Listing of shares – process of including a security in the official trading list of a stock exchange

Listing Procedure – aims at ensuring the listed companies to follow the guidelines prescribed for protecting the interest of the investors. The steps are as follows –

1. Initial Public Offer (IPO)
2. Size of Public Offer
3. Filing Application
4. Payment of listing fees
5. Signing the listing agreement
6. Screening the application
7. Listing of the shares

Indian Stock Market

- has 23 stock exchanges
- except NSE and BSE, all others have only a token presence and are merely brokers in reality
- all the other stock exchanges have become the members of either NSE or BSE
- hence only 2 exchanges function basically as stock exchanges in reality – NSE and BSE

National Stock Exchange

- was established in November, 1992
- with a paid-up equity of Rs. 25 crores
- started operating in 1994

Objectives –

a. National Stock Market
b. Equal Access to Market
c. Nature of Transactions
d. Settlement Cycle
e. Achieving International Standards

Characteristics of NSE

1. Fully Automated System
2. Universal Membership
3. Segments of Trading
4. Order Driven Exchange
5. Trade Guarantee
6. Dematerialisation
7. Automated Lending and Borrowing Mechanism (ALBM)
8. Rolling Settlement
9. Settlement Cycle
10. Listing

Bombay Stock Exchange

- the oldest SE in India
- formerly known as 'Native Shares and Stock Brokers Association'
- established in 1875
- remained the trendsetter until the establishment of NSE
- claimed about 75% of total market capitalization of the entire Indian stock market

Problems of Indian Stock Market (Weakness of BSE until 1995)

a. Limited trading hours
b. Limited working days
c. Long settlement cycle
d. Badla transaction
e. Manipulation of prices
f. Arbitrary charges
g. Inordinate delay in settlement

BSE of IT era

- BSE went in for total computerization in 1995 and started offering membership all over the country
- promoted Central Depository Services Ltd., to act as a depository
- its main index was Sensitive Index (popularly known as Sensex)

Trading and Settlement

The dealings in a stock exchange can be classified into two categories –

1. Cash Market
2. Derivative Market

Cash Market

- Market for straight forward transactions of payment and delivery
- 9.55 am to 3.30 pm – trading hours
- T+2 – 'Trading Day plus Two Days'
  - ✓ The day on which the transaction takes place – Trading Day
  - ✓ Example – On Monday (Trading Day), the buyer makes payment to his broker (Buying Broker - BB) and the seller delivers his shares to his broker (Selling Broker - SB)
  - ✓ On Tuesday (Pay in Day), the BB makes the payment to the Clearing House (CH) and the SB delivers the shares to the CH
  - ✓ On Wednesday (Pay out Day), the BB receives the shares from the CH and the SB receives payment from the same CH.
- The BB credits the Demat a/c of his client with the shares
- The SB credits the Trading a/c of his client with the money

Derivatives Market

- market for settlement in future
- popularly known as Futures and Options Market (shortly known as F&O Market)

A. Futures

✓ a contract to buy and sell a specified quantity of stocks at a specified price at a predetermined or standardized future date

✓ exchange traded contracts to buy or sell financial instruments at an agreed price

✓ every future contract is settled on the last Thursday of the concerned month

Features –

1. Standardized features
2. Counter-party
3. Margin requirement
4. Time spread

Trading Mechanism in the Future Market

- Initial Procedure

- investor opens an account with a broker
- client agreement form is signed by the investor
- broker insists a bank guarantee or deposit of securities

- Trading

- investor takes a contract to buy or sell, which is called the 'position of the investor'
- if the contract is to buy, he takes a 'long position'
- if the contract is to sell, he takes a 'short position'
- once the investor takes the contract, he pays a percentage of value of transaction as 'initial margin'
- on the settlement day (the last Thursday), the buyer squares up the transaction by selling the same quantity of the same stock

Types of futures –

1. Stock future – future contracts are bought and sold in the shares of individual companies identified for this purpose
2. Index future – buying and selling of stock index like Sensex and Nifty