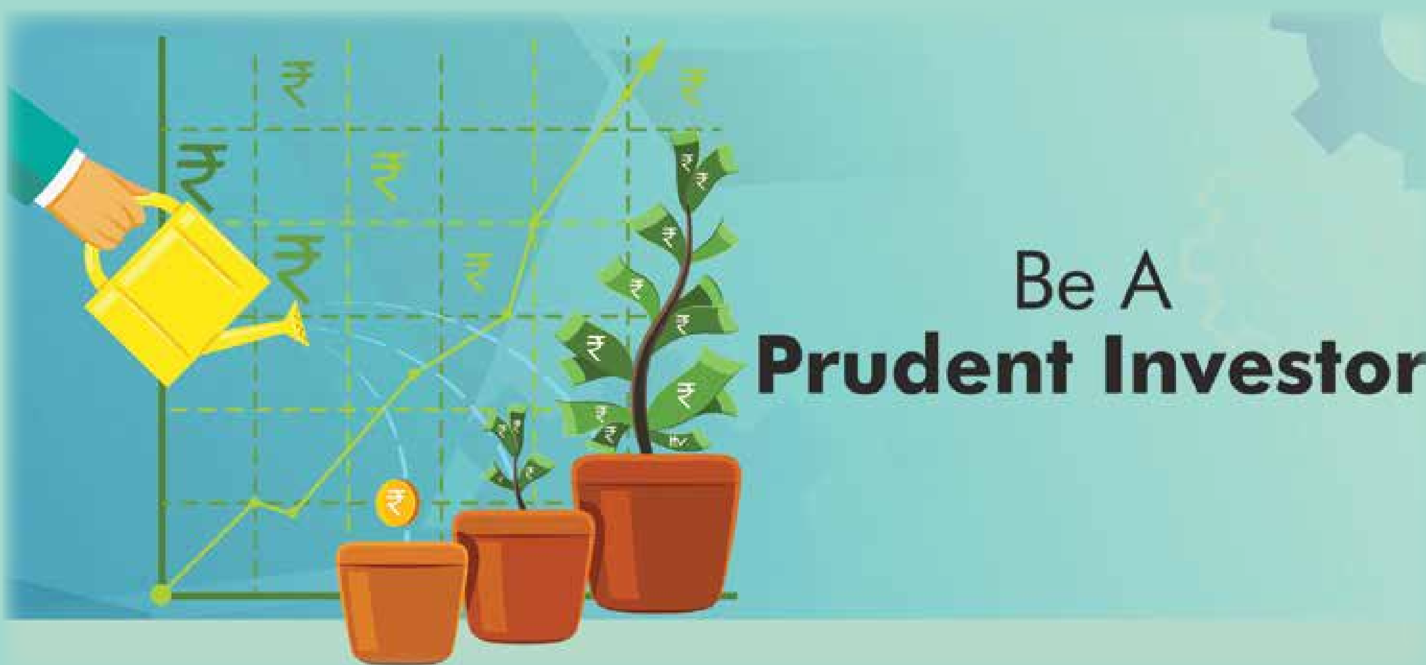
December 2019

The Financial Kaleidoscope

Defining the different shapes of investment



From The Editor's Desk

According to a recent study, more than half of Indians believe that they will find it difficult to achieve the life goals they have set for themselves. The study also revealed that an almost equal number of people believe that they have not done a sufficient amount of financial planning.

For a large country like India, these numbers are quite staggering. If you look at this in conjunction with the Government's objective of becoming a USD 5 trillion economy, it becomes clear that the retail investors will need to play a major role to help achieve this ambitious target. Fortunately, we have world-class investment infrastructure and mature financial markets that offer investors several avenues for investing, including a robust capital market.

In October and November 2019 issues of this newsletter, we had covered some basic information about demat account. This issue of our newsletter covers basics about stock market investing and information on working of the stock market.

We hope you find this useful in your journey to become a 'Prudent Investor'. As always, we value your opinion and would like to hear from you. Please do write to us at **info@nsdl.co.in** with your feedback and suggestions to make this newsletter better.

Regards,

Team NSDL

What are the different securities traded in stock exchange?

