CHAPTER THREE

CAPITAL MARKET

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3.1 Introduction:

The capital market is divided into two parts - Primary Capital Market and Secondary Capital Market.

When any specific company raises capital through issue of shares from public, it is a primary capital market transaction.

After issue of shares, the liquidity to the equity investment is provided by secondary capital market also called as Stock Exchange, where sale and purchase of equity takes place.

The further pages discuss the primary and secondary capital market in India, in detail.
A – *Primary Capital Market*:

3.2 **Share Capital: How To Raise:**

When a company wishes to raise capital by issuing securities, it goes to the primary market, a segment of capital market, where issuers exchange financial securities for long-term funds. The primary market facilitates the formation of capital. There are three ways in which a company may raise capital in the primary market: public issue, rights issue and private placement.

i. **Public issue:** - refers to the sale of securities to members of the public. It is by far the most important mode of issuing securities.

ii. **Rights issue:** - It is a method of raising additional funds from existing shareholders by offering additional securities to them on a preemptive basis.

iii. **Private placements:** - it involves selling of securities privately to a group of investors.

3.3 **Public Issue:**

The important steps in public issue are discussed in brief.

1. **Vetting of Prospectus:**

   It is a document to communicate information about the company and the proposed security issue to the investing public. Its contents are governed by law and are quite comprehensive. The draft prospectus containing the disclosure has to be vetted by SEBI before a public issue is made. After vetting of draft prospectus and application form, along with the Articles and Memorandum of Association it must be forwarded to the concerned Stock Exchange where the issue is proposed to be listed for approval.

2. **Appointment of Underwriters:**

   In the event of lack of public demand an underwriter agrees to subscribe to a given number of shares. The underwriter stands guarantee for public subscription against underwriting commission.
In India public financial institutions, commercial banks, insurance companies and stock brokers are the main underwriters.

3. Appointment of bankers:

The bankers to the issue are responsible to collect money on behalf of the company from the applicants. Government guidelines stipulate the minimal banking arrangements that have to be made for collection of applications.

4. Appointment of Registrars:

From the date of closing of subscription till the date of allotment the registrars to issue have to perform a series of tasks i.e. collection of forms from the banks after the closure of subscription, scrutiny of these application forms, classification and tabulation of data, finalization of the basis of allotment, issue and dispatch of allotment letters, share certificate, refund orders etc.

5. Appointment of Brokers and Principal Brokers:

The brokers to the issue facilitate its subscription. The brokers to be appointed have to be registered members of the stock exchange. There number should be reasonable to the amount of issue. The stock exchange’s approval for appointment of broker is compulsory.

If required the principal broker may be appointed, who coordinates the works of brokers and acts as leader.

6. Filing of prospectus with the Registrar of companies:

Once the prospectus is approved by the concerned stock exchanges and consent is obtained from the bankers, auditors, legal advisors, registrars, underwriters and the prospectus dully signed by the directors, it must be filed with the Registrar of companies along with required documents as per the Companies Act 1960.

7. Printing and dispatch of prospectus and application form:

After filing the prospectus with the Registrar of companies, the company should print the prospectus and the application form. The company may also publish publicity material, if required. They should be sent to stock exchanges and brokers so that they receive them at least 21 days before the first announcement to the newspapers.
8. Filing of initial listing Application:
The initial listing applications must be made within 10 days of filling the prospectus to the concerned stock exchanges with the initial listing fees.

9. Promotion of the issue:
The promotional campaign commences with the filing of prospectus with the Registrar of companies and ends with the release of statutory announcement of the issue. The company holds conferences for brokers, press and investors as a part of promotion of the issue.

10. Statutory Announcement:
After seeking the approval of the leading stock exchanges the statutory announcement is made. This must be published at least 10 days before the opening of the subscription lists.

11. Collection of Applications:
The prospectus and the statutory announcement specify when the subscription would open, when it would close, and the banks where applications can be made. During the period the subscription is open, bankers collect application money on behalf of the company. The managers to the issue with the help of registrars to the issue, monitor the situation.

12. Processing of Application:
The registrar to the issue processes the applications received from the banks. The processing includes verification of information supplied, signing of applications, amount received etc. Then numbering and coding of application is made with reference to applicant name, broker, underwriter, occupation etc. and a list with relevant details is prepared.

13. Establishing the liability of underwriters:
In the event of under subscribed issue, the liability of underwriters has to be established. The underwriters who have procured less number of shares than their commitment, their shortfall is determined. Then credit the total number of shares in the general pool to the underwriters with shortfall in prospectus to their
underwriting commitment and then determine the net shortfall of each underwriter who could not procure enough shares. This represents the underwriter’s liability.

14. Allotment of shares:

When the issue is under subscribed or just fully subscribed the company allots shares to applicants. If the issue is over subscribed the guiding principle used is that the allotment should be tilted in favour of the smaller applicants.

15. Listing of the issues:

The detailed listing application should be submitted to the concerned stock exchanges with listing agreement and the fees. These formalities should be completed within 10 weeks after the subscription list is closed or as per period permitted by the stock exchange.

16. Pricing of public issue:

The summary of the important SEBI guidelines with respect to pricing of public issues are:

- A new company setup by Entrepreneurs without a record will be permitted to issue capital to public only at par.
- A new company setup by existing companies with a 5 years track record of consistent profitability will be free to price its issue provided the minimum 50% participation is of promoting companies in the equity of new company and issue price is made applicable to all investors uniformly.
- An existing private or closely held company with a 3 year track record of consistent profitability shall be permitted to freely price the issue.
- An existing listed company can raise fresh capital by freely pricing further issue.

3.4 Rights Issue:

It refers to selling of securities in the primary market by issuing rights to the existing share holders. When a company issues additional equity capital, it has to be offered first to the existing share holders on a pro-rata basis, as per section 81 of the Companies Act 1956. The shareholders may, by a special resolutions forfeit this right, partially or fully, to enable the company to issue additional capital to public.
The important characteristics of rights are:

- The number of rights to be received is equal to the number of shares held.
- The number of rights required to subscribe to an additional share is determined by the issuing company.
- The price per share for additional equity, called the subscription price, is left to the discretion of the company.
- Rights are negotiable; the holder of the rights can sell them.
- Rights can be exercised only during a fixed period, which is usually about thirty days.

Procedure of Rights issue:

A “letter of offer” is posted to the existing share holders along with application form which consist of 4 forms (A, B, C, D)

Form A:
Acceptance of the rights and application for additional shares- This form shows the number of rights share the shareholder is entitled to. Request for Additional shares can also be made in this form.

