UNIT 2 SECURITIES MARKET

Objectives

After reading this unit you should be able to:

- Distinguish between primary and secondary markets;
- Understand the concept of Initial Public Offerings (IPOs);
- Discuss the evolution of Indian stock Market;
- Understand different types of stock markets;
- Understand the role of SEBI as a regulating body.

Structure

2.1 INTRODUCTION

Market is a place where buyers and sellers meet and exchange products. This definition is universal and applies to all markets. In this course, we will discuss more about the market called capital market. It is a place, where capital of different types is exchanged. Often individuals, like you, are the lenders or the suppliers of capital. Companies and various other institutions are the borrowers or the receivers of capital. The market is organized or divided into different ways. At a very broad level, the market is divided into (a) Short-term Capital Market (money market) and (b) Long term capital market (also, called stock market). Another way of classifying the market is (a) Institutional Market and (b) Direct Market. As an investor you can deal with the market in different ways. Let us understand the market from individual's perspective. If the surplus money you have can be spared only for a short period, you have to look for savings of short-duration. Since the amount available is fairly small in such cases, you have to look for some institutional support for such savings. In other words, individuals don't directly deal with the money market, which specialize in short-term capital.

Often, individuals approach an institution for this purpose. You can save your short-term surplus in a bank deposit or a mutual fund, which offer money market schemes. If the surplus money you have can be spared for a long-term, you have to look for investments of longer duration. Again, you can go to an institution, which offers long- term products or you can directly participate in the market. That is, you can deposit your money in a long-term fixed deposit or invest in a mutual funds scheme or directly buy securities in the market. When you intend to deal with the market on your own, you can deal with the market in two ways. The markets are accordingly classified into primary and secondary market.

Primary market is the one in which the organization approaches investors to raise capital. They can approach for debt capital or equity capital or combination of both. Dealing in primary market is fairly simple today. Like fixed deposit opening, you have to take up an application form of the issue and deposit the amount after filling up the form. Brokers and sub-brokers will normally help you to get forms and guide you to fill up the forms. What is important is you have to make sure that investments fit with your objective. The uncertainty of getting allotment forces many investors, who are directly willing to deal with the market, to turn into secondary market. It is a place where an investor sells to another investor. Since there are large number of sellers and buyers, the market is dynamic. Securities prices change depending on the demand and supply of the securities.

Secondary market exists for different types of securities like debt, equity and others. Investment in secondary market has also become easy, thanks to developments in Information and Computing Technologies. You have to open an account with the members of any stock exchanges of your choice. The procedure to open an account is fairly simple and it is somewhat similar to opening a Savings Bank Account with your banker. You can place your buying and selling orders over phone and often you get immediate confirmation of your purchase or sale. Today, it is also possible for you to buy and sell securities through internet. In this Unit, we will discuss more on how the stock market is organized and how investors can transact in buying and selling of securities in the market.

2.2 PRIMARY MARKETS

Primary market is the segment in which new issues are made whereas secondary market is the segment in which outstanding issues are traded. It is for this reason that the Primary Market is also called New Issues Market and the Secondary Market is called Stock Market. In the primary market, new issues May be made in three ways, namely, public issue, rights issue, and private placement. Public Issues involves sale of securities to members of public. Rights issue involves sale of securities to the existing shareholders/ debenture holders. Private placement involves selling securities privately to a selected group of investors. In the primary market, equity shares, fully convertible debentures (FCD), partially convertible debentures (PCD), and non- convertible debentures (NCD) are the securities commonly issued by non-government public limited companies. Government companies issue equity shares and bonds. In the primary market, issues are made either 'at par' or `at premium'. Pricing the new Issues is regulated under `Guidelines on Capital Issues' or what are also known as "Guidelines for Disclosure and Investors Protection" issued by the Securities and Exchange Board of India (SERI). The SEBI guidelines on Disclosure and Investor Protection is now available in the SEBI website, www.sebi.gov.in.

2.3 INITIAL PUBLIC OFFERINGS (IPOS)

Concept

IPO stands for Initial Public Offering. It is the process by which a private organization offers shares of its stock to the public for the first time. The purpose of an IPO is to raise capital from public investors, allowing the organization to grow and expand its business operations.

