B.Com. Program in Accounting
Semester-IV
CC-8: Capital Market
Unit-3: Secondary Market

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Difference between Primary and Secondary Market:

BASIS FOR COMPARISON	PRIMARY MARKET	SECONDARY MARKET
Meaning	The market place for new shares is called primary market.	The place where formerly issued securities are traded is known as Secondary Market.
Another name	New Issue Market (NIM)	After Market
Type of Purchasing	Direct	Indirect
Financing	It supplies funds to budding enterprises and also to existing companies for expansion and diversification.	It does not provide funding to companies.
How many times a security can be sold?	Only once	Multiple times
Buying and Selling between	Company and Investors	Investors
Who will gain the amount on the sale of shares?	Company	Investors
Intermediary	Underwriters	Brokers
Price	Fixed price	Fluctuates, depends on the demand and supply force
Organizational difference	Not rooted to any specific spot or geographical location.	It has physical existence.

Organizational Structure of the Stock Exchanges of India

The stock exchanges are the exclusive centres for trading of securities. At present, there are 23 operative stock exchanges in India. Most of the stock exchanges in the country are incorporated as 'Association of Persons' of Section 25 companies under the Companies Act. These are organised as 'mutuals' and are considered beneficial in terms of tax benefits and matters of compliance.

The trading members, who provide brooking services also own, control and manage the stock exchanges. They elect their representatives to regulate the functioning of the exchange, including their own activities. Until recently, the area of operation/jurisdiction of an exchange was specified at the time of its recognition, which in effect precluded competition among the exchanges.

These are called regional exchanges. In order to provide an opportunity to investors to invest/trade in the securities of local companies, it is mandatory for the companies, wishing to list their securities, to list on the regional stock exchange nearest to their registered office.
If they so wish, they can seek listing on other exchanges as well. Monopoly of the exchanges within their allocated area, regional aspirations of the people arid mandatory listing on the regional stock exchange resulted in multiplicity of exchanges.
As a result, at the end of March 2008, there were 19 stock exchanges registered with SEBI having a total of 8,517 registered brokers and 43,874 registered sub-brokers trading on them.
The stock exchanges need to be recognized under the Securities Contracts (Regulation) Act, 1956. There are 19 stock exchanges in India. The Securities and Exchange Board of India (SEBI), has approved and notified the Corporatisation and Demutualisation Scheme of 19 Stock Exchanges. BSE has successfully completed the process of Demutualisation in terms of The BSE (Corporatisation and Demutualisation) Scheme, 2005 on May 16, 2007.

Members of the Stock Exchanges

A stock broker is an individual/organization who are specially given license to participate in the securities market on behalf of clients. This membership is open for corporate entities, individuals and partnership firms who fulfill the eligibility criteria laid down by Securities and Exchange Board of India (SEBI).
The members only enter into trading of stock exchange and carry on business. A non-member can buy or sell securities through a member. Every stock exchange has its own rules and regulations for the admission of members. Member of a stock exchange are allowed to appoint certain agents to do business on their behalf. The non-members who can carry on business on the floor of a stock exchange on behalf of the members are of three types:
(a) Remisiers:
They are agents of full-fledged members of a stock exchange. They are appointed to secure business for the members. They cannot carry business on their own name. They are paid commission out of the brokerage collected by members on the business procured by the remisiers. They also known as half-commission men or sub-brokers.
(b) Authorised Clerks:
A member of the stock exchange can appoint authorised clerks or assistants to assist him. The authorised clerks are merely employees of the members, and cannot do business in their own name.
(c) Brokers and Jobbers:
A broker is a commission agent who buys and sells securities on behalf of non-members. He executes the order of his clients and earns commission from them.
A Jobber is an independent dealer in securities who buys and sells securities in his own name. He cannot enter into contract with non-members. He derives his income from the profit made through difference in prices.

Listing of Securities

Listing means the admission of securities of a company to trading on a stock exchange. Listing is not compulsory under the Companies Act. It becomes necessary when a public limited company desires to issue shares or debentures to the public. When securities are listed in a stock exchange, the company has to comply with the requirements of the exchange.

Objectives of Listing

According to S. C. Kuchhal, the main objectives of listing are the following:
1. Provision of ready marketability.
2. Imparting liquidity to the securities.
3. Provision of free negotiability.
4. Protection of the interests of the investors and the general public.

Classification of Listed Securities:

Listed securities can be classified into two kinds viz.,

1. Cleared Securities, and
2. Non-cleared-Securities.

The stock exchange specifies from time to time, the securities admitted to dealings, which are included in the **cleared securities list**. All other securities not on the list of cleared securities are deemed to be **non-cleared securities**. It should also be noted that forward transactions are possible only in case of cleared securities. Hence, cleared securities are known as securities on forward list and non-cleared securities as securities on cash list.