Form B:
Renouncing the rights in favour of someone.

Form C:
Application by the renouncee in whose favour the rights have been renounced, by the original allottee through Form B.

Form D:
To make a request for split forms.

The composite application must be mailed to the company within a stipulated period, usually within 30 days.

Comparison between Rights issue and Public issue:

1. Rights issue is more successful because the investors are familiar with the working of company.
2. Rights issue is not underwritten. Hence the floatation costs are significantly lower than the public issue.
3. Rights issue has to be made at a lower price than public issue, as per expectations of existing shareholders. Therefore the rights issue tends to result in dilution of earnings per share (EPS).

3.5 Private Placements:

A company sells share to one or few investors. The important features are:

1. No need of formal prospectus and underwriting agreement.
2. Negotiations on terms of issue between the company and the investors

Such issues are generally preferred by

- Listed public Ltd. Companies, which may feel private placement a convenient one and less expensive
- Closely held public Ltd companies and Pvt. Ltd companies, which cannot access the general investing public through a public issue in the capital market.

In private placement, securities are generally sold to institutional investors like the UTI, MFs, LIC, GIC, FIs, Merchant banking, subsidiaries of banks, etc. Though various securities can be privately placed the most popular instrument in the private placement market so far has been the non-convertible debentures.

The private placement market has grown phenomenally in recent years. The rate of growth of private placement issue has been higher than that of public issues as well as rights issues.

This may be because of easy accessibility to market, flexibility of terms of issue, minimum time required as minimum formalities, lower issue costs, etc.

Institutional investors should fulfill the followings:

1. Net worth of the company should be at least Rs 1 crore
2. The interest cover, i.e. (PBDI/ existing interest liability + interest liability on the proposed debentures) should be at least two times as per the latest balance sheet. Otherwise the average interest cover for the preceding 3 years should at least be two times.
3. The asset cover, i.e. fixed assets excluding items like vehicles, furniture and fixtures, divided by secured borrowings and debentures charged to fixed assets. The revaluation of assets is not to be considered. It should be least.

4. The company must have paid dividend for at least 2 years in the preceding 3 years.

5. Stock price should be above par for six months prior to the issue.

3.6 **Securities & Exchange Commission (SEC):**

Check list of topics included in the Securities and Exchange Commission (SEC) established under Securities Exchange Act 1934 (SEA):

1. Name of the registrant etc.
2. Statement whether any securities being registered are from current stock holders.
3. Cross reference of material risk
4. An estimate of offering price and number of shares
5. Share price to the public etc.
7. A summary of the information contained in the prospectus.
8. The planned use of proceeds
10. Dilution
12. Company’s Capitalization.
15. List of properties.
16. Discussions of any pending or ongoing legal actions.
17. Information about management and security holders.
18. Plan of distribution.
19. An identification of any interest in the registration.
20. Listing of all expenses.
21. List of all required exhibits.
22. Company’s financial statements.
3.7 **Performance appraisal of primary capital market:**

It is said about the capital market that till 1991 it was age of innocence due to:

1. Few number of instruments
2. Pricing governed by controller of capital issue, which followed rigid mechanical formula.
3. Issue arrangement, which promote equity cult.

After 1991, the age of confusion started because of

1. Problem of pricing of issues
2. Options
3. More number of instruments
4. Lot of issues not properly understood like Derivative instruments with basic instruments - Hybrid securities
5. Pricing was immature competitive price
6. Issue arrangement-proportionate allotment

And now the age of sophistication started due to

1. Innumerable number of instruments
2. Realistic pricing policy
3. Proper issue arrangement

Following table shows no. of public issues and the total amount raised

*Table - 3.1 - Amount raised through public issues*

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of issues</th>
<th>Amt. in Crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>1987-88</td>
<td>122</td>
<td>1,627.97</td>
</tr>
<tr>
<td>1988-89</td>
<td>150</td>
<td>1,291.74</td>
</tr>
<tr>
<td>1989-90</td>
<td>187</td>
<td>2,793.26</td>
</tr>
<tr>
<td>1990-91</td>
<td>141</td>
<td>1,704.35</td>
</tr>
<tr>
<td>1991-92</td>
<td>196</td>
<td>1,711.36</td>
</tr>
<tr>
<td>1992-93</td>
<td>528</td>
<td>6,060.83</td>
</tr>
<tr>
<td>1993-94</td>
<td>770</td>
<td>12,544.04</td>
</tr>
<tr>
<td>1994-95</td>
<td>1342</td>
<td>21,044.45</td>
</tr>
</tbody>
</table>
From the Rajiv Gandhi Government, we find that capital market development started steadily. In 1990 the Government, which favoured globalization and open market oriented economy from the controlled economy, introduced the new industrial policy. Therefore, it was named as turnaround of government policy. As the policy and the simultaneous introduction of measures to promote & develop capital market, we see that the response from the investors to public issues increased tremendously .No doubt it was affected by various scams in the capital market, the major in this period is Harshad Mehta Scam.

The following table gives information in detail about amount raised in the primary market. *

<table>
<thead>
<tr>
<th>Year</th>
<th>Public</th>
<th>Rights</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount in crores</td>
<td>No.</td>
</tr>
<tr>
<td>1994 - 95</td>
<td>1342</td>
<td>21044.45</td>
<td>350</td>
</tr>
<tr>
<td>1995 - 96</td>
<td>1426</td>
<td>14247.89</td>
<td>298</td>
</tr>
<tr>
<td>1996 - 97</td>
<td>751</td>
<td>11556.78</td>
<td>131</td>
</tr>
<tr>
<td>1997 - 98</td>
<td>62</td>
<td>2862.95</td>
<td>49</td>
</tr>
<tr>
<td>1998 - 99</td>
<td>32</td>
<td>5018.90</td>
<td>26</td>
</tr>
</tbody>
</table>

The table shows overall declining trend in the number of issues launched and the capital raised in both the areas of primary market and further the more affected area is public issues in primary market. The increase in 1998-99 was a temporary phase, which could not be continued in the following years.

The effect of macro and micro factors listed below, adversely affected the primary market:

1. Sluggish economic growth
2. Deceleration in industrial growth particularly in capital goods industry
3. Lack of demand for investment goods
4. Cut in growth of capital expenditure of public sector
4. Corporate diverted resources of funds through private placement and financial institutions.

