CHAPTER 1
INTRODUCTION

Economic development to great extent depends on the rate of investment or capital formation which, in turn, depends on whether finance is made available in time, and the quantity of it, and the terms on which it is made available. In any economy, in a given period of time, there are some persons (corporate, households, government) whose current expenditure are less than their current incomes, while there are others whose current expenditures exceed their current incomes. In current terminology, the former are called the ultimate savers or surplus spending units, and the later are called the ultimate investors or the deficit spending units. In corporate sector joint stock companies or corporations required the funds to carry on their activities. In order to raise funds, these organizations issue various types of securities such as equity shares, preference shares, debentures, bonds, treasury bills, etc. Such types of investments are illiquid and investors are bound to have these securities till their redemption by companies. In case of equity shares the investors cannot get back their invested amount during the life time of the company. If after investment the investor feels that their investment decisions are not viable or they want money to fulfill their present needs, they are not in a position to be sold their investment and get the money. Because of this investment in corporate sector was not encouraging for the among surplus spending units. In such a scenario the financial growth or efficiency of production would linger behind.

In earlier times the task of using these surplus fund and utilized for capital formation were used by much less specialized agency than the secondary market. But as the time passes business and industry expanded and the economy assumed more complex nature, it required a more permanent source of finance. Businessman needed money for long term but investors demanded liquidity. To overcome this problem secondary market came into form. Since the securities are listed and traded in the stock exchange, the secondary market is also called the stock market. The main objective of the secondary market is to provide liquidity, negotiability, marketability, control of dealings and protection of the interest of investors. According to securities contracts
(regulations) Act, 1956, stock exchange means anybody 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.” These securities include:

(i) Shares, scrips, stocks, bonds, debentures stock or other marketable securities in or of any incorporated company or other body corporate;

(ii) Government securities; and

(iii) Rights or interest in securities.

Nature and Functions of Secondary Market

Economic barometer secondary market acts as an economic barometer of a countries economic health. It reflects market direction and indicates day to day fluctuations in prices. Cyclical fluctuations are also reflected by the index of prices of various securities maintained by the stock exchange.

Pricing of securities The forces of demand and supply work freely in the secondary market so prices of securities traded on the stock exchange are fairly determined and they are recorded and public in the form of market quotations which help the investors to know current market prices of securities.

Safety of transactions secondary market is an organized market it fully protects the interest of investors. Each member of secondary market have to follow the rules and byelaws of it, if any member is found violating them, his membership is cancelled.

Contributes to economic growth secondary market plays a vital role in the economic growth of a country as they provide capital to the companies easily which helps in the production.

Spreading of equity cult feeling of ownership as securities are freely traded in the secondary market so anybody can purchase the securities and become the owner of the company up to its stake in the company.

Providing scope for speculation when securities are traded with a view to getting profit as a result of change in their market price, it is called speculation. It is allowed or permitted under the provisions of the act. It is accepted that in order to provide
liquidity to securities some scope for speculation must be allowed. The secondary market provides this facility.

**Liquidity** it is a market where already issued securities are traded on routine basis whenever required investor can invest in the market and can reconvert this investment into cash. Availability of ready market for sale and purchase of securities increase their marketability and enhance liquidity.

**Better allocation of capital** the shares of profit making companies are quoted at higher prices in the stock exchange and are actively traded. The new issues of such companies are sought after by the investors. Thus companies with better performance can easily raise fresh capital from the market. General public is reluctant in investing in loss making companies so; secondary market facilitates allocation of investors’ funds to profitable channels.

**Inculcates the habits of saving and investment** secondary market inculcates the habit of saving and investment in Indians. As people want higher returns and secondary market promises to give them good return in comparison if they keep their savings at home as ideal.

There is an important relationship between financial system and economic development which can be expressed as:

**Trading mechanism of stock exchanges**
Trading on stock exchanges takes place on all week days except Saturdays, Sundays and notified holidays with working hours from 9.30 a.m. to 3.30 p.m. they have an extra trading sessions on special occasions such as Diwali or budget days etc.

