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CHAPTER

SECONDARY MARKET IN INDIA

STOCK MARKET & STOCK EXCHANGE

1. Stock market indices are the barometer of stock markets.

[Dec. 2015 (3 Marks)]

Ans.: A modern stock exchange is like a **supermarket** where various securities can be bought and sold. It is well regulated and computerized. It is efficient, transparent and market oriented.

Stock exchange provides easy marketability to securities of a company.

The capital market and in particular the stock exchange is referred to as the barometer of the economy. Government's policy is so moulded that creation of wealth through products and services is facilitated and surpluses and profits are channelized into productive uses through capital market operations. Reasonable opportunities and protection are afforded by the Government through special measures in the capital market to get new investments from the public and the Institutions and to ensure their liquidity.

2. Explain the role of Stock Exchanges in India.

Ans.: Role of Stock Exchanges in India:

(1) Acts as a continuous market for securities: Stock exchange provides a platform to investors to invest in any securities they like, but in case of any risk, they can exit from that security and freshly re-enter into whichever security they feel as secure.

(2) Responsible for securities evaluation: The stock price indicates the performance and stability of the company. Through these investors decide according to their risk appetite whether to enter or exit or hold. The stock exchange acts as a regulator for the securities price evaluation for all the listed stocks.

(3) Mobilizes savings: Most of the public cannot invest the bulk amount in securities, so they invest in indirect ways such as mutual funds and investment trusts, and these are mobilized by stock exchanges.

(4) Enables healthy speculation: Stock exchange encourages businessmen and provides healthy speculation opportunities to speculate and gain profits from fluctuations in stock prices.

(5) **Protect investors:** Stock exchange ensures the protection of the funds of investors by allowing only genuine companies to be listed in the stock exchange.

(6) **Ensures liquidity:** Banks and some other institutions like LIC invest their funds in the stocks and earn a profit within a short period and are sold immediately if there is any necessity of funds. Thus there is an opportunity to liquidate immediately at any time if required in the stock market.

(7) **Acts as an economic barometer:** The country's economic growth is measured with the trends in the stock market. An upward trend in the stock market denotes growth potential and downward trend denotes the fall in the economy. Hence the stock exchange is called as an economic barometer as it indicates conditions prevailing in the country.

(8) **Exercise vigilance:** Every company listed on an exchange must produce their annual reports and an audited balance sheet to the stock exchange. Such reports being available in public domain promotes transparency.

(9) **Attracts foreign capital:** Foreign Institutional Investors (FII) are likely to invest in developing economy as the rate of returns will be high in developing economies due to growth opportunities.

(10) **Stock exchanges ensure safety of capital and fair dealings:** The transactions made in the stock exchange are made available to the public under well-defined rules and regulations abided by laws. This ensures safety and fair dealings for the average investors.

(11) **Regulate company management:** The firms wanting to get their securities listed must follow certain rules and fulfil certain conditions. Stock exchanges safeguard the interest of the investors and regulate the company management.

3. Stock exchanges are virtually the nerve centre of the capital market. Comment. [Dec. 2012 (4 Marks)]

Ans.: Secondary market comprises of stock exchanges which provide platform for purchase and sale of securities by investors. The trading platforms of stock exchanges are accessible only through brokers and trading of securities is confined only to stock exchanges.

The stock exchanges are the exclusive centres for trading in securities and the trading platform of an exchange is accessible only to brokers. The regulatory framework heavily favours the recognized stock exchanges by almost banning trading activity outside the stock exchanges.

The stock market ensures free marketability, negotiability and price discharge. For these reasons the stock market is referred to as the nerve centre of the capital market, reflecting the economic trend as well as the hopes, aspirations and apprehensions of the investors.