Non-disclosure of information as required for public and rights issues, quick and inexpensive resource raising are the reasons for the above statement.

The department of company affairs does section 67(3) of the Companies Act 1956 deals with private placements and the administration of this section. It was also observed that during this period the corporate restructuring and consolidation by various business groups was made partly through takeovers.

Basically the primary market investments are more riskier than the secondary market due to:

1. No certainty with which long term economic characteristics of new business can be evaluated
2. Management of the company
3. Rewards from the business to the shareholders
4. Overstated purchase price of the business
5. Inadequate disclosure in the prospectus by the promoters
6. Decorating the issue prospectus with attractive projections
7. Price rigging by promoters
8. Circumventing the SEBI guidelines by companies

Empirical studies on the US stock markets have shown that returns from public issues are generally lower than returns from the stocks of companies that did not issue stock during the period. Again explanation is simple and follows the expected lines- the investors on their part, invest at high levels due to their undue optimism. Firms, naturally, issue when they can get the highest possible prices, thus resulting in lower returns. *2
3.8 *Steps for Improvement in the Primary Market*:

For improvement in the primary market the regulatory body took the following steps:

1. Transparency
2. Proper information
3. Stringent disclosure norms
4. Establishing norms for entering the primary market.
5. Adoption of proper international accounting principles and standards
6. Adoption of quality of paper concept
7. Statement of fund flows, and use of funds raised along with strict market surveillance and investigation
8. Segregation of business activities of merchant bankers.

Now merchant bankers are prohibited from carrying on fund based activities other than those related exclusively to the capital market and merchant bankers would now require separate registrations to act as underwriters as well as portfolio managers. This has checked the entry of night fliers and scrupulous entrants in the primary market.

Overpricing of the issues, sluggish secondary market business, and quoting of new issues below par, have badly affected the market sentiments. In addition to this, the unregulated activities of the intermediaries of money market i.e. NBFI’s also have badly affected the market sentiments in general and the investing public in particular.

To conclude, institutionalization of the stock markets and new innovations in financial products are the opportunities, while insider trading, pricing of issues and lack of investor protection are the challenges for the Indian primary market.
B - Secondary Capital Market:
(WORKING OF STOCK EXCHANGE)

3.9 Stock Exchange:

The secondary market is that segment of the capital market where the outstanding securities issued by the central and state governments and semi government bodies and corporate entities are traded. It is an open auctions market where buyers and sellers meet and evolve a competitive price for the securities. The market for outstanding securities is called as secondary market and more popularly, the stock market.

The secondary market in India consists of twenty-four stock exchanges recognized by the government under the securities contracts (Regulations) Act 1956. These stock exchanges, operating under the rules, bye-laws and regulations approved by the Government, constitute an original market for the outstanding securities.

3.10 Origin, History and Development:

The world's largest stock exchanges are London, New York (Wall Street), and Tokyo. The oldest Stock exchanges are Antwerp 1460, Hamburg 1558, Amsterdam 1602, New York 1790, and London 1801. *3

In India, the earliest records on securities dealings indicate that trading in securities was in vogue as early as 1793. There was a perceptible increase in the volume of trading during the nineteenth century after the enactment of the companies Act in 1850, which introduced the feature of limited liability and generated investor interest in cooperate securities.

The brokers realized that the investors' confidence in securities market can be sustained only by organizing themselves into a well regulated body with defined rules and regulations. This realization culminated in the promotion of 'The Native Share and Stock Brokers Association' in 1887 in Bombay, which later came to be
called as the "Bombay Stock Exchange". This was followed by the formation of associations or exchanges in Ahmedabad (1894) Calcutta (1908) and Madras (1937).

Due to lack of a proper regulatory framework governing the formation and functioning of stock exchanges, several new exchanges came into being during the short spells of boom that followed the two world wars, only to disappear during the prolonged spells of depression.

In order to check such aberrations and promote a more orderly development of the stock market, the central government introduced a comprehensive legislation called the Securities Contracts (Regulations) Act 1956.

Under this regulation it is mandatory for every stock exchange to get the Government’s recognition.

There are 24 stock exchanges throughout the country recognized by the central government, 20 are regional with allocated areas, 4 are set up in the reforms era, viz. - National Stock Exchange (NSE), Over The Counter Exchange Of India Ltd.(OTCEI), Inter connected Stock Exchange of India (ISE) and have mandate to have nationwide trading network and The Stock Exchange, Mumbai(BSE) operate at national level with trading terminals in different cities.

The ISE is promoted by 15 regional stock exchanges in the country and has been set up at Mumbai. The ISE provides a member broker of any of these stock exchanges an access in to the national market segment, which would be in addition to the local trading segment, available at present. The NSE, OTCEI, ISE, BSE and majority of the regional stock exchanges have adopted the screen based trading system (SBTS) to provide automated and modern facilities for trading in a transparent, fair and open manner with access to investors across the country.

As on March 31, 1999, 9877 companies were listed on the stock exchanges and the market capitalization was Rs. 5,30,772 crores. As on March 31, 2001 the listed companies increased to 9954 and the market capitalization to Rs. 5,71,553 crores. The total single sided turnover on all stock exchanges during 1998-99 was Rs.10,23,381 crores, increased to Rs. 28,80,804 crores in 2000-01.
The recognition is granted under section 3 of the securities Contracts (Regulation) Act 1956 by the Central Government's Ministry of Finance. The recognition accorded to stock exchange is normally valid for a period of 5 years. It is renewed after 5 years on the basis of satisfactory performance of the exchange during this period. The stock exchanges located at Bombay, Calcutta, Chennai, Ahmedabad, Delhi, Hyderabad and Bangalore has been granted permanent recognition.

In addition to the Securities Contracts (Regulations) Act 1956 the Securities Contracts (Regulations) Rules were also made in 1957, to regulate certain matters of trading on the stock exchanges. There are also bye-laws of the exchanges, which are related to the following areas - opening or closing of the Stock Exchange, timing of trading, regulation of blank transfers, regulation of 'badla' or carry over business, contract of the settlement and other activities of the stock exchange, fixation of margins, fixation of market prices or making up prices (Hawala Rates), regulation of taravani Business (Jobbing) etc, regulation of brokers trading, brokerage, trading rules of exchanges, arbitration and settlement of disputes, settlement and clearing of the trading, etc.