**Reforms in the Secondary Market**
Reforms were undertaken to widen and deepen the secondary market. A dynamic secondary market is a prerequisite for the growth and development of an investment environment in the economy. Secondary market reforms were undertaken to have a positive impact on volatility, liquidity, size and transaction cost. An efficient and effective capital market acts as the technique of measuring the conditions and wellness of an economy. Though the Indian stock market is very volatile during past
due to various reasons but every time it regained its good position due to strong fundamentals and dealing mechanism which are free from drawbacks.

Figure /Exhibit-1

After the initiation of reforms in 1991, The Indian Secondary Market has four tier forms
Regional stock exchanges
The National Stock Exchange (BSE and NSE)
The Over the Counter Exchange of India (OTCEI)
The Inter connected Stock Exchange of India (ISE)
Clearing or settlement of transactions

Due to the increased number of actively traded shares, the stock exchange has established a clearing house which functions on the same principles on which the clearing houses of banks functions. The clearing house acts as the common agent of the members for clearing contracts between members and for delivering securities to and receiving securities from members and for receiving and paying any amounts payable by such members in connection with any of the contracts and to do all the things necessary or proper for carrying out these purposes.

Figure /Exhibit-2

Cycle of Clearing Corporations

Online or Electronic Trading System

Before liberalization trading on the stock market in India was based on the open outcry into the era of electronic trading or online trading which refers to trading through internet it is superior than the open outcry system, The number of stock exchanges in India has grown from 7 exchanges in 1946 to total 24 stock exchanges till 2015. There is no denying the fact that internet trading offered investors convenience of trading along with reduced cost. It increases operational efficiency like elimination of time, cost, which results in low transaction costs, risk of error, fraud and elimination of chain of brokers and jobbers it increases the large number of
participants in every part of the country to trade with one another with full confidence therefore improves the depth and liquidity of the market. It also helps in integration of different trading centers spread all over the country to a single trading platform. But Indian investors’ have not yet fully realized the importance of using technology for stock trading. But even till day online trading is not much popular among investors for which a list of factors can be blamed. Over the past two years, the value of all trades executed through internet on NSE has grown from less than Rs.100 Cr. to over Rs.350 Cr. in June 2015.

**Corporatization and Demutualization of Stock Exchanges**

On 16th October, 2008 a major reform in stock exchange took place, that is, corporatization and demutualization of stock exchanges. Before it, all stock exchanges came under the purview of body of individuals (BOI) and Association of persons (AOF) but now they become a corporate entity means come (under the Companies’ Act 1956,) according to which they have to publish their financial statements, get audited their accounts along with issue their shares to the public. It brings out greater transparency in the functioning of secondary market. Now stock exchanges can become a profit making and taxpaying entity. Dematerialization means separation of ownership and control of stock exchanges, from trading rights of its members. This reduces the conflict of interest between the exchange and the brokers and the chances of using stock exchanges by brokers for their own self interest.

**Dematerialization of securities**

Dematerialization or Demat means conversion of physical share certificates into electronic format which eliminates various types of problems such as theft, fake and forged documents, transfer, delay and paper work associated with physical certificates. Currently almost 99 per cent of shares traded in Indian stock exchanges are in demat mode. The investors are required to open a demat account to buy or sell stocks, just like a bank account where actual money is replaced by shares, the account allows them to buy, sell and transact shares without the endless paperwork and delays.
Similarly, a trading account works as an intermediary between the savings account and demat account. When the investors want to buy shares, first the money is transferred from their savings account to trading account through which shares are purchased and finally they are stored in electronic form in the demat account. It works just in opposite way during the time of selling shares.

