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B.Com Honours

Semester I

Calicut University

Basics of Financial Markets

Course Code: COM1MN105 • Module 4 Notes

1. Secondary Market Intermediaries and Stock Exchanges

The secondary market provides the trading platform where investors buy and sell existing securities. By providing continuous liquidity, price discovery, and corporate monitoring, the secondary market supports public trust and drives capital allocation. This final module covers secondary market intermediaries, the functions and structure of the BSE and NSE, the significance of stock indices (Sensex and Nifty), and the procedure and legal requirements for listing securities.

Secondary Market Intermediaries

- **Stockbrokers & Sub-brokers:** Licensed members of stock exchanges who execute buy and sell orders on behalf of clients in exchange for brokerage commissions.
- **Depositories (NSDL & CDSL):** Financial institutions that hold securities (shares, bonds) in electronic (dematerialized) format, acting like banks for securities. National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) are the two depositories in India.
- **Depository Participants (DPs):** Intermediaries (banks, brokers) who act as agents of NSDL/CDSL, offering demat accounts directly to investors.

Functions of Stock Exchanges

A stock exchange is an organized marketplace that performs several vital economic functions:

- **Liquidity Provision:** Allows investors to convert their securities into cash quickly and at fair market prices.
- **Price Discovery:** Evaluates the value of securities continuously based on market demand and supply forces.
- **Economic Indicator:** Reflects the economic health of the nation through broad market trends (market barometer).
- **Protection of Investors:** Enforces strict disclosure rules, trade surveillance, and corporate governance compliance on listed firms.

2. BSE, NSE, and Stock Market Indices

The Indian secondary market is dominated by two national stock exchanges:

BSE (Bombay Stock Exchange)

Established in 1875 as "The Native Share & Stock Brokers' Association," BSE is Asia's first stock exchange. Located on Dalal Street in Mumbai, it hosts the largest number of listed companies in the world. It launched the **Sensex** index in 1986.

NSE (National Stock Exchange)

Incorporated in 1992 and commenced operations in 1994, NSE revolutionized Indian trading by introducing electronic, screen-based trading, ending the traditional floor-trading outcry system. It launched the **Nifty** index in 1996.

Stock Market Indices: Sensex vs. Nifty

Index Feature	BSE SENSEX	NSE NIFTY 50
Full Name	Sensitive Index.	National Index Fifty.
Constituents	Composed of 30 largest, most actively traded stocks listed on BSE.	Composed of 50 diversified stocks listed on NSE across various sectors.
Calculation Base	Free-float market capitalization weighted methodology.	Free-float market capitalization weighted methodology.
Significance	Serves as the historical indicator of Indian equity market movements.	Acts as the primary benchmark for institutional portfolios and derivative trading.

3. Listing of Securities: Procedure and Legal Requirements

Listing refers to the admission of a company's securities to trading on a recognized stock exchange. Listing is mandatory for companies executing a public issue.

Advantages of Listing

- **For Issuers:** Access to cheap public capital, increased creditworthiness, brand visibility, and valuation benchmarks.
- **For Investors:** Liquidity, pricing transparency, and protection through mandatory corporate disclosures.

Listing Procedure and Legal Requirements

To list its shares, a company must satisfy the requirements of the Securities Contracts (Regulation) Act, the Companies Act, and SEBI (Listing Obligations and Disclosure Requirements - LODR) Regulations:

1. **In-Principle Approval:** The company submits a listing application along with the draft prospectus to the stock exchange.
2. **Compliance Checks:** The exchange verifies financial stability (e.g., minimum net worth, track record) and shareholding structures.
3. **Listing Agreement:** The company signs a formal agreement committing to continuous disclosures (e.g., quarterly financial results, material events notifications).
4. **Allotment & Commencement:** Upon credit of shares to investors' Demat accounts, the exchange issues the trading symbol, and trading commences.

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