The process of going public through an IPO involves several steps, including selecting an investment bank to lead the offering, preparing a prospectus that outlines the organization's business and financials, and setting an initial offering price for the shares. The organization also needs to meet various regulatory requirements before the IPO can take place.

Once the IPO is complete, the organization's shares are listed on a stock exchange, and they can be bought and sold by members of the public. The price of the shares is determined by supply and demand, and can fluctuate based on various factors, including the organization's financial performance and market conditions.

IPOs can be a significant opportunity for investors to participate in the growth of a promising organization, but they also come with risks. Investors need to carefully evaluate the organization's financials and business prospects before investing, and they should be aware that the value of their shares can go up or down depending on market conditions.

There have been many IPOs over the years, and some of the most high-profile examples include:

Facebook: The social media giant went public in 2012, raising $16 billion in one of the largest IPOs in history.

Alibaba: The Chinese e-commerce organization raised $25 billion in its 2014 IPO, which was the largest in history at the time.

Uber: The ride-hailing organization went public in 2019, raising $8.1 billion in one of the most highly anticipated IPOs of the year.

Snowflake: The cloud-based data warehousing organization went public in 2020, raising $3.4 billion in the largest software IPO ever.

Airbnb: The online marketplace for vacation rentals went public in 2020, raising $3.5 billion in one of the biggest IPOs of the year.

These are just a few examples of the many successful IPOs that have taken place over the years, but it's important to remember that not all IPOs are successful, and investing in an IPO can be risky.

Eligibility for an IPO

In India, eligibility for an Initial Public Offering (IPO) is regulated by the Securities and Exchange Board of India (SEBI). To be eligible for an IPO, an organization must fulfill certain criteria set by SEBI. The eligibility is amended from time to time. As of now the eligibility for an IPO in India is as follows:

- Minimum net tangible assets of at least ₹ 3 crores for the preceding three full years.
- The organization must have a minimum operating profit of at least ₹15 crores in each of the preceding three years.
- The organization must have a net worth of at least ₹ 1 crore in each of the preceding three years.
- The organization must have a minimum of 1,000 shareholders and a minimum public float of 25% of the issued capital.
- The organization must have a track record of distributable profits for at least three out of the immediately preceding five years.

These are some of the broad eligibility criteria for an IPO in India, and there may be additional requirements depending on the specific regulations and guidelines issued by SEBI from time to time. It is recommended that students refer to SEBI and other regulatory bodies to update themselves about the eligibility of IPO.

IPO Process

The IPO process has evolved significantly over time, as markets, regulations, and technology have changed. Here are a few key ways in which the IPO process has evolved:

- **Increased regulation:** The IPO process has become more heavily regulated over time, with requirements for financial reporting, disclosure, and transparency. The Sarbanes-Oxley Act of 2002, for example, increased the regulatory burden on public companies, making it more costly and time-consuming to go public.
- **Online investing:** The rise of online brokerages and trading platforms has made it easier for individual investors to participate in IPOs. In the past, IPOs were typically only available to institutional investors and high net worth individuals, but now anyone with an online brokerage account can invest in an IPO.
- **Direct listings:** In a direct listing, a company goes public by selling its existing shares directly to the public, rather than issuing new shares through an investment bank. This approach has become more popular in recent years, with companies like Spotify and Slack opting for direct listings.
- **Special purpose acquisition companies (SPACs):** SPACs are companies that are created specifically to acquire other companies and take them public. They raise money through an IPO, and then use the proceeds to

identify and acquire a target company. SPACs have become increasingly popular in recent years as a way for companies to go public without going through the traditional IPO process.

The IPO process has become more complex and more diverse over time, with organizations having a range of options for going public.

SEBI Guidelines for IPO's

SEBI (Securities and Exchange Board of India) issues guidelines for Initial Public Offerings (IPOs) in India to ensure that the process of raising capital through the primary market is fair, transparent and efficient. Some of the key SEBI guidelines for IPOs are:

Eligibility criteria: The issuer organization must meet certain eligibility criteria to be able to issue shares through an IPO. The organization must have a minimum net worth, a track record of profitability for a certain period, and must not be undergoing any regulatory or legal action.

Disclosure requirements: The issuer organization is required to provide complete and accurate disclosures in the prospectus. The disclosures must include details about the organization's financial performance, risk factors, management structure, and other relevant information that can help investors make an informed decision.