**Rolling settlement**

Rolling settlement was introduced by SEBI in January 2000 by T+5 settlement system where T is the trade date and 5 is number of business days after the trade date on which delivery of securities and cash payment is due for settlement. Rolling settlement system replaced the carry forward badla system. The rolling settlement system of share transactions prevents speculation in between the settlement periods. Now SEBI is moving towards T+1 system, of securities. Rolling settlement is simple as the investor has only to keep record of the sale/purchase of securities. It eliminates arbitrage opportunities. Rolling settlement improves the price discovery process as the settlement is standardized and participants can focus more on the market outcomes. It also helps in settlement of risks as difference between the bid and offer prices narrows due to its transparent nature. Wider participation is possible because investors enjoy the speedy settlement of transactions. It eliminates fluctuations of prices which takes place around settlement dates. With the setting up of Clearing Corporation rolling settlement educes the working capital requirement of brokerage firms. Finally retail investors benefit as it shortens the delay of converting securities into cash and vice-versa.
## Comparison of secondary market in between 1992 and 2015

<table>
<thead>
<tr>
<th>Features</th>
<th>1992</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulator</td>
<td>No specific regulator but central government looks after the matters</td>
<td>A specialized regulator for securities market (SEBI) vested with powers to protect investors’ interest and to develop and regulate securities market. SROs strengthened.</td>
</tr>
<tr>
<td>Intermediaries</td>
<td>Some of the intermediaries (stock brokers, authorized clerks and remisiers) regulated by the SROs.</td>
<td>A variety of specialized intermediaries emerged. They are registered and regulated by SEBI (also by SROs). They as well as their employees are required to follow a code of conduct and are subject to a number of compliances.</td>
</tr>
<tr>
<td>Access to Market</td>
<td>Granted by Central Government</td>
<td>Eligible issuers access the market after complying with the issue requirements.</td>
</tr>
<tr>
<td>Pricing of Securities</td>
<td>Determined by Central Government</td>
<td>Determined by market, either by the issuer through fixed price or by the investors through book building</td>
</tr>
<tr>
<td>Access to International market</td>
<td>No access to the international market</td>
<td>Corporate allowed issuing ADRs / GDRs and raising ECBs. ADRs/GDRs have two way fungibility. FIIs allowed trade in Indian market. MFs also allowed to invest overseas.</td>
</tr>
<tr>
<td>Corporate Compliance</td>
<td>Very little emphasis on disclosures, accounting standards and corporate governance Mutual Funds Restricted to public sector</td>
<td>Open to private sector and emergence of a variety of funds and schemes</td>
</tr>
<tr>
<td>Trading mechanism</td>
<td>Open outcry system, Available at the trading rings of the exchanges, Opaque, Auction/negotiated deals</td>
<td>Screen based trading system, Orders are matched on price-time priority, Transparent, Trading platform accessible from all over country</td>
</tr>
<tr>
<td>Aggregation order flow</td>
<td>Fragmented market through geographical distance. Order flow Unobserved.</td>
<td>Order flow observed. The exchanges have open electronic consolidated limit order book (OECLOB).</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Anonymity in trading</td>
<td>Absent</td>
<td>Complete</td>
</tr>
<tr>
<td>Settlement Cycle</td>
<td>14 day account period settlement, but not adhered to always</td>
<td>Rolling settlement on T+3 basis</td>
</tr>
<tr>
<td>Counterparty risk</td>
<td>Counterparty risk in settlement of transactions exist</td>
<td>Counterparty risk in settlement of transactions Absent</td>
</tr>
<tr>
<td>Basis of settlement</td>
<td>Bilateral Netting</td>
<td>Multilateral Netting</td>
</tr>
<tr>
<td>Transfer of securities</td>
<td>Cumbersome. Transfer by endorsement on security and registration by issuer</td>
<td>Securities are freely transferable. Transfers are recorded electronically in book entry form by depositories.</td>
</tr>
<tr>
<td>Risk Management</td>
<td>No focus on risk management</td>
<td>Comprehensive risk management system encompassing capital adequacy, limits on exposure and turnover, VaR based margining, client level gross margining, on-line position monitoring etc.</td>
</tr>
<tr>
<td>Derivatives Trading</td>
<td>Derivatives trading is absent in 1992</td>
<td>Exchange traded futures and Options available on two indices and select securities</td>
</tr>
</tbody>
</table>

