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STOCK MARKET OPERATIONS

EXAM REVISION NOTES

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MODULE I

CAPITAL MARKETS IN INDIA AND PRIMARY MARKET OPERATIONS

Architecture of the Indian Financial System: The financial system resolves the inter-temporal allocation problem by mobilizing domestic economic savings from surplus units (households, institutional accumulators) and deploying them into deficit units (industrial corporations, infrastructure projects). Partitioned into two sectors: **Money Market** (regulated by RBI; tenor under 364 days; T-Bills, Commercial Paper, CDs, TREPS; wholesale liquidity adjustment) and **Capital Market** (regulated by SEBI; tenor exceeding one year to perpetual; equities, debentures, bonds; long-term fixed capital formation).

The Capital Market Framework: Structured into the **Primary Market** (New Issue Market, where issuing corporations raise fresh capital directly from investors through new securities; direct capital creation expanding national productive assets) and the **Secondary Market** (Stock Market, where previously issued securities are transferred between investors on NSE and BSE; provides continuous liquidity and real-time price discovery without which primary mobilization collapses).

Taxonomy of Equity Instruments: Equity Shares (indivisible fractional ownership units; perpetual capital; residual risk-bearers; fluctuating dividends; full voting rights under Section 47 of Companies Act 2013). **Differential Voting Rights (DVRs)** (shares with disproportionate voting or dividend rights, such as 5% extra dividend for 1/10th voting power, protecting promoter management control while raising public capital). **Bonus Shares** (fully paid shares allotted free to existing shareholders by capitalizing free reserves or securities premium under Section 63; increases share count while intrinsic net worth remains constant). **Rights Shares** (pre-emptive statutory right under Section 62 granting existing shareholders the privilege to purchase new shares at a discount to avoid ownership dilution; rights entitlements can be traded on exchanges). **Sweat Equity** (equity granted to directors or employees at a discount or for non-cash technical know-how under Section 54).

Taxonomy of Preference Shares and Debt: Preference Shares (hybrid instruments carrying preferential dividend entitlement before equity distributions and preferential capital repayment upon liquidation under Section 43). Classifications: **Cumulative vs Non-Cumulative** (dividend arrears accumulate in cumulative); **Participating vs Non-Participating** (participating shares share in surplus residual profits); **Convertible vs Non-Convertible**; **Redeemable Preference Shares** (irredeemable shares prohibited in India; max 20-year redemption under Section 55). **Debentures and Corporate Bonds**: **Secured vs Unsecured** (secured carries charge created via Debenture Trustee); **Convertible Debentures (FCDs/PCDs) vs NCDs**; **Zero-Coupon Bonds (ZCBs) / Deep Discount Bonds** (issued at discount, redeemed at par without periodic coupon); **Masala Bonds** (rupee-denominated debt issued overseas transferring currency risk to foreign investors); **Green Bonds** (earmarked for renewable climate infrastructure under SEBI Green Debt rules).

International Depository Receipts Architecture: American Depository Receipts (ADRs) (dollar-denominated negotiable certificates issued by US depository banks traded on NYSE/NASDAQ, allowing US investors to purchase non-US companies under SEC compliance). **Global Depository Receipts (GDRs)** (foreign currency certificates listed on international bourses like LSE or Luxembourg to tap international European and Asian institutional capital). **Indian Depository Receipts (IDRs)** (rupee certificates issued by Indian depositories allowing foreign corporations to raise capital from domestic Indian investors).

Primary Market Capital-Raising Channels: Initial Public Offering (IPO) (unlisted company's inaugural public sale; comprises Fresh Issue injecting corporate cash and Offer for Sale - OFS liquidating promoter/PE holdings). **Follow-on Public Offering (FPO)** (subsequent public share issue by listed company for capital or to satisfy 25% Minimum Public Shareholding rule). **Private Placement** (direct issuance to select institutional groups not exceeding 200 persons under Section 42). **Qualified Institutional Placement (QIP)** (expedient capital raising from QIBs without lengthy prospectus approvals). **Preferential Allotment** (allotting shares to strategic partners under Section 62).