Advantages of Listing:

The advantages of listing can be summarized under two heads namely,

1. Advantages to the company management.
2. Advantages to the investors.

Advantages to the Company Management

1. It gives the management and the company a higher status and facilitates expansion programmes.
2. Such companies can raise finance very easily.
3. Listed companies are eligible for certain fiscal advantages such as concessional rate of income tax, benefits of carry forward and set off of losses of the earlier years etc.
4. Such companies are better placed while approaching the SEBI for its consent under any of the provisions of the SEBI Act.
5. Listed companies are treated favorably by the financial institutions and commercial banks when they approach them for short-term and long-term accommodations.

Advantages to the Investors

1. Listing makes the securities more prestigious and enhances their marketability. Hence, the holders of such securities can convert their holdings without any difficulty in times of need.
2. The security prices are regularly published in the financial newspapers and periodicals. Hence, the investors can sell their holdings at the current market price.
3. Such securities generally fetch higher prices.
4. Holders of listed securities are eligible for certain concessions in matters relating to Income Tax, Wealth Tax etc. in their capacity as assessees.
5. Listed securities enjoy more public confidence. Hence, they have high collateral value. The bankers will readily accept such securities for providing loans and other accommodations.
6. Listed companies should make a fair disclosure of certain information and so the investors are given a reasonable opportunity of judging the merits of the concern.
7. Listed securities ensure safety to the funds of the investors.

Drawbacks / Disadvantages of Listing:

Listing, however, is not free from defects. The procedure of listing has certain definite limitations and disadvantages. Some of the inherent limitations of listing are given below:

1. Listing makes people depend upon share brokers, jobbers etc. Many of them are weak speculators and frequently put their clients into difficulties. They create violent price fluctuations.
2. Securities, which are unable to have a stable value, shall loose their prestige and fell down in the esteem of the investors and bankers.
3. The management is also induced to show keen interest in the price movements for personal gains. They may take advantage of their inside knowledge and indulge in speculation.
4. The free negotiability of securities enables a few interested persons to buy a substantial portion of the securities and thereby capture the management of the company.

5. The company should furnish certain information in detail. Such a detailed disclosure may even injure the prospects of the company.

Listing Procedure

The following are the steps to be followed in <u>listing of a company's securities</u> in a stock exchange:
1. The promoters should first decide on the stock exchange or exchanges where they want the shares to be listed.
2. They should contact the authorities to the respective stock exchange/ exchanges where they propose to list.
3. They should discuss with the stock exchange authorities the requirements and eligibility for listing.
4. The proposed Memorandum of Association, Articles of Association and Prospectus should be submitted for necessary examination to the stock exchange authorities
5. The company then finalizes the Memorandum, Articles and Prospectus
6. Securities are issued and allotted.
7. The company enters into a listing agreement by paying the prescribed fees and submitting the necessary documents and particulars.
8. Shares are then and are available for trading.

Criteria of Listing:

The listing regulations of all the recognized stock exchanges are not uniform. A company, which wants to get its securities listed, should fulfill certain requirements and furnish certain detailed information to the exchange. The general conditions for listing are given below:
1. The Memorandum and Articles of Association of the applying company must contain prescribed provisions, such as prescribing a common form of transfer, transferability of fully paid-up shares without any restrictions etc.
2. The company must offer at least 60% of its issued capital for public subscription through a prospectus. (This provision aims to avoid concentration of economic power in the hands of a few through major shareholding).
3. The prospectus must conform to certain given conditions like the opening of the subscription list and receipt of the share applications.
4. The procedure followed for allotment should be fair and unconditional. If the issue is over subscribed, the basis of allotment should be decided by the company in consultation with the stock exchange in which the company has applied for enlistment.
5. The company must execute a listing agreement. The listing agreement determines the nature of continued relationship between the company and the stock exchange. The company should make certain disclosures, file certain documents periodically and perform certain functions. These matters should be specified in the listing agreements.
6. The company should give an undertaking, specifying that it shall not indulge in certain activities prohibited by law. Besides, the company should also declare that it would abide by the rules and regulations of the stock exchange.

In case the application for listing is rejected by the stock exchange, or the exchange failed to dispose of the application within the specified time, the company can appeal to the Central Government. The Central Government after hearing the company can set aside the decision of the stock exchange and order for enlistment or it can confirm the decision of the exchange. Now listing is made compulsory in case of certain companies.

Registration of Stock Brokers In India:

A Broker may be registered in the following way:
Stock Broker: A person or entity who is a registered member of the stock exchange. This person or entity is the ultimate facilitator who carries out stock market transactions on behalf of the investor.
Sub-Broker: Most of the stock traders act as sub-brokers of a stock exchange member. They trade on behalf of the stock exchange member provided they obtain a registration from SEBI.

