A
Project Report
On

NATIONAL STOCK EXCHANGE OF INDIA LIMITED

NSE

National Stock Exchange of India Limited

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1. INTRODUCTION TO INDIAN MARKETS

THERE ARE TWO TYPES OF MARKETS IN INDIA

MONEY MARKET

Money market is a market for debt securities that pay off in the short term usually less than one year, for example the market for 90-days treasury bills. This market encompasses the trading and issuance of short term non equity debt instruments including treasury bills, commercial papers, bankers acceptance, certificates of deposits, etc.

In other word we can also say that the Money Market is basically concerned with the issue and trading of securities with short term maturities or quasi-money instruments. The Instruments traded in the money-market are Treasury Bills, Certificates of Deposits (CDs), Commercial Paper (CPs), Bills of Exchange and other such instruments of short-term maturities (i.e. not exceeding 1 year with regard to the original maturity)

CAPITAL MARKET

Capital market is a market for long-term debt and equity shares. In this market, the capital funds comprising of both equity and debt are issued and traded. This also includes private placement sources of debt and equity as well as organized markets like stock exchanges.

Capital market can be divided into Primary and Secondary Markets.

PRIMARY MARKET

In the primary market, securities are offered to public for subscription for the purpose of raising capital or fund. Secondary market is an equity trading avenue in which already existing/pre- issued securities are traded amongst investors. Secondary market could be either auction or dealer market. While stock exchange is the part of an auction market, Over-the-Counter (OTC) is a part of the dealer market.

In addition to the traditional sources of capital from family and friends, startup firms are created and nurtured by Venture Capital Funds and Private Equity Funds. According to the Indian Venture Capital Association Yearbook (2003), investments of $881 million were injected into 80 companies in 2002, and investments of $470 million were injected into 56 companies in 2003. The firms which received these investments were drawn from a wide range of industries, including finance, consumer goods and health.

The growth of the venture capital and private equity mechanisms in India is critically linked to their track record for successful exits. Investments by these funds only commenced in recent years, and we are seeing a rapid buildup in a full range of channels for exit, with a mix of profitable and unprofitable outcomes. This success with exit suggests that investors will allocate increased resources to venture funds and private equity funds operating in India, who will (in turn) be able to fund the creation of new firms.

SECONDARY MARKET

Secondary Market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market. Secondary market comprises of equity markets and the debt markets.

For the general investor, the secondary market provides an efficient platform for trading of his securities. For the management of the company, Secondary equity markets serve as a monitoring and control conduit—by facilitating value-enhancing control activities, enabling implementation of incentive-based management contracts, and aggregating information (via price discovery) that guides management decisions.

Difference between the primary market and the secondary market

In the primary market, securities are offered to public for subscription for the purpose of raising capital or fund. Secondary market is an equity trading avenue in which already existing/pre- issued securities are traded amongst investors. Secondary market could be either auction or dealer market. While stock exchange is the part of an auction market, Over-the-Counter (OTC) is a part of the dealer market.

Main financial products/instruments dealt in the secondary market

- **Equity:** The ownership interest in a company of holders of its common and preferred stock. The various kinds of equity shares are as follows –

- **Equity Shares:**
- An equity share, commonly referred to as ordinary share also represents the form of fractional ownership in which a shareholder, as a fractional owner, undertakes the maximum entrepreneurial risk associated with a business venture. The holders of such shares are members of the company and have voting rights. A company may issue such shares with differential rights as to voting, payment of dividend, etc.

- **Rights Issue/ Rights Shares:** The issue of new securities to existing shareholders at a ratio to those already held.

- **Bonus Shares**: Shares issued by the companies to their shareholders free of cost by capitalization of accumulated reserves from the profits earned in the earlier years.

- **Preferred Stock/ Preference shares**: Owners of these kind of shares are entitled to a fixed dividend or dividend calculated at a fixed rate to be paid regularly before dividend can be paid in respect of equity share. They also enjoy priority over the equity shareholders in payment of surplus. But in the event of liquidation, their claims rank below the claims of the company's creditors, bondholders / debenture holders.

- **Cumulative Preference Shares:** A type of preference shares on which dividend accumulates if remains unpaid. All arrears of preference dividend have to be paid out before paying dividend on equity shares.

