biggest stock exchange in Asia.BSE is Asia's oldest stock exchange...carrying the depth of knowledge of capital markets acquired since its inception in 1875. Located in Mumbai, the financial capital of India, BSE has been the backbone of the country's capital markets. The oldest stock exchange in Asia (established in
and the first in the country to be granted permanent recognition under the Securities Contract Regulation Act, 1956, Bombay Stock Exchange Limited (BSE) has had an interesting rise to prominence over the past 137 years.

While BSE is now synonymous with Dalal Street, it was not always so. The first venues of the earliest stock broker meetings in the 1850s were in rather natural environs - under banyan trees - in front of the Town Hall, where Horniman Circle is now situated. A decade later, the brokers moved their venue to another set of foliage, this time under banyan trees at the junction of Meadows Street and what is now called Mahatma Gandhi Road. As the number of brokers increased, they had to shift from place to place, but they always overflowed to the streets. At last, in 1874, the brokers found a permanent place, and one that they could, quite literally, call their own. The new place was, aptly, called Dalal Street (Brokers' Street).

In 2002, the name "The Stock Exchange, Mumbai" was changed to Bombay Stock Exchange. Subsequently on August 19, 2005, the exchange turned into a corporate entity from an Association of Persons (AoP) and renamed as Bombay Stock Exchange Limited.

1. **DIVIDEND**

   The Board of Directors have identified certain projects to be implemented in near future which will enhance the present capacity as well as quality of our products and also enable the Company to venture in new market segments. However, this will require huge capital expenditure which, apart from borrowings from Banks/Financial Institutions, requires Company’s own resources/contributions.

   In view of above, the Board of Directors have recommended payment of dividend @2.5% on 162,197,503 Equity Shares of Rs.10/- each subject to approval of members at the ensuing annual general meeting.

2. **MARKET SCENARIO**

   SUNFLAG has started manufacturing high value stainless steel for which tremendous growth of domestic and international market, which is expected to continue for some time. Total exports during the year under review were 30,439 MT (Rs. 8,605.25 Lacs) as compared to 30,365 MT (Rs. 8,348.44 Lacs) of the corresponding previous year.

3. **FINANCE**
Your Company has ended the year with a profit before tax of Rs. 4,883.66 Lacs. After taking into account the brought forward profit of Rs. 9,381.11 Lacs, your Company has carried forward an amount of Rs.13,907.42 Lacs.

4. OPERATIONS
   i. Direct Reduction Plant during the year under review showed an increase of 7.07% with a production of 1,36,044 MT as against 1,27,067 MT in the previous year.
   ii. The total production of 2,36,569 MT in our Steel Melt Shop which is marginally less than the previous year’s production of 2,36,760 MT due to trial of Mini Blast furnace.
   iii. The total production of rolled products during the year was 2,42,982 MT which is 4.26% more than the previous year production of 2,33,130 MT.
   iv. The total production of Pig Iron during the year for the period of 17 days was 4,786 MT, since Mini Blast furnace was commissioned on 14th March, 2007.

5. PROJECTS
   During the year under review, the Company has installed Wire Rod Block Mill & Mini Blast Furnace (MBF) commissioned on 14th August, 2006 and 14th March, 2007 respectively. The Company has also taken the requisite steps pertaining to Belgaon Coal Block allotted to the Company at Warora in Chandrapur District and coal production is likely to be started by the end of financial year 2007-2008.

6. POWER PLANT
   During the year under review, the power plant generated 1,582.75 Lacs kWh as compared to 1,211.00 Lacs kWh in the corresponding previous year, thus an increase of 30.07%.

7. DEMATERIALISATION OF SHARES
   As on 31st March, 2007, there were approximately 860.72 Lacs equity shares of the Company dematerialised through Depositories viz. National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSIL) which represents 53.066% of the Paid-up Capital of the Company.

8. LISTING OF SHARES
   The equity shares of the company continued to be listed with / traded on Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE). The listing fees have been paid to both the stock exchanges - BSE & NSE for and up to the financial year 2007 - 2008.

9. ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGES EARNINGS AND OUTGO
The particulars required to be disclosed under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 are given in the annexure to this report.

10. SUBSIDIARY COMPANIES

The Annual Reports of both the Company’s subsidiaries, viz. ‘Sunflag Power Limited’ and ‘Sunflag Special Steels Limited’ are attached in accordance with Section 212 of the Companies Act, 1956.

11. DIRECTORS

i. Pursuant to Article 151 of the Articles of Association of the Company, Dr. E.R.C. Shekar and Mr. Navin C. Shah retire by rotation and, being eligible, offered themselves for re-appointment.

ii. Effective from 21st May, 2007, Mr. D. B. Moharil ceased to be a Director / Whole time Director of the Company.

iii. Mr. S. K. Gupta has been inducted on the Board as an Additional Director with effect from 21st May, 2007 and elevated as the Whole time Director with effect from 30th July, 2007. The Members are requested to approve his appointment as a Director / Whole time Director with terms and conditions together with remuneration payable to him, as set out in the Notice, in the interest of the Company.