4. Write short note on: Trading Mechanism [June 2021 (3 Marks)]

Ans.: In the Indian securities market various products trade like equity shares, warrants, debenture, etc. The trading in the securities of the company takes place in dematerialized form in India. Dematerialization is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited to the investor's account with his Depository Participant (DP).Trading in the securities of the company takes place on the screen based platforms provided by the Exchanges. Currently for equity shares the settlement cycle is (T+2 days) (T means trading day). Any shares which are traded on the Exchange is required to be settled by the clearing corporation of the exchange on 2 working day.

In electronic trading order received are matched electronically on a strict price/time priority and hence cuts down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency. It enables market participants, irrespective of their geographical locations, to trade with one another simultaneously. It provides full anonymity by accepting orders, big or small, from brokers without revealing their identity, thus providing equal access to everybody. It also provides a perfect audit trail, which helps to resolve disputes by logging in the trade execution process in entirety.

5. Write a short note on: Rolling Settlement [Dec. 2009 (4 Marks)]

Ans.: Under rolling settlement, all trades executed on a trading day are settled X days later. This is called 'T+X' rolling settlement, where 'T' is the trade date and 'X' is the number of business days after trade date on which settlement takes place. The rolling settlement prevailing in India is T+2, implying that the outstanding positions at the end of the day 'T' are compulsorily settled 2 days after the trade date.

TYPES OF SECURITIES, MARKET PARTICIPANTS & EXCHANGE TRADED FUNDS

6. Distinguish between: Listed Securities & Permitted Securities [June 2015 (3 Marks)], [June 2017 (3 Marks)]

Ans.: Securities traded in the stock exchanges can be classified as under:

(1) Listed Cleared Securities: The securities admitted for dealing on stock exchange after complying with all the listing requirements and placed by the SEBI on the list of cleared securities are known as listed cleared securities.

Securities of companies, which have signed the Listing Agreement with BSE, are traded as "Listed Securities". Almost all securities traded in the equity segment fall in this category.

(2) Permitted Securities: The security listed on one stock exchange, when permitted to be traded by some other stock exchange where it is not listed is called permitted security. Such permission is given if suitable provisions exist in the regulations of the concerned stock exchanges.

Example: Suppose, Company X is listed on BSE. If other stock exchange allows trading of securities of Company X, then securities of Company X is known as permitted security for other stock exchange.

Similarly, if any security is not listed on BSE but BSE allows the security to trade on BSE, such security is known as permitted security.

7. Discuss briefly various Market Participants involved in Securities Market.

Ans.: Market Participants in Securities Market include buyers, seller and various intermediaries between the buyers and sellers. Some of these entities are briefed below:

(1) Market Intermediaries: Intermediaries are service providers and are an integral part of any financial system. SEBI has defined the role of each of the intermediary, the eligibility criteria for granting registration, their functions and responsibilities and the code of conduct to which they are bound.

(2) Stock Exchanges: Stock Exchanges offer a trading platform for buyers and sellers to carry out transaction in issued securities. Trading occurs on the stock exchanges like NSE, BSE through electronic trading terminals which attribute anonymous order matching.

(3) Depositories: Depositories are institutions that hold securities of investors in electronic form like shares, debentures, bonds, government securities, mutual fund units.

(4) Depository Participant: A Depository Participant (DP) is an agent of the depository through which it interfaces with the investors and provides depository services. Financial Institutions like banks, custodians, stock brokers etc. can become participants in the depository.

(5) Trading Members/Stock brokers: Trading Members or Stock Brokers are registered members of a Stock Exchange, who assist the investors in buying/selling of securities. All secondary market transactions on stock are conducted through registered brokers of the stock exchange.

(6) Custodians: A Custodian is a body that is charged with the accountability of holding funds and securities of its large clients. In addition to safeguarding securities, a custodian also settles transactions in these securities and keeps record of corporate actions on behalf of its clients and aids in:

- Maintaining a client's securities and funds account.
- Collecting the benefits or rights accruing to the client in respect of securities held.
- Keeping the client informed of the actions taken or to be taken on their portfolios.

(7) Clearing Corporation: Clearing agencies ensure that members on the stock exchange meet their obligations to deliver funds or securities. These agencies act as a legal counter party to all trades and guarantee settlement of all transactions on the stock exchanges. It can be a part of stock exchange or a separate entity.