There are two major exchanges in India, NSE & BSE. Following products are available for investors to buy/sell in them –

i. Equity shares and other kinds of securities (debentures, mutual fund units, ETFs, government securities, etc.).

ii. Derivative products on equity, currency and indices.

iii. Derivative products on commodities.

Trading activity in above happens in different segments of stock market. For example, equity shares are traded in segment called 'Equity segment' in BSE or 'Capital Market segment' in NSE. Similarly, derivative products on equities like Stock Options, Stock Futures are traded in segment named 'Futures and Options' (F & O in short) in NSE.

Whether trades in commodity derivatives happen in NSE / BSE?

Till recently, trading in commodity derivatives used to happen in dedicated commodity exchanges such as MCX and NCDEX only. Now, SEBI has permitted stock exchanges to facilitate trading in commodity derivative products also. Accordingly, NSE and BSE are now offering trading in various commodity derivative products.

How does trading take place in a stock exchange?

Let's understand this by taking an example of Mr. A, who wants to buy 100 shares of PQR Limited at prevailing market price around ₹ 200 per share.

- On January 6, 2020, Mr. A calls his broker on a specified mobile number from his mobile number registered in the brokers' system. Once connected, he identifies himself by quoting his Unique Client Code (UCC) and mentions that he wants to buy 100 shares of PQR Limited at the ongoing price of ₹ 200 per share on NSE.
- Broker verifies that the order is from the clients' registered mobile number, matches with the UCC quoted, verifies details like DOB etc. and that required margin amount is available. This verification can be manual or a system driven automatic process. If satisfied, the broker accepts the order and sends an order confirmation to the client.
- Most brokers first enter the order in their back office. After that, the order is placed in the trading system of the stock Basics of Capital Market exchange, NEAT (National Exchange for Automated Trading) in case of NSE or BOLT (BSE's On-Line Trading) for BSE.
- The order thus entered in the stock exchange system becomes a 'trade' if the exchange's system finds an opposite matching order.
- If no matching order is found till the time of market closure on that day, all such outstanding orders are cancelled by the system. Till an order is matched or cancelled, it can be recalled or modified by the concerned broker.
- In this example, Mr. A's order finds a matching opposite order (meaning that there is a sell order of 100 shares of PQR Limited in the NEAT at the same price). So Mr. A's order results in a trade.
- At the day end:
  - √ Trade confirmation intimation is sent by the exchange to Mr. A.
  - √ His broker generates a 'Contract Note' and sends it to Mr. A's registered email ID.
  - √ Clearing corporation connected with exchange (NSE Clearing Limited in this case) generates an 'Obligation Report' for each broker. This report contains the number of shares required to be delivered by that broker to the clearing corporation. Assuming that there was no other buy and sell trade by that broker on that day, the broker would be required to deposit amount of purchase consideration and would be entitled to receive 100 shares of PQR Limited from NSE Clearing Limited.
  - √ Likewise the counter-party broker will have to deliver 100 shares of PQR Limited to clearing corporation.
- The settlement of trade in equity shares in demat form happens compulsorily on a T+2 basis. This means, the broker is required to pay purchase consideration to the clearing corporation in this case by January 8, 2020 (by a fixed time) and is entitled to receive shares of PQR Limited on the same day from NSE Clearing Limited.
- Assuming that the necessary amount is paid by the broker to NSE Clearing Limited (meaning he/she meets his funds pay-in obligations), the clearing corporation provides a payout to the broker in the form of 100 shares of PQR Limited on January 8, 2020.
- The broker receives securities payout (100 shares of PQR Limited) in his pool account kept with his DP ABC Limited.

From this demat account, he transfers 100 shares of PQR Limited to demat account of Mr. A which is kept with BCD Bank Limited, another DP, on January 9, 2020. As per SEBI guidelines, broker is required to give securities bought to the buying client within 24 hours of receiving the payout from the clearing corporation.

What are the timelines for pay-in and pay-out at the exchange? What is the importance of these timelines for clients?