### Regulations for Secondary Market

The Government has framed rules under the Securities Control and Regulation Act (SCRA) (1956), the SEBI Act (1992), and the Depositories Act (1996), Disclosure of Investors Protection Act (DIP) 2000. SEBI has framed regulations under the SEBI Act and the Depositories Act for the registration and regulation of all market intermediaries, and for the prevention of unfair trade practices, insider trading, etc.
Under these Acts, the Government and SEBI issue notifications, guidelines, and circulars that the market participants need to comply with. The SROs, like the stock exchanges, have also laid down their own rules and regulations.

**Causes and Impacts of Volatility**

Volatility of a stock measures the frequency with which changes in its market price takes place over a period of time if a stock is higher volatile means there are large fluctuations in its market price then there is risk and investors avoid these shares hence volatility is a factor which is taken into consideration when assessing the risk-return tradeoffs. Moreover, volatility has macroeconomic implications in the volatility of the stock market. Volatility in the stock market is a function of information, misinformation (rumors) and sometimes lack of information. It is caused by number of factors such as speculation, trading and settlement system, the government budget, inflation, interest rates, announcement of corporate results the extent of integration with international market, the regulatory frame work governing the stock market, rumors, the day trading and derivatives trading, crude oil prices, depreciation of dollar and global financial turmoil all these factors directly or indirectly influence movements in the share prices. Secondary market is found to be highly volatile. The volatility of Indian secondary market can be measured in terms of the coefficient of variation (CV). There is need for exchanges and regulators to take swift actions to contain volatility.

**Foreign Institutional Investor and Indian Retail Investors**

The institutions which are registered or incorporated in countries other than India and want to invest their money in Indian stock market are known as Foreign Institutional Investors (FIIs) means an institution established or incorporated outside India which proposes to make investment in securities in India. They are eligible to purchase shares or convertible debentures issued by Indian companies under the portfolio investment scheme (PIS). In order to remove the confusion that prevails on what is Foreign Direct Investment (FDI) and what is Foreign Institutional Investment (FII), government has proposed to follow the international practice and lay down a broad
principle that, where an investor has a stake of 10 per cent or less in a company, it will be treated as FII and, where an investor has a stake of more than 10 per cent, it will be treated as FDI. Since economic liberalization FII flows to India have steadily grown its importance. Foreign capital inflows have been acknowledged as one of the important sources of funds for developing economies that would grow at a rate higher than what domestic savings can support. This resulted in the integration of global financial markets. As a result, capital started flowing freely across national borders seeking out the highest rate of return. India is considered as one of the best investment destinations for foreign institutional investors in spite of political differences and lack of infrastructure facility etc. Since Indian market have vast potential, so it alluring and encouraging foreign investors continuously foreign portfolio inflows through FIIs, in India, are important from the policy perspective, especially when the country has emerged as one of the most attractive investment destinations in Asia. They changed the face of Indian secondary market screen based trading and depository is possible in India only because of FIIs’. Pressure on domestic currency also can also be eased only through FIIs’, corporate governance can also be adopted by Indian companies which is benefitted to domestic investors. FIIs’ are driving force behind the movements of stock indices in the Indian stock market. Rolling settlement was introduced at the insistence of FIIs’ as they were not comfortable with badla system. Foreign Institutional Investors’ are regarded as the trend setters in Indian market. As, they were the first one to identify the potential of Indian technology stocks.

Routes for investments in Indian secondary market by Foreign Institutional Investors:

There are three routes which are followed by FIIS’ for investment in India

Direct route

Through Participatory notes

FIIs’ sub accounts.