(8) Merchant Bankers: Merchant bankers are bodies registered with SEBI and act as issue managers, investment bankers or lead managers.

8. Write a short note on: Exchange Traded Fund

Ans.:

- An Exchange traded fund (ETF) is a security that tracks an index, commodity, bonds, or a basket of assets like an index fund and is traded in the securities market. In simple words, ETFs are funds that track indexes such as Sensex, Nifty, etc.
- When any investors buy shares/units of an ETF, he buys shares/units of a portfolio that tracks the performance of the index. ETFs just reflect the performance of the index they track.
- Unlike regular mutual funds, ETFs trade like a common stock on the stock exchange and the price of an ETF changes as per the trading in the market takes place.
- The trading value of an ETF depends on the net asset value of the underlying stock that it represents.
- ETFs, generally, have higher daily liquidity and lower fees than mutual fund schemes.

DERIVATIVES

9. 'Derivative contracts are of various types". Comment.
[Dec. 2011 (3 Marks)]

Ans.: Derivative: A derivative is a financial instrument that derives its value from an underlying asset. Derivative includes:

(*a*) A security derived from a debt instrument, share, loan, whether secured or unsecured, risk instrument or contract for differences or any other form of security.

(*b*) A contract which derives its value from the prices, or index of prices, of underlying securities.

(*c*) Commodity derivatives.

(*d*) Such other instruments as may be declared by the Central Government to be derivatives.

Underlying Asset: Underlying asset can be stocks, bonds, currency, commodities, metals and even intangible, assets like stock indices.

Types of derivatives: Derivatives can be of different types like futures, options, swaps, caps, floor, collars etc.

Zero sum game: In derivatives contracts the gain of one person results into loss of another person, so it is also called zero sum game.

10. Explain: Futures **[June 2018 (3 Marks)], [June 2021 (2 Marks)]**

Ans.: A future contract is a contract between two parties to buy or to sell an asset at a specified future time at a price agreed upon today. Thus, an instrument which is similar to forward contract but traded and under which no risk of default is called future contract.

A future contract is a standardized contract between two parties where one of the parties commits to sell, a specified quantity of a specified assets at an agreed price on a given date in the future.

There are two positions that one can take in a future contract:

(1) **Long Position:** This is when a futures contract is purchased and the buyer agrees to receive delivery of the underlying asset. (Stock/Indices/Commodities)

(2) **Short Position:** This is when a futures contract is sold and the seller agrees to make delivery of the underlying asset. (Stock/Indices/Commodities)

11. Explain: Option Contract [June 2018 (3 Marks)]

Or

What is the option contract? How the option contract is classified on the basis of party who exercise the option and time at which the option can be exercised? [Dec. 2021 (5 Marks)]

Ans.: An option is a contract between two parties under which the buyer of the option **buys the right**, ***and not obligation***, to buy or sell a standardized quantity of a financial instrument (underlying asset) at or before a pre-determined date (expiry date) at a price decided in advance (exercise price or strike price). Option may be Put Option or Call Option.

(1) **Call Option:** When the option gives the buyer *right to buy* is called call option.

(2) **Put Option:** When the option gives the buyer *right to sell* is called put option.

	Buyer of option	**Seller of option**
Call option	Right to buy	Obligation to sell
Put option	Right to sell	Obligation to buy

Option Contracts are classified into two types on the basis of time at which the option can be exercised:

(*a*) **European Option:** European style options are those contacts where the option can be exercised only on the expiration date. Options traded on Indian stock exchanges are of European Style.

(*b*) **American Option:** American style options are those contacts where the option can be exercised on or before the expiration date.

12. Explain about Currency derivatives and Commodity derivatives. [June 2022 (5 Marks)]

Ans.: Currency Derivatives: Currency derivatives are financial contracts between the buyer and seller involving the exchange of two currencies at a future date, and at a stipulated rate.