Issue Pricing Methodologies and Book Building Process: Fixed Price Method (issue price predetermined in prospectus; demand assessed post-closing). **Book Building Method** (dynamic price discovery within declared Price Band; Floor Price and Cap Price, where Cap cannot exceed 120% of Floor; spread determined by market bidding). Step-by-step process: 1. Appointment of **Book Running Lead Managers (BRLMs)**; 2. Filing **Draft Red Herring Prospectus (DRHP)** with SEBI; 3. Registering **Red Herring Prospectus (RHP)** with RoC (contains complete business metrics but omits price and quantity); 4. Price Band announcement; 5. Bidding window (3–5 working days); 6. Statutory quotas: **QIBs (50%)** (with up to 60% for Anchor Investors), **NIIs/HNIs (15%)**, **Retail Individual Investors (35%)** (bids up to ₹2,00,000 permitted at Cut-Off Price); 7. Determining **Cut-Off Price** (clearing equilibrium price where demand absorbs supply); 8. Basis of Allotment and lottery; 9. Demat credit and mandatory listing within **T+3 working days**.

Primary Market Technology and Intermediaries: Application Supported by Blocked Amount (ASBA) (application capital remains blocked in applicant's own bank account via Self-Certified Syndicate Banks; zero refund delays, continuous interest accrual; mandatory for all issues). **UPI-Based IPO Bidding** (retail investors submit UPI ID via broker app, receive real-time NPCI mandate request, and authorize via UPI PIN for instant automated ASBA blocking). Key intermediaries: **Merchant Bankers (Category I)** (issue managers and due diligence certifiers), **Underwriters** (guaranteeing 90% statutory subscription threshold), **Registrars to the Issue (RTIs)** (allotment calculation and demat credit), and **Bankers to the Issue** (escrow custodians).

MODULE II

SECONDARY MARKET ARCHITECTURE, TRADING AND SETTLEMENT

Secondary Market Architecture and Listing Mandates: The secondary market provides organized, centralized trading of listed securities, transforming illiquid physical capital assets into liquid digital claims and generating continuous price discovery. **Listing of Securities**: formal admission of securities to trading under the Securities Contracts (Regulation) Act 1956. Prerequisites for mainboard listing: minimum post-issue paid-up capital (₹10 cr on NSE, ₹25 cr on BSE), operating track record of 3 profitable years (or 75% QIB allocation), and maintaining 25% **Minimum Public Shareholding (MPS)** under Rule 19A of SCRR. **SEBI LODR Regulations 2015**: continuous compliance mandates including quarterly audited results within 45 days, Regulation 30 immediate disclosure of material events within 30 minutes to 24 hours, and board independence quotas. **Delisting**: Voluntary (promoter privatizes via Reverse Book Building, requiring 90% threshold) vs Compulsory (punitive delisting for persistent defaults with 10-year capital market ban for promoters).

Automated Trading Mechanics and Order Matching: Transition from physical open-outcry rings to screen-based automated trading: **NEAT (NSE)** and **BOLT (BSE)**. **Order-Driven System** (used in India; trades matched automatically from common central digital order book without market makers; full depth transparency) vs **Quote-Driven System** (dealers/market makers post two-way bid-ask quotes). Order matching executes upon strict **Price-Time Priority**: highest buy price and lowest sell price receive first priority; ties resolved chronologically by arrival timestamp.

Taxonomy of Stock Market Orders: Market Order (instant execution at best prevailing market price; exposes trader to slippage in thin markets). **Limit Order** (executes strictly at specified limit price or better). **Stop-Loss Order (SL)** (risk mitigation triggered when price breaches Trigger Price; executed as SL-Limit or SL-Market). **Day Order** (valid until 3:30 PM session close). **Immediate-or-Cancel (IOC)** (fills available quantity immediately, cancels unfilled residual). **Disclosed Quantity (DQ)** (reveals only a fraction [min 10%] of large institutional order to market depth to prevent predatory front-running). **Bracket Order (BO) & Cover Order (CO)** (algorithmic intraday orders bundling entry with mandatory stop-loss and target profit-taking legs on OCO basis). **After-Market Order (AMO)** (queued outside trading hours for pre-open execution).

