Stock Market
India and General

A stock exchange is an organization which provides a platform for trading shares- either physical or virtual. The origin of the stock market dates back to the year 1494, when the Amsterdam Stock Exchange was first set up. In a stock exchange, investors through stock brokers buy and sell shares in a wide range of listed companies. A given company may list in one or more exchanges by meeting and maintaining the listing requirements of the stock exchange.

In financial terminology, stock is the capital raised by a corporation, through the issuance and sale of shares. In common parlance, however, stocks and shares are used interchangeably .A shareholder is any person or organization which owns one or more shares issued by a corporation. The aggregate value of a corporation's issued shares , at current market prices, is its market capitalization. Stock broker buys and sells for an investor and does the work of arranging the transfer of stock from a seller to a buyer.

Importance of Stock Exchanges

- For efficient working of the economy and for the smooth functioning of the corporate form of organization, the stock exchange is an essential institution.
- an efficient medium for raising long term resources for business
- Help raise savings from the general public by the way of issue of equity / debt capital
- attract foreign currency
- exercise discipline on companies and make them profitable
- investment in backward regions for job generation
- another vehicle for investors' savings

Stock Exchanges in India

The first company that issued shares was the VOC or Dutch East India Company in the early 17th century (1602). Since then we have come a long way.With over 25m shareholders today, India has the third largest investor base in the world after the USA and Japan. Over 9,000 companies are listed on the stock exchanges, which are serviced by approximately 7,500 stockbrokers. The Indian capital market is significant in terms of the degree of development, volume of trading and its tremendous growth potential.

Stock exchanges provide an organised market for transactions in securities and other securities. There are 25 stock exchanges in the country, 21 of them being regional ones with allocated areas. BSE, National Stock Exchange (NSE), the Over the Counter Exchange of India Limited (OTCEI) , MCX-SX, USE and Inter-connected Stock Exchange of India Limited (ISE) are the pan Indian stock exchanges(read ahead). Important Stock Exchanges in India are Bombay Stock Exchange, popularly known as BSE and National Stock Exchange located in Bombay. MCX-SX began equity trading in 2013. MCX,-SX is a joint venture between Financial Technologies India (FTIL) and Multi Commodity Stock Exchange (MCX).

Stock Exchanges in India

1. Ludhiana	2. New Delhi	3. Jaipur	4. Meerut
5. Ahmedabad	6. Rajkot	7. Indore	8. Vadodara
9. Bombay	10. Pune	11. Hyderabad	12. Mangalore
13.Bangalore	14. Ernakulam	15. Coimbatore	16. Madras
17. Patna	18. Kanpur	19. Bhubaneshwar	20. Calcutta
21. Guwahati			

National Stock Exchange (NSE)

It is stock exchange located in Mumbai, India. National Stock Exchange (NSE) was established in 1992 and starts trading in 1993. It was recognised as a stock exchange in 1993. NSE has played a critical role in reforming the Indian securities market and in bringing transparency, efficiency and market integrity.

NSE has a market capitalisation of more than US$ 1 trillion 989 and 1,635 companies listed as on July 2013. Though a number of other exchanges exist, NSE and the Bombay Stock Exchange are the two most significant stock exchanges in India, and between them are responsible for the vast majority of share transactions. NSE's flagship index, the **CNX NIFTY 50**, is used extensively by investors in India and around the world to take exposure to the Indian equities market.

There are many domestic and global institutions and companies that hold stake in the exchange. Some of the domestic investors include LIC, GIC, State Bank of India and IDFC Ltd. Foreign investors include Citigroup.

The Standard & Poor's CRISIL NSE Index 50 or S&P CNX Nifty -Nifty 50 or simply Nifty is the leading index for large companies on the National Stock Exchange of India. The Nifty is a well diversified 50 stock index accounting for 21 sectors of the economy

The CNX Nifty Junior is an index for companies on the National Stock Exchange of India. It consists of 50 companies on the National Stock Exchange of India. It has the second tier of stocks in terms of market cap and don't make it into Nifty

The Inter-Connected Stock Exchange of India Limited (ISE)

The Inter-Connected Stock Exchange of India Limited (ISE) is being promoted by regional stock exchanges to set up a new national level stock exchange. The ISE would provide a national market in addition to the trading facility at the regional stock exchanges.

Indonext

BSE, Federation of Indian Stock Exchanges and regional stock exchanges have promoted IndoNext. The regional stock exchanges that are part of Indonext include Madras Stock Exchange, Bangalore Stock Exchange, Interconnected Stock Exchanges of India, Ludhiana Stock Exchange and Vadodara Stock Exchange. IndoNext is envisaged to bring liquidity and attention to stocks that are listed on RSEs.