Currency Derivative trading is similar to Stock Futures and Options trading. However, the underlying assets are currency pairs (such as Dollar & Rupee or Euro & Rupee) instead of Stocks. Currency Options and Currency Futures trading is done in the Foreign Exchange markets. Forex rates are the value of a foreign currency relative to domestic currency. The major participants of currency trading in India are banks, corporations, exporters and importers.

Benefits of currency derivatives:

- Diversification of investments
- Easy investment in currencies
- Hedging opportunity to importers & exporters
- Trading opportunity due to volatility in currency
- Exchange-traded and hence systematically regulated
- Provides transparent rates

Commodity Derivatives: Commodity is a physical good attributable to a natural resource that is tradable and supplied without substantial differentiation by the general public. Commodities trade in physical (spot) markets and in futures and forward markets. Spot markets involve the physical transfer of goods between buyers and sellers; prices in these markets reflect current (or very near term) supply and demand conditions.

Commodity derivatives are financial instruments whose value is based on underlying commodities, such as oil, gas, metals, agricultural products and minerals. Other assets such as emissions trading credits, freight rates and even the weather can also underlie commodity derivatives. Commodity Derivatives markets are a good source of critical information and indicator of market sentiments. Since, commodities are frequently used as input in the production of goods or services, uncertainty and volatility in commodity prices and raw materials makes the business environment erratic, unpredictable and subject to unforeseeable risks.

Volatility in raw material costs affects businesses and can be significant given that commodity prices are driven by supply and demand from domestics as well as global markets. Ability to manage or mitigate risks by using suitable hedging in commodity derivative products, can positively affect business performance.

13. What are Currency Futures **[June 2023 (2 Marks)]**

Ans.: Currency Futures contract is an agreement to buy or sell the underlying Currency, on a specified date in the future, and at a specified price. The underlying asset for Currency Futures Contract is a Currency *viz.* US Dollars (USD), Euro (EUR), Great Britain Pound (GBP) and Japanese Yen (JPY).

In simple words Currency Future Contract is a contract to exchange one currency for another at a specified date in future at price (exchange rate) fixed on the purchase date. Generally the price of a future contract is in terms of INR per unit of other currency *e.g.* US Dollars.

Currency future contracts allow investors to hedge against foreign exchange risk. Currency Derivatives are available on four currency pairs *viz.* US Dollars ($), Euro (€), Great Britain Pound (£) and Japanese Yen (¥).

Cross Currency Futures & Options contracts on EUR-USD, GBP-USD and USD-JPY are also available for trading in Currency Derivatives segment.

14. Write a short note on: Currency Derivatives [June 2023 (3 Marks)]

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RIGHT ENTITLEMENTS

15. Riya holds 500 shares of Tata Motors Ltd. which is listed on BSE and NSE. The company has just announced issue of right shares in the ratio of 1:2. In this connection explain to Riya what is meant by Rights Entitlement (RE) and what options are available to her in right issue.

Ans.: Rights Entitlement (RE): Rights Entitlement is the rights issued by the company to the existing shareholders to subscribe to the new shares/other securities that the shareholder of a company is eligible to apply for under the rights offer.

REs are offered to shareholders based on a ratio of existing equity shares held as on the record date. Rights Entitlements are issued in dematerialized form under a separate ISIN created by the Company.

Options available to an eligible equity shareholder in rights issue: Eligible Equity Shareholder can adopt any one of the following option:

(1) Apply for their Rights Equity Shares to the full extent of their Rights Entitlements.

(2) Apply for their Rights Equity Shares to the full extent of their Rights Entitlements and apply for additional Rights Equity Shares.

(3) Apply for their Rights Equity Shares to the extent of a part of their Rights Entitlements (without renouncing the other part).

(4) Apply for Rights Equity Shares to the extent of a part of their Rights Entitlements and renounce a part/rest of their Rights Entitlements.

(5) Renounce their Rights Entitlements in full.