12. COMMISSION TO CHAIRMAN

The Remuneration Committee and in turn the Board of Directors has recommended payment of remuneration by way of commission @1% of the net profits of the Company to Mr. P. B. Bhardwaj, Non-executive Chairman with effect from financial year 2006 - 2007, subject to requisite approvals.

13. INDUSTRIAL RELATIONS

Industrial relations remained cordial during the year. Employees’ competencies and skills were enhanced by their participation in to several internal and external training programmes. Various measures were taken to improve motivation level of employees. Welfare Schemes and social functions were continued to be implemented with a view to obtain commitment and loyalty towards the organisation.

14. PERSONNEL/PARTICULARS OF EMPLOYEES

Information as per Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, forms part of this report. However, as
permitted by Section 219(1)(b)(iv) of the Companies Act, 1956 the report and accounts are being sent to all the shareholders excluding the statement of particulars of employees under Section 217(2A). Any shareholder interested in obtaining a copy of this statement may write to the Company Secretary at the Registered Office of the Company.

15. TRANSFER OF UNCLAIMED DIVIDEND TO IEPF

Pursuant to the provisions of Section 205A of the Companies Act, 1956, the dividend declared / paid which remain unpaid for a period of seven (7) years is required to be transferred to the Investor Education & Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the said Act.

16. AUDITOR’S REPORT

The observations made by the Auditors in their report are self-explanatory and have also been further amplified in the Notes to the Accounts.

17. AUDITORS

i. M/s Patel, Shah & Joshi, the existing Statutory Auditors are eligible and are recommended for re-appointment as Statutory Auditors till the conclusion of the next Annual General Meeting. The auditors have furnished a certificate of their eligibility for re-appointment under Section 224(1-B) of the Companies Act, 1956 and are not disqualified for such appointment within the meaning of Section 226 of the Companies Act, 1956.


18. AUDIT COMMITTEE

Audit Committee of the Board is under Chairmanship of Mr. Navin C. Shah, Chartered Accountant and independent members consisting of Dr. E. R. C. Shekar and Mr. P. Sitaram, Nominee (IDBI Limited) as a practice of good Corporate Governance.

19. CORPORATE GOVERNANCE REPORT

Your Directors are pleased to report that your Company has complied with the SEBI Guidelines on Corporate Governance as of 31st March, 2007 relating to Clause 49 of the Listing Agreement with concerned Stock Exchange(s). A Certificate from the Statutory Auditors - M/s Patel, Shah & Joshi, Chartered Accountants, Mumbai confirming compliance with conditions as stipulated under the aforesaid Clause 49 is annexed to this Report.

20. CODES OF CONDUCT OF BUSINESS PRINCIPLES & ETHICS AND PREVENTION OF INSIDER TRADING

Your Directors are pleased to report that your Company has complied with:
i. the Code of Conduct of Business Principles and Ethics; and  
ii. the Prevention of Insider Trading in the equity shares of the Company by the designated persons/officers (insider)  

21. DIRECTORS’ RESPONSIBILITY STATEMENT  
The Board of Directors confirms:  
i. that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation, wherever necessary, relating to material departures;  
ii. that the Directors have selected prudent accounting policies;  
iii. that the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;  
iv. that the Directors have prepared the annual accounts on a going concern basis.

Over the past 137 years, BSE has facilitated the growth of the Indian corporate sector by providing it with an efficient capital raising platform.

Today, BSE is the world's number 1 exchange in the world in terms of the number of listed companies (over 4900). It is the world's 5th most active in terms of number of transactions handled through its electronic trading system. And it is in the top ten of global exchanges in terms of the market capitalization of its listed companies. The companies listed on BSE command a total market capitalization of USD Trillion 1.28 as of Feb, 2010.

BSE is the first exchange in India and the second in the world to obtain an ISO 9001:2000 certification. It is also the first Exchange in the country and second in the world to receive Information Security Management System Standard BS 7799-2-2002 certification for its BSE On-Line trading System (BOLT). Presently, we are ISO 27001:2005 certified, which is a ISO version of BS 7799 for Information Security.

The BSE Index, SENSEX, is India's first and most popular Stock Market benchmark index. Exchange traded funds (ETF) on SENSEX, are listed on BSE and in Hong Kong. Futures and options on the index are also traded at BSE.