Government recognition is compulsory for legal operations of the stock exchange; the Securities Contracts (Regulations) Act 1956 is the basis for operations of the stock exchanges in India. Section 19 of the Securities Contracts (Regulations) Act 1956 has given monopoly in certain areas to the stock exchanges. This is to facilitate the control and regulation of the exchange.

In the absence of a stock exchange government can license some of the brokers to perform the functions of a stock exchange.

Under the Act, Government has promulgated the Securities Contracts (Regulations) Rules, 1957 for better execution of provisions of the Act and achieve the objectives of the Act. The important areas covered by the rules are procedure for recognition, submission of periodical returns and annual reports, inquiry into the affairs of recognized stock exchange and their members, requirements for listing of securities etc.
These rules are statutory and they constitute a code of standardized regulations uniformly applicable to all the recognized stock exchanges.

The Stock exchanges constitute an organized market for various securities. They operate under the rules, bye laws and regulations duly approved by the government.

3.11 Trading Procedure:

The regulations governing the trading procedure are similar in all stock exchanges in the country, but the manner of implementation may differ depending on local customs and conditions.

3.12 Types of Contracts:

The Securities Contracts (Regulations) Act 1956 defines a contract to mean a contract for or relating to the purchase or sale of securities. Such contracts can be of following types:

Spot Delivery Contract:

In such a contract the securities are delivered immediately on the completion of the contract. Spot delivery contracts are enforced by the Stock Exchanges only when there is a crisis in the exchange and steps have to be initiated to curb excessive speculative trading.

Hand Delivery Contract:

In this contract the payment for the securities and their delivery are effected at a mutually agreed time. Such time shall not exceed 14 days following the date of the contract. Due to large number of contract entered by the member everyday it is difficult to settle each contract separately. Therefore a single day is agreed upon for settlement of contracts entered during a period. The Bombay stock exchange had a settlement period of a fortnight. At present the period is T+2.

Contracts through clearing:

As prescribed in the bye laws and regulations of the exchange, the clearance and settlement of these contracts is effected through clearing house.
Special Delivery Contracts:
In such contracts the time for delivery and payment may be any time exceeding 14 days following the date of the contract as may be stipulated when the deal is struck and permitted by the governing board or the president of the exchange.

3.13 Margin Money:
The trading in securities is subject to certain margin requirements. The amount of margin is calculated at a rate per unit of trading in any security. The margin money lies to the credit of the member and is adjusted against his dues when accounts are settled at the end of the settlement period. The broker usually collects the margin money form his client. There are two types of margins
1) Daily margins
2) Carry-over margins.

The Executive Director of the Bombay Stock Exchange notifies the rates for daily margins at the beginning of the each settlement period. The carry over margin is charged on the sales or purchases carried over from one period to another. On the last day of the settlement period, the Executive director of the Bombay Stock Exchange notifies the members of the price for each security on the specified shares list. The carryover margins in the case of purchases is fixed at 3% lower than the price prevailing on the last day of the settlement period and in the case of sales it is fixed at 3% higher.

3.14 Process of trading:
Trading ring is the place where trading takes place in the stock exchange. In Bombay, trading ring is open for business by members on all days from 11.30 A.M. to 2.30 P.M. except on public holidays under the Negotiable Instruments Act of 1881. The ring is also closed for business on all Saturdays except when specially kept open due to exigencies and also on the Monday following the settlement day if the same takes place on Friday or Saturday. Only members, their partners and authorized clerks are allowed entry to the trading floor of the exchange. The bye-laws of the Bombay Stock Exchange permit members to enter into bargains off the floor, over the
counter, outside the trading hours but they cannot meet in the exchange premises for such trading. Irrespective of this the bye-laws have failed in curbing Kerb trade which means trading in the vicinity of the exchange.

The trading ring is divided into trading posts. A trading post is a place where buyers and sellers in specified securities get together and strike bargains. To execute the order of the investor, the broker or his authorized clerk, goes to the particular trading post where the share is traded and enters into a bargain. Through the internal communication services the broker gets every information about the trading ring activities. A broker receives different types of orders from his clients regarding purchase or sale at a particular price. The broker then transacts on behalf of his client.

3.15 *Types of Orders*:

The orders received from the clients can be -

*At Best Order (Market order)*:

Means the security may be purchased at the lowest possible price or sold at the highest possible price.

*Limit Order*:

Means a limit or boundary is put on the price at which a security can be purchased or sold.

*Day Order*:

Which remains valid for the day when it is placed.

*Stop Loss Order*:

In this order the client informs his broker to with hold the sale of the security if the price falls below a certain limit, such order is issued when market is falling.

*Open Order*:

Remains in effect until it is executed or cancelled. A bell is rung 15 minutes before the trading begins and also a warning bell rings 15 minutes before the closing of the trading. Trading is usually done in multiples of trading lot of securities.
The broker records the details of the deals entered into by them in books known as ‘Sauda’ books. These ‘Sauda’ book entries are very important in the event of disputes as they have legal standings. ‘Sauda’ book information is entered in the computer and printouts are issued which give the official quotation of the exchange for the day.

3.16 Development:

The introduction of BOLT (BSE On Line Trading System) has sent a traditional outcry system in to oblivion, thus taking the stock market business in India to International levels. Trading will never be the same again at the country’s premier stock exchange, the Bombay stock exchange (BSE). The open outcry system in BSE a tradition which has been followed for the past 120 years has come to an end with the introduction of the BOLT. The step by step application of BOLT was completed and BOLT was made fully operational in March 1995. The introduction of the BOLT is aimed at enhancing the level of transparency and improving the efficiency of operations.6

The Bombay Stock Exchange (BSE) is now introducing market making in cash (B1 and B2) group scrips, in order to enhance liquidity in these scrips. BSE has already introduced market-making in its derivative segment. Under market making system a market-maker (member of the exchange) provides for buy and sale orders within a maximum spread on a continuous basis for a minimum quantity.7

For greater transparency and reduction in paper work required for settlement of trades, the stock exchanges are computerized. On-line trading, on-line information and on-line settlement of transaction is also possible now on many stock exchanges.
**Traditional system** | **Computerized system**
--- | ---
Investor contacts a broker in Bombay (may be through his sub broker at any place) | Same as the traditional system
Broker in turn contacts jobber | Broker or Jobber enters quotes into the system, which is connected to the Bombay Stock Exchange.
Jobber makes physical buy or sale quotes. | Matches are made by the Computer
Order is executed | Matches are directly recorded in the main computer
Physical delivery of scrips | Settlement procedure is the same

Now D-mat stocks are introduced which has eliminated handling of physical stocks.