The trades happening in equity shares are settled on a T+2 basis. It is important for the exchanges to ensure that buyers get the shares and sellers get the consideration within a prescribed time. To ensure this, clearing corporations prescribe time limits for brokers of the sellers to deliver the shares to the demat account of clearing corporation. Similarly, timelines are prescribed for brokers of the buyers to deposit the purchase amount in the designated bank account of the clearing corporation. Brokers will be able to meet the above timelines only when their clients (buyer or seller) in turn provide them the amount /shares on time. As the instructions related to pay-in and pay-out of securities are time-critical, DPs holding the demat account of the clients and brokers prescribe their own timelines by which they must get the instruction slip to process them in the depository system.

The pay-in of securities needs to happen by 10:30 am on T+2 day whereas the pay-out happen by 1:30 pm on same day in the depository system.

What happens if a broker fails to deliver securities to a clearing corporation by the stipulated time?

On the settlement day, clearing corporation accepts pay-in of securities from members/ brokers and calculates the shortages, if any. To fulfill the gap, trading is allowed in the auction segment (described later).

What is the difference between a stock exchange and a clearing corporation?

A stock exchange is an entity that provides the facility to its members to trade in various kinds of securities. National Stock

Exchange of India Limited (NSE), Bombay Stock Exchange

Limited (BSE) and Metropolitan Stock Exchange of India Limited (MSE) are some examples of SEBI recognized stock exchanges in India. Clearing Corporation is a separate entity that undertakes the clearing and settlement of the trades that happen on the stock exchange platform. In the process of clearing a trade, the clearing corporation assumes the role of a counter party for each trade. As a counterparty, it undertakes to provide money to seller' broker and shares to buyers' broker, subject to fulfilling their pay-in obligations.

In India, all the recognized stock exchanges have formed a wholly owned subsidiary company which acts as clearing corporation for them. NSE Clearing Limited, Indian Clearing Corporation Limited and Metropolitan Clearing Corporation Limited are SEBI recognized clearing corporations, currently providing clearing and settlement services to their parent exchanges.

What is the meaning of Core Settlement Guarantee Fund (Core SGF)?

In India, trading in shares happens on an automatic electronic system provided by the stock exchanges. Trading happens in anonymous mode, meaning buyers and sellers do not know each other. So, essentially the trading happens on the trust reposed by brokers (and their clients) in the stock exchange. Further, exchanges are mandated to provide a guarantee of the settlement of trades through a clearing corporation. Guarantee of settlement of trade means an assurance to buyers that they will get the shares purchased if they pay the price and assurance to sellers that they will get amount if they have transfered the shares. In order to enable clearing corporations to provide such a guarantee, SEBI has mandated them to maintain a Core Settlement Guarantee Fund (Core SGF). If a broker/member fails to meet the obligation, this fund can be utilized to compensate for the other party of the trade.

Clearing Corporations maintain Core SGF for each segment of every recognised stock exchange to guarantee the settlement of trades executed in that segment.

What are the different types of orders that can be placed by an investor in Equity segment?

Some important types of orders are described below -

- **Day order** – An order which is valid for the day on which it is entered. If the order is not matched during the day, during the day, it gets cancelled automatically at the end of the trading day.
- **Immediate or Cancel (IOC) order** – It allows a member to buy or sell a security as soon as the order is released in the trading system, failing which the order is removed from the system. A partial match is possible for the order, and the unmatched portion of the order is cancelled immediately.
- **Limit Price Order** – An order that allows the price to be specified while entering the order into the system.

- **Market Price Order** – An order to buy or sell securities at the best price available at the time of entering the order in the system.
- **Stop Loss (SL) Order** – It allows the member to place an order which gets activated only when the market price of the security reaches a predefined price. A sell order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or falls below the trigger price of the order. A buy order in the Stop Loss book gets triggered when the last traded price in the normal market reaches or exceeds the trigger price of the order.
- **Disclosed Quantity (DQ) order** – An order which allows the member to disclose only a part of the order quantity to the market. For example, an order of 1000 with a disclosed quantity condition of 200 will mean that only 200 quantity will be displayed to the market at a time. Once this order gets executed, another order of 200 quantity is automatically released and so on till the full order is executed.