Market Volatility Controls and Price Boundaries: Individual Stock Price Bands: daily circuit limits (2%, 5%, 10%, 20%) set from previous day's close. F&O stocks have dynamic operating bands flexed in 5% increments. **Market-Wide Circuit Breakers (MWCB)**: coordinated national trading halts triggered by NIFTY 50 or SENSEX movements: 1. **10% Breaker** (45-min halt before 1:00 PM; 15-min halt between 1:00 and 2:30 PM; no halt after 2:30 PM); 2. **15% Breaker** (1 hr 45 min halt before 1:00 PM; 45-min halt between 1:00 and 2:00 PM; closure for day after 2:00 PM); 3. **20% Breaker** (instant market closure for remainder of trading day).

Dematerialisation Ecosystem and Account Triad: Enacted under Depositories Act 1996 to eliminate physical certificate pathologies (forged shares, bad deliveries, stolen deeds, postal theft, stamp duty friction). **Depositories**: **NSDL** (established 1996, promoted by NSE/IDBI) and **CDSL** (established 1999, promoted by BSE/SBI, first listed depository in Asia). **Depository Participants (DPs)**: SEBI-registered agents (banks, brokerages) interfacing between depositories and end investors. **Registered Owner vs Beneficial Owner**: Depository is Registered Owner in company register but holds zero economic rights; the investor is **Beneficial Owner (BO)** enjoying all dividends, voting, and capital gains. **The 3-in-1 Account Structure**: Bank Account (cash funds), Trading Account (order entry interface), Demat Account (electronic security custody). **Basic Services Demat Account (BSDA)**: zero AMC for portfolios up to ₹1 lakh; capped at ₹100 for up to ₹4 lakhs. **CKYC Registry**: centralized 14-digit KIN eliminating repeated KYC.

Clearing, Settlement, and the Historic T+1 Transition: Settlement compresses from historical Badla account cycles to rolling settlements: T+5 → T+3 → T+2 → **T+1 Rolling Settlement** (globally pioneered by India in January 2023 for all equities; completed within 24 hours). Phased rollout of T+0 and instantaneous settlement. **Clearing Corporation (NSCCL/ICCL)** executes two core functions: 1. **Multilateral Netting** (consolidates thousands of trades into single net funds and securities obligations); 2. **Novation & Central Counterparty (CCP) Guarantee** (interposes as buyer to every seller and seller to every buyer, guaranteeing financial settlement via Settlement Guarantee Fund - SGF). **Settlement Cycle**: T execution → T night netting → T+1 morning pay-in of funds and securities → T+1 afternoon Delivery vs Payment (DvP) pay-out. **Auction Settlement**: short deliveries auctioned on T+2; price difference and penal charges debited from defaulting seller.

Algorithmic Trading, HFT, and Transaction Cost Structure: Algo Trading: automated execution via programmed instructions (TWAP, VWAP). **High-Frequency Trading (HFT)**: ultra-low latency sub-millisecond trading utilizing **Co-Location (Colo)** rack space at exchange data centers. SEBI safeguards: mandatory algorithm sandbox testing, Order-to-Trade Ratio (OTR) penalties, and emergency automated Kill Switches. **Transaction Cost Hierarchy**: Securities Transaction Tax (STT) (federal levy), Exchange Turnover Fees, SEBI Regulatory Fee, Stamp Duty (Indian Stamp Act), 18% GST on services, and DP exit charges.

MODULE III

STOCK EXCHANGES AND COMMODITY DERIVATIVES IN INDIA

Theoretical Foundations and Governance of Exchanges: Defined under Section 2(j) of SCRA 1956 as a body corporate assisting, regulating, or controlling securities transactions. Functions: continuous liquidity, capital mobilization, objective price discovery, safe clearing platform, and economic barometer. **Demutualisation and Corporatisation Revolution**: historic transition recommended by **Justice M. H. Kania Committee (2001)** separating three previously unified broker powers: 1. **Ownership** (held by public/institutional shareholders, brokers capped at max 49% collective, 5% individual); 2. **Governance** (independent board dominated by Public Interest Directors - PIDs approved by SEBI); 3. **Trading Rights** (pure operational access without board privileges), completely eradicating broker cartel conflicts of interest.