Bombay Stock Exchange – Origins

Bombay Stock Exchange, originally named as “The Native Share & Stock Brokers’ Association”, was established in 1875. This makes BSE the oldest stock exchange in the Asian economic region. It is also the biggest South Asian stock exchange in terms of market capitalization (NSE is the second largest!), and the 11th largest on a global level (August
2009). When the government passed the Securities Contracts (Regulation) Act in 1956, the BSE was the first stock exchange in India to be recognized under the Act. Originally mooted as an AOP (Association of Persons), BSE was demutualised and corporatized in 2005, and now functions as a company.

The BSE is a potent symbolism of the Indian capitalist economy, and is an important landmark in the financial domain. Till the National Stock Exchange was found in 1992, the BSE continued to be the center of the Indian corporate world. Its traditional “open outcry” system of trading, with a milling crowd of brokers jostling with each other to make deals, inspired many an aspiring entrepreneur.

Over the years, BSE has been pivotal in providing the Indian business in that most vital of resources – Capital. Every Indian corporate worth its salt has tapped the Indian capital market through the exchange, and every major company has its shares listed on the BSE. A listing on the BSE was considered as the ‘holy grail’ in the Indian corporate and business world. BSE lost a substantial amount of reputation after the securities scam perpetrated by Harshad Mehta, and various scams in the following years have continued to pound its goodwill. Yet, the BSE continues to move from strength to strength, and continues to be the flagship of the Indian capital markets. The location of BSE – Dalal Street – has become the Indian equivalent of Wall Street.

BSE has pioneered various innovations into the Indian capital market. The BSE Index – called the SENSEX – is considered the pulse of the Indian capital system and industry. In addition to the main index – the Sensex – BSE also offers several sub-indices and sectoral indices. BSE has also introduced ETF (An Exchange Traded Fund) in collaboration with Hong Kong based Barclays Global Investors. The ETF enables foreign investors to invest in the Indian stock market.

BSE has been at the forefront of introducing transparency and successful-investors friendliness in the trading of various instruments such as stocks, derivatives and debt instruments. It is a global pioneer in achieving the coveted ISO 9001:2000 certification, and the introduction of BOLT – BSE Online Trading System. BOLT is currently available to thousands of traders across the country, and provides access to markets from the computer f Money screens. BSEWEBX, a service introduced in 2001, was first of its kind in the world – and enabled investors to deal in shares and stocks from the comfort of their computers.

In addition to the equity market, BSE is also taking important steps to develop the retail debt market. This step will help the common investors to gain access to an alternative investment option, and provide greater diversification opportunities.
BSE is also involved in a number of initiatives to educate the investors, monitor the markets and provide training and education on various aspects related to the Indian capital markets.

**Services offered by BSE:**

**BSE offers a wide range of products** for trading in the securities market. An investor can choose from 4,687 listed companies. For the easy reference of investor, companies are classified into A, B1, B2, and Z groups. Another feature of equity trading at BSE is the ‘Basket Trading’ facility. It also has a wide range of services to empower the investors and facilitate smooth transactions:

1. **Investor Services:** Department of Investor Services redresses grievances of investors.
2. **IndoNext:** In order to enable Small and Medium Enterprises (SME) to raise equity and debt, and facilitate trading in such companies, BSE has launched a single order book national trading platform called BSE IndoNext.
3. **BSE Training Institute:** BTI imparts capital market training and certification, in collaboration with reputed management institutes and universities, offers 40 courses on various aspects of the capital market and financial sector.
4. **The BSE On-line Trading (BOLT):** BSE On-line Trading (BOLT) facilitates on-line screen based trading in securities. BSE On-line Trading is currently operating in 8000 Trader Workstations located across over 409 cities in India.
5. **BSEWEBX.com:** In February 2001, the Exchange introduced the worldâ€™s first centralized exchange based Internet trading system, BSEWEBX.com. The initiative enables investors anywhere in the world to trade on the BSE platform.
6. **Surveillance:** BSEâ€™s On-Line Surveillance (BOSS) monitors on real time basis price movements, volume positions and member position and real time measurement of default risk, market reconstruction and generation of cross market alerts.

Corporations that are listed but who then fall short of these financial and transparency requirements are usually de-listed from the stock exchange.

- **Providing Liquidity and Marketability to Existing Securities:** The basic function of a stock exchange is the creation of a continuous market where securities are bought and sold. The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. The ability to convert an asset to cash quickly. Also known as "marketability". There is no specific liquidity formula; however, liquidity is often calculated by using liquidity
ratios. It gives investors the chance to disinvest and reinvest. This provides both liquidity and easy marketability to already existing securities in the market. A measure of the ability of a security to be bought and sold. If there is an active marketplace for a security, it has good marketability. Marketability is similar to liquidity, except that liquidity implies that the value of the security is preserved, whereas marketability simply indicates that the security can be bought and sold easily.