Pricing guidelines: SEBI guidelines provide a framework for determining the price at which shares can be issued. The issuer organization is required to disclose the rationale behind the price and the factors that have been taken into consideration.

Use of proceeds: The issuer organization must disclose how the proceeds from the IPO will be utilized. The disclosures must provide a clear understanding of how the organization plans to use the funds and the expected benefits to the organization and its stakeholders.

Book building process: SEBI guidelines provide a framework for the book building process, which is used to determine the demand for the shares being offered. The issuer organization can use either the fixed price method or the book building method to determine the price of the shares.

Underwriting and merchant banking guidelines: SEBI guidelines also cover the role of merchant bankers and underwriters in the IPO process. The merchant bankers are responsible for preparing the prospectus and ensuring that the issuer organization complies with all the regulatory requirements. The underwriters are responsible for subscribing to the shares that are not taken up by the public.

These guidelines are regularly updated by SEBI to ensure that the process of raising capital through IPOs remains fair and transparent for all stakeholders involved.

2.4 SECONDARY MARKETS

The secondary market is the segment in which outstanding issues are traded and thus provide liquidity. Investors, who seek both profitability and liquidity, need both primary and secondary markets. There is thus a direct and complementary interface between the primary and secondary markets. Secondary market exists both for short- term (money market) securities and long-term securities. It exists for debt, equity and a variety of hybrid securities. While the secondary market activities in money market securities are conducted over phone or through market makers, the trading is more organized for long-term securities and conducted through stock exchanges. Buying and selling securities in secondary market is fairly simple. Investors have to open an account with a member of stock exchange and then place orders through the member.

For an orderly functioning of market, a set of institutions is required. The role of institutions assumes importance in securities market because the market deals with high value financial assets. Institutions connected with securities markets are Stock Exchanges (http:// www.bseindia.com and http:// www.bseindia.com), Members of Stocks Exchanges (popularly called brokers), Clearing Corporation, Depository (http://www.nsdl.co.in and http:// www.centraldepository.com) Transfer Agents and Securities and Exchange Board of India (SEBI) (http://www.sebi.gov.in).

Technology has converted stock exchanges into a virtual institution. Earlier, there was an importance for the physical location of stock exchange because it was a place where brokers or their assistants negotiate the prices (outsiders can hear only some noise but brokers understand the meaning) and enter into transactions on behalf of their client-investors. Since the telecommunication was very poor in India, one or two stock exchanges have been opened up in every state to cater to the needs of the investors of the region. India is one of the few countries with a large number of stock exchanges. Thanks to development in telecommunication and information technology, the physical constraint was removed during the last few years. National Stock Exchange today has its presence everywhere in the country. Bombay Stock Exchange has also expanded its network. Many other stock exchanges are finding it difficult to compete with these two principal stock exchanges and trying to come together and create new business. This new development has improved transparency of operations and brought down the cost. Today, stockbrokers are operating from their office through computer network and investors can see the price at which the transactions are settled.Competition has brought down the brokerage from 2% to in India around 0.5% and today the brokerage rate in India is one of the lowest in the world. This transformation has taken place in a matter of few months.

Members of stock exchanges, called stock brokers, are intermediary between buyers and sellers. Buying and selling securities through members of stock exchange is beneficial, legally and functionally. Entry of major institutions like ICICI, Kotak Mahindra, into brokerage services and development in technology including intenet based broking service have improved the quality of service. Many of these brokerage houses offer a number of facilities to the investors at no extra cost.

Clearing corporation enables the members to settle the transactions entered among themselves on behalf of their client-investors. It operates something similar to cheque clearing service offered by RBI for the banks. Earlier when securities are traded in physical form, a large number of securities have to be exchanged between members and clearing corporation had a major work on this part. Today, after depository facility was introduced, the workload of the clearing corporations has come down significantly. Clearing corporation today facilitates the members to transfer (or receive) securities to (or from) depositories and also settle monetary part of the transactions. It is an institution exclusively serving the brokers.