Note: Rights Entitlements (REs) which are neither subscribed nor renounced on or before the Issue Closing Date shall lapse and shall be extinguished after the Issue Closing Date.

The investors can get information related to REs in the letter of offer filed by the issuer company with Stock Exchanges and is also available on SEBI website.

Renunciation of Rights Entitlements:

(*a*) **On Market Renunciation:** The Investors may renounce the Rights Entitlements, credited to their respective demat accounts by trading/selling them on the secondary market platform of the Stock Exchanges through a registered stock broker in the same manner as trading/selling Equity Shares of the Company.

(*b*) **Off Market Renunciation:** The Investors may renounce the Rights Entitlements, credited to their respective demat accounts by way of an off-market transfer through a depository participant. The Rights Entitlements can be transferred in dematerialized form only. Eligible Equity Shareholders are requested to ensure that renunciation through off market transfer is completed in such a manner that the Rights Entitlements are credited to the demat account of the Renounces on or prior to the Issue Closing Date.

16. Somnath Ltd. has a share capital of 50,000 equity shares of ₹100 each. Market value is ₹250 per share. The company decides to make a rights issue to the existing shareholders in proportion of one new rights share of ₹100 at a premium of ₹30 per share for every 5 shares held. Calculate the value of rights. [Dec. 2015 (6 Marks)]

Ans.:

$$\text{Value of right} = \frac{\text{Right shares offered}}{\text{Number of shares held}} \times (\text{Ex-right price - Right offer price})$$

$$= \frac{1}{5} \times (250 - 130)$$

Value of right = 24

17. Calculate the value of right if:

Number of shares offered (n)	**: 3,000**
Number of shares held (m)	**: 1,800**
Ex-right price (P_{ex})	**: ₹24**
Right offer price (P)	**: ₹21**
Face value of shares	**: ₹10**

[June 2017 (4 Marks)]

Ans.: In case of mutual fund value of right shares is calculated by the following formula:

$$\text{Value of right} = \frac{\text{Right shares offered}}{\text{Number of shares held}} \times (\text{Ex-right price - Right offer price})$$

$$= \frac{3,000}{1,800} \times (24 - 21)$$

Value of right = 5

TRADING PLATFORMS

18. Startup companies have now come up with an Initial Public offer with relaxation of many conditions applicable for Initial Public Offer. In this context, briefly, explain about the "Institutional Trading Platform (ITP)" and eligibility for listing. [Dec. 2018 (4 Marks)]

Ans.: Innovators Growth Platform[1] means the trading platform for listing and trading of specified securities of issuers that comply with the eligibility criteria specified in regulation 283.

[1] *Substituted by the SEBI (Issue of Capital & Disclosure Requirements) (Second Amendment) Regulations, 2019. Prior to its substitution, it read as "Institutional Trading Platform" means the trading platform for listing and trading of specified securities of issuers that comply with the specified eligibility criteria.*

Eligibility [Regulation 283]: Following entities are eligible for listing on Innovators growth platform:

(1) An issuer which is intensive in the use of technology, information technology, intellectual property, data analytics, bio-technology or nano-technology to provide products, services or business platforms with substantial value addition shall be eligible for listing on the innovators growth platform, provided that as on the date of filing of draft information document or draft offer document with the SEBI, as the case may be, 25% of the pre-issue capital of the Issuer Company for at least a period of 2 years, should have been held by:

I. Qualified Institutional Buyers.

II. Family trust with net-worth of more than ₹ **500 Crore**, as per the last audited financial statements.

III. Accredited Investors for the purpose of Innovators Growth Platform.

IV. Following regulated entities:

(*a*) Category-III Foreign Portfolio Investor.

(*b*) An entity meeting all the following criteria:

(*i*) It is a pooled investment fund with minimum assets under management of **$150 million**.

(*ii*) It is registered with a financial sector regulator in the jurisdiction of which it is a resident.

(*iii*) It is resident of a country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to Bilateral Memorandum of Understanding with the SEBI.