MCX Stock Exchange Limited (MCX-SXAT)

It is an Indian stock exchange. It commenced operations in the Currency Derivatives (CD) segment in 2008 and equities in 2013. **SX40** is the flagship Index of MCX-SXAT.

USE

The **United Stock Exchange of India** (USE) is an Indian stock exchange. It is the 4th pan India exchange launched for trading financial instruments in India. USE represents the commitment of 21 Indian public sector banks, private banks, international banks (Standard Chartered) and corporate houses to build an institution of repute.

USE launched its operations in 2010 and deals in currency futures.

OTC Exchange Of India (OTCEI)

It also known as Over-the-Counter Exchange of India based in Mumbai.It is the first exchange for small companies.

OTCEI is promoted by the Unit Trust of India, the Industrial Credit and Investment Corporation of India, the Industrial Development Bank of India, the Industrial Finance Corporation of India and others and is a recognised stock exchange.

BSE

Bombay Stock Exchange (BSE) is the 11th largest stock exchange in the world by market capitalisation. Established in 1875, it has more than 5000 companies listed making it world's No. 1 exchange in terms of listed members. The companies listed on BSE Ltd command a total market capitalization of USD Trillion 1.32 as of January 2013.

BSE's popular equity index - the S&P BSE SENSEX [Formerly SENSEX] - is India's most widely tracked stock market benchmark index. It is traded internationally on the EUREX as well as leading exchanges of the BRICS nations (Brazil, Russia, China and South Africa). On Tuesday, 19 February 2013 BSE has entered into Strategic Partnership with S&P DOW JONES INDICES and the SENSEX has been renamed as "S&P BSE SENSEX".

One of the unique features inside the BSE includes the automatic online trading system known as BOLT that ensures an efficient and transparent market for trading in equity, debt instruments and derivatives.

In 2005, the status of the exchange changed from an Association of Persons (AoP) to a full fledged corporation under the BSE (Corporatization and Demutualization) Scheme, 2005 and its name was changed to The Bombay Stock Exchange Limited.

Classification of companies listed in BSE

Group	Classification
A	Companies with large capital base, large shareholder base, and good growth record with regular dividends & greater volumes in secondary market.
B1	Relatively liquid scrips with good management & satisfactory growth prospects & volumes
F	Segment for Non-convertible debentures
G	Central and State Government Securities
Z	It comprises of companies not complying with clauses of the listing agreement and are not redressing the grievances of the investor.

Sensex

Sensex or Sensitive Index is a value-weighted index composed of 30 companies with the base 1978-1979 = 100. It consists of the 30 largest and most actively traded blue chip stocks, representative of various sectors, on the Bombay Stock Exchange. Inclusion of the company is basically on the basis of market capitalization. The 30 companies in the index are revised periodically- some are replaced by others and new sectors may find representation as the economy evolves.The Sensex is generally regarded a mirror or barometer of the Indian stock markets and economy.

Demutualization

Mutualization refers to ownership and management of the exchange being combined in the same hands- brokers elected by the broker community from among themselves. Brokers are the owners of the BSE. Demutualization is when management and ownership are separated . Ownership is divested from the brokers and the company becomes a public company . All stock exchanges are to be demutualised according to the Government law made in 2004. Demutualization, thus means that ownership, management and trading rights are separated in a stock exchange.

Global rankings of BSE and NSE

The Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) are among top five bourses across the emerging economies of the world in terms of market capitalisation.Listing out a total of 14 stock exchanges across emerging countries, Sebi said the BSE stood at fourth position and the NSE at fifth among these bourses in terms of cumulative market capitalisation of all The BSE stood at the fourth position with a market cap of $1,101.87 billion as on June 30, 2012.The NSE stood at fifth spot with market valuation at $1,079.39 billion at June-end.

BSE SME and NSE Emerge

Leading bourses BSE and NSE in 2012 launched their SME exchange platforms to enable small and medium enterprises to raise funds and get listed as public entities.While BSE kick-started its SME platform under the brand name of BSE SME Exchange NSE followed suit by announcing the launch its own platform 'Emerge'.

The exchange provides an opportunity to small entrepreneurs to raise equity capital for growth and expansion. It will also provide immense opportunity for investors to identify and invest in good SMEs at early stage.

The government has been taking a number of steps for SMEs to address challenges of globalisation, higher cost of funds, IT upgrade, infrastructure constraints faced by SMEs.

SMEs have huge listing potential but so far there have been only debt-financing options, without any access to alternative equity options There is a general lack of awareness among SMEs about equity capital, stock markets and funding options, other than banks.