Depository service is another major development in the Indian stock market. It allows investors to hold securities in electronic form (like you are holding cash in your bank account) and transfers electronically when they sell the shares. The operation is fairly simple. Investors have to open a depository account with a member of depository service provider (we have two depository service providers in India - National Securities Depository Ltd and Central Depository Services (India) Limited). Investors can give physical securities that they are holding for cancellation (provided depository facility is available for the securities/company) and convert them in to electronic holding. A large number of companies have depository holding facility and SEBI has put it compulsory to trade certain stocks only under depository mode. When an investor apply new shares next time in the primary market, they can ask the issuer to credit the depository account in the event of successful allotment. Any new purchases in the secondary market can also be credited in the depository account. Investors will get periodical statement on their holding from the member with whom the depository account is maintained. Many depository participants allow the investors to see their account through Internet. There was some resistance from retail investors for this change but today everyone started seeing the benefit of this service. A significant part of volume traded today is settled through depository mode.

Apart from holding the stocks electronically, there are other benefits from depository services.- There is no need to apply for transfer of shares after the purchase of shares. If an investor buys securities in physical form and desire to transfer the shares in her/his name, s/he has to fill-up the transfer deed, affix transfer fee (0.5% of market value of stock) and then send the same to transfer agent. There is a cost, time and uncertainty involved in the transfer. Under depository mode, the shares are transferred in a short period of time without any further action from your side. For more details about depository, visit one of the web sites (http://www.nsdl.co.in or http://www.centraldepository.com) of depository service providers or the members of depository service providers.

Transfer agents maintains the members register of the companies. On the instructions of the company, they transfer the shares from the existing members to new member. When an investor buys a share in a physical mode and intend to transfer the share in her/his name, s/he has to send the transfer deed along with share certificate to the Transfer Agent. There are many transfer agents like Karvy Consultants Ltd (http://www.karvy.com) and MCS Ltd. After initial verification, they will place the shares received for transfer for the approval of company's Board. The shares are transferred in the name of investors after the approval of the Board and investor will receive communication to this effect along with share certificates from the Transfer Agent. Some companies perform this transfer of shares internally whereas many leading companies have outsourced this service by appointing one of these transfer agents. The process of verification and other formalities connected with transfer has been simplified after the introduction of depository services.

Activity 1

i) Write brief note on a recent public issue of a company. The note may include the size of the issue, type of security offered, price, justification of premium, registrar, banker to issue, underwriter, etc.

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ii) Visit any one or more of the web sites and describe your additional learning on the regulation of Primary and Secondary Markets.

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2.5 INDIAN STOCK MARKET

Evolution

Organizations and institutions, whether they are economic, social or political, are products of historical events and exigencies. The events continually replace and/or reform the existing organizations, so as to make them relevant and operational in contemporary situations. It is, therefore, useful to briefly acquaint ourselves with the evolution of the stock market in India. The Indian stock market has undergone significant changes and evolved over the years. Stock exchanges of India in a rudimentary form originated in 1800 and since that time have developed through different stages.

Pre-independence era

1800-1865 (**Pre-independence era**: The East India Company and few commercial banks floated shares sporadically, through a very small group of brokers. According to a newspaper in 1850, in Bombay during 1840-1850 there were only half a dozen recognised brokers. The year 1850 marked a watershed. A wave of company flotations took over the market ; the number of brokers spurted to 60. The backbone of industrial growth and the resulting boom in share flotation was the legendary personality of the financial world, PremchandRoychand.

In 1860 the stock market created a unique history. The entire market was gripped by what is known as 'share mania'. The American Civil War created cotton famine. Indian cotton manufacturers exploited this situation and exported large quantities of cotton. The resulting increase in export earnings opened opportunities for share investments. New companies started to come up. Excessive speculation and reckless buying became the order of the day. This mania lasted upto 1865. It marks the end of the first phase in the Indian stock exchange history because with the cessation of the Civil War, demand for Indian cotton slumped abruptly. The share became worthless pieces of paper. To be exact, on July 1, 1865 all shares ceased to exist because all time bargains which had matured could not be fulfilled.

1866-1900: We find another distinct phase during 1866-1900. The mania effect haunted the stock exchange of Bombay during these 25 years. Above everything else, it led to foundation of a regular market for securities. Since the market was established in Bombay, it soon became and still is the leading and the most organized stock exchange in India. A number of stock brokers who geared up themselves, set up a voluntary organization in 1887, called Native Share and Stockbrokers Association. The brokers drew up codes of conduct for brokerage business and mobilized private funds for industrial growth. It also mobilized funds for government securities (gilt edged securities), especially of the Bombay Port Trust and the Bombay Municipality. A similar organization was started at Ahmedabad in 1894.