**3.17 Settlement procedure for traded securities:**

Traditionally settlements were made by physical delivery, i.e. where the securities had to physically move from the seller to the seller’s broker - to the buyer’s broker and ultimately to the buyer. The buyer then had to lodge the securities with the transfer agents of the company and the process of transfer took one to three months. This led to high paper work cost and created bad paper risk.

To solve above problems, in developed countries, security transactions are settled mainly through electronic delivery facilitated by depositaries. A depository is an institution, which dematerializes physical certificates and effects transfer of ownership by electronic book entries.

To facilitate creation and working of depositaries in India the central Govt. passed the Depositories Act 1996. The National Securities Depository Limited (NSDL), India’s first depository, was setup in 1996, followed by the Central Securities Depositors Ltd. (CSDL).
SEBI has made settlement of trades in dematerialized (D-mat) form compulsory for all the stock exchanges in India. In an off-market spot transaction settled through the delivery of shares in physical form, the transfer duty of 0.50% is charged.

3.18 Rolling Settlement:

Till recently share transactions in India were settled on the basis of weekly account period (BSE – Monday to Friday; NSE- Wednesday to Tuesday). Therefore purchases and sales during an account period could be squared up and at the end of the account period transactions could be settled on a net basis.

The weekly settlement system along with the badla system of carrying forward transactions gave boost to speculative activity and periodic market crisis. SEBI decided to introduce Rolling settlement in important scrips with effect from 1st Jan 2002. Initially T+5 rolling settlement was introduced, in which the trades were settled after 5 days. With effect from 1st April 2002, the T+3 settlement system has been introduced.

Now from 1st April 2003 the stock exchanges are moving into the T+2 trading cycle. This brings the domestic markets on par with most of the advanced markets in the world.

Under the new settlement cycle, pay-in of securities and funds will take place at 11 a.m. two days after the transaction, while payout will take place at 1:30 p.m. on the same day.

The market regulator (SEBI) has taken steps, including the widening the scope of the Electronic Fund Transfer (EFT) facility and electronic contract notes, to facilitate shorter settlement cycle. According to SEBI release, in order to facilitate economical transfer of funds, the RBI has implemented a new EFT system called Special Electronic Fund Transfer (SEFT) from 1 April 2003. *8

The Stock market has been veritably transformed due to serene based trading and electronic delivery. The combined effect has been to reduce the transaction costs in India’s stock market dramatically. According to one survey, the total transactions cost in Indian market in mid 1993 was 5%, presently it is around 0.5%. *9
3.19 Transfer of shares:

The bye-laws of the stock exchanges stipulate that documents, which are tendered, should satisfy the conditions of good delivery prescribed by the Governing Board. In case of dispute the matter is referred to two members of the Arbitration Committee and their decision is binding.

A company, under the provision of the Companies Act 1956, can refuse to register a transfer of its shares unless a proper instrument of transfer duly stamped and executed by or on behalf of the transferor, specifying the name, address and occupation, if any of the transferee, has been delivered to the company along with the letter of allotment.

In addition to the above, following conditions must be satisfied for valid transfer:

1. The prescribed form, as per act, of transfer deed must be used.
2. A blank transfer deed must be presented to the Registrar of Companies for stamping the date of presentation.
3. After the execution of transfer deed by both the parties, it must be lodged with the company before the date on which the Register of members is closed or within 12 months from the date of issue of the instrument whichever is later.

In case of refusal of transfer, the company should intimate the parties concerned within two months from the date of receipt of instrument, as per the Companies Act.

3.20 Grounds for Refusal of Transfer:

The grounds of refusal of registration of transfer are specified in the Securities Contracts (Regulations) Act 1957, they are:-

1. The instrument of transfer is not proper or does not comply with the requirements of the law relating to such transfer.
2. The transfer is not in contravention of any law.
3. The transfer is likely to result in such a change in the Companies composition of Board of Directors as would be prejudicial to the interest of the company or to public interest.

4. The transfer is prohibited by any court. The act also provides, that the company must effect registration within two months, if it is satisfied, that it should not be refused.

3.21 Blank Transfer:

The seller with his name and address but without name of the buyer signs the blank transfer deed, such transfers are called blank transfers. This facilitates further sale of shares till the purchaser who wishes to hold the shares and lodges the document for transfer and get registered with the company.

3.22 Brokerage:

The brokerage payable is as per the bye-laws. The minimum charge is Rs. 5/- per contract. The maximum brokerage chargeable is 2.5% of the value of contract. The brokerage is not shown separately in the contract note but included in the price charged.

3.23 Stamp Duty:

As per the provisions of the Indian Stamp Act, the stamp duty is charged @ 0.50 rupees per Rs. 100 or part thereof for the transfer of shares. The stamp duty is calculated on the amount of consideration.

3.24 Listing of securities:

The bye-laws of the stock exchanges prohibit transactions in securities issued by the company before listing.

Following circumstances require listing of securities:

1. The company has already declared in its prospectus that the issue is being listed.

2. In the public interest, if the Central Government feels so, it can compel public limited company to list its securities on a recognized stock exchange.
3. For underwriting and subscribing to new issues listing is the precondition considered by the Financial Institutions.

4. The Comptroller of Capital Issues generally insists on listing before granting the consent to a new issue.

5. It is compulsory for those public Limited companies which issue cumulative convertible preference Shares or Bonds.

Before listing, the company has to enter into a listing agreement with the stock exchange. The provisions of the agreement are designed to:

1. Protect the interest of the investors
2. Facilitate smooth working of the market and
3. Compel the company to disclose information about matters of interest to the investing public.

The listing agreement requires the company to keep the stock exchange periodically informed about the number of shares held by any director, auditor, tax and management consultant and solicitor of the company and the price at which these shares were brought or sold. Such information must be fully accessible to the public.

This provision is designed to curb the practice of insider trading. The listing agreement also contains a provision to regulate take over bids. The take over bid is defined as an attempt to acquire shares held by an individual or group in the aggregate exceeding 25% of the voting capital of the company or otherwise to secure effective control of management of the company. The listed companies have to provide half-yearly unaudited financial results in a prescribed format to the stock exchange and through news paper for public information.

3.25 **Delisting of Securities:**

If the company acts in violation of the provisions of the listing agreement, the company is delisted from the stock exchange. The company is also delisted if the number of public shareholders falls below 5 for every Rs 5 lakhs offered to the public or if the public shareholding falls below 50% of the public offer. Delisting can also be
made on a request by the company because of non-trading of securities or infrequent trading during the preceding 3 years.