SEBI

The capital markets in India are regulated by the Securities and Exchange Board of India. (SEBI) It was established in 1988 and given a statutory basis in 1992 on the basis of the Parliamentary Act- SEBI Act 1992 to regulate and develop capital market. SEBI regulates the working of stock exchanges and intermediaries such as stock brokers and merchant bankers, accords approval for mutual funds, and registers Foreign Institutional Investors who wish to trade in Indian scrips. Section 11(1) of the Sebi Act says that it shall be the duty of the Board to protect the interests of investors in securities.

SEBI promotes investor's education and training of intermediaries of securities markets. It prohibits fraudulent and unfair trade practices relating to securities markets, and insider trading in securities, with the imposition of monetary penalties, on erring market intermediaries. It also regulates substantial acquisition of shares and takeover of companies and calling for information from, carrying out inspection, conducting inquiries and audits of the stock exchanges and intermediaries and self regulatory organizations in the securities market

SEBI has its head office in Mumbai and its three regional offices in New Delhi, Calcutta and Chennai.

SEBI's powers were enhanced in 2002 - strengthen the SEBI's board, enlarge it to nine from six and appoint three full-time directors; given enhanced powers to conduct search and seizure etc.

SEBI and the Reforms

The Stock Exchange Scam of 1992 (Harshad Mehta) and the scam in 2000 (Ketan Parekh) led to led to various measures by the Government to protect the interests of the small investors. SEBI introduced reforms like improved transparency, computerisation, enactment against insider trading, restrictions on forward trading, introduction of T + 2 system of settlement etc. The restriction and elimination of forward or Contango trading, referred to in India as 'Badla' is a bold step to check speculation and manipulation of the market. Some more steps taken by SEBI to strengthen markets are

- SEBI reconstituted governing boards of the stock exchanges, introduced capital adequacy norms for brokers, and makes rules for making client/broker relationship more transparent
- SEBI enforces corporate disclosures.
- Enforces ban on insider trading
- Protects retail investors
- SEBI is empowered to register and regulate mutual funds.
- introducing a code of conduct for all credit rating agencies operating in India.
- Clause 49 of the listing agreement that SEBI introduced mandates that all listed companies should have half the Directors on the Board as Independent Directors

SEBI ordinance 2013

Government promulgated ordinance a second time in 2013 September. The ordinance is for granting greater powers to Sebi to check illicit investment schemes and other market manipulations.

The Securities Laws (Amendment) Second Ordinance, 2013 would amend the Sebi Act, the Securities Contracts (Regulation) Act and the Depositories Act .Ordinance has given Sebi greater powers to crack down on ponzi schemes, seek call data records to check insider trading and carry out search and seizure operations.

The amendments also give Sebi the legal backing to clamp down on unscrupulous entities "using newer methods to take gullible investors for a ride", as per a government statement issued at the time of promulgating the first ordinance.

As per the amended law, Sebi can regulate any money pooling scheme worth Rs 100 crore or more and attach assets in cases of non-compliance, while Sebi Chairman has been authorised to order "search and seizure operations".

Sebi has also got powers to seek any information, including telephone call data records, from any person or entity in respect to any securities transaction being investigated by it.

The amendments has also sought to clear the air over regulatory gaps and overlaps with regard to different types of instruments used in raising funds illegally

Capital market reforms

Since 1991 when the Government launched economic reforms, the following measures were taken

- SEBI given statutory status- that is Act of Parliament
- Electronic trade
- Rolling settlement to reduce speculation
- FIIs are permitted since 1992
- setting up of clearing houses
- settlement guarantee funds at all stock exchanges
- compulsory dematerialization of share certificates so as to remove problems associated with paper trading; and speed up the transfer
- clause 49 of the listing agreement for corporate governance
- restrictions on PNs

Primary market

The primary market is that part of the capital markets that deals with the issuance of new securities directly by the company to the investors. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. In the case of a new stock issue, this sale is called an initial public offering (IPO). If the company already issued shares and is going to the market again with a new issue, it is called Folllow on Public Offer(FPO).

Sebi made some far reaching reforms in favour of the retail investor in August 2012- allowed electronic bidding(e-IPO) for cost effective bidding; and made the rule that retail applicant will be allotted some shares compulsorily.

Secondary market

The secondary market is the financial market for trading of securities that have already been issued in an initial public offering. Once a newly issued stock is listed on a stock exchange, investors and speculators can trade on the exchange as there are buyers and sellers.

Types of shares

There are essentially two types of shares: common stock and preferred stock.

Preferred stock is generally issued to banks by the companies though retail investors are also eligible for them. They are preferred for the following reasons

- In terms of dividend payment, generally, they are given dividends even if the common stock holders are not
- When the company is to be closed, preference stock holders are given money first from the proceeds of the sale of the assets of the companies.
- They may have enhanced voting rights such as the ability to veto mergers or acquisitions or the right of first refusal when new shares are issued (i.e. the holder of the preferred stock can buy as much as they want before the stock is offered to others).