1901-1913: Political developments gave a big flip to share investment. The Swadeshi Movement led by Mahatma Gandhi encouraged the indigenous trading and business class to start industrial enterprises. As a result, Calcutta (Kolkata) became another major centre of share trading. The trading was prompted by the coal boom of 1904- 1908. Thus the third stock exchange was started by Calcutta stock brokers. During Inter-war years demand for industrial goods kept increasing due to British involvement in the World Wars. Existing enterprises in steel and cotton textiles, woolen textiles, tea and engineering goods expanded and new ventures were floated. Yet another stock exchange was started at Madras in 1920. The period 1935-1965 can be considered as the period of development of the existing stock exchanges in India. In this period industrial development planning played the pivotal role of expanding the industrial and commercial base of the country. **Post-independence era**

At the time of Independence seven stock exchanges were functioning located in the major cities of the country. Between 1946 and 1990, 12 more stock exchanges were set up trading the shares of 4843 additional listed companies. After independence in 1947, the government took steps to regulate the stock market. In 1956, the Securities Contracts (Regulation) Act was passed to regulate stock exchanges.

1990s liberalization

In the 1990s, India started opening up its economy and embracing economic reforms. This led to a surge in foreign investments in the stock market, and the government introduced measures to encourage more participation in the stock market.

Introduction of NSE

In 1994, the National Stock Exchange (NSE) was established, which introduced electronic trading in India. This helped to bring more transparency and efficiency to the stock market.

Dematerialization

In 1996, the process of dematerialization of shares was introduced, which allowed investors to hold and trade shares in electronic form, eliminating the need for physical share certificates.

Online trading

In the late 1990s and early 2000s, online trading platforms were introduced, which made it easier for investors to trade in the stock market from anywhere in the world.

Derivatives trading

In 2000, the government allowed derivatives trading in the stock market, which provided investors with more investment options and helped to increase liquidity in the market.

Introduction of SEBI

The Securities and Exchange Board of India (SEBI) was established in 1992 as the regulator of the Indian securities market. SEBI has been instrumental in regulating and developing the Indian stock market.

The Indian stock market has evolved significantly over the years, with the introduction of new technologies and regulatory measures to ensure transparency and efficiency in the market. The stock market has become an important avenue for investment and wealth creation for millions of investors in India.

There are several stock exchanges in India, but the major ones are:

National Stock Exchange of India (NSE): It is the largest stock exchange in India in terms of market capitalization and trading volumes. It is located in Mumbai and offers trading in equities, derivatives, mutual funds, and currency futures.

Bombay Stock Exchange (BSE): It is the oldest stock exchange in Asia and the first in India, established in 1875. It is also located in Mumbai and offers trading in equities, derivatives, mutual funds, and currency futures.

Metropolitan Stock Exchange of India (MSEI): It is the third-largest stock exchange in India and is located in Mumbai. It offers trading in equities, currency derivatives, and debt instruments.

Indian Commodity Exchange (ICEX): It is a commodity futures exchange and is located in Mumbai. It offers trading in commodity futures such as gold, silver, and crude oil.

Multi Commodity Exchange (MCX): It is another commodity futures exchange located in Mumbai. It offers trading in commodity futures such as gold, silver, and crude oil.

National Commodity and Derivatives Exchange (NCDEX): It is a commodity futures exchange located in Mumbai. It offers trading in commodity futures such as agricultural products, metals, and energy.

These are some of the major stock exchanges in India.

Role and Functions

Stock exchanges play a crucial role in modern economies by providing a platform for buying and selling securities, such as stocks, bonds, and derivatives. Some of the key roles of stock exchanges include:

Facilitating trading: Stock exchanges provide a centralized marketplace where buyers and sellers can come together to trade securities in a transparent and regulated manner.

Price discovery: The stock market helps to determine the price of securities through the forces of supply and demand. The prices of securities on the exchange reflect the collective judgment of all the buyers and sellers participating in the market.

Liquidity: By providing a platform for trading, stock exchanges enhance the liquidity of securities. This means that investors can easily buy and sell securities at any time, making it easier for them to manage their portfolios and adjust their positions as needed.

Transparency: Stock exchanges provide transparent pricing and reporting of trades, which helps to promote market efficiency and fairness.