- **Pricing of Securities:** Share prices on a stock exchange are determined by the forces of demand and supply. A stock exchange is a mechanism of constant valuation through which the prices of securities are determined. Such a valuation provides important instant information to both buyers and sellers in the market. **Pricing** is the process of determining what a company will receive in exchange for its products. Pricing factors are manufacturing cost, market place, competition, market condition, and quality of product. Pricing is also a key variable in microeconomic price allocation theory. Pricing is a fundamental aspect of financial modeling and is one of the four Ps of the marketing mix. The other three aspects are product, promotion, and place. Price is the only revenue generating element amongst the four Ps, the rest being cost centers.

- Pricing is the manual or automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines, and many others. Automated systems require more setup and maintenance but may prevent pricing errors. The needs of the consumer can be converted into demand only if the consumer has the willingness and capacity to buy the product. Thus pricing is very important in marketing.

A **share price** is the price of a single share of a number of saleable stocks of a company. Once the stock is purchased, the owner becomes a shareholder of the company that issued the share. In economics and financial theory, analysts use random walk techniques to model behavior of asset prices, in particular share prices on stock markets, currency exchange rates and commodity prices. This practice has its basis in the presumption that investors act rationally and without bias, and that at any moment they estimate the value of an asset based on future expectations. Under these conditions, all existing information affects the price, which changes only when new information comes out. By definition, new information appears randomly and influences the asset price randomly.
Empirical studies have demonstrated that prices do not completely follow random walks. Low serial correlations (around 0.05) exist in the short term, and slightly stronger correlations over the longer term. Their sign and the strength depend on a variety of factors.

Researchers have found that some of the biggest price deviations from random walks result from seasonal and temporal patterns. In particular, returns in January significantly exceed those in other months (January effect) and on Mondays stock prices go down more than on any other day. Observers have noted these effects in many different markets for more than half a century, but without succeeding in giving a completely satisfactory explanation for their persistence.

Technical analysis uses most of the anomalies to extract information on future price movements from historical data. But some economists, for example Eugene Fama, argue that most of these patterns occur accidentally, rather than as a result of irrational or inefficient behavior of investors: the huge amount of data available to researchers for analysis allegedly causes the fluctuations.

Another school of thought, behavioral finance, attributes non-randomness to investors' cognitive and emotional biases. This can be contrasted with Fundamental analysis.

When viewed over long periods, the share price is directly related to the earnings and dividends of the firm. Over short periods, especially for younger or smaller firms, the relationship between share price and dividends can be quite unmatched.

- **Safety of Transaction**: The membership of a stock exchange is well regulated and its dealings are well defined according to the existing legal framework. This ensures that the investing public gets a safe and fair deal on the market.

These are some of the safeguards the investors should keep in mind before trading in the securities market.

1. **Selecting a Broker/ Sub - Broker**

   Deal only with a SEBI registered Broker / Sub - broker after due diligence. Details of the BSE Brokers can be obtained from the Member's List published by BSE and from the website :

2. **Entering into an Agreement**

   Fill in a Client registration form with the Broker / Sub - broker Enter into Broker / Sub - broker - Client Agreement. This agreement is mandatory for all investors for registering as a client of a BSE Trading Member. Ensure the following before entering into an agreement:
Carefully read and understand the terms and conditions of the agreement before executing the same on a valid stamp paper of the requisite value.

Agreement to be signed on all the pages by the Client and the Member or their representative who has the authority to sign the agreement. Agreement has also to be signed by the witnesses by giving their names and addresses. Please note that Regulatory Authorities have not stipulated for execution of any document other than Broker/ Sub - Broker / Client Agreement.

3. Transacting

Specify to the Broker / Sub - broker, the exchange through which your trade is to be executed and maintain separate account for each exchange.

Obtain a valid Contract Note from the Broker / Sub-broker within 24 hours of the execution of the trade.

Contract note is a confirmation of trade(s) done on a particular day for and on behalf of a client in a format prescribed by BSE. It establishes a legally enforceable relationship between the Trading Member and his Client in respect of settlement of trades executed on BSE as stated in the Contract Note.

Contract Notes are made in duplicate, and the Trading Member and Client, both keep one copy each. The Client is expected to sign on the duplicate copy of the Contract Note, confirming receipt of the original.

Contract Note - Form 'A' - Contract Note issued where Member is acting for constituents as brokers/ agents.

Contract Note - Form 'B' - Contract Note issued by Members dealing with constituents as principals.

Ensure that the Contract Note contains:

SEBI registration number of the Trading Member/ Sub – broker
Details of trade such as, Order no, trade no., trade time, quantity, price, brokerage, settlement number, details of other levies.

Trade price should be shown separately from the brokerage charged.

The maximum brokerage that can be charged is Rs.0.25 per share/debenture or 2.5% of the contract price per share / debenture whichever is higher. This maximum brokerage is inclusive of the brokerage charged by the sub-broker (Sub-brokerage cannot exceed 1.5% of the contract price.) Any additional charges that a Trading Member can charge are Service Tax on the brokerage, any penalties arising on behalf of client and Securities Transaction Tax (STT).
The brokerage, service tax and STT are required to be indicated separately in the Contract Note.