Derivatives

Derivative is a financial instrument.It derives from an underlying asset- securities, shares, debt instruments, commodities etc.. The price of the derivative is directly dependent upon the value of the underlying asset in the present and the projected future trends. Futures and options are the two classes of derivates.

Futures

Futures are financial instruments based on a physical underlying (commodity, equities etc.). A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future for a certain price.

Futures are part of a class of securities called derivatives, so named because such securities derive their value from the worth of an underlying investment. Futures are different from forwards as the former are traded on exchange while the later may be merely a signed contract between two parties.

Options are a class of futures where the buyer or seller has the option whether to buy or not – put option is the right but not the obligation to sell. Call option is right but not the obligation to buy.

Buyback of Shares

Buyback of shares is the process of a corporation's repurchase of stock it has issued. In the case of stocks, this reduces the number of shares outstanding, giving each remaining shareholder a larger percentage ownership of the company. This is usually considered a sign that the company's management is optimistic about the future and believes that the current share price is undervalued. The company also should have reserves to do so.

Reasons for buybacks include

- putting unused cash to use
- raising earnings per share
- reducing the number of shareholders to reduce the cost for servicing them, etc.

Shares bought back need to be cancelled and thus the total equity shrinks and the shareholders benefit. Buyback price is more than the market prices.Companies can buy back with the reserves but can not borrow to buyback.It is allowed in India since 1998.

Rolling Settlement

Rolling Settlements is a mechanism of settling trades. In Rolling Settlements, trades done on a single day are settled separately from the trades of another day on the basis of Trade day + 2 days(T+2). Such netting of trades is done only for the day. As such, in Rolling Settlement, settlement is carried out on a daily basis. Since trades done on a given day can not be bunched with those of another day. Thus, speculation is drastically reduced.

Commodity exchanges

Commodity exchanges are institutions which provide a platform for trading in 'commodity futures' just as how stock markets provide space for trading in equities and their derivatives. They thus play a critical role in price discovery where several buyers and sellers interact and determine the most efficient price for the product. Indian commodity exchanges offer trading in 'commodity futures' in a number of commodities. Presently, the regulator, Forward Markets Commission allows futures trading in over 120 commodities. There are two types of commodity exchanges in the country: national level and regional. There are five national exchanges:

- National Commodity & Derivatives Exchange Limited (NCDEX)
- Multi Commodity Exchange of India Limited (MCX)
- National Multi-Commodity Exchange of India Limited (NMCEIL)
- ACE Derivatives and Commodity Exchange
- Indian Commodity Exchange (ICEX)

The unique features of national level commodity exchanges are:

- They are demutualized,
- They provide online platforms or screen based trading
- They allow trading in a number of commodities and are hence multi-commodity exchanges.

They are national level exchanges which facilitate trading from anywhere in the country.

FMC

Forward Markets Commission (FMC) headquartered at Mumbai is a regulatory authority, which was overseen by the Ministry of Consumer Affairs and Public Distribution, Govt. of India. It is a statutory body set up in 1953 under the Forward Contracts (Regulation) Act, 1952. The Commission consists of 2-4 members. Its administrative control was shifted to Finance Ministry.

It monitors and disciplines the working of the exchanges. It recognizes an exchange or can withdraw such recognition. It collects and whenever the Commission thinks it necessary, publishes information regarding the trading conditions in respect of goods.

It makes inspection of the accounts and other documents of any recognized association or registered association or any member of such association whenever it considerers it necessary.

Forward Contracts (Regulation) Amendment Bill, 2010 was introduced in the Parliament. It seeks to make FMC into a Sebi-like regulator that is independent.

Forward Markets Commission is at present is a part of the department of consumer affairs. FMC will be given more teeth to regulate exchanges and all market participants.

In addition, the bill proposes to increase the monetary penalty for contravention of the legal provisions to up to Rs 25 lakh from a meagre Rs 1,000 at present..

New products will also be traded.

Mutual Fund

Mutual fund – a financial intermediary that mops up money , from a group of investors, to invest in capital market so as to generate returns for the investors. Mutual fund does it for a fees. There are two types of MFs.

Open-ended Funds

Open-ended or open mutual funds issue shares(units) to the investors directly at any time. The price of share is based on the fund's net asset value. Open funds have no time duration, and can be purchased or redeemed at any time on demand, but not on the stock market.

An open fund issues and redeems shares on demand, whenever investors put money into the fund or take it out.

Closed-ended fund

It is a collective investment scheme issued by a fund. Only a fixed number of shares are issued in an initial public offering which may be called New Fund Offering(NFO). They trade on an exchange. Share prices are determined not by the total net asset value (NAV), but by investor demand.