(*iv*) It is not resident in a country identified in the public statement of Financial Action Task Force as:

- a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
- a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.

Explanation:

(*a*) Following entities shall be eligible to be considered as accredited investors for the purpose of innovators growth platform:

(*i*) Any individual with total gross income of ₹ **50 lakh** annually and who has minimum liquid net worth of ₹ **5 Crore**.

(*ii*) Anybody corporate with net worth of ₹ **25 Crore**.

(*b*) Not more than 10% of the pre-issue capital may be held by Accredited Investors.

(*c*) For the purpose of accreditation: The persons/corporate bodies who wish to get accreditation for the purpose of innovators growth platform, shall approach the stock exchanges or depositories and follow the procedures prescribed by the Board and/or such stock exchange or depository for the purpose of accreditation as an Accredited Investor, from time to time.

(2) An issuer shall be eligible for listing on the institutional trading platform if none of the promoters or directors of the issuer company is a fugitive economic offender.

MARGINS

19. Distinguish between: Initial Margin & Maintenance Margin
[June 2009 (4 Marks)], [June 2013 (4 Marks)]

Or

Write short note on: Margins **[June 2021 (3 Marks)]**

Ans.: Initial Margin: Initial margin means the minimum amount, calculated as a percentage of the transaction value, to be placed by the client, with the broker, before the actual purchase. The broker may advance the balance amount to meet full settlement obligations.

In simple words, initial margin is the percentage of a stock price that you are required to have in your account, when purchasing that stock on margin.

Maintenance Margin: Maintenance margin means the minimum amount, calculated as a percentage of market value of the securities, calculated with respect to last trading day's closing price, to be maintained by client with the broker.

In other words, a maintenance margin is the required amount of securities an investor must hold in his account if he either purchases shares on margin, or if he sells shares short.

Margin Call: If an investor's margin balance falls below the set maintenance margin, the investor would then need to contribute additional funds to the account or liquidate stocks in the account to bring the account back to the initial margin requirement. This request is known as a margin call.

Effects of failure to meet margin: The broker may liquidate the securities if the client fails to meet the margin calls made by the broker or fails to deposit the cheques on the day following the day on which the margin call has been made or the cheque has been dishonoured.

The broker may also liquidate the securities in case the client's deposit in the margin account (*after adjustment for mark to market losses*) falls to 30% or less of the latest market value of the securities, in the interregnum between making of the margin call and receipt of payment from the client.

Disclosure to stock exchange by broker: The broker must disclose to the stock exchange details on gross exposure including the name of the client, unique identification number, name of the scrip and if the broker has borrowed funds for the purpose of providing margin trading facilities, name of the lender and amount borrowed, on or before 12 Noon on the following day.

Disclosure by stock exchange of margin accounts with all brokers: Stock exchanges disclose scrip wise gross outstanding in margin accounts with all brokers to the market. Such disclosures regarding margin trading done on any day shall be made available after the trading hours on the following day through the website.

BOOK CLOSURE & RECORD DATE

20. Distinguish between: Book Closure and Record Date
[Dec. 2010 (3 Marks)], [Dec. 2013 (3 Marks)]

Or

Write short notes: Book Closure and Record Date [Dec. 2018 (3 Marks)]

Ans.: Book Closure: Book closure is the periodic closure of the "Register of Members & Transfer Books", to take a record of the shareholders to determine their entitlement to dividends or bonus or right shares or other rights pertaining to shares.

A company may close the register of members for a maximum of **45 days** in a year and for not more than **30 days** at any one time. [*Section 91 of the Companies Act, 2013*]

Notice of closure of Register of Member: Notice of closure of Register of Member is required to be given by way of advertisement at least once in a vernacular newspaper in the principal vernacular language of the district and having a wide circulation in the place where the registered office of the company is situated, and at least once in English language in an English newspaper circulating in that district and having wide circulation in the place where the registered office of the company is situated.

Record Date: Closing 'Register of Members' every time is not possible. In such case recorded date is fixed and informed to stock exchange in advance.