What are the different sub-segments of Equity segment?

Following are few important sub-segments of Equity segment

i. **Rolling Settlement (Normal settlement in BSE):** Under rolling settlement, the trades done on a particular day are settled after a given number of working days. So, T+2 settlement cycle means that settlement of trades done on 'T' takes place on 2nd business day (excluding Saturdays, Sundays, bank and exchange trading holidays) after the trading day. Pay-in and pay-out of both, funds and securities are completed on the same day on a net basis. Net basis means a broker is required to deliver only those many shares of a company by which his sell trades exceed the buy trades.

   Let's take an example to understand this. Mr. B, a broker has sold total 10,000 shares of 'PQR Limited' on January 24, 2020. On the same day, he has purchased total 8,000 shares of 'PQR Limited'. Net basis settlement means, Mr. B will be required to deliver the net quantity that is (10,000-8,000 = 2,000) to clearing corporation as securities pay-in obligation.

   India is one of the very few countries which adopted 'T+2' basis settlement way back in 2003.

ii. **Trade for Trade Settlements (for securities in Z group and T group in BSE):** In this type, settlement happens only on a gross basis and the facility of netting of buy and sell transactions in such securities is not available. So for every sell trade, the broker is required to deliver those many securities to the clearing corporation, irrespective of his buy trades in the same security. This kind of settlement is prescribed as a risk management technique stock exchanges for select securities.

iii. **Auction:** Sometimes, it happens that a seller' broker is unable to deliver the securities or is short in terms of the number of shares required to be delivered to the clearing corporation. As a clearing corporation is mandated to ensure that the buyer gets the security, it needs to arrange for the shortage from other brokers. For this purpose, the stock exchange allows trading in a special segment named 'Auction'. Trading in this segment happens on the same day after payout and it's settlement on the next day, meaning on T+3 day. This auction is open to everyone in the market except the defaulting broker. The defaulting broker needs to pay the additional price paid by exchange to buy the shortage along with some other penalties and charges.

What is a contract note and what details should you check in a contract note?

A contract note is a very important document for investors when they trade through brokers in the stock market. It is a legal document containing the details of trades that happen on the exchange platform. Investors must ensure the inclusion and correctness of the following elements in a contract note:

- Identity of the investor (client) – name, PAN, address and the unique client code.
- Identity of the trading member (broker), his SEBI registration number and trading member code.
- Unique order number, trade number along with the timestamp for each trade.
- Name of the company, ISIN, number of shares, buy or sell, price of the trade, total transaction value, applicable brokerage and other statutory levies.
- It should contain a settlement number and the settlement date.
- Net amount payable or receivable by you.
- Signature of the member, or if the contract note is issued electronically, it must be password protected and be digitally

signed.

What is a Running Account Authorisation (RAA)?

As per standard practice, brokers are required to complete the payout to client within 24 hours of receiving the same from clearing corporation. RAA is a mechanism under which investors authorise brokers to retain the securities and funds on an ongoing basis to meet future obligations of the client. To avoid misuse and to protect investors' interests, SEBI has laid down following requirements in respect of RAA -

- The authorisation needs to be signed by the client and not by any authorised person on their behalf or by a Power of Attorney holder.
- The authorisation needs to be dated and must be renewed at least once a year.
- The investor has the right to revoke the authorisation given to a broker at any time.
- While settling the account, the broker needs to share a detailed statement of accounts containing details of all cash and securities retained.
- Stock brokers are required to transfer the funds or securities held by them on behalf of the client within one working day of receiving the request.
- Running accounts must be settled on monthly or at least on quarterly intervals, as selected by the client.

What mechanisms are available for investors to monitor and verify their trades?

- **Check fund and securities balance:** All brokers are required to provide their clients all the details related to transactions conducted on their behalf. As an investor, it is a good practice to check the fund and securities balance held by a broker on their behalf from the statements received from broker and exchange.
- **Alerts sent by brokers and exchanges:** To keep a check on unauthorised trades in their accounts, investors should subscribe to transaction alerts which notifies them about trades from their account. This facility is offered free of cost by exchanges. Investors can choose the mode (SMS or email) and periodicity (real-time or end of the day) of receiving these alerts.
- Order verification facility on stock exchange platforms: Stock exchanges offer an online order verification facility on their websites. Investors can verify details such as date and time of a transaction, name of the security, volume and price of trade among others.