Once the offering closes, new shares are rarely issued. They can be traded only on the secondary market(stock exchanges). Shares are not normally redeemable until the fund liquidates. On the other hand, an open-end fund where the fund company creates new shares and can redeem existing shares .

The total value of all the securities in the fund divided by the number of shares in the fund is called the net asset value.

FIIs

Foreign institutional investors are organisations which invest huge sums of money in financial assets - debt and shares- of companies and in other countries- a country different from the one where they are incorporated . They include banks, insurance companies, retirement or pension funds, hedge funds and mutual funds.

Foreign individuals are not allowed to participate on their own but go through FIIs.

FIIs are allowed to invest in the primary and secondary capital markets in India through the portfolio investment scheme (PIS). The ceiling for overall investment for FIIs varies from company to company.

FIIs called hot money invested in Indian equities and debt about $30 billion in 2010.The number of registered FIIs is 1,660 and that of registered sub-accounts is above the 5,000 mark. Besides buying equities from the market, FIIs have participated in Qualified Institutional Placements (QIPs), directly from the promoters requiring huge capital.

SEBI prescribes norms to register FIIs and also to regulate FII investments.

There are more than 1700 FIIs registered in India(2012). The FII's total investments in domestic markets amount to $ 122 billion in debt and equity , since India allowed them to invest here in 1992.In the calendar year 2012 upto July, about 11b dollars of FII came into India.

Reasons for FIIs having India as a favourite destination

- growing economy
- corporate profits are high
- government policies are encouraging
- compared to other countries, India has brighter prospects

FII investment is referred to as hot money for the reason that it can leave the country at the same speed at which it comes in.

QFIs

A QFI is an individual, group or association resident in a foreign country that is compliant with Financial Action Task Force (FATF) standards.Till 2012, they were investing in India through the FIIs registered with the SEBI. From 2012, they are allowed to invest in India directly for which Sebi and RBI have made the necessary rules.

They can invest in corporate debt, equities and mutual funds.

The move comes against the backdrop of significant foreign capital outflows from the domestic equity market in recent times, which has resulted in rupee depreciation.

Its aim is to widen the class of investors, attract more foreign funds and reduce market volatility and deepen the Indian capital market.

With regard to foreign portfolio investments, till 2012, only FIIs/sub-accounts and NRIs are allowed to directly invest in the Indian equity market.

The RBI would grant general permission to QFIs for investment under the Portfolio Investment Scheme (PIS) route, similar to FIIs.

The individual and aggregate investment limit for QFIs shall be 5 per cent and 10 per cent, respectively, of the paid-up capital of an Indian company.These limits shall be over and above the FII and NRI investment ceilings prescribed under the PIS route for foreign investment in India, it added.

In mid-2012, government set a separate $1-billion corporate bond investment limit for QFIs. The finance ministry also expanded the list of countries from which such investments will be permitted.A separate sub-limit of $1 billion has been created for QFI investment in corporate bonds and mutual fund debt schemes.The foreign investment limit in corporate debt, which consequently increased by $1 billion to $21 billion will boost debt inflows.

In July 2012, Sebi allowed QFIs to invest in those debt mutual fund schemes that hold atleast 25% of their assets (either in debt or equity or both) in the infrastructure sector.

The scheme was earlier open to only residents of countries that are members of Financial Action Task Force, or FATF, a global body to check money laundering and terror funding.

Government relaxed the eligibility condition to allow investors from Gulf Cooperation Council (GCC) and also the European Commission to invest in Indian debt if they meet the local rules. A resident of IOSCO can also be a QFI.

IOSCO

The **International Organization of Securities Commissions** (IOSCO) is an association of organisations that regulate the world's securities and futures markets.

Members are typically the Securities Commission or the main financial regulator from each country. IOSCO has members from over 100 different countries, who regulate more than 90 percent of the world's securities markets. The organisations role is to assist its members to promote high standards of regulation and act as a forum for national regulators to cooperate with each other and other international organisations.India is a member.

IOSCO is has a permanent secretariat based in Madrid.

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FATF

The **Financial Action Task Force (on Money Laundering) (FATF)** is an intergovernmental organization founded in 1989.The purpose of the FATF is to develop policies to combat money laundering and terrorism financing. The FATF Secretariat is housed at the headquarters of the OECD in Paris.

FATF is responsible for setting global standards on anti-money laundering (AML) and combating financing of terrorism (CFT).

Following its inclusion into the select club, India and its tax enforcement authorities — the Financial Intelligence Unit, the Enforcement Directorate, the Central Economic Intelligence Bureau and the Directorate of Revenue Intelligence — would be able to exchange vital information from member-countries on money laundering and terrorist financing activities.