3.26 **Performance evaluation:**

There are 24 stock exchanges throughout the country. All these stock exchanges do On-Line Business. Modernization of market infrastructure improves market transparency and trading efficiency. Therefore, the investors have easy access to the information relating to the securities in the secondary market. A good secondary market always ensures safety, liquidity, quality of information, price formation, variety of instruments, quality of trading instruments and competitive cost of operation. The risk control measures improve market integrity and credibility. Strengthening the safety and integrity of the secondary market is also an important factor. In this way capital market institution acts as a self regulatory organization.

The regulatory body in this regard has taken number of steps, viz. fixing of intra day trading and exposure limits, setting the settlement trade guarantee firm, fixing standards and norms for disclosures by the corporate and improved timely dissemination of price sensitive information to the public to check insider trading and settlement cycles, introduction of warehousing of shares, introduction of modified carry forward system, introduction of market concept, simplification of share transfer and allotment procedures, and setting up of depositories.

Only few percentages of securities related to a few companies are traded on the stock exchanges. The total number of securities of companies listed with the stock exchange is 9833 as on 1997 – 98. For these inactive securities problem Chandratre Committee recommended the delisting of the dud securities and uniform securities listing norms on all the stock exchanges. Bhave Committee has recommended that the disclosure standards, is a way to strengthen the investors faith in secondary market.

The efficiency and transparency in the secondary market securities has definitely increased due to 100% on-line trading and the safety element has been introduced by extending guarantee of all trades by the clearing corporations.
The concept of market making tries to infuse liquidity through two-way quotes by market makers. Setting of depositories facilitated dematerialization of physical securities and also helped to reduce cost of operation and smoothness in transfer of securities and the paperless trading.

On August 5, 1997, the SENSEX touched a three year high of 4548. This improvement in share prices was also because of favorable budget, decline in taxes, and currency crisis in South-East Asian countries.

During 1996 – 97, 1997 – 98 markets had witnessed several periods of volatility and turbulence. There were national and international reasons for the heavy fluctuations in share prices. The safety of the markets was not affected during these periods of volatility mainly on account of the risk containment systems that were in place. Apart from the strict monitoring of market movements and positions of brokers, which is now being done automatically in the stock exchanges, the regulatory body took quick actions to arrest the fall.

Despite economic rationale favoring savings in the form of equities, the share of mutual funds and capital market investments in the financial savings of Indian household sector touched its lowest– 2.4% in financial year 2002 from 13.5% in financial year 1994. The share of equities in the gross financial assets of household sector was a mere 1% in financial year 2002. Though India’s stock market is the oldest in Asia and the number of companies listed in the Indian Stock market is the highest in the world (5795 companies listed on BSE as compared to 4063 companies on NASDAQ), only 20 million people a mere 2% of total population invest in equities. This is as high as 52% in the US.

Despite the fact that about 6000 odd companies are listed on the Indian stock bourses, Indian markets are small in size compared to the many others in the region. For example on May 30, 2003, Hong Kong, the largest market in Asia, had a market cap of $444 bn., Taiwan $188 bn, Korea $179 bn, and China $115 bn. India had a market cap of a relatively modest $ 99 bn. India’s market capitalization to gross domestic product ratio of about 20% is still among the lowest in the region. The fiscal deficit is a major concern for global investors. Unless the government makes serious efforts at fiscal consolidation, foreign investors may not be confident of India.
Clearly what's needed is stronger political will and a positive attitude. Some of the important policy measures to boost small investor's confidence and induce them to re-enter the equity markets could be:

1. A clear policy on disinvestments of PSUs,
2. Introduction of VAT
3. Creation of SEZ
4. Concerted action to clean up the balance sheet of the state governments.*11

Some of the other regulatory measures taken by the SEBI and the stock exchange to stabilize the markets during the period of exceptional market volatility have been stringent administration of market to market margining system and adherence to prudential exposure norms.

In Indian securities markets, securities specific circuit breakers and price bands are followed. Experience has shown that scrip related circuit breakers and price bands compared to index related circuit breakers were more appropriate. It ensured that the market remained open and only those counters where volatile scrips which touched the lower of the daily band of 10 or weekly band of 25, were closed. Because of this, the panic that had set in all over the world, could not aggravate the market conditions in India.

In India personal relations drive stock exchanges. Since the beginning of the economic reports in India, the pace of reforms in the stock exchanges has been the fastest. While working in my previous assignment, I found that there was a stiff resistance to change from brokers. Interpersonal relationships were strong. Stock exchanges actually functioned as villages.*12

3.27 Self-Regulatory Organizations (SRO):

Besides recognized Stock Exchanges, there are various SRO's contributing actively in the development of capital market. These organizations include Association of Merchant Bankers of India, whose major objectives are to set up professional standards practices in merchant banking and financial policies. These organizations exercise overall supervision over their members in the matters of
compliance with statutory rules and regulations pertaining to merchant banking and other activities.

Other SROs are: Association of Custodial Agencies of India, Registrars Association of India, and Association of Mutual Funds of India are also making contribution in building high standard institutions.

3.28 Turnover on Regional Stock Exchanges:

As per report of NDTV the turnover on Regional Stock Exchanges is reducing to minimum. This has led to fear of closing regional stock exchanges. This is reflected by the following figures.

Table - 3.3 - Stock Exchanges - Turnover

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover on BSE &amp; NSE</th>
<th>Regional Stock Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995 - 96</td>
<td>54.57%</td>
<td>45.43%</td>
</tr>
<tr>
<td>2000 - 01</td>
<td>84%</td>
<td>16%</td>
</tr>
<tr>
<td>2001 - 02</td>
<td>96%</td>
<td>4%</td>
</tr>
</tbody>
</table>

In June 2003, ten transactions took place in Delhi Regional stock exchange. One of the main reasons is amendment in listing of securities clause. Previously listing of shares at local stock exchange was compulsory for the companies. This has reduced income of regional stock exchanges.

To avoid closing of stock exchanges the SEBI is thinking of forming one national Stock Exchange by merging all regional stock exchanges especially for small companies.