What are the market timings for equity segment in BSE and NSE?

Following table describes the market timings -

Pre Open (09.00 a.m. – 09.15 a.m.)	All orders are accumulated and matched at a single market opening price at the end of the session
Continuous (09:15 a.m. to 03:30 p.m.)	Trades occur continuously as orders match on price/ time priority
Closing (03:30 p.m. to 03:40 p.m.)	Closing price calculation
Post Close (03:40 p.m. to 04.00 p.m.)	Execution of trades at the closing price determined

Source: www.bseindia.com , www.nseindia.com

Can I sell/purchase equity shares of any company on any exchange?

No. An investor can buy/sell equity shares of only those companies which are listed on that stock exchange or have been permitted by the exchange for trading purpose. It is possible that while a company may be listed, trading in its shares may be suspended by the stock exchange for some non-compliance. During such suspension, trading will not be possible in such shares.

What is dabba trading? Why you must not do it?

As per the Securities Contracts (Regulation) Act, 1956 (SCRA), trading in the shares of companies between persons other than members of a recognized stock exchange is illegal. All the trades by these members should happen on the platform of the exchange.

Dabba trading means buying and selling of shares by those who are not members of a recognized stock exchange or buying and selling shares beyond the trading system of a recognized stock exchange. Generally, dabba trading is carried out by those, who are popularly known as 'dabba operators'. They receive buy and sell orders from their clients at prevailing market prices. Instead of executing them in NEAT or BOLT, they enter in their own system / books. Settlement is also done by such operators without clearing corporation. So unlike in a case of proper market trade, where clearing corporation assumes the position of a counter party, dabba operator himself becomes the counter party. Clients indulging in such trading do not get the comfort of exchange's protective mechanism namely, trade and settlement guarantee. In case of any dispute, clients will not have any recourse to exchange and SEBI's grievance redressal system, rather they may invite legal action as dabba trading is illegal.

Whom can an investor approach for any dispute against a listed company / intermediary registered with SEBI?

There may be an occasion when an investor has a complaint against a listed company or an intermediary registered with SEBI. In such a case, investor should first approach the concerned company or intermediary against whom he/she has the complaint. If the company or intermediary fails to redress the complaint or if the investor is not satisfied with the response, then he/she can register complaint with SEBI Complaint Redress System (SCORES) platform at **https://www.scores.gov.in/.** It is an online system set up by SEBI to deal exclusively with investor complaints. It facilitates you to lodge a complaint online with SEBI and subsequently view its status.

(Useful References: www.nseindia.com, www.bseindia.com, www.sebi.gov.in)

Blog: Becoming a Prudent Investor

By Mr. M. S. Vaidyanathan, Writer, Cost Accountant and Practicing Company Secretary

Financial security is the buzz word today. Regardless of one's income, it is not the zeroes in the salary that matter but the deft approach in managing expenditure to leave some surplus for investment, that counts. It is this surplus out of income that can be deployed in various investment avenues with a judicious mix of risk and return that over a period of time gives the much touted financial security to face the world with confidence besides facilitating a comfortable lifestyle.

Avenues for Investment

There is no one size fits all investment pattern. More than the thumb rule that books talk of, it is every individual's disposable income, past experience, if any, that forms the guiding factor while making investment decisions. It is a continuous learning process. Depending on the available funds and period for which they can be parked vis-a- vis returns envisaged, there are a number of avenues available for investment right from deposits in banks and companies to mutual funds, shares other securities.

Getting Started

Understanding capital market is the first step. Update yourself by attending investor awareness programmes where you not only get to learn but also interact with fellow investors and intermediaries. Reading financial periodicals regularly also helps. SEBI registered investment advisors can be approached for guidance.

