J. L. SHAH SECURITIES PVT. LTD.

All about Equity Markets

What are the various types of financial markets?
The financial markets can broadly be divided into money and capital market.

Money Market: Money market is a market for debt securities that pay off in the short term usually less than one year, for example the market for 90-days treasury bills. This market encompasses the trading and issuance of short term non equity debt instruments including treasury bills, commercial papers, bankers acceptance, certificates of deposits, etc.

Capital Market: Capital market is a market for long-term debt and equity shares. In this market, the capital funds comprising of both equity and debt are issued and traded. This also includes private placement sources of debt and equity as well as organized markets like stock exchanges. Capital market can be further divided into primary and secondary markets.

Primary Market: Fresh issues of shares and other securities take place through the Primary market. It provides issuers opportunity to issue securities, to raise capital to meet their requirements of business. Equity issues can be at face value or at discount/premium. Issues at discounts are very rare.

Secondary Market: Secondary Market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market. For the general investor, the secondary market provides an efficient platform for trading of his securities. For the management of the company, Secondary equity markets serve as a monitoring and control conduit—by facilitating value-enhancing control activities, enabling implementation of incentive-based management contracts, and aggregating information (via price discovery) that guides management decisions.

What are the products dealt in the secondary markets?
Following are the main financial products/instruments dealt in the secondary market:

Equity: The ownership interest in a company of holders of its common and preferred stock.

Equity Shares: An equity share, commonly referred to as ordinary share also represents the form of fractional ownership in which a shareholder, as a fractional owner, undertakes the maximum entrepreneurial risk associated with a business venture. The holders of such shares are members of the company and have voting rights.

Who is a broker?

A broker is a member of a recognized stock exchange, who is permitted to do trades on the screen-based trading system of different stock exchanges. He is enrolled as a member with the concerned exchange and is registered with SEBI.

What is Member –Client Agreement Form?

This form is an agreement entered between client and broker in the presence of witness where the client agrees (is desirous) to trade/invest in the securities listed on the concerned Exchange through the broker after being satisfied of brokers capabilities to deal in securities. The member, on the other hand agrees to be satisfied by the genuineness and financial soundness of the client and making client aware of his (broker's) liability for the business to be conducted.

What is meant by Unique Client Code?

In order to facilitate maintaining database of their clients and to strengthen the know your client (KYC) norms; all brokers have been mandated to use unique client code linked to the PAN details of the respective client which will act as an exclusive identification for the client.

What are the charges that can be levied on the investor by a stock broker?

The trading member can charge:

1. Brokerage charged by member broker.
2. Penalties arising on specific default on behalf of client (investor)
3. Service tax as stipulated.
4. Securities Transaction Tax (STT) as applicable.

The brokerage, service tax and STT are indicated separately in the contract note.

What is an Account Period Settlement?

An account period settlement is a settlement where the trades pertaining to a period stretching over more than one day are settled. For example, trades for the period Monday to Friday are settled together. The obligations for the account period are settled on a net basis. Account period settlement has been discontinued since January 1, 2002, pursuant to SEBI directives.

What is a Rolling Settlement?

In a Rolling Settlement, trades executed during the day are settled based on the net obligations for the day.

Presently the trades pertaining to the rolling settlement are settled on a T+2 day basis where T stands for the trade day. Hence, trades executed on a Monday are typically settled on the following Wednesday (considering 2 working days from the trade day).

The funds and securities pay-in and pay-out are carried out on T+2 day.

What is the pay-in day and pay- out day?

Pay in day is the day when the brokers shall make payment or delivery of securities to the exchange. Pay out day is the day when the exchange makes payment or delivery of securities to the broker. Settlement cycle is on T+2 rolling settlement basis w.e.f. April 01, 2003. The exchanges have to ensure that the pay out of funds and securities to the clients is done by the broker within 24 hours of the payout. The Exchanges will have to issue press release immediately after pay out.

In case of purchase of shares, when do I make payment to the broker?

The payment for the shares purchased is required to be done prior to the pay in date for the relevant settlement or as otherwise provided in the Rules and Regulations of the Exchange.

In case of sale of shares, when should the shares be given to the broker?

The delivery of shares has to be done prior to the pay in date for the relevant settlement or as otherwise provided in the Rules and Regulations of the Exchange and agreed with the broker/sub broker in writing.

How long it takes to receive my money for a sale transaction and my shares for a buy transaction?

Brokers were required to make payment or give delivery within two working days of the pay - out day. However, as settlement cycle has been reduced fromT+3 rolling settlement to T+2 w.e.f.April 01, 2003, the pay out of funds and securities to the clients by the broker will be within 24 hours of the payout.

What are the prescribed pay-in and pay-out days for funds and securities for Normal Settlement?

The pay-in and pay-out days for funds and securities are prescribed as per the Settlement Cycle. A typical Settlement Cycle of Normal Settlement is given below:

	Activity	Day
Trading	Rolling Settlement Trading	T
Clearing	Custodial Confirmation	T+1 working days
	Delivery Generation	T+1 working days
Settlement	Securities and Funds pay in	T+2 working days
	Securities and Funds pay out	T+2 working days
Post Settlement	Valuation Debit	T+2 working days
	Auction	T+3 working days
	Bad Delivery Reporting	T+4 working days
	Auction settlement	T+5 working days
	Close out	T+5 working days
	Rectified bad delivery pay-in and pay-out	T+6 working days
	Re-bad delivery reporting and pickup	T+8 working days
	Close out of re-bad delivery	T+9 working days

Note: The above is a typical settlement cycle for normal (regular) market segment. The days prescribed for the above activities may change in case of factors like holidays, bank closing etc. You may refer to scheduled dates of pay-in/pay-out notified by the Exchange for each settlement from time-to-time.

What is day trading?

Day trading refers to buying and selling of securities within the same trading day such that all positions will be closed before the market close of the trading day. In the Indian securities market only retail investors are allowed to day trade.

What are the various accounts an investor should have for trading in securities market?

Beneficial owner Account (B.O. account) / Demat Account: It is an account opened with a depository participant in the name of client for the purpose of holding and transferring securities.

Trading Account: An account which is opened by the broker in the name of the respective investor for the maintenance of transactions executed while buying and selling of securities.

Client Account / Bank Account: A bank account which is in the name of the respective client and is used for debiting or crediting money for trading in the securities market.

What is Trade for Trade Segment?

In a Trade for Trade segment, settlement of trades is done on the basis of gross obligations for the day. No netting is allowed and every trade is being settled separately.

What is an Auction?

The shortages are met through auction process and the difference in price indicated in contract note and price received through auction is paid by member to the Exchange, which is then liable to be recovered from the client. The Exchange purchases the requisite quantity in the Auction Market and gives them to the buying trading member.

What is Short Selling?

Short Selling means selling of a stock that the seller does not own at the time of trade. Short selling can be done by borrowing the stock through Clearing Corporation/Clearing House of a stock exchange which is registered as Approved Intermediaries (AIs). Short selling can be done by retail as well as institutional investors. Naked short sale is not permitted in India, all short sales must result in delivery, and information on short sale has to be disclosed to the exchange by end of day by retail investors, and at the time of trade for institutional investors.

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References:

http://www.sebi.gov.in/faq/smdfaq.html