SEBI has given deadline, to the demutualisation process of 21 regional stock exchanges, of Sept. 5 2003, for getting respective skills approved in the extra-ordinary general meeting. As per the current occasion, all the 20 other exchanges excluding BSE, will be consolidated into a platform that will form a segment of BSE. This is to cater the need of the companies that have paid up capital upto Rs. 20 Crores. This segment will have a common order book, common depository and common trading platform with BSE.
This is based on the recommendations of the Kania Committee report. The Kania Committee had suggested the structure in lines with the Euronext Exchange Model whereby the three countries namely France, Belgium and Holland joined hands to provide strong European alternative for raising resources from the capital market. Later Spain also joined this exchange.

As most of these exchanges are unviable, the committee had said in its report that in the long run only two stock exchanges NSE and BSE will survive. *13

Nobody is safe from the capital market revolution and there is no place to hide from capital markets. No brokers, no bankers, no middlemen can count their position as being safe from this revolution. With this revolution now the public can actually participate in financial markets with more influence then ever before in history. This is a revolution in financial markets that will change the world.

Direct access to the world’s exchanges will soon be available at the click of a button. This “new reality” provides extensive new opportunities for a whole new breed of diversified independent traders for whom access to dealing in the exchanges will be increasingly simple, regardless of the location they are operating from.

Information and transparency is the core of Capital Market Revolution. In this revolution the capacity of digital technology to bring together all fixed points to another fixed point means that technology of Internet generation will decimate the world’s existing Stock exchanges. Fewer than five major stock markets will remain worldwide by 2010. In the words of economist Milton Friedman, “Any market, anywhere can become a world leader at any time”. *14

3.29 National Stock Exchange (NSE):

The genesis of the NSE lies in the recommendations made by Pherwani Committee in 1991. The major areas specified by the committee were lack of liquidity, lack of infra-structural facilities and an inefficient and outdated trading system.

The promoters of NSE are financial institutions like IDBI, IFCI and ICICI, Insurance companies, banks and SHCII.

NSE is a fully screen based on-line trading system. It follows the order driven principle of trading. It has been setup to professionalize trading system.
There is listing criteria and eligibility for trading membership like in stock exchanges.

Different types of trading mechanism or types of orders:

- Day Order: the order is valid for the day it is placed.
- Good till day: the order is valid till the date specified by the investor.
- Immediate or cancel order: the order has to be executed immediately as it is placed.
- Stop loss / on stop order: the order is executed only at the specified price mentioned by the investor.
- Undisclosed order: an order of say a 100 shares out of 500 shares is executed at the said price.
- Minimum Fill Order: the order allows an investor to specify the minimum price at which order is to be executed.

All or None- allows members to impose conditions of full order to be matched against orders, which would be in multiple.

NSE operates two markets within capital market segment:- 1) Regular Market and 2) Institutional Market.

3.30 Over The Counter Exchange of India:

(OTCEI)

OTCEI incorporated as a section 25 company, to set up and monitor the operations of the OTC Exchange of India. OTCEI is recognized as stock exchange under section 4 of SCRA.

The promoters are UTI, ICICI, IDBI, SBI CAP, IFCI, LIC, GIC, Canbank finance. OTCEI is a ringless, computerized, National exchange where no dual listing of scrips with any other exchange is required.

The most of the benefits of NSE and OTCEI are same which are listed below.

- Benefits to companies – optimised capital cost, reasonable issue expenses, nationwide trading, investor preference, and timely fund availability.
- Benefits to Investor - Access, liquidity (because of compulsory market maker), transparency, price efficiency (because of lot of check on price movements), quicker completions and safer investments.

Players in the OTCEI are: companies, investors, members, dealers, registrars, custodians, banks, and settlers, OTCEI, SEBI and the Government.

Methods of offer- company negotiating with sponsor fixes the price and then the shares are offered or purchased by the public directly or through Members or Dealers.

```
Company
  ↓
  Sponsor
    ↓
  Members
  ↓
  Dealers
    ↓
  Public
```

The on-line trading system gives the benefits like- Transparent trading, efficient monitoring, Quick settlement, better access, broader price formation and Better information dissemination.

Chart – 3.1 The OTC Market

- Bank
- Settler
- Registrar/Custodian
- OTC Central Computer
  - Telecom Module
  - Through Modem
  - PTI Computer
- OTC Scan
  - Counter A
  - Counter B
There are three types of market makers in OTCEI- (1) compulsory market makers (2) Additional market makers (3) Voluntary market makers.

Steps in a Deal:
- Investor sees price on OTC scan at counter.
- Investor decides to Buy / Sell
- Counter inputs investor details on PC
- Counter queries OTC computer for best quote, which is displayed.
- Counter confirms Buy / Sell decision
- Counter completes transaction after filling in balance details
- Trading document automatically generated (TCR / PCR / SCS)

Documents in trading:
- Temporary counter Receipt (TCR)- It is issued to investor buying scrips, and pending clearance of Cheque. It is exchanged for PCR after Cheque clearance. It is a non-tradable document.
- Permanent Counter Receipts (PCR) - it is issued to investor, buying scrips, after Cheque clearance. It is a tradable document.
- Sale Confirmation Slip (SCS)-It is issued to investor selling scrips, as acknowledgement of sale. It is exchanged for payment or clearance / validation of PCR / TD
- Application Acknowledgement Slip (AAS). It is issued to investor as acknowledgement for services requested.

The OTCEI has issued special guidelines to be followed by investment companies, leasing companies, finance and hire purchase companies, in April 1995 before which the listing on OTCEI for these companies were barred.
The guidelines and the objectives are as follows: *15

<table>
<thead>
<tr>
<th>Sr.No</th>
<th>Guideline</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Minimum paid up capital of Rupees One Crore</td>
<td>To prevent fly-by night operators from accessing public money.</td>
</tr>
<tr>
<td>2.</td>
<td>Three year track record of profits</td>
<td>To ensure that only sound companies get listed.</td>
</tr>
<tr>
<td>3.</td>
<td>Higher market making inventory of 10% against 5% for others.</td>
<td>To ensure more liquidity and to ensure more commitment from the market maker.</td>
</tr>
<tr>
<td>4.</td>
<td>Ban on group companies from market making.</td>
<td>To ensure fair play and to avoid rigging (Reference MS Shoes shares case)</td>
</tr>
<tr>
<td>5.</td>
<td>Stipulation of Debt equity ratio as per RBI guidelines.</td>
<td>To ensure adherence to financial prudence.</td>
</tr>
<tr>
<td>6.</td>
<td>Registration with RBI for at least two years as a finance company.</td>
<td>To ensure proper classification of the company by the RBI.</td>
</tr>
<tr>
<td>7.</td>
<td>Investment grade rating from a rating agency if the company has floated fixed deposits or debentures issues.</td>
<td>To prevent unsound companies from getting listed.</td>
</tr>
</tbody>
</table>

OTCEI is helpful to solve number of capital market problems. High cost of issue problem is solved because members act as wholesalers. Small companies are given importance, which was the problem at stock exchange. It also helps to control parallel market as it forces dealing on official market. Opening of number of counters for compulsory trade solves the access problem.