Premier Indian Stock Exchanges: National Stock Exchange of India (NSE): incorporated 1992, operational 1994 pursuant to **M. J. Pherwani Committee**. First demutualised exchange in India; pioneered nationwide VSAT satellite trading; world's largest derivatives exchange by contract volume. Operating segments: Capital Market (CM), Wholesale Debt Market (WDM), Futures & Options (F&O), Currency Derivatives, and Social Stock Exchange (SSE). **Bombay Stock Exchange (BSE)**: founded 1875 by Premchand Roychand on Dalal Street as Native Share & Stock Brokers' Association; oldest exchange in Asia; first to receive permanent SCRA recognition in 1957; transitioned to BOLT in 1995; corporatised in 2005; listed on NSE in 2017; leader in BSE SME platform and international GIFT City trading via India INX.

Commodity Derivatives Ecosystem and Regulatory Consolidation: Commodity derivatives allow agricultural producers, processors, and industrial miners to execute forward pricing and hedge raw material price volatility. **Physical Spot Mandis (APMC)** vs **Commodity Derivatives Exchanges** (standardized futures/options; cash-settled or settled via accredited warehouses; zero physical grain on floor). Premier exchanges: **Multi Commodity Exchange (MCX)** (founded 2003; commands 90%+ share in non-agricultural contracts: bullion gold/silver, base metals copper/aluminum, energy crude oil/natural gas); **National Commodity and Derivatives Exchange (NCDEX)** (founded 2003; specializes in agricultural commodities: pulses, spices, oilseeds; trains Farmer Producer Organizations - FPOs). **Regulatory Consolidation (2015)**: Forward Markets Commission (FMC) dissolved and merged into **SEBI** following the ₹5,600-cr NSEL scam, establishing unified capital market oversight, central counterparty clearing, and electronic Negotiable Warehouse Receipts (eNWRs) under WDRA.

Major International Stock Exchanges: New York Stock Exchange (NYSE) (founded 1792 under Buttonwood Agreement; Wall Street; world's largest exchange by market cap exceeding $28 trillion; hybrid floor trading with Designated Market Makers - DMMs). **NASDAQ** (founded 1971; world's first electronic screen market; technology titan hub: Apple, Microsoft, NVIDIA, Alphabet). **London Stock Exchange (LSE)** (City of London; global hub for GDR trading via International Order Book; AIM platform for growth start-ups). **Tokyo Stock Exchange (TSE/JPX)** (restructured into Prime, Standard, and Growth tiers; Nikkei 225). **Hong Kong Stock Exchange (HKEX)** (gateway to China; operates Shanghai and Shenzhen Stock Connect programs).

Risk Management, Margining, and GIFT City Integration: Margining architecture: **Value at Risk (VaR) Margin** (statistically covers 99% 1-day price risk), **SPAN Margining** (portfolio-level scenario simulation for derivatives), **Extreme Loss Margin (ELM)** (tail-risk buffer), and daily **Mark-to-Market (MTM) Margin**. **GIFT City (Gujarat)**: India's maiden IFSC governed by IFSCA. Repatriated offshore dollar Nifty trading from Singapore (SGX) to India via **GIFT Nifty on NSE IX** in July 2023, trading 21 hours daily. **Global Linkages**: 24-hour chronological continuity; FPI cross-border transmission vectors; systemic contagion vulnerabilities (e.g., 2008 Lehman collapse).

MODULE IV

STOCK MARKET INDICES AND MARKET TELEMETRY

Stock Market Indices: Concept and Economic Telemetry: A composite statistical benchmark synthesized from representative securities measuring market or sectoral trajectory. Functions: economic performance barometer ("Pulse of the Economy"), investment fund benchmarking (generating **Alpha** over market beta), underlying asset for index derivatives (NIFTY/SENSEX options/futures), foundation for passive investing (index funds, ETFs), and technical sentiment telemetry.

Index Weighting Methodologies: 1. **Free-Float Market Capitalization Methodology** (global standard; weights strictly shares available for public trading, excluding promoter, government, strategic FDI, and cross-holdings; deployed by NIFTY 50 and SENSEX); 2. **Price-Weighted Methodology** (weighted solely by share price divided by Index Divisor; ignores market cap; high-priced stocks dominate; Dow Jones DJIA and Nikkei 225); 3. **Equal-Weighted Methodology** (identical percentage weight assigned to every stock; eliminates mega-cap dominance; requires regular rebalancing).