Indian investors (investors in equity, large institutional investors, foreign institutional investors, qualified institutional buyers, small investors/deposit holders, etc.) are rational savers but unfortunately not wise investors. In India, people do not plan for
long-term future and keep away from investing in long-term instruments, though they save for long-term goals such as emergencies, education and old age. The book, 'How India Earns, Spends and Saves' launched by Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, Government of India, contains the findings of the survey, reveals that this phenomena is not just confined to just poor or middleclass households, but is prevalent in rich households too and further, that most Indians prefer keeping 65 per cent of their savings in liquid assets like bank or post office deposits and cash at home, while 23 per cent investing in physical investments like real estate and gold and only 12 per cent in financial instruments; for getting secure return on their earnings, the investment in post offices and other guaranteed return schemes and plans gets minor part of total savings; and only 5 per cent of total families put their money in post offices, while 2 per cent buy insurance policies and 0.5 per cent invests in equities. Though, life insurance is among the most popular financial instruments (about 78 per cent of the households are aware of life insurance), yet only 24 per cent of households have a life insurance policy and the ownership is 38 per cent among urban households but a very low 19 per cent among rural households. The survey found that Indian households have a strong saving habit and the income level is an important factor in influencing the saving patterns of households, variations in savings behavior are equally decided by education level and occupation. Investors are the backbone of the securities market who not only determines the level of activity in the securities market but also the level of activity in the economy. There is a continuous growth in the number of investors in India and trends reveal that in addition to FIIs and Institutional Investors, small investors also gradually beginning to regain the confidence in the capital markets that had been shaken consequent to the stock market scams during the past decade. It is imperative for the healthy growth of the corporate sector that this confidence is maintained. However, many investors may not possess adequate expertise/knowledge to take informed investment decisions and some of them may not be aware of the complete risk-return profile of the different investment options, hence, may not be fully aware and familiar with the market mechanism and the practices, as well as, their rights and
obligations regarding the precautions they should take while dealing with market intermediaries and dealing in different securities.

The corporate systems and processes need to be reliable and transparent, so that the interests of the investors may be safeguarded in a manner that enables them to exercise their choice in an informed manner while making investment decisions, and also providing them with a fair exit option. The Securities and Exchange Board of India (SEBI) has been mandated to protect the interests of investors in securities and to promote the development and regulate the securities market so as to establish a dynamic and efficient securities market contributing to Indian Economy.

The securities market promotes economic growth. More efficient is the securities market, the greater is the promotion effect on economic growth. It is, therefore, necessary to ensure that our securities market is efficient, transparent and safe. In this direction, SEBI has been working since its inception and would continue to work to continuously improve market design to bring in further efficiency and transparency to market and make available newer and newer products to meet the varying needs of market participants, while protecting investors in securities. The aim is to make Indian securities market a model for other jurisdictions to follow and make SEBI the most dynamic and respected regulator globally.

**Brief profile of Securities Exchange Board of India (SEBI)**

The Indian securities markets have a very long history in comparison to various developing nations of the world. The market grew substantially during 1980s because of the interest of corporate in equity however the volume of transactions used to be very low during the previous decade therefore the need for setting up of an independent Government agency to regulate and develop the secondary and capital market in India was recognized. After the Sixth Five Year Plan was initiated in (1985) when some major industrial policy changes like opening up of the economy to outside world and greater role to the Private Sector were introduced. Various bad and wrong practices were observed in the Secondary and Capital Market which were used by companies, brokers and merchant bankers who dealt in stock market and hence there was a dire need to abolish these practices from the country to improve the investment
environment. Due to the same problem the foreign investments remained at low volumes and the total transactions also remained limited. Earlier there was a provision for the companies that they had to seek the permission of the government for price fixation of the securities before raising the capital. It was aimed at providing fair value to the investors on their investments. Generally the IPOs’ were under priced due to their prevailing laws and consequently the rate of securities used to be very high at the time of opening up of securities. Keeping in view the various problems the government of India established the Securities Exchange Board of India in April, 1988. Initially the following were its functions:

- To collect information and advice the Government on matters relating to secondary and Capital Markets.
- Licensing and regulation of merchant banks, mutual funds etc.
- To prepare the legal drafts for regulatory and development role of SEBI and
- To perform any other functions as may be entrusted to it by the Government.