Compulsory market making solves the illiquidity problem. The price blindness or problem of transparency is solved by screen display at each counter.
3.31 Some Important terms relating to Stock Exchange:

GOING LONG:
A speculator who buys shares at the beginning of an account period in the hope that a price rise in the short run will bring him profit and he sells the shares due to price rise before the account is closed is called going long. If the prices do not behave as expected, he carries forward the transaction and pays the *badla* charges.

GOING SHORT:
It is also called as Selling Short or Short Sales. The seller or the Bear who sells shares in the beginning of the account period does not have to deliver the shares until the settlement date. If the prices of shares fall as expected before this date, he may buy the shares before the account is closed and take his profit. This process is called Selling Short. But if, the price does not decline as expected, he may carry forward the transaction by paying back wardation charges for carrying on the transaction.

BEAR COVERING:
A bear that has sold short i.e. sold without holding the shares in the hope of a fall in prices has to cover his position by buying an equal number of shares for delivery. If the price increases the covering operation results in a loss.

BULL SUPPORT AND BEAR HAMMERING:
When the Bulls are able to assume a dominating position in the market and hold up the prices of the shares by speculative buying, there is said to be Bull Support. On the other hand, when there is persistent selling pressure by bears, bringing the prices down, there is said to be Bear Hammering.

BEAR HUG:
It is a term used in takeover situation. It is an indication to the board of a target company that an offer of takeover is under consideration. A formal indication to the target company of an intended take over is given by a strong bear hug.
Whereas a teddy bear hug is an indication from a target company that it will favorably consider a takeover but at a higher price than offered.

**BULL AND BEAR TRAPS:**

An erratic upward movement of share prices encouraging investors to buy in anticipation of further rises in prices. But the market corrects itself and the prices come down trapping the unwary investors. This is called a Bull Trap.

Like wise there can be an erratic downward movement of share prices, encouraging investors to sell short. When the market corrects itself and the prices go up, unwary investors get caught in the Bear Trap.

The bull market indicates that the prices of shares are ruling high and market is buoyant whereas the bear market indicates a depressed markets with prices at low levels

**PIVOTALS:**

Refers to the shares of blue chip companies, if they turn bearish the market follows and if they turn bullish, the market looks up.

**RALLY:**

A rally refers to the noticeable rise in the price of a share or a noticeable rise in the share market index, after a period of stagnancy on a declining trend. It indicates that there is a positive change in the general sentiment of the market.

**BLACK KNIGHT:**

An unwelcome takeover bidder.

**BLANK SALES:**

Sale of securities by bear who do not possess the securities at the time of selling.

**BOTTOM FISHER:**

An investor who look for shares which have fallen below par and at a very low price, also called as BOTTOM TRAWLER or BARGAIN HUNTER.

**BOURSE:**

Stock Exchange.
BBE: Abnormal rise in the stock price not supported by fundamentals.

CASH COW: Share constantly giving high rate of dividend but no bright prospects. Therefore such companies fund other enterprises.

CATS & DOGS: Shares of small new companies, which fluctuate heavily according to the market.

CLOSE A POSITION: Outright sale of share with delivery.

CONTANGO: Seedha Badla. When Bull buys but do not complete transaction and pays carryover charges or seedha badla to the seller.

CONTRARIAN SHARES: Shares which behave in opposite direction to general stock market trend.

DEAD CAT BOUNCE: A misleading temporary recovery in share prices.

DELTA STOCK: The least liquid shares of a stock exchange.

DRAGON MARKET: Emerging markets of the pacific basin—Indonesia, Philippines, Malaysia & Thailand.

FUNK MONEY: Hot money — transfer of money at short notice for fear of exchange rate fluctuation.

IN THE BLACK: Showing a profit.

IN THE RED: Showing a loss.
IN THE TANK:
Shares which lose their value speedily.

KAPLI:
A standardized form used by broker to report to stock exchange regarding transactions.

LAME DUCK:
A person or a company who can not meet financial obligations.

MARKET TONE:
Health of stock market.

PENNY SHARE:
Share with very low market price.

RAIDER:
A takeover artist.

RAMPING:
Large scale buying of stock.

RIGGING:
Manipulation of share prices to attract investors.

STAG:
Fast in & out speculator who wishes to make quick bucks.

STAGFLATION:
Slow economic growth plus high unemployment (stagnation), accompanied by a rise in price (inflation).

TAKE A BATH:
To suffer a big loss.

TAKE A FLIER:
Knowingly making highly risky speculation.

TAKE A POSITION:
To buy a share for a long term.
xd - ex dividend
xb - ex bonus
xr - ex right

These abbreviations are affixed after the price of the shares. If you buy "xd" or "xb" or "xr"; you are not entitled to dividend or bonus shares or rights, for which the books are about to be closed

cd - cum dividend
cb - cum bonus
cr - cum right.

If you buy shares "cd" or "cb" or "cr" you are entitled to the dividend or bonus or rights, for which the books are about to be closed.

EPS:
Indicates the amount in Rupees earned for shares by the company. It is computed as Net Profit / no. of shares outstanding.

DIVIDEND PAYOUT(%):
Indicates the percentage of profit after tax distributed as dividend.

FLOATING STOCK:
Indicates that the amount of equity capital held by the public and institutions. A high floating stock ensures liquidity to scrip.

BETA:
The measure of risk of an investment. It quantifies the systematic risk which are specific to a company or industry and which can not be diversified. It represents the sensitivity of a company’s share to market index (BSE National Index). The Beta of BSEN1 is always 1. If the Beta of a company is more than 1, the share price of that company may rise faster than the market. In the booming market high beta shares are preferred and in the bearish markets, less than 1 beta shares are preferred.

MOMENTUM INVESTING:
It is nothing but riding the trend. The investors enter the market once they sense it to rise and exit as the market starts loosing up the stream or the upward momentum. So it is basically a momentum play - you track the market and keep swinging along the trend. *16
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5. Editor: Essentials of Investment & Tax Planning; Study Notes, ICFAI Hyderabad. P.119.