Record date is the date on which the records of a company are closed for the purpose of determining the stock holders who are entitled to dividends, bonus or right shares or other rights.

In case of a record date, the company does not close its register of security holders. Record date is the cutoff date for determining the number of registered members who are eligible for the corporate benefits.

Purpose of Book Closure/Record Date: Book Closure/Record Date become necessary for the purpose of paying dividend, making rights issue or bonus issue.

The members whose names appear in the register of members on the last date of book closure/record date are entitled to receive the benefits of dividend, right shares or bonus shares as the case may be.

Notice to stock exchange: The listed company is required to give notice of book closure at least 7 days before the commencement of the book closure/record date to stock exchange.

Time gap: Minimum time gap between the two book closures/record dates would be at least 30 days.

BLOCK DEAL/BULK DEAL

21. What is meant by Block Deal? How is it being executed in the Stock Exchange? [Dec. 2018 (5 Marks)]

Or

Write a short note on: Block Deal [June 2023 (3 Marks)]

Ans.: Block Deal: Block deal is a single trade having quantity greater than or equal to 5,00,000 or value greater than or equal ₹ 10 Crore, executed through a block deal window. Block deals take place during a specific trading window - the block deal window.

Who trades: A bulk deal and a block deal are the two kinds of stock market transactions used by institutional investors, large funds, mutual funds, investment banks, FIIs and HNIs to transact large volumes. Due to the fact that block deals occur in a trading window that in special, they cannot be viewed by retail investors.

SEBI Guidelines: SEBI had issued guidelines outlining a facility of allowing Stock Exchanges to provide separate trading window to facilitate execution of large trades. The Exchanges have introduced new block window mechanism for the block trades from January 1, 2018.

Session Timings:

(*a*) **Morning Block Deal Window:** This window shall operate between **8:45 AM to 9:00 AM**.

(*b*) **Afternoon Block Deal Window:** This window shall operate between **2:05 PM to 2:20 PM**.

Minimum order size: In the block deal the minimum order size for execution of trades in the Block deal window shall be **₹10 Crore**.

Price: The orders placed shall be within ±1% of the applicable reference price in the respective windows as stated above.

Information on block deals: The stock exchanges disseminates the information on block deals such as the name of the scrip, name of the client, quantity of shares bought/sold, traded price, etc. to the general public on the same day, after the market hours.

22. Write short note: Bulk Deal **[June 2019 (3 Marks)]**

Ans.: Bulk Deal: Bulk deal is a trade, where total quantity bought or sold is more than 0.5% of the number of equity shares of a listed company.

How traded: Bulk deal can be transacted by the normal trading window provided by brokers throughout the trading hours in a day. Bulk deals are market driven and take place throughout the trading day.

Disclosure of bulk deals on daily basis: The stock broker, who facilitates the trade, is required to reveal to the stock exchange about the bulk deals on a daily basis.

Bulk orders are visible to everyone.

When to notify stock exchange in case of bulk deal: If the bulk deal happens through a single trade, it should be notified to the exchange immediately upon the execution of the order. If it happens through multiple trades, it should be notified to the exchange within one hour from the closure of the trading.

23. What is bulk deal? State the difference between block deal and bulk deal? **[June 2021 (3 Marks)]**

Ans.: *Please refer to Answers of Question Nos. 19 & 20.*

STOCK MARKET INDEX

24. Write short note: Basis of SENSEX **[June 2019 (3 Marks)]**

Ans.: The Sensex is primarily an index reflecting the Bombay Stock Exchange (BSE). The Sensex comprises of 30 prominent stocks derived from all key sectors which are traded actively in the exchange. Thus, the Sensex truly reflects the movement of the Indian stock markets.

Calculation Methodology for Sensex: Like the other major financial indexes of the world, the Sensex has also shifted to the 'Free Float market capitalization' methodology to determine its figures with effect from year 2003. The level of the index is a direct reflection of the performance of the 30 selected key stocks in the market.