Global Depository Receipts (GDR)

Indian companies are allowed to raise equity capital in the international market through the issue of Global Depository Receipt (GDRs). GDRs are designated in dollars/euros or any other foreign currency.

The proceeds of the GDRs can be used for financing capital goods imports, capital expenditure including domestic purchase/installation of plant, equipment and building and investment in software development, prepayment or scheduled repayment of earlier external borrowings, and equity investment in JVs in India.

GDRs are listed on London SE or Louxembourg or elsewhere. They are also called euroissues in a general sense.

ADRs

American depository receipts are like shares. They are issued to US retail and institutional investors. They are entitled like the shares to bonus, stock split and dividend. They are listed either on Nasdaq or NYSE.

Like GDRs, they help raise equity capital in forex for various benefits like expansion, acquisition etc.

ADR route is taken as non-USA companies are not allowed to list on the US stock exchanges by issuing shares.

Similarly with Indian Depository Receipts(IDRs) as and when they are allowed.

Participatory notes

Participatory notes are instruments used for making investments in the stock markets. In India, foreign institutional investors (FIIs) use these instruments for facilitating the participation of overseas funds like hedge funds and others who are not registered with the Sebi and thus are not directly eligible for investing in Indian stocks.

Any entity investing in participatory notes is not required to register with SEBI (Securities and Exchange Board of India), whereas all FIIs have to compulsorily get registered. Participatory notes are popular because they provide a high degree of anonymity, which enables large hedge funds to carry out their operations without disclosing their identity and the source of funds. KYC(know your customer norms are not applied here)

Since the source of funds is not revealed, the PNs are potentially unsafe. Therefore, SEBI in 2007 October imposed certain conditions like limits on the PNs that a single FII can issue etc. SEBI wants the PN holders to register with the SEBI and invest directly as India is a long term growth story. Sebi policy paid off with the number of FIIs registering with the regulator going upto over about 1750(2011).

The SEBI action aims at ensuring that the quality of flows into stock markets and Indian forex market is clean.

Rajiv Gandhi Equity Savings Scheme

It was presented in as a part of the Union Budget 2012-13 for the new investors in stocks with an annual income of less than Rs.10 lakh. He gets 50 percent tax deduction on investments upto Rs 50,000. Money will be locked for three years. Details are still being worked out.

Hedge fund

A hedge fund is an investment fund open to only a limited range of investors. They are mostly unregulated. The term- hedge funds , is used to distinguish them from regulated investment funds such as mutual funds and pension funds, and insurance companies. Hedge funds are not allowed into India as they do not disclose data required by the Sebi.

Clearing house

An organisation which registers, monitors, matches and guarantees the trades of its members and carries out the final settlement of all futures transactions. The National Securities Clearing Corporation is the clearing house for the NSE.

Equity

Common stock and preferred stock that is, shares issued by the company.Also, funds provided to a business by the sale of stock.

Share

Share is a certificate representing ownership of the company that issued it. Shares can yield dividends and entitle the holder to vote at general meetings. The company may be listed on a stock exchange. Shares are also known as stock or equity.

Bond

A debt instrument issued for a period of more than one year with the purpose of raising capital by borrowing.

Debenture

Debt not secured by a specific asset of the corporation, but issued against the issuer's general credit- that is, it is unsecured debt. Investment earns an interest for the debenture holder. The following are various types of debentures

- convertible debentures can be converted into equity at a future date
- Non-convertible debentures will not be converted
- Partly convertible debentures will have some part converted into shares.

Bear

Bear is an investor who believes that market will go down.

Bull

Bull is an investor who believes that the market will go up- optimistic

Bear Market

A sustained period of falling stock prices usually preceding or accompanied by a period of poor economic performance known as a recession.

Bull Market

A stock market that is characterized by rising prices over a long period of time. The time span is not precise, but it represents a period of investor optimism, lower interest rates and economic growth. The opposite of a bear market.

Gilt

Gilt is a bond issued by the government. It is issued by the Central Bank of a country on behalf of the government. In India, Reserve Bank of India issues the treasury bills or gilts. Gilt Edged Market is the market for government securities.

Blue chip

Blue chip shares are the shares of the companies that are the most valuable. Companies that are profit making; usually dividend –paying and are liquid in the market- that is there is almost always in demand on the market.

Midcap company

Generally, companies with a market capitalization that is very high are called large caps and the next rung below is mid cap and the bottom one is small cap companies. Limits are not statutorily laid dwn and vary from institution to institution.

Small investor

Market regulator SEBI set the investment limit for retail investors in an initial share sale offer to Rs 2 lakh. This will cut the numerous applications investors sometimes make in the name of relatives to get more shares.