- Signature of authorised representative.
- Arbitration clause stating that the Courts in Mumbai shall have exclusive jurisdiction in respect of all proceedings to which the Exchange is a party, and in respect of all other proceedings, the Courts having jurisdiction over the area in which the respective Regional Investor Service Centre is situated, shall have jurisdiction, must be present on the face of the Contract note.

4. Settlement

Ensure delivery of securities /payment of money to the broker immediately upon getting the Contract Note for sale / purchase but in any case, before the prescribed pay-in-day.

Member should pay the money or securities to the investor within 24 hours of the payout.

Open a demat account.
Opt for buying and selling shares in demat form.

For delivery of shares from demat account, give the Depository Participant (D P) 'Delivery out' instructions to transfer the same from the beneficiary account to the pool account of broker through whom shares and securities have been sold.

The following details to be given to the DP: details of the pool a/c of broker to which the shares are to be transferred, details of scrip, quantity etc. As per the requirement of depositories the 'Delivery out' Instruction should be given atleast 48 hours prior to the cut-off time for the prescribed securities pay-in.

For receiving shares in your demat account, give the Depository Participant (D P) 'Delivery in' instructions to accept shares in beneficiary account from the pool account of broker through whom shares have been purchased.

If physical deliveries are received check the deliveries received as per Good/Bad delivery guidelines issued by SEBI.

Bad delivery cases should be sorted out through BSE mechanism immediately.

Ensure that all registration of physical shares for ownership by transfer should be executed by a valid, duly completed and stamped transfer deed.

Rights of Investors

To receive all benefits/ material information declared for the investors by the Company.
Prompt services from the Company such as transfers, Sub-divisions and consolidation of holdings in the Company.

As an equity holder have a right to subscribe to further issue of capital by the Company.

Brokerage not to exceed 2.5% of the contract price.

Receipt of the Contract Note from the broker in the specified format showing transaction price, brokerage, Service Tax and STT, separately.

Expect delivery of shares purchased/value of shares sold within 24 hours from pay-out.

Approach concerned Regional Investor Service Centres of BSE, by confirming geographical jurisdiction.

The Complaint against trading members of the Exchange or Applications for Arbitration should be filed at the concerned Regional Investor Service Centre referred to in column 1 below covering that State or Union Territory of India, referred to in Column 2 below, within which the most recent address / registered office address of the constituent, as duly communicated in writing to the trading member in accordance with law, is located. Provided in respect of a non-resident Indian Constituent, the Seat of Arbitration shall be Regional Investor Service Centre which covers the States and Union Territories given in Column 2, in which lies the address or the Registered Office address, as the case may be, of the trading member, depending upon corporate or non-corporate membership of the trading member. The hearings shall be held in the concerned Regional Investor Service Centre in which the Applicant had duly filed the Application for Arbitration.

**Contributes to Economic Growth:** Bombay stock exchange is a market in which existing securities are resold or traded. Through this process of disinvestment and reinvestment savings get channelised into their most productive investment avenues. This leads to capital formation and economic growth.

Effective Mobilisation of savings - Bombay Stock exchanges provide organised market for an individual as well as institutional investors. They regulate the trading transactions with proper rules and regulations in order to ensure investor's protection. This helps to consolidate the confidence of investors and small savers. Thus, BSE attract small savings especially of large number of investors in the capital market.
Promoting Capital formation

The funds mobilised through capital market are provided to the industries engaged in the production of various goods and services useful for the society. This leads to capital formation and development of national assets.

Wider Avenues of investment - Bombay Stock exchanges provide a wider avenue for the investment to the people and organisations with investible surplus. Companies from diverse industries like Information Technology, Steel, Chemicals, Fuels and Petroleum, Cement, Fertilizers, etc. offer various kinds of equity and debt securities to the investors. Online trading facility has brought BSE at the doorsteps of investors through computer network. Diverse type of securities is made available in the stock exchanges to suit the varying objectives and notions of different classes of investor. Necessary information from stock exchanges available from different sources guides the investors in the effective management of their investment portfolios. Liquidity of investment - Bombay stock exchanges provide liquidity of investment to the investors. Investors can sell out any of their investments in securities at any time during trading days and trading hours on stock exchanges. Thus, BSE provides liquidity of investment. The on-line trading and online settlement of demat securities facilitates the investors to sellout their investments and realise the proceeds within a day or two. Even investors can switch over their investment from one security to another according to the changing scenario of capital market. Investment priorities - BSE facilitates the investors to decide his investment priorities by providing him the basket of different kinds of securities of different industries and companies. He can sell stock of one company and buy a stock of another company through stock exchange whenever he wants. He can manage his investment portfolio to maximise his wealth.