Free-Float Index Mathematical Formulation: Step 1: Full Market Cap = Total Outstanding Shares × Market Price. Step 2: Free-Float Factor (Investible Weight Factor - IWF) = Free-Float Shares / Total Shares. Step 3: Free-Float Market Cap = Full Market Cap × IWF. Step 4: Index Value = (Current Aggregate Free-Float Market Cap / Base Market Cap) × Base Index Value. Example: Three stocks with aggregate current free-float market cap of ₹29,20,000, base market cap of ₹10,00,000, and base value of 1,000 yields Index = (29,20,000 / 10,00,000) × 1,000 = **2,920 Points**.

Premier Indian Benchmarks: SENSEX and NIFTY 50: S&P BSE SENSEX: launched 1986; 30 blue-chip companies; Base Year **1978–79 = 100 points**; transitioned to Free-Float in 2003; tracks four decades of Indian corporate expansion. **NIFTY 50**: launched April 1996 by NSE; 50 diversified companies across 13–14 sectors; covers ~65% of NSE free-float market cap; Base Period **November 3, 1995 = 1,000 points** (base capital ₹2.06 trillion); strict liquidity entry filter (Impact Cost ≤ 0.50% on ₹10 cr portfolio across 99% of sessions); semi-annual reconstitution in March and September.

Sectoral Distribution and Index Divisor Mechanics: Major Nifty sectors: Financial Services (~35%), IT (~13%), Oil & Gas (~12%), FMCG and Auto (~15% combined); macroeconomic sector rotation from cyclicals (expansion) to defensives (contraction). **Index Divisor Adjustment**: prevents artificial index distortion from non-market events (rights issues, demergers, spin-offs): New Divisor = (Post-Action Market Cap / Pre-Action Market Cap) × Old Divisor. Example: ₹50 lakh market cap with divisor 5,000 (index 1,000) expands by ₹5 lakh rights issue to ₹55 lakh; New Divisor = (55,00,000 / 50,00,000) × 5,000 = 5,500, preserving Index Value exactly at 1,000 points.

Market Breadth Telemetry and India VIX: Evaluating internal market vitality: **Advance-Decline Ratio (ADR)** (advances / declines; >1.0 bullish); **Cumulative A/D Line** (divergence from index signals imminent reversal); **52-Week Highs vs Lows**; **Moving Average Breadth** (% above 200-day SMA); **Delivery Percentage** (signals institutional accumulation vs day trading). **India VIX**: computed from NIFTY option bid-ask implied volatility; forward-looking 30-day "Fear Gauge"; inverse correlation with Nifty; <15 indicates calm, >25 indicates panic dislocation.

Contemporary Trends: ETFs, REITs, and Smart Beta: Exchange-Traded Funds (ETFs): trade like shares on exchange; Authorized Participants (APs) create/redeem units in-kind, keeping market price tethered to NAV; pioneered by Nifty BeES (2002), expanding into Gold, Silver, and Bharat Bond ETFs. **Real Estate Investment Trusts (REITs)**: pooled trusts owning rent-yielding commercial properties; statutorily mandated to distribute **90% of Net Distributable Cash Flows (NDCF)** semi-annually; democratizes commercial real estate for retail. **Smart Beta Factor Indices**: factor investing based on Momentum, Quality, Low Volatility, and Value.

MODULE V

REGULATORY FRAMEWORK AND INVESTOR PROTECTION

SEBI Genesis, Constitution, and Statutory Evolution: Transition from bureaucratic Controller of Capital Issues (CCI) under 1947 Act (formulaic pricing, zero investor protection). SEBI constituted non-statutory in 1988; empowered with full statutory autonomy under **SEBI Act 1992** following the Harshad Mehta securities scam. Board composition under Section 4: Chairman, two Ministry officials (Finance and MCA), one RBI nominee, and five members (at least three Whole-Time Members - WTMs).