Taking informed investment decisions

- **Safety of capital:** There is no fool proof method of investing with assured expected returns without the risk of losing out at some point in time. For retail investors, its best to stay away from speculation or in common parlance, gambling.
- **Reliability of the level of return:** You should endeavour to know the basics of the company where you are contemplating to invest in terms of their share capital, reserves, track record in terms of dividend payment and bonus/ rights issues.
- **Do you want periodical returns or return at the end of a long period?** This makes sense especially if you are tax payer. If you are at the highest tax bracket, you may prefer capital appreciation rather than income.
- **Diversification of portfolio:** Diversification is a risk management strategy that mixes a wide variety of assets in a portfolio in an attempt to limit exposure to any single asset.
- **Your tax position:** The income from your investments depends not only on the returns but also on the tax you pay on them. As an investor, one should look for investment options that not only helps you save tax but also generate tax-free income.

Above all, do not forget to periodically review your portfolio. Happy investing.

Forthcoming Investor Awareness Programmes

Sr. No.	Date	Venue	City	State / UT	Timing
1	31-Jan-20	Morsel Restaurant, G F Atlantis Heritage, Sarabhai Main Road, Wadi, Vadodara - 390017, Gujarat	Vadodara	Gujarat	07.00 p.m. - 09.00 p.m.
2	31-Jan-20	Navjivan Restaurant, G/42-44 Belgium Tower, Opposite Linear,Bus Stand, Ring Road, Umarwada, New TextileMarket, Surat - 395006, Gujarat	Surat	Gujarat	05.00 p.m. - 08.00 p.m.
3	2-Feb-20	Kala Bou Restaurant, Shanti Villa, Borai Telier More Bypass, Singur (Beside Petrol Pump), Hooghly - 712306, West Bengal	Hooghly	West-Bengal	03.00 p.m. - 06.00 p.m.
4	7-Feb-20	Hotel S V N Lake Palace, Near Lower Tankbund Road R T C Complex Area, Gadi Khana, Balaji Nagar, Vizianagaram -535003, Andhra Pradesh	Vizianagaram	Andhra Pradesh	05.00 p.m.- 08.00 p.m.
5	8-Feb-20	ATI Training Hall, Administrative Training Institute, Kavaratti, Lakshadweep, 682555	Kavaratti	Lakshadweep	10.00 a.m. - 01.00 p.m.
6	8-Feb-20	Hotel M B Plaza, Near Thane Mod, Jaipur Road, Chomu - 303702, Rajasthan	Chomu	Rajasthan	06.00 p.m. - 09.00 p.m.
7	8-Feb-20	Hotel Daspalla, 28-2-48, Suryabagh, Jagadamba Junction, Visakhapatnam - 530020, AP	Vizag	Andhra Pradesh	10.00 p.m. - 12.30 p.m.
8	22-Feb-20	Hotel Sasya Pride, Survey 209/4 & 209/8, Woodland Complex kurnool - 518002, Andhra Pradesh	Kurnool	Andhra Pradesh	06.30 p.m. - 09.00 p.m.

∗ Schedule is subject to change. Please visit https://nsdl.co.in/Investor-Awareness-Programmes.php for updated schedule. Admission is free for all investors on a first come, first serve basis. Please register yourself online at above link before attending any program.

Question for Knowledge Wins contest !

Why does auction trading happen in stock market?

Email your reply mentioning your name, address and contact no. with the subject 'Knowledge Wins Contest - December 2019' to info@nsdl.co.in

Terms and Conditions

- NSDL shall be solely responsible for the execution and administration of this Contest.
- This Contest is only open to Indian Citizens. (NSDL employees are not allowed to participate in this contest).
- All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL.
- NSDL reserves the right, at any time, to verify the validity of entries and entrants and to dispqalify any entry not submitted in accordance with these Terms or which tampers with the entry process.
- NSDL reserves the right to discontinue the contest at any given point of time without prior intimation.
- All prize drawings will made on a strictly random basis and the decision made by NSDL will be final.

Your suggestions for newsletter are valuable to us. Send in your suggestions mentioning your name, address and contact number with the subject "Suggestions for the newsletter" to info@nsdl.co.in

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- To know more about NSDL Certification Program, you can email us at trainingdept@nsdl.co.in
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