Free-float market capitalization is defined as that proportion of total shares issued by the company that are readily available for trading in the market. It generally excludes promoters' holding, government holding, strategic holding and other locked-in shares that will not come to the market for trading in the normal course. So, simply put, free-float market capitalization is the proportion of total shares available for trading to the general public.

25. Write short note on: Steps to calculate SENSEX [Dec. 2022 (3 Marks)]

Ans.: Steps to calculate Sensex:

(1) The market capitalization is taken into account. This is done by multiplying all the shares issued by the company with the price of its stock.

(2) BSE determines a Free-float factor that is a multiple of the market capitalization of the company. This helps in determining the free-float market capitalization based on the details submitted by the company.

(3) Ratio and Proportion are used based on the base index of 100. This helps to determine the Sensex.

26. Write short notes on: Nifty [Dec. 2019 (3 Marks)]

Ans.: Nifty is simply a trade mark or market index used by National Stock Exchange of India. Nifty covers 50 stocks from various segments of the market. It is also referred to as Nifty 50. It is owned and managed by India Index Services & Products Ltd. (IISL).

Nifty is calculated using the -"Free Float Market Capitalization" methodology.

In this methodology, Nifty level at any point of time reflects the free-float market. The base period of NIFTY is 1995 and the base value is 1,000 index points. The mathematical formula for calculating Nifty is:

NIFTY 50 = (Sum of free flow market capital of 50 most liquid stocks) × Index Factor

Where,

Index Factor = 1,000/Market capital value in 1995.

BASICS OF INVESTING

27. Enumerate the key risks involved in investing in securities market.

Ans.: Key risks in investing in securities market are given below:

(1) Market risk or Systematic Risk: It means that an investor may experience losses due to factors affecting the overall performance of financial markets and general economy of the country.

(2) Unsystematic Risk: Unsystematic risk can be described as the uncertainty attached with a particular company or industry.

(3) Inflation Risk: Inflation risk is also called as purchasing power risk. It is defined as the chance that the cash flows from an investment would lose their value in future because of a decline in its purchasing power due to inflation.

(4) Liquidity Risk: Liquidity risk arises when an investment can't be bought or sold quickly enough.

(5) Business Risk: It refers to the risk that a business of a company might be affected or may stop its operations due to any unfavourable operational, market or financial situation.

(6) Volatility Risk: Volatility risk arises as the stock prices may fluctuate over time.

(7) Currency Risk: It refers to the potential risk of loss from fluctuating foreign exchange rates that an investor may face when he has invested in foreign currency or made foreign currency traded investments.

CLEARING CORPORATION

28. Write a short note on: Clearing Corporation

Ans.: A clearing corporation is an organization associated with an exchange to handle the confirmation, settlement, and delivery of transactions. Clearing corporations fulfil the main obligation of ensuring transactions are made in a prompt and efficient manner.

In order to make certain that transactions run smoothly, clearing corporations become the buyer to every seller and the seller to every buyer. In other words, they take the offsetting position with a client in every transaction.

Example: If two investors agree to the terms of a financial transaction, such as the purchase or sale of a corporate security, a clearing corporation will act as a middle man, facilitating the purchase on one end and the sale on the other end of the transaction.

Clearing Corporation [Section 8A of the Securities Contracts (Regulation) Act, 1956]: A recognized stock exchange may transfer the duties and functions of a clearing house to a clearing corporation, being a company incorporated under the Companies Act, 2013 with the prior approval of SEBI.

Following duties and functions can be transferred to clearing corporation:

- Periodical settlement of contracts
- Delivery and payment for securities
- Other incidental or connected matters

Every clearing corporation shall, for the purpose of transfer of the duties and functions of a clearing house to a clearing corporation, make bye-laws and submit the same to the SEBI for its approval.

The SEBI on being satisfied that grant approval is in the interest of the trade and also in the public interest, approve the transfer of the duties and functions of a clearing house to a clearing corporation.