Capital formation: Stock exchanges play a critical role in raising capital for companies by facilitating the initial public offerings (IPOs) of new companies and providing a platform for companies to issue additional shares or bonds to raise more capital.

The stock exchanges are essential to the functioning of modern economies, providing a vital platform for trading securities, setting prices, and promoting transparency and liquidity in the market.

Market Types

NEAT system

NEAT stands for National Exchange for Automated Trading, which is a fully automated screen-based trading system that was introduced by the National Stock Exchange of India (NSE) in 1994. The NEAT system has several different market types that are used for trading different types of securities. These market types include:

Normal Market: This is the most commonly used market type, where securities are traded in a regular manner based on their market price.

Odd Lot Market: This market type is used for trading securities in lots that are less than the standard trading lot. This market is designed to facilitate trading for small investors who cannot afford to buy or sell in the standard trading lot.

Retail Debt Market: This market type is used for trading debt securities such as bonds, debentures, and government securities.

Wholesale Debt Market: This market type is used for trading debt securities in large quantities. It is primarily used by institutional investors such as banks, mutual funds, and insurance companies.

Call Auction Market: This market type is used for trading securities at a predetermined price. Orders are collected for a specific period, and the system matches the buy and sell orders at the predetermined price.

Block Deal Market: This market type is used for trading large quantities of securities. It is primarily used by institutional investors to trade in large blocks of shares.

Overall, the NEAT system of market types provides a range of options for investors to trade securities in a manner that suits their specific needs and preferences.

Stock Market Information System

A stock market information system is a computer-based system that provides investors and traders with real-time information about the stock market. It allows users to access a variety of data, such as stock prices, trading volumes, news articles, financial statements, and other market-related information. Some of the key features of a stock market information system include:

Real-time data: The system provides real-time information about the stock market, allowing investors and traders to make informed decisions in a timely manner.

Customizable dashboards: Users can customize their dashboards to display the information that is most relevant to their needs, such as stock prices, news headlines, and financial ratios.

Charting and technical analysis: The system provides advanced charting and technical analysis tools that allow users to analyze market trends and patterns, and make informed trading decisions.

News and analysis: The system provides access to news articles and market analysis from a variety of sources, allowing users to stay up-to-date on market developments and make informed decisions.

Portfolio management: The system allows users to manage their investment portfolios, track their holdings, and monitor their performance over time.

A stock market information system is a powerful tool for investors and traders, providing them with the real-time data, analysis, and insights they need to make informed decisions in the stock market.

Activity 2

1) Take a look at the Bombay Stock Exchange quotations published in Economic Times and write out hereunder price quotations for five Shares and five Debentures.

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2.6 DIFFERENT STOCK MARKETS

National Stock Exchange of India (NSE): It is the leading stock exchange in India in terms of market capitalization and trading volumes. NSE was founded in 1992 and is headquartered in Mumbai, India.

NSE offers a platform for trading in equities, equity derivatives, debt instruments, currencies, and exchange-traded funds (ETFs). The exchange operates on an electronic trading platform, which enables investors to trade securities from anywhere in India through a network of brokers.

NSE has played a significant role in the development of the Indian capital markets, introducing new products and services, and adopting best practices in technology and regulation. NSE has also been instrumental in popularizing equity investments among retail investors in India through initiatives like the National Stock Exchange's Certification in Financial Markets (NCFM) program, which provides education and training in financial markets.

NSE is regulated by the Securities and Exchange Board of India (SEBI), which sets the rules and regulations governing the exchange. The exchange is also a member of the World Federation of Exchanges (WFE), which represents the interests of the global exchange industry.

NSE is an important platform for investors to participate in the Indian capital markets, providing a secure and transparent environment for trading in a wide range of securities.

Bombay Stock Exchange (BSE) : It is one of the oldest and the first stock exchanges in Asia, established in 1875 in Mumbai, India. BSE offers a platform for trading in equities, equity derivatives, debt instruments, currencies, and mutual funds.

BSE operates on an electronic trading platform, similar to NSE, which enables investors to trade securities from anywhere in India through a network of brokers. BSE is also home to several prominent indices, including the BSE Sensex, which is a benchmark index of the top 30 companies listed on the exchange. BSE has played an important role in the development of the Indian capital markets, introducing new products and services, and adopting best practices in technology and regulation. BSE is also known for its initiatives in investor education and protection, including setting up the Investor Protection Fund to compensate investors in case of default by trading members.