Investment safety - BSE through their by-laws, Securities and Exchange Board of India (SEBI) guidelines, transparent procedures try to provide safety to the investment in industrial securities. Government has established the National Stock Exchange (NSE) and Over The Counter Exchange of India (OTCEI) for investors' safety. Exchange authorities try to curb speculative practices and minimise the risk for common investor to preserve his confidence. Wide Marketability to Securities - Online price quoting system and online buying and selling facility have changed the nature and working of BSE. Formerly, the dealings on stock exchanges were restricted to its head quarters. The investors across the country were absolutely in dark about the price fluctuations on stock exchanges due to the lack of information. But today due to Internet, on line quoting facility is available at the computers of investors. As a result, they can keep track of price fluctuations taking place on stock exchange every second during the working hours. Certain T.V. Channels like CNBC are fully
devoted to stock market information and corporate news. Even other channels display the online quoting of stocks. Thus, modern stock exchanges backed up by internet and information technology provide wide marketability to securities of the industries. Demat facility has revolutionised the procedure of transfer of securities and facilitated marketing.

Financial resources for public and private sectors - BSE makes available the financial resources available to the industries in public and private sector through various kinds of securities. Due to the assurance of liquidity, marketing support, investment safety assured through stock exchanges, the public issues of securities by these industries receive strong public response (resulting in oversubscription of issue).

Funds for Development Purpose - BSE enables the government to mobilise the funds for public utilities and public undertakings which take up the developmental activities like power projects, shipping, railways, telecommunication, dams & roads constructions, etc. Stock exchanges provide liquidity, marketability, price continuity and constant evaluation of government securities.

Indicator of Industrial Development - BSE is the symbolic indicators of industrial development of a nation. Productivity, efficiency, economic-status, prospects of each industry and every unit in an industry is reflected through the price fluctuation of industrial securities on stock exchanges. Stock exchange sensex and price fluctuations of securities of various companies tell the entire story of changes in industrial sector. Barometer of National Economy - BSE is taken as a Barometer of the economy of a country. Each economy is economically symbolized (indicators) by its most significant stock exchange. New York Stock Exchange, London Stock Exchange, Tokyo Stock Exchange and Bombay Stock Exchange are considered as barometers of U.S.A, United Kingdom, Japan and India respectively. At both national and international level these stock exchanges represent the progress and conditions of their economies.

Thus, stock exchange serves the nation in several ways through its diversified economic services which include imparting liquidity to investments, providing marketability, enabling evaluation and ensuring price continuity of securities.

Spreading of Equity Cult: The stock exchange can play a vital role in ensuring wider share ownership by regulating new issues, better trading practices and taking effective steps in educating the public about investments.

Investor Awareness & Education Investor Awareness Program - Investor Awareness Programs are being regularly conducted by BSE at various places in the country
to educate the investors and to create awareness among the investors regarding the capital market and in particular the working of the stock exchanges.

**General DO's and DON'Ts for Investors** - More and more investors are investing / trading in the stock markets than ever before. It is therefore imperative for the investors to follow some DOs and DON'Ts while dealing in the stock market. Given below are some general DOs and DON'Ts for investors:

**DOs:**

- Always deal with the market intermediaries registered with SEBI / stock exchanges.
- Collect photocopies of all documents executed for registration as a client, immediately on its execution. Ensure that the documents or forms for registration as Client, are fully filled in.
- Give clear and unambiguous instructions to your broker / agent / depository participant.
- Always insist on contract notes from your broker. In case of doubt in respect of the transactions, verify the genuineness of the same on the BSE website.
- Always settle the dues through the normal banking channels with the market intermediaries.
- Before placing an order with the market intermediaries, please check about the credentials of the companies, its management, fundamentals and recent announcements made by them and various other disclosures made under various regulations. The sources of information are the websites of Exchanges and companies, databases of data vendor, business magazines etc.
- Adopt trading / investment strategies commensurate with your risk-bearing capacity as all investments carry some risk, the degree of which varies according to the investment strategy adopted.
- Carry out due diligence before registering as client with any intermediary. Carefully read and understand the contents stated in the Risk Disclosure Document, which forms part of the investor registration requirement for dealing through brokers.
- Be cautious about stocks which show a sudden spurt in price or trading activity, especially low price stocks.
- There are no guaranteed returns on investment in the stock market.
- Always keep copies of all investment documentation (e.g. application forms, acknowledgements slips, contract notes).
- Always keep copies of documents you are sending to companies, Trading Member, Registrar and Transfer Agent, etc.
- Send important documents by a reliable mode (preferably through registered post) to ensure delivery.
- Ensure that you have money before you buy.
- Ensure that you are holding securities before you sell.
- Follow up diligently and promptly e.g. If you do not receive the required documentation within a reasonable time, contact the concerned person; i.e. the Trading Member, company etc., immediately.
- Mention clearly whether you want to transact in physical mode or in demat mode.
- Lodge your Arbitration Application against the Trading Member, at the concerned Regional Investor Service Centre, by confirming geographical jurisdiction. Please use for the purpose, your address as intimated to your Trading Member by following due process of law. The details of geographical jurisdiction of each Regional Investor Service Centre are also available on the Contract Note. The period consumed in redressed of complaint thru IGRC services will not be considered while measuring period of ‘limitation’ in filing arbitration application provided the complaint and/or arbitration application is/are filed at the concerned Regional Investor Service Centre.
- Lodge your complaint against a company listed on BSE, at the concerned Regional Investor Service Centre, by confirming geographical jurisdiction. Please use your address for deciding the geographical jurisdiction. This will enable to process the complaint expeditiously.