SEBI: This is the Securities and Exchange Board of India who govern all stock brokers under the SEBI Act of 1992 and the Securities Contract (Regulation) Act of 1956. All stock brokers need to be registered under SEBI and will be governed under the rules, laws and regulations of this authority.
Stock Exchange: A stock exchange is a financial platform for trading in stocks, bonds and other instruments. Dividends and incomes are vetted out from this platform. Shares of companies, trusts and other organisations are traded in the form of securities, bonds and derivatives through a Kotak Securities (Registered Broker) . There are several stock exchanges in the country and each has its own index that gives an indication of the popularly traded or important listed stocks.
BSE: Bombay Stock Exchange is one of the oldest stock exchanges in the country and in Asia, as old as 1875. Amongst 22 other regional stock exchanges, BSE has the maximum listed stocks in the country. The most popular index traded in this stock exchange is the SENSEX.
NSE: National Stock Exchange is promoted by the government and are led by the largest financial institutions in the country. The NIFTY is the popular index that is used for indicating this stock exchange.
Both BSE and NSE are regulated by SEBI.

Registration Procedure of Brokers:

Here's a complete guide to practicing as a registered stock broker in any stock exchange.

· 1. *Practising as a stock broker or sub-broker or dealer:* One of the important things to assess is your own capacity to own your own stock brokerage firm or practise as a sub-broker or dealer.

- Stock Broker: If you have the financial capacity to start your own stock brokerage firm, then you can proceed with registering as a member of the Stock Exchange with a registration ID. The fees for registering as a member usually go into several lakhs. Stock brokers can share this membership ID with their clients and begin trading.

- Sub-Broker: Individuals who want to practise on behalf of a registered stock-broker can trade under the membership of a registered member of the stock exchange or a stock broker's membership ID.

- Dealer: Sub-brokers can hire dealers to actually input their trades on the stock exchange portals. A dealer is the person who enters the trades on the computer on behalf of the broker or sub-broker.

· 2. *Application process for stock broker or sub-broker or dealer:* A stock broker and a sub-broker need to follow the guidelines laid down by SEBI for the registration process. The application process is the same where information such as Name, Address, PAN Number and other important details need to be mentioned, while applying. You will need to also mention the stock exchange in which you would like to trade in. Mention the different segments that you are trading in such as equity derivatives, equities, currency derivatives and also for each category such as trading members, trading cum self-clearing members and professional clearing members.

· 3. *Getting registered:* Stock brokers and sub-brokers need to get a Certificate of Registration (CoR) from SEBI in order to proceed with trading. Under the guidelines of the stock exchange, no stock broker or sub-broker is allowed to practice until he/she has a vaildCoR from SEBI. A sub-broker can register as a sub-broker with SEBI,similar to a stock broker.

· 4. *License and registration fees*: Stock brokers need to pay membership fees to the stock exchange. Sub-brokers also need to pay a similar amount. These fees are only applicable once the SEBI deems the applicants are eligible to become SEBI registered stock brokers and sub-brokers.

· 4. *Starting the practise*: After receiving a membership number, one can begin trading in stocks on behalf of clients. All stock brokers and sub-brokers are listed on the SEBI website of registered brokers.
NSE India has created the National Institute of Securities Markets (NISM) to educate stock brokers, sub-brokers and investors about the stock market. In some cases, having the certification of the NISM is mandatory by some broking firms. Stock broking and sub-broking firms recruit individuals who are proficient in the various concepts of the stock market. In order to become a proficient stock market expert, one needs to have a detailed analysis of the market in addition to, following the guidelines laid down by SEBI.

Code of Conduct For Stock Brokers

The code of conduct for Stock Brokers is briefly discussed as below:

A. GENERAL

(1) **Integrity :** A stock-broker, shall maintain high standards of integrity, promptitude and fairness in the conduct of all his business.

(2) **Exercise Of Due Skill And Care :** A stock-broker, shall act with due skill, care and diligence in the conduct of all his business.

(3) **Manipulation :** A stock-broker shall not indulge in manipulative, fraudulent or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.

(4) **Malpractices :** A stock-broker shall not create false market either singly or in concert with others or indulge in any act detrimental to the investors interest or which leads to interference with the fair and smooth functioning of the market. A stock-broker shall not involve himself in excessive speculative business in the market beyond reasonable levels not commensurate with his financial soundness.

(5) **Compliance With Statutory Requirements :** A stock-broker shall abide by all the provisions of the Act and the rules, regulations issued by the Government, the Board and the stock exchange from time to time as may be applicable to him.

B. DUTY TO THE INVESTOR

(1) Execution Of Orders : A stock-broker, in his dealings with the clients and the general investing public, shall faithfully execute the orders for buying and selling of securities at the best available market price and not refuse to deal with a Small Investor merely on the ground of the volume of business involved.. A stock-broker shall promptly inform his client about the execution or non-execution of an order, and make prompt payment in respect of securities sold and arrange for prompt delivery of securities purchased by clients.