BSE is regulated by the Securities and Exchange Board of India (SEBI), which sets the rules and regulations governing the exchange. The exchange is also a member of the World Federation of Exchanges (WFE), which represents the interests of the global exchange industry.

Overall, BSE is an important platform for investors to participate in the Indian capital markets, providing a secure and transparent environment for trading in a wide range of securities.

Metropolitan Stock Exchange of India (MSEI): It is a stock exchange in India that was founded in 2008 and received recognition as a stock exchange in 2012. It is headquartered in Mumbai, India.

MSEI offers a platform for trading in equities, equity derivatives, and currency derivatives. The exchange uses an electronic trading platform, similar to NSE and BSE, which enables investors to trade securities from anywhere in India through a network of brokers.

MSEI has been known for its innovative products, including its flagship product, the Multi Commodity Exchange (MCX) Currency Futures, which enables trading in currency derivatives. It has also been active in promoting investor education and awareness programs to increase the participation of retail investors in the Indian capital markets.

MSEI is regulated by the Securities and Exchange Board of India (SEBI), which sets the rules and regulations governing the exchange. However, in 2019, MSEI was placed under a surveillance mechanism by SEBI due to concerns over its financial viability and governance issues.

The MSEI is a relatively new player in the Indian stock exchange market, and it has faced some challenges in gaining market share and maintaining financial stability. However, it continues to offer a platform for trading in equities and derivatives, and it has been active in promoting investor education and awareness programs.

Indian Commodity Exchange Limited (ICEX): It is a national-level commodity futures exchange in India that was launched in 2009. The exchange offers a platform for trading in a wide range of commodities, including precious metals, base metals, energy, and agricultural commodities.

ICEX uses an electronic trading platform, which enables investors to trade commodities from anywhere in India through a network of brokers. The exchange operates on a transparent and regulated marketplace, with standardized contracts, price discovery mechanisms, and risk management systems. ICEX is known for its flagship product, the Diamond Futures Contract, which enables trading in diamonds as a commodity. This product is unique in the Indian commodity futures market and has helped to increase the transparency and efficiency of the diamond trade in India.

ICEX is regulated by the Securities and Exchange Board of India (SEBI), which sets the rules and regulations governing the exchange. The exchange is also a member of the World Federation of Diamond Bourses (WFDB), which represents the interests of the global diamond industry.

ICEX is an important platform for investors to participate in the Indian commodity futures market, providing a secure and transparent environment for trading in a wide range of commodities. The exchange has been innovative in introducing new products and services, and it has played a significant role in the development of the Indian commodity futures market.

National Commodity and Derivatives Exchange Limited (NCDEX): It is a national-level commodity futures exchange in India that was launched in 2003. The exchange offers a platform for trading in a wide range of commodities, including agricultural commodities, metals, energy, and other raw materials.

NCDEX uses an electronic trading platform, which enables investors to trade commodities from anywhere in India through a network of brokers. The exchange operates on a transparent and regulated marketplace, with standardized contracts, price discovery mechanisms, and risk management systems. NCDEX is known for its flagship products, including futures contracts for agricultural commodities like wheat, soybean, chana, and castor seed. The exchange has been instrumental in improving the efficiency and transparency of agricultural commodity trading in India, enabling farmers and other stakeholders to hedge their price risks and access better prices.

NCDEX is regulated by the Securities and Exchange Board of India (SEBI), which sets the rules and regulations governing the exchange. The exchange is also a member of the World Federation of Exchanges (WFE), which represents the interests of the global exchange industry.

The NCDEX is an important platform for investors to participate in the Indian commodity futures market, providing a secure and transparent environment for trading in a wide range of commodities. The exchange has played a significant role in the development of the Indian commodity futures market, particularly in the agricultural sector.

Multi Commodity Exchange of India Ltd. (MCX): It is India's largest commodity derivatives exchange, with a market share of over 90%. MCX facilitates online trading of a wide range of commodities, including metals, energy, agricultural commodities, and bullion. MCX was established in 2003 and has since become a leading player in the Indian commodities market.