Sebi allows price discount for retail investors and company discount participating in initial public offers and follow-on offers. This discount is offered to attract retail investors into the market and broad base ownership.

Primary Dealers

The Reserve Bank of India introduced a system of Primary Dealers (PDs) in government securities market in 1995 with the objective to strengthen the infrastructure in the government securities market in order to make it vibrant, liquid and broad-based. The following can be the PD: subsidiaries of scheduled commercial banks and all India financial institutions and engaged predominantly in securities business and in particular the government securities market; or companies incorporated under the Companies Act, 1956 and engaged predominantly in securities business and in particular the government securities market.;The company should have net owned funds of Rs.50 crore.

Market depth

It is a dimension of market liquidity and it refers to the ability of a market to handle large trade volumes without a significant impact on prices.

Liquidity is the ease to find a trading partner for a given order.

Market breadth means the following:The fraction of the overall market that is participating in the market's up or down move. The greater the breadth, the more the companies that are participating.

Trading volumes means the number of shares traded.

Negotiated Dealing System

Negotiated Dealing System (NDS) is an electronic platform for facilitating dealing in Government Securities and Money Market Instruments.

Short selling

The sale of a security made by an investor who does not own the security. The short sale is made in expectation of a decline in the price of a security, which would allow the investor to then purchase the shares at a lower price in order to deliver the securities earlier sold short.

Market capitalization

Price per share multiplied by the total number of shares outstanding; also the market's total valuation of a public company.

P/E ratio

Also known as the P/E multiple, this is the latest closing price divided by earnings per share EPS). P/E is perhaps the single most widely used factor in assessing whether a stock is overvalued or cheap. A company's P/E should be looked at against those of similar companies, and against that of the stock market as a whole, since different industries and even different company are characterized by markedly different P/Es. In general, fast-growing technology companies have high P/Es, since the stock price is taking account of anticipated growth as well as current earnings. A high P/E is often a reflection of high expectations for a stock.

EPS

The portion of a company's profit allocated to each outstanding share of common stock. The amount is computed by dividing net earnings by the number of outstanding shares of common stock. For example, a corporation that earned Rs10 million last year and has 10 million shares outstanding would report earnings per share of Rs.1.

Insider Trading

Insider trading occurs when any one with information related to strategic and price-influencing information purchases or sells stocks so as to make speculative profits. SEBI is formulating rules which are tougher for the insider trading.

Depository

A depository holds securities (like shares, debentures, bonds, Government Securities, units etc.) of investors in electronic form. Besides holding securities, a depository also provides services related to transactions in securities. Benefits of a depository are reduction in paperwork involved in transfer of securities; reduction in transaction cost.

National Securities Depository Limited (NSDL)

In the depository system, securities are held in depository accounts, which is more or less similar to holding funds in bank accounts. Transfer of ownership of securities is done through simple account transfers.The enactment of Depositories Act in 1996 paved the way for establishment of NSDL, the first depository in India.

NSDL offers facilities like dematerialisation i.e., converting physical share certificates to electronic form; rematerialisation i.e., conversion of securities in demat form into physical certificates etc.

Nasdaq

Nasdaq stands for the National Association of Securities Dealers Automated Quotation System. Unlike the New York Stock Exchange where trades take place on an exchange, Nasdaq is an electronic stock market that uses a computerized system to provide brokers and dealers with price quotes. It is an electronic stock market- first in the world- run by the National Association of Securities Dealers. Many of the stocks traded through Nasdaq are in the technology sector.

Dow Jones Index

The New York Stock Exchange (NYSE) index, which reflects the movement of the world's first stock market. It is composed of the 32 most traded stocks of the NYSE. Currently there are three Dow Jones Indices: The Dow Jones Industrial Average (DJIA). The Dow Jones Transport Average (DJTA) and finally DJUA (Dow Jones Utility Average).

In recent years, broader indices such as the Standard & Poor's 500 (for large companies), the Russell 2000 (for smaller companies) and the Wilshire 5000 (for an especially broad measure) have gained currency, in part due to the rising popularity of index investing.

Important indices in the world

Market index is a number to indicate the average movement of prices of a securities market. It usually tracks select stocks.

- American Dow Jones Industrial Average and S&P 500 Index
- British FTSE 100: It is a share index of the 100 most highly capitalised companies listed on the London Stock Exchange. The index began in 1984 with a base level of 1000.The index is maintained by the FTSE Group, an independent company which originated as a joint venture between the Financial Times and the London Stock Exchange.
- French CAC 40
- German DAX
- Japanese Nikkei 225
- Indian Sensex and Nifty
- Australian All Ordinaries
- Hong Kong Hang Seng Index
- South Korea's Kospi
- Straits Times Index (STI) of Singapore
- Bovespa Index
- RTS Index (RTSI) is an index of 50 Russian stocks that trade on the RTS Stock Exchange in Moscow
- SSE (Shenzhen Stock Exchange) Composite Index- China
- SSE (Shanghai Stock Exchange) composite index-China

Ethical investing

A notable specialised index type is those for ethical investing indexes that include only those companies satisfying ecological or social criteria, e.g. those of Dow Jones Sustainability Index.