**DON Ts :-**
- Don’t deal with unregistered brokers / sub - brokers, or other unregistered intermediaries.
- Don’t execute any documents with any intermediary without fully understanding its terms and conditions.
- Don’t file your arbitration application against trading member, in the Regional Investor Service Centre having no geographical jurisdiction over the matter. Please use for the purpose, your address as intimated to your Trading Member by following due process of law The Exchange redresses investors’ complaints thru arbitration and IGRC mechanism, which are quasi-judicial in nature. The period
consumed in redressal of complaint thru IGRC will not be considered while measuring period of ‘limitation’ in filing arbitration application provided the complaint is filed at the concerned Regional Investor Service Centre.

- Don’t file your grievance /s against companies listed on BSE, in the Regional Investor Service Centre having no geographical jurisdiction over the matter, for its expeditious redressed. Please use your address for deciding the geographical jurisdiction.
- Don't deal based on rumours or 'tips'.
- Don't fall prey to promises of guaranteed returns.
- Don't get misled by companies showing approvals / registrations from Government agencies as the approvals could be for certain other purposes and not for the securities you are buying.
- Don't leave the custody of your Demat Transaction slip book in the hands of any intermediary.
- Don't get carried away with advertisements about the financial performance of companies in print and electronic media.
- Don't blindly follow media reports on corporate developments, as some of these could be misleading.
- Don't blindly imitate investment decisions of others who may have profited from their investment decisions.
- Don't forgo obtaining all documents of transactions, in good faith even from people whom you know.
- Don't forget to take note of the risks involved in an investment.
- Don't get misled by guarantees of repayment of your investments through post-dated cheques.
- Don't hesitate to approach concerned persons and then the appropriate authorities.
- Don't get swayed by promises of high returns.

BSE has installed a Toll Free line 1800 22 6663 at which the investors can inform on any specific lead with regard to any type of undesirable trading practices in any scrip or any type of market aberration observed by them. Investors are requested to get their messages recorded in English or Hindi. Identity of the investor will be kept confidential.

**Providing Scope for Speculation:** The stock exchange provides sufficient scope within the provisions of law for speculative activity in a restricted and controlled manner. It is generally accepted that a certain degree of healthy speculation is necessary to ensure
liquidity and price continuity in the stock market. A reasonable level of speculation at stock exchange is not a problem. But excessive speculative operations of brokers beyond their capacity tend to endanger stock exchange operations resulting in a number of problems as faced by investors and authorities at Bombay Stock Exchange. In the words of Shri M.R. Mayya, Executive Director, Bombay Stock Exchange, "The presence of a large number of professional operations with divergent views at any point of time as to the level of prices, with one set of them holding that the prices would rise and the other feeling that prices would fall and acting on such view by buying or selling continuously in the market help to bring about an orderly adjustment of prices. Without these speculative operations a stock exchange can become a disjointed structure, the transactions on which would present a disorderly and aberrated picture with prices displaying zide and hectic fluctuations."

**Provides Clearing House Facility** - Till a few years ago trading on a stock exchange took place through a public outcry or auction system. This has been replaced by an online screen based electronic trading system as almost all exchanges have become electronic. Stock trading has, therefore, shifted from the stock market floor to the broker’s office where trades are executed through a computer. Brokers are members of a stock exchange through whom trading of securities is done. Brokers may be individuals, partnership firms or corporate bodies.

They are the intermediaries between the buyers and sellers. Earlier these members owned, controlled and managed the exchanges. The ownership and management of stock exchanges by brokers often led to a conflict of interest between the brokers and their clients. This led to ‘demutualisation’ of stock exchanges.

Demutualisation separates the ownership and control of stock exchanges from the trading rights of members. This reduces the conflict of interest between the exchange and the brokers and the chances of brokers using stock exchanges for personal gains.

A company’s securities can be traded on a stock exchange only if they are listed or quoted on it. Companies have to fulfill a stringent set of requirements to get their securities listed on a stock exchange. This ensures that the interest of the shareholders is adequately looked after.

