UPSC
NCERT Summary
Stock Markets in India- 2

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 arid - 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.

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

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 & Bull

Bear is an investor who believes that market will go down. Bull is an investor who believes that the market will go up- optimistic A sustained period of falling stock prices usually preceding or accompanied by a period of poor economic performance known as a recession. 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 guts. Gilt Edged Market is the market for government securities.

Blue Chip Share

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 one below is mid cap and the bottom one is small cap companies. Limits are not statutorily laid down 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.

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 ofRs.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 depth means the following: The fraction of the overall market that is participating in the market's up or down move. The greater the depth, 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. In short sale, shares are borrowed at a -fees/price and returned when the sell-buy operation is completed. Naked short selling, or naked shorting, is the practice of short-selling a financial instrument without first borrowing the security or ensuring that the security can be borrowed, as is conventionally done in a short sale. It is banned.

Market Capitalization

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

PIE 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 Rs 10 million last year and has 10 million shares outstanding would report earnings per share of Rs. 1.

Insider Trading

trading occurs when any one with information related to strategic and price-influencing information purchases or sells stocks so as to make speculative profits.

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 NDL, the first -depository in India. NSDL offers facilities like dematerialization i.e., converting physical share certificates to electronic form; dematerialization 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 (DJ1A). The Dow Jones Transport Average (DJTA) and finally DJUA (Dow Jones Utility Average).

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 l000.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 of 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 returns 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 its 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. **Recommendation of Bimal Jalan Committee constituted by SEBI in Jan. 2010.**
SEBI, in January 2010, had.appointed a committee under Dr. Bimal Jalan (former Governor of the Reserve Bank of India) to study and recommend changes on the ownership and governance of the Market Infrastructure Institutions ('MIIs') like stock exchanges, depositaries and clearing corporations. The committee, on November 22, 2010, ha submitted its report. The report makes some particularly strong recommendations including not allowing such entities to get listed on stock exchanges.
The Report examines the nature of these institutions and emphasizes on the systemic importance of these MIIs for the economy. The report views these MIIs as producers of public good for society, which are essentially the price signals produced by a transparent and efficient market mechanism'. The Report says that it is not possible to sever the regulatory role of the Mils from their more obvious role of serving as providers of infrastructure of the market and goes on to describe the characteristics and functions of these Mils emphasizing the following characteristics of such institutions:

1. In general MIIs are in the nature of public utilities.
2. All of them are vested with regulatory responsibilities, in varying degrees.
3. They have systemic importance to the economy.

In the above background, the Report highlights the conflict in the regulatory role' of these MIIs with their 'economic interests'. The Committee suggests the raising of entry level barriers for the new exchanges. Only financial institutions and banks with a net worth of Rs. 1,000 crore could become anchor investors.
There will be a cap on the profits that the MFI shareholders can enjoy and on the remuneration of top executives of the exchange. Trading and clearing members will be ineligible to serve on the boards and the number of public interest directors should be at least equal to those representing the shareholders. No stock exchange will be allowed to list, a recommendation that should put an end to a long-standing controversy over conflict of interest. Stock exchanges and other Mils will have to fulfil the disclosures and corporate governance requirements of the listing agreement applicable to public companies. Clearly, The Jalan Committee has taken note of the fact that stock exchanges will continue to have regulatory functions. The bar has to be kept high to admit only genuine players.

Shariah Index

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. 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.

Takeover Code 2011

Securities Exchange Board of India -India's capital markets regulator announced changes to revamp takeover code. While the formal takeover code has been in place since 1997, SEBI constituted a Takeover Regulation Advisory Committee (Achutan

Committee) in 2009 to review the existing norms and make them more relevant for the present day scenario. To start with, the trigger point for open offer is increased from is per cent level to 25 per cent and the open offer size, after the 25 per cent trigger is reached , is enhanced from the current 20 per cent to 26 per cent. If an acquirer acquires at least 25 per cent stake in a company, then he has to come out with minimum 26 per cent open offer. This will result in making an acquirer ending up with "controlling" 51 per cent stake in the target company. Thus, the cost of acquisitions goes up substantially.
A Non-compete fee to be paid to the promoter is removed. It helps the smaller investors as all shares are equally priced and the promoter is not treated unequally. The reason for removal is that there is no need for additional price be given to a promoter by an acquirer over and above the fixed price paid to the ordinary shareholder arrived at after the valuation. With the new take over code, only serious buyers can bid for a take over as 51% stake is required. Sebi's new takeover code may put corporate groups with promoter holdings below 30 per cent at risk of losing majority. In Infosys Technologies, promoters hold just about 16 per cent, but then it can attempt a fight back drawing strength from its phenomenal reserves of over $3 billion. As per the new takeover code, an acquirer can buildup 25 per cent stake in Infy from the market, then make an open offer for 26 per cent to take a majority 51 per cent control.