Ponzi scheme or pyramid scheme

A **Ponzi scheme** is a fraudulent investment operation that pays high returns to investors and promises higher returns to those who join the scheme later. The payments are done from investors own money or money paid by subsequent investors rather than from any actual profit earned because it is not possible to earn such high reurns on any investment.The system is destined to collapse because the earnings, if any, are less than the payments. The scheme is named after Charles Ponzi,who became notorious for using the technique after emigrating from Italy to the United States in 1903.

Decoupling

It means that a nation's economy may have an autonomous logic and need not be entirely dependent on the global economy. For example, if the world goes into a recession, all counties need not. India, for example grew at 6.7%(2008-09) while the USA and the west were contracting. Reflecting the economic realities, equity markets also perform autonomously after a point. It is called decoupling- that is, isolation from the rest.

China is more integrated with the world as itss economy is driven by exports. However, even China is decoupled as it has a lot of domestic consumption driving its growth.

Clause 49

Clause 49 of the Listing Agreement to the Indian stock exchange came into effect in 2005.

It has been formulated for the improvement of corporate governance in all listed companies as it mandates that there should be certain independent directors on the Board of a Company.

IDR

Indian Depository Receipts are issued by a non-Indian company to Indian investors for its listing on Indian stock exchanges. It is like ADR.

Shariah index

Asia's oldest stock exchange, the Bombay Stock Exchange (BSE), launched its Shariah index in December 2010. The index, structured in partnership with Taqwaa Advisory Shariah Investment Solutions has 50 stocks selected from the BSE-500 bracket.

Infrastructure, capital goods, IT, telecom and pharmaceuticals shares will form a large chunk of the 'BSE Tasis Shariah-50 Index', as the new index is known. But no stock will have more than an 8% weightage. The stock screening has been done by Taqwaa Advisory (Tasis) scholar board, and the index construction, by BSE.

The new index will attract investments from Arab and European countries, where Shariah funds are already popular.

Shariah, the religious law of the followers of Islam, has strictures regarding finance and commercial activities permitted for believers. Arab investors only invest in a portfolio of 'clean' stocks. They do not invest in stocks of companies dealing in alcohol, conventional financial services (banking and insurance), entertainment (cinemas and hotels), tobacco, pork meat, defence and weapons.

The index will be rebalanced every quarter though stocks that do not comply (at some point of time) with Shariah statutes will be excluded immediately. National Stock Exchange S&P CNX Shariah Index and Dow Jones Islamic India Index are other Shariah benchmarks that are tracked by investors. Shariah-based equity investments do not allow investors to invest in heavily indebted.

Brics cooperation among exchanges

In 2011 October seven major stock exchanges in Brazil, Russia, India, China and South Africa announced plans to cross-list derivatives on their benchmark indexes. The five founding members of the BRICS Exchanges Alliance began cross-listing benchmark equity index derivatives on each other"s trading platforms from 2012. The five exchanges, BM&FBOVESPA from Brazil, Open Joint Stock Company MICEX-RTS from Russia, BSE Limited from India, Hong Kong Exchanges and Clearing Limited (HKEx) as the initial China representative, and JSE Limited from South Africa, announced the formation of the alliance on 12 October 2011 at a World Federation of Exchanges" conference in Johannesburg, South Africa. In this initial stage of implementation, the exchanges aim to expand their product offerings beyond their home markets and give investors of each exchange exposure to the dynamic, emerging, and increasingly important BRICS economies.
The move was endorsed in the March 2012 Delhi summit of Brics.

Power exchanges

A power exchange created within the regulatory framework is an institution that is responsible for conducting auctions in a non-discriminatory fashion to sell power at competitive market prices . CERC has permitted trading of Electricity through Power Exchange with effect from June 2008. Currently, two exchanges viz. Indian Energy Exchange (IEX) and Power Exchange of India Limited (PXIL) are in operation in India which facilitate an automated on-line platform for physical day-ahead contracts.It is the core of an **electricity market** which is a system for effecting purchases, through bids to buy and sell.It would bring about efficiency as well as liquidity as power companies bought and sold electricity.

SGX Nifty

SGX Nifty is Indian Nifty traded in Singapore Stock Exchange. It moves with respect to Indian Nifty. SGX Nifty is open at 8.00 am Indian standard time (IST) on all working days and mostly it becomes initial direction to the Indian Market.