The exchange offers a range of futures contracts with different expiry dates, which allow market participants to hedge their price risk or speculate on the price movements of various commodities. MCX operates through a network of over 500,000 terminals, spread across more than 1,000 cities and towns in India. The exchange has a state-of-the-art trading platform that provides real-time price information, market news, and analysis to market participants. MCX is regulated by the Securities and Exchange Board of India (SEBI), which sets the rules and regulations governing the exchange. The exchange is also a member of the Federation of Indian Commodity Exchanges (FICE), which represents the interests of the commodity exchanges in India.

MCX plays an important role in the Indian commodities market, providing a platform for price discovery and risk management for market participants. MCX offers trading in a wide range of commodities, including metals, energy, agricultural commodities, and bullion. Here are a few examples of the commodities that are traded on MCX:

Gold: MCX is a major platform for trading in gold futures, with contracts for different delivery months. The gold traded on MCX is 24 karat, and the minimum contract size is one kilogram.

Crude oil: MCX also offers trading in crude oil futures, with contracts for different delivery months. The crude oil traded on MCX is of the WTI (West Texas Intermediate) variety, and the minimum contract size is 100 barrels.

Copper: MCX is a leading platform for trading in copper futures, with contracts for different delivery months. Copper is a widely used metal in construction and manufacturing, and its price movements are closely watched by traders and investors.

Natural gas: MCX also offers trading in natural gas futures, with contracts for different delivery months. Natural gas is a key source of energy, and its price movements are influenced by factors such as supply and demand, weather conditions, and geopolitical events.

The exchange offers a range of other commodities as well, such as silver, zinc, lead, and agricultural products like cotton, soybean, and crude palm oil.

2.7 SECURITIES EXCHANGE BOARD OF INDIA (SEBI)

SEBI (Securities and Exchange Board of India) is the regulatory body for the securities market in India. It is responsible for regulating and supervising the securities market in India and ensuring its proper functioning. SEBI issues various guidelines from time to time to ensure that the market operates in a fair and transparent manner. Some of the important SEBI guidelines are:

1. **Insider Trading**: SEBI has issued guidelines to prevent insider trading in the stock market. Insider trading refers to the practice of buying or selling securities by people who have access to non-public information about the organization.

2. **Takeover Code**: SEBI has also issued guidelines for the takeover of companies. The takeover code provides a framework for the acquisition of shares and control of companies.

3. **Listing Agreement**: SEBI has mandated certain rules for companies that are listed on the stock exchanges. These rules are included in the Listing Agreement and cover areas such as financial reporting, shareholder communication, and corporate governance.

4. **Mutual Funds**: SEBI has also issued guidelines for mutual funds. These guidelines cover areas such as investment restrictions, disclosure requirements, and management fees.

5. **Primary Market**: SEBI regulates the primary market through its guidelines for initial public offerings (IPOs). These guidelines cover areas such as the eligibility criteria for companies to go public, the process of issuing shares to the public, and the disclosures required.

These are just a few examples of the guidelines issued by SEBI. SEBI continuously updates and revises its guidelines to ensure that the securities market in India operates in a fair and transparent manner.

2.8 SUMMARY

In this Unit, we have discussed two segments of Indian securities market namely primary market or new issues market and secondary market or stock market. We have highlighted recent trends in the primary market and discussed various types of market players and trading arrangements which exist in the Indian stock market. Different aspects of the Indian stock market and stock market information system have been explained so that you are able to clearly visualise the environment in which investment and portfolio management decisions are made. The unit also discusses various types of stock markets and the role of SEBI as a regulatory body.

2.9 KEY WORDS

Initial Public Offering (IPO) : It is the process by which a private organization offers shares of its stock to the public for the first time

Multi Commodity Exchange of India Ltd. (MCX) : It is India's largest commodity derivatives exchange.

National Stock Exchange of India (NSE) : It is the largest stock exchange in India in terms of market capitalization and trading volumes.

Primary Market : Are markets where companies can raise capital by issuing new securities to the public for the first time.

Secondary Market : The secondary market is the segment in which outstanding issues are traded and thus provide liquidity.

2.10 SELF ASSESSMENT QUESTIONS

1. What are the basic constituents of the securities market?
2. What are the different types of securities markets? What are their role and functions?
3. What are different categories of players operating in primary and secondary markets?
4. Write a brief note on the management of stock exchanges in India.
5. Briefly discuss recent trends in the development of the primary market in India.
6. Describe NSE?

2.11 FURTHER READINGS

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