Later on in 1992 Securities and Exchange Board of India (SEBI) Act was passed by Government of India to regulate the functions of different stock markets operating in the country. The activities of SEBI are performed by a chairman who is appointed by the central government and eight members. The head office of SEBI is situated in Bandra East, Mumbai with its main objectives; to protect investors’ interest which facilitates to a steady flow of savings into the Capital Market; ensuring the fair practices by the issuers of securities i.e. (companies) so that they can raise resources at least cost; and to promote efficient services by brokers, merchant bankers and other intermediaries so that they become competitive and professional. Now it can be concluded that secondary market is efficient means the enterprises that do well in the real sense are rewarded with funds for growth and expansion and all these unavoidably lead to higher economic growth.
BRIEF PROFILE OF BOMBAY STOCK EXCHANGE (BSE)

The Bombay Stock Exchange (BSE) was established in 1875 which was called "The Native Share & Stock Brokers’ Association" at that time. It is thought to be the first and the Fastest Stock market throughout the globe having a speed of 6 micro seconds and hence a leading stock market of the country. BSE is a corporate entity with a very large number of shareholders and having Deutsche Bourse and Singapore Exchange as its strategic partners. BSE provides opportunities in dealing in shares, debt instruments, derivatives, mutual funds and handles the transactions very efficiently and in a transparent manner. It also gives chance to small and medium organizations to sell and purchase their equities. It is number one stock market in the world with more than 5500 companies are listed members having a total market capitalization of USD 1.64 Trillion on Sept, 2015. BSE provides a host of other services to capital market participants including risk management, clearing, settlement, market data services and education. It has a global reach with customers around the world and a nation-wide presence. The stock exchange is designed in such a manner that provides overall safety of the shareholders and hence acts as in growth engine of the secondary market. It is India’s first and globes seconds to obtain an ISO 9001:2000 certificate, Information Security Management System Standard BS 7799-2-2002 certification for the On-Line trading System (BOLT). It commands a respect in the minds of the people because of its effective service delivering system. It has won several awards till date due to its vibrant effective services and foolproof mechanism providing base for the growth and development in the economy by providing a wide base for the investors.

BRIEF PROFILE OF NATIONAL STOCK EXCHANGE (NSE)

The National Stock Exchange of India (NSE) came into being in April 1994, with the objectives of establishing a nationwide trading facility for all types of securities; providing equal access to all investors throughout the country with the help of an appropriate communication network; giving a fair, efficient, and transparent securities market using an electronic trading system, helping shorter settlement cycles and book...
entry settlements; and meeting the international benchmarks and standards. It has helped in shaping the Indian stock market into a modern one by introducing innovative ideas and mechanism.

The exchange has set up an infrastructure that serves as a role model for the securities industry in terms of trading systems, and clearing and settlement practices and procedures. The standards set by NSE in terms of market practices, products, technology, and service standards have become industry benchmarks, and are being replicated by other market participants. The national stock exchange of India links with the investors online through automatic trading system which is quite transparent and easily accessible in all geographical areas. It also provides variety of information in different forms to the investors and other shareholders which are helpful in making decisions and act as guide. The plans and policies of the exchange are designed in such a manner that helps in creating and maintaining cordial relations among various parts. These are transparent and unbiased. Anyone can make transactions through the exchange from ones home / office with the help of internet connection. Settlement risks have been eliminated with NSE’s innovative endeavors in the area of clearing and settlement, namely, the reduction of the settlement cycle, professionalization of the trading members, a fine-tuned risk management system, the dematerialization and electronic transfer of securities, and the establishment of a clearing corporation. Consequently, the market today uses state-of-the-art technology to provide an efficient and transparent trading, clearing, and settlement mechanism. NSE provides a trading platform for of all types of securities—equity capital, borrowed capital, and derivatives. Following its recognition as a stock exchange under the Securities Contracts (Regulation) Act, 1956 in April 1993, it commenced operations in the Wholesale Debt Market (WDM) segment in June 1994, in the Capital Market (CM) segment in November 1994, and in the Equity Derivatives segment in June 2000. Now the Exchange also started providing its services in retail debt of government securities in January 2003, trading in currency futures in August 2008, trading in currency option in October 2010 and launched futures & options contracts based on global indices S&P 500 and DJIA in August 2011. The WDM segment provides the trading platform for the trading of a wide range of debt securities.
NSE’s Capital Market segment offers a fully automated screen-based trading system, known as the National Exchange for Automated Trading (NEAT) system, which operates on a strict price/time priority. It enables members from across the country to trade simultaneously with enormous ease and efficiency. NSE’s Equity Derivatives segment provides the trading of a wide range of derivatives such as Index Futures, Index Options, Stock Options, Stock Futures, and futures on global indices such as S&P 500 and DJIA.