Tripartite Functional Mandate of SEBI: 1. **Regulatory Functions**: licensing and registration of all market intermediaries (brokers, merchant bankers, DPs, credit rating agencies, mutual funds under 1996 regulations); regulating corporate takeovers under **SAST Regulations 2011** (mandatory 25% open offer trigger); conducting exchange audits; 2. **Developmental Functions**: technical innovation (demat, T+1, UPI ASBA), NISM certifications, developing novel vehicles (ETFs, REITs, Social Stock Exchange); 3. **Protective Functions**: eradicating fraudulent manipulation, insider trading prohibition, investor awareness campaigns, and enforcing rigorous disclosure veracity.

Legal Powers and Quasi-Judicial Authority: SEBI combines **quasi-legislative** (framing binding subordinate regulations: ICDR, LODR, PIT), **quasi-executive** (surveillance, inspections, search and seizure under Section 11C), and **quasi-judicial** powers (conducting hearings, imposing civil penalties up to ₹25 crores or 3x profits, ordering **Disgorgement** of illegal profits, debarring promoters from capital markets). Endowed with Civil Court powers under CPC 1908 (summoning oaths, demanding records).

Prohibition of Unfair Trade Practices (PFUTP Regulations 2003): Prohibits deceptive manipulation: **Price Rigging**; **Circular Trading** (synchronized broker ring trading identical shares back and forth without ownership change to fake liquidity); **Wash Sales** (fictitious trades with zero economic change); **Pump-and-Dump Schemes** (accumulating penny stocks, hyping on social media/finfluencer channels, and dumping on retail); **Front-Running** (trading on advance knowledge of pending institutional block orders); **Marking the Close** (manipulating closing price in final session minutes).

Prohibition of Insider Trading (PIT Regulations 2015): Eradicates unfair informational asymmetry. **Unpublished Price Sensitive Information (UPSI)**: non-public information materially affecting stock price (financial results, dividends, mergers, capital restructuring, CEO changes). **Insider**: connected persons or any person in possession of UPSI. Institutional controls: **Structured Digital Database (SDD)** (tamper-proof digital database recording PAN and identity of every person receiving UPSI under Regulation 3(5)); **Trading Window Closure** (closed from end of quarter until **48 hours after** financial results are public); **Pre-Clearance** of trades exceeding ₹10 lakhs with Compliance Officer.

SEBI ICDR Regulations and Intermediary Governance: Gatekeeping public issues: Regulation 6(1) profitability track record (₹3 cr tangible assets, ₹15 cr average operating profits, ₹1 cr net worth) or mandatory 75% QIB allocation under 6(2); comprehensive internal and external risk disclosures; mandatory independent **Monitoring Agency** for issues >₹100 cr; statutory **90% Minimum Subscription Invariant** (refund required within 4 days at 15% interest if failed). **Credit Rating Agencies (CRAs)**: CRISIL, ICRA, CARE; governed under 1999 regulations; Chinese walls between rating and advisory; standardized rating symbols.

Investor Protection, IEPF, and Grievance Hierarchy: Investor rights: dividends within 30 days, voting at AGMs, safe demat holding, transparent disclosures. **Investor Education and Protection Fund (IEPF)** under Section 125 of Companies Act: dividends and underlying shares unclaimed for **7 consecutive years** statutorily transferred to IEPF; shareholders retain perpetual right to claim back via Form IEPF-5; funds finance national financial literacy. **Modern Investor Protections**: mandatory **Upstreaming of Client Funds** (zero broker retention overnight; placed in sovereign T-Bills/clearing corporation); Demat Margin Pledge-Repledge rules; **Saarthi** educational app.

Grievance Redressal and Appellate System: 1. **SCORES 2.0 Portal**: centralized digital complaint filing; mandatory time-bound Action Taken Report (ATR) within **21 calendar days**; automated two-tier escalation to exchanges and SEBI; 2. **SMART ODR Portal (2023)**: online conciliation and digital arbitration with empaneled independent arbitrators, rendering binding enforceable awards; 3. **Appellate Hierarchy**: Appeals against SEBI/IRDAI/PFRDA orders lie before the **Securities Appellate Tribunal (SAT)** in Mumbai within 45 days (headed by retired Supreme Court/High Court Chief Justice); final statutory appeals lie directly to the **Supreme Court of India** within 60 days under Section 15Z on substantial questions of law.

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