Transactions on a stock exchange may be carried out on either cash basis or a carry over basis. The carry over basis is also called badla and is a unique feature of Indian stock markets, particularly the BSE. A stock exchange year is divided into periods called ‘accounts’ which vary from a fortnight to a month. All transactions made during one account
are to be settled by payment for purchases and by delivery of share certificates in the case of sales on notified days of the clearing programme of a given stock exchange.

A share certificate is proof of ownership of securities by an individual. Purchase and sale transactions in securities involved the exchange of money in return for the share certificate. This led to problems of theft, forgery, transfer delays and time involved in paperwork. To eliminate these problems an electronic book entry form of holding and transferring securities has been introduced. This is referred to as dematerialisation of securities.

Overall, several functions of stock market, but the main stock market function as an economic function, Stock markets also providing facility for transferring of capital from investors to users of capital. They allow corporations looking to expand to raise capital from investors in the primary market and facilitate trade between buyers and sellers of stock in the secondary market. Another function of a Stock market is its continuous pricing function. This market feature enables interested parties to know at any time, what the price of a stock is. Price quotes can be accessed through financial websites and financial TV or radio stations. This conveniently allows investors to know precisely how much their stock holdings are worth.

Perhaps the most important of all the functions of stock market is its FAIR PRICING function. The workings of the stock market enable buyers and sellers of stock, to receive the best price possible for a particular stock. This fair pricing function is as a result of the competition between the numerous buyers and sellers of stock who operate in the stock market daily.

Although dozens of stock markets exist in the U.S, the two most prominent stock markets are the New York Stock Exchange (NYSE) and the NASDAQ. Billions of dollars worth of stock are traded on both markets everyday and a lots of media attention is focused on each. Stocks of most of the major U.S corporations are listed on both these markets with the NASDAQ being favored by technology companies.

The capital market plays a pivotal role in the allocation of economic resources into productive activities of the economy, which are possible only if the securities traded in the markets are priced appropriately. A capital market in which stock prices fully reflect all available information can be termed as efficient. Eugene Fama (1960) classified the market efficiency into the following three categories depending on the information set that is fully reflected in the security prices.
a. **Weak - Form of Efficiency**, popularly known as Random Walk Theory states that the current stock prices reflect all the information that is contained in the historical sequence of prices.

b. **Semi - Strong Form of Efficiency**, which states that current market prices not only reflect all information content of historical prices but also reflect all the information, which are publicly available about the companies being studied.

c. **Strong - Form of Efficiency**, which states that current market prices reflect all information whether it is publicly available or private information (insiders information).

The inefficiency of Bombay stock exchange follows from the violation of the necessary conditions for an efficient market with a developed financial system and also implies financial and institutional imperfections. This leads to the conclusion that Indian financial policies and regulations such as those concerning liberalisation, deregulation and privatisation have generated a perceived inconsistency, and a tendency to produce instability.

Market efficiency has an influence on the investment strategy of an investor because if market is efficient, trying to pickup winners will be a waste of time. In an efficient market there will be no undervalued securities offering higher than deserved expected returns, given their risk. On the other hand if markets are not efficient, excess returns can be made by correctly picking the winners.

Efficiency, in the context of capital markets, is commonly assumed to refer to the incorporation of the expectation and information of all market participants into the prices of financial assets. If markets are sufficiently competitive, and therefore efficient, then microeconomic theory states that investors cannot earn abnormal profits from their investment strategies. This concept of an efficient capital market has been continuously developed, studied,

Bombay Stock Exchange its efficiency and for its potential to offer diversification benefits to international investors. Market-wide tests include; 1) contemporaneous relationship, 2) Granger type causality and 3) day-of-the-week effect. Tests on individual Indian stocks include: 1) panel estimation of Granger causality, 2) stock-by-stock estimation of Granger causality and 3) runs test. In sum, Indian markets are well integrated with the international equity markets, a characteristic that lowers the international diversification benefits. While day-of-the-week effect is an international spillover, it may be possible to predict individual Indian stocks' returns through causality with international equity markets and through momentum trading techniques.
Reference:


iii Mayya M.R. ‘Do our Stock Exchanges have a future', Economic and Political Weekly, Bombay, February, 1978 P-M 19


vi ‘Stock Markets -- The bull mirage', Financial Express, New Delhi, December 17, 1990.

vii ‘Stock Markets -- The bull mirage', Financial Express, New Delhi, December 17, 1990.


x National Planning Committee report on Industrial Finance, 1948, p.53 to 54. This Committee was constituted in 1938. Jawaharlal Nehru was its Chairman. Members of the Committee included A.O. Shroff, J.K. Mehta, Purushottamdas Thakurdas, S.C. Majumdar, Dr. P.S. Loknathan, Lal Shri Ram and J.R.D. Tata.