**Important initiatives of SEBI**

- Introducing exchange traded interest rate derivatives
- Promoting an index to comprehensively reflect the level of corporate governance
- Setting up a central listing authority to dynamise listing requirements
- Building a cadre of securities market professionals through training and certification
- Constructing a central registry of securities market participants and professionals
- Rationalising margin trading, securities lending and short selling
- Promoting secondary market for corporate debt securities
- Implementing market wide straight through processing from trade initiation to settlement
- Operationalising T+1 rolling settlement
- Reviewing all regulations of SEBI and code of conduct for intermediaries
- Providing a legal framework for central counter party
- Consolidation of exchanges and other market participants
Benchmarking Indian securities market with best in the World

**CONCEPTUAL FRAMEWORK**

**Secondary Market:** is a market where owned securities are traded, the market where investors buy securities from other investors rather than from an issuing company is called a secondary market. All stock exchanges are part of secondary market. The secondary market consists of all sellers and buyers except for the issuer and the first group of investors who bought the issue. The secondary market is often less volatile than the primary market because it is easier to determine the underlying value of a security after it has already begun trading. Nearly all trading of a security occur on the secondary market. (Financial-dictionary)

**Securities:** a security or financial instrument is a tradable asset of any kind. Historically they are in a physical form but now they are available in electronically form showing that one owns a portion of a public traded company or is owed a portion of debt issue are called securities. At their most basic, securities refer to stocks and bonds, but the term sometimes also refer to derivatives such as future and options. (investopedia)

**Securities Market/Exchange:** It is a workplace where securities trading is conducted by professional stock brokers and is open to its members only. (Financial-dictionary)

**Investment environment/climate:** is a situation in which an investment is made. Factors affecting the investment climate include macro economic considerations, the political situation and consumer confidence. The investment climate is a significant contributing factor in the performance of an investment. A stock investment climate can help spur investments towards growth while a weak climate can do the opposite. It should be noted that an investment climate may be beneficial for some investments and detrimental to others.(Investopedia)

**Institutional Investors:** are organizations which pool large sum of money and invest this sum in securities and other investment assets. Typical institutional investors are banks, insurance companies, retirement or pension funds, hedge funds, investment advisors and mutual funds. Their role in the economy is to act as highly specialized
investors on behalf of others. These type of organizations are called institutional investors. (financial-dictionary)

**Broker:** act as an agent or intermediary for a buyer and seller. The buyer, seller and broker may all be individuals, or one or more may be a business or other institution. For example a stock broker works for a brokerage firm and handles client orders to buy or sell stocks, bonds, commodities, and option in return for commission or asset based fee. A stock broker must pass a uniform examination administered by NASD and must register with the securities exchange commission. (Financial-dictionary)

**Stock Exchange:** it is a place where physical or electronic stocks, bonds and/or derivatives in listed companies are bought and sold. A stock exchange may be a private company a nonprofit, or a public traded company (some exchanges have shares that traded on their own floors.) A stock exchange provides a regulated place where brokers and companies may meet in order to make investment on neutral ground. The concept traces its roots back top medieval France and Low Countries, where agriculture goods were traded for cash or debt. A stock exchange is also called bourse or simply an exchange. (Financial-dictionary)