VIX (Volatility index)

Market Volatility Index. An index designed to track market volatility as an independent entity. The Market Volatility Index is calculated based on option activity .and is used as an indicator of investor sentiment, with high values implying pessimism and low values implying optimism. India VIX is India's volatility Index which is a key measure of market expectations of near-term V volatility conveyed by NIFTY stock index option prices. This volatility index is computed by NSE based on the order book of NIFTY Options. For this, the best bid-ask quotes of near and next-month NIFTY options, contracts which are traded on the F&O segment of NSE are used. India VIX indicates the investor's perception of the market's volatility in the near term i.e. it depicts the expected market volatility over the next 30 calendar days. Higher the India VIX values, higher the expected volatility and vice-versa. Volatility Index (VIX) is a key measure of market expectations of near term volatility. As we understand, volatility implies instability. Thus when the markets are highly volatile, market tends to move steeply up or down and during this time volatility index tends to rise. Volatility index declines when the markets become less volatile. VIX is sometimes also referred to as the Fear Index because as the volatility index (VIX) rises, one should become fearful or careful as the markets can move steeply into any direction. Worldwide, VIX has become an indicator of how market practitioners think about volatility. Investors use it to gauge the market volatility and make their investment decisions. VIX was first introduced by the Chicago Board of Options Exchange (CBOE) as the volatility index for the US markets in 1993 and it was based on S&P 100 Index option prices.

DOLLEX-30

The Stock Exchange, Mumbai launched 'DOLLEX-30' to track the performance of SENSEX shares b Dollar terms. Like SENSEX, the base-year forDOLLEX-30 has been fixed as 1978-79 and base value at 100 points. While SENSEX reflects the growth from market value of constituent stocks over the base period in rupee terms, a need was felt to design a yardstick by which these growth values are measured in dollar terms. Such an index would reflect, in one value, the changes in both the stock prices and the foreign exchange variation.
Foreign investors would find this index to be very useful as it would help them measure their 'real returns after providing for exchange rate fluctuations. The dollex is calculated daily at the end of the trading session taking into consideration that day's Re/$ rate.

Futures

Futures are financial instruments based on 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.
Taxation System In India: Concepts & Policies

Tax

Tax is a payment compulsorily collected from individuals or firms by government. A direct tax is levied on the income or profits of an individual or a company. The word 'direct' is used to denote the fact that the burden of tax falls on the individual or the company paying the tax and can not be passed on to anybody else. For example, income tax, corporate tax, wealth tax etc. An 'indirect' tax is levied on manufacturing and sale of goods or services. It is called 'indirect' because the real burden of such a tax is not borne by the individual or firm paying it but is passed on to the consumer. Excise duty, customs duty, sales tax etc.

Funds provided by taxation are used by governments to carry out the functions such as:

- military defense
- enforcement of law and order
- redistribution of wealth
- economic infrastructure — roads, ports etc
- social welfare
- social infrastructure like education, health etc
- social security measures like pensions for the elderly, unemployment benefits

Taxation System in India

India has a well developed tux structure. Being a federal country, the authority to levy taxes is divided between the central government and the state governments. The central government levies direct taxes such as personal income tax and corporate tax, and indirect taxes like customs duties, excise duties and central sales tax (CST). CST is assigned to the States in which it is collected. (Art.269). The states have the constitutional power to levy sales tax apart from various other local taxes like entry tax, octroi, etc.
Taxation has always played an important role in the formulation of the government's economic policy. Taxation policy in a developing country like India can play an important part to raise resources for growth, to bring in reduction in inequalities, to direct growth in backward regions, to reduce consumption of luxury goods, to direct investment into small scale sector, to promote savings etc. In the wake of the economic reforms, the tax structure and procedures have been rationalised and simplified. Since 1991, the tax system in India has undergone substantial rationalization reduced rates and slabs and better administration.
Some of the changes are:

- Broadening the tax base to include services, fringe benefits, stock market transactions etc.
- Reduction in customs and excise duties. Peak customs rate is today 10%.
- Lowering of corporate tax rates to 30%.
- Rationalizing the personal income tax rates and slabs starting- from 1997 'dream budget'
- Sales tax reforms at the State level as a preliminary step towards their integration into GST.
- introduction of VAT from 2005 at the state level; GST is expected to be introduced in 2013.

- Simplifying income-tax return filing procedures. For example, Saral, Towards better taxpayer services, in 2011-12, the JT department has introduced simple and user friendly SAHAJ (Form) for individual salary tax-payers; SUGAM for small taxpayers availing presumptive tax scheme. (For presumptive tax, see ahead).

Tax revenue as a percentage of GDP decreased initially, after reforms began in 1991 as rates came down and growth of economy was not very robust. Compliance also did not increase proportionate to rate reduction. Since the Tenth Plan period, there has been a consistent rise in tax collections but it dipped due to global financial crisis of post-2008 period. The share of direct taxes in the Centre's gross tax receipts is estimated at 56.3% in 2011-12. Centre's gross tax-GDP ratio is being projected at 10.5% in 2011-12. Further, by widening the service tax net, the revenue collections from service tax for 201112 have been pegged at Rs 82,000 crore with no increase in rates, up from Rs 71,309 crore in 2010-11.

Measures for Broadening Tax Base, Strengthening Compliance and Simplification

- Rates and slabs are rationalized
- service tax on more than 100 items at 12%
- adoption of VAT by almost all the states
- GST introduction
- Tax to be deducted at source on various items like interest on bank deposits; dividend distribution etc
- Quoting of permanent account number made compulsory for many transactions so more people can be brought into tax net.
- fringe benefit tax
- securities transactions tax

Other measures suggested are: minimizing exemptions and concessions; drastic simplification of laws and procedures; building a proper information system and computerization of tax returns, and a thorough revamping and modernization of the administrative and enforcement machinery.