(2) Issue Of Contract Note : A stock-broker shall issue without delay to his client a contract note for all transactions in the form specified by the stock exchange.

(3) Breach Of Trust : A stock-broker shall not disclose or discuss with any other person or make improper use of the details of personal investments and other information of a confidential nature of the client which he comes to know in his business relationship.

(4) Business And Commission :

(a) A stock-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.

(b)A stock-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.

(5) Business Of Defaulting Clients : A stock-broker shall not deal or transact business knowingly, directly or indirectly or execute an order for a client who has failed to carry out his commitments in relation to securities with another stock-broker.

(6) Fairness To Clients : A stock-broker, when dealing with a client, shall disclose whether he is acting as a principal or as an agent and shall ensure at the same time, that no conflict of interest arises between him and the client. In the event of a conflict of interest, he shall inform the client accordingly and shall not seek to gain a

direct or indirect personal advantage from the situation and shall not consider clients' interest inferior to his own.
(7) Investment Advice : A stock-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The stock-broker should seek such information from clients, wherever he feels it is appropriate to do so.
(8) Competence Of Stock Broker : A stock-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients.
C. STOCK-BROKERS VIS-A-VIS OTHER STOCK-BROKERS
(1) **Conduct Of Dealings :** A stock-broker shall co-operate with the other contracting party in comparing unmatched transactions. A stock-broker shall not knowingly and wilfully deliver documents which constitute bad delivery and shall co-operate with other contracting party for prompt replacement of documents which are declared as bad delivery.
(2) **Protection Of Clients Interests :** A stock-broker shall extend fullest co-operation to other stock-brokers in protecting the interests of his clients regarding their rights to dividends, bonus shares, right shares and any other right related to such securities.
(3) **Transactions With Stock-Brokers :** A stock-broker shall carry out his transactions with other stock-brokers and shall comply with his obligations in completing the settlement of transactions with them.
(4) **Advertisement And Publicity :** A stock-broker shall not advertise his business publicly unless permitted by the stock exchange.
(5) **Inducement Of Clients :** A stock-broker shall not resort to unfair means of inducing clients from other stock- brokers.
(6) **False Or Misleading Returns :** A stock-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board and the stock exchange.

Functions of Brokers:

Stockbrokers are licensed agents who represent individuals or organizations in financial transactions that deal with stocks. They also may call themselves investment consultants or financial consultants. Stocks give a person ownership in a company. A stockbroker should be knowledgeable, be good with numbers, have excellent relational skills and give attention to details. His work enables him to increase his client’s financial portfolios while at the same time earning him a living.

1. **Buying & Selling stocks**
   This is the primary function of a broker. Brokers act as an intermediary for their clients totransact on a stock exchange. He buys and sells stocks for individuals who have signed up with him as clients. With the onset of on-line trading facilities investors could directly execute trades on the trading platform offered by the brokerage house.
   After completion of the transaction, brokers forward information related to the trade to their clients and make transfer arrangement for the stocks purchased. And also send the account details and margin requirements.
2. **Research & Advice**
   Most of the broking houses have set up in-house research team that scans companies and stocks as well as analyse the macro-economic scenario that impacts the stock market. With the inputs from the research team, brokerage house puts buy or sell recommendation on stocks. Brokers also have technical analysts who would provide market trends and intra-day trading tips. They send out news and other alerts on a continuous basis. Brokers also conduct investor education programmes to help improve their clients’ knowledge about investing in the markets.

3. **Personalised service:**Most broking houses assign a relationship manger to interact with the client who would act as an advisor. Relationship mangers advise their clients about when to make transactions and guide them about what to look for in the market dealings.
   They would advise clients on putting stop-loss especially when they are making intra-day trades. They monitor client's portfolio and provide timely advices to them.
4. **Margin financing**
   Stock brokers are well capitalised these days. It means they have a strong balance sheet with high equity and debt on books. Stock exchanges monitor the extent to which brokers are lending in line with their net worth. As a result, many large broking houses provide financing facilities to clients who are looking to take leverage positions. This means borrow for trading.Funding is mostly done by the NBFC arm of the brokerage house. Clients are allowed to take a position in the market after paying the margin amount. In most cases, investorsare allowed to trade with a 50% margin.
5. **Invest in other asset class**
   Apart from investing in stocks, brokers also help you to invest in other assets classes like commodities, gold ETFs and mutual fund products. They also help you to investment in initial public offerings (IPO) of companies.
6. **In-a-nut shell**
   Brokers have transformed themselves into a one-stop investment solution provider, assisting their clients to successfully achieve their financial goals. In case you are new to stock trading and wondering who will help you in stock trading then there are many leading share brokers in India, who offer their services. you just need to get in touch with them and start trading.

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