**Speculator:** is a person who trade derivatives, commodities, bonds, equities or currencies with a higher than average profit potential is called a speculator. Speculators take large risks, especially with respect to anticipating future price movements, in the hope of making quick, large gains. (Financial- dictionary)

**Foreign Institutional Investor:** The investors or investment funds that are from or registered in a country outside of the one in which they are currently investing are called Foreign Institutional Investors. (InvestoPedia)

**Retail Investors:** Individual investors who buy and sell securities for their personal account and not for any other company or organization are called Retail Investors. Retail investors are the polar opposites of institutional investors which are large firms investing on behalf of clients. (Financial-dictionary)

**Market Capitalization** is the total market value of the shares outstanding of a publicly traded company; it is equal to the share price times the number of shares
outstanding. As outstanding stock is bought and sold in public markets, capitalization could be used as a proxy for the public opinion of a company's net worth and is a determining factor in some forms of stock valuation. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures. The total capitalization of stock market or economic regions may be compared to other economic indicators. (InvestoPedia)

**Registered brokers** acts as an intermediates between the seller and purchaser of securities any person engaged in the business of effecting transactions in securities for the account of others is termed as registered brokers. The term person includes entities as well as individuals. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas he acts as a dealer when it trades for its own account. Registered brokers fulfill several important functions in the financial industry it include providing investment advice to customers, supplying liquidity through market-making activities, facilitating trading activities, publishing investment research and raising capital for companies. Registered broker may range in size from small independent companies to large companies of giant commercial and investment banks.

**Index** stock market index is an economic barometer of an economy as they indicate what is going to happen in the economy. They reflect the market direction and indicate day to day fluctuations in stock prices. The index reflects the expectations of the behavior of the economy as a whole. An index provides investors’ information regarding the shares prices. The index of a day is calculated of aggregate market value of shares incorporated in the index on that day to the average market value of the same shares during the base period. For example the BSE Sensex is a weighted average of prices of 30 selected stocks and S&P CNX Nifty of 50 selected stocks.

**Depository** it means to any place where something is deposited for storage or security purposes. More specifically, it can refer to a company, bank or an institution that holds and facilitates the exchange of securities. Or a depository can refer to a depository institution that is allowed to accept monetary deposits from customers. Central security depositories allow brokers and other financial companies to deposit
securities where book entry and other services can be performed, like clearance, settlement and securities borrowing and lending. Depositories hold securities in dematerialized form for the investors in their beneficiary accounts.

**JUSTIFICATION OF THE STUDY**

Investors are the backbone of the securities market who not only determines the level of activity in the securities market but also the level of activity in the economy. There is a continuous growth in the number of retail and domestic institutional investors’ in India. They also gradually are beginning to regain the confidence in the capital markets that had been shaken consequent to the stock market scams during the past decade. It is imperative for the healthy growth of the corporate sector that this confidence is maintained. However, many investors may not possess adequate expertise or knowledge to take informed investment decisions and some of them may not be aware of the complete risk-return profile of the different investment options, hence, may not be fully aware and familiar with the market mechanism and the practices, as well as, their rights and obligations regarding the precautions they should take while dealing with market intermediaries and dealing in different securities.

The corporate systems and processes need to be reliable and transparent, so that the interests of the investors may be safeguarded in a manner that enables them to exercise their choice in an informed manner while making investment decisions, and also providing them with a fair exit option. The Securities and Exchange Board of India (SEBI) has been mandated to protect the interests of investors in securities and to promote the development and regulate the securities market so as to establish a dynamic and efficient securities market contributing to Indian Economy.

The securities market promotes economic growth. More efficient is the securities market, the greater is the promotion effect on economic growth. It is, therefore, necessary to ensure that our securities market is efficient, transparent and safe. In this direction, SEBI has been working since its inception and would continue to work to continuously improve market design to bring in further efficiency and transparency to market and make available newer and newer products to meet the varying needs of market participants, while protecting investors in securities. The aim is to make Indian
securities market a model for other jurisdictions to follow and make SEBI the most dynamic and respected regulator globally.