- **Cumulative Convertible Preference Shares:** A type of preference shares where the dividend payable on the same accumulates, if not paid. After a specified date, these shares will be converted into equity capital of the company.

- **Participating Preference Share:** The right of certain preference shareholders to participate in profits after a specified fixed dividend contracted for is paid. Participation right is linked with the quantum of dividend paid on the equity shares over and above a particular specified level.

- **Security Receipts:** Security receipt means a receipt or other security, issued by a securitisation company or reconstruction company to any qualified institutional buyer pursuant to a scheme, evidencing the purchase or acquisition by the holder thereof, of an undivided right, title or interest in the financial asset involved in securitisation.

- **Government securities (G-Secs):** These are sovereign (credit risk-free) coupon bearing instruments which are issued by the Reserve Bank of India on behalf of Government of India, in lieu of the Central Government's market borrowing programme. These securities have a fixed coupon that is paid on specific dates on half-yearly basis. These securities are available in wide range of maturity dates, from short dated (less than one year) to long dated (upto twenty years).

- **Debentures:** Bonds issued by a company bearing a fixed rate of interest usually payable half yearly on specific dates and principal amount repayable on particular date on redemption of the debentures. Debentures are normally secured/ charged against the asset of the company in favour of debenture holder.

- **Bond:** A negotiable certificate evidencing indebtedness. It is normally unsecured. A debt security is generally issued by a company, municipality or government agency. A bond investor lends money to the issuer and in exchange, the issuer promises to repay the loan amount on a specified maturity date. The issuer usually pays the bond holder periodic interest payments over the life of the loan. The various types of Bonds are as follows-

- **Zero Coupon Bond:** Bond issued at a discount and repaid at a face value. No periodic interest is paid. The difference between the issue price and redemption price represents the return to the holder. The buyer of these bonds receives only one payment, at the maturity of the bond.

- **Convertible Bond:** A bond giving the investor the option to convert the bond into equity at a fixed conversion price.

- **Commercial Paper:** A short term promise to repay a fixed amount that is placed on the market either directly or through a specialized intermediary. It is usually issued by companies with a high credit standing in the form of a promissory note redeemable at par to the holder on maturity and therefore, doesn't require any guarantee. Commercial paper is a money market instrument issued normally for a tenure of 90 days.

- **Treasury Bills:** Short-term (up to 91 days) bearer discount security issued by the Government as a means of financing its cash requirements.

2. SEBI

SECURITY AND EXCHANGE BOARD OF INDIA

SEBI AND ITS ROLE IN THE SECONDARY MARKET

The SEBI is the regulatory authority established under Section 3 of SEBI Act 1992 to protect the interests of the investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith and incidental thereto.

Securities and Exchange Board of India constituted under the Resolution of the Government of India in the Department of Economic Affairs No.1 (44)SE/86, dated the 12th day of April, 1988;

The Board shall consist of the following members, namely:-

1. A Chairman
2. Two members from amongst the officials of the Ministry of the Central Government dealing with Finance (and administration of the Companies Act, 1956;) 2 of 1934
3. One member from amongst the officials of [the Reserve Bank
4. Five other members of whom at least three shall be the whole-time members

<u>Departments of SEBI regulating trading in the secondary market</u>

(1) Market Intermediaries Registration and Supervision department (MIRSD)

Registration, supervision, compliance monitoring and inspections of all market intermediaries in respect of all segments of the markets viz. equity, equity derivatives, debt and debt related derivatives.

(2) Market Regulation Department (MRD)

Formulating new policies and supervising the functioning and operations (except relating to derivatives) of securities exchanges, their subsidiaries, and market institutions such as Clearing and settlement organizations and Depositories (Collectively referred to as 'Market SROs').

(3)Derivatives and New Products Departments (DNPD)

Supervising trading at derivatives segments of stock exchanges, introducing new products to be traded, and consequent policy changes.

<u>POWERS & FUNCTIONS</u>

1. Regulating the business in stock exchanges and any other securities markets.
2. Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner.
3. Registering and regulating the working of the depositories, participants custodians of securities, foreign institutional investors, credit rating agencies

and such other intermediaries as the board may, by notification, specify in this behalf.

4. Registering and regulating the working of (venture capital funds and collective investment schemes) including mutual funds.

5. Promoting and regulating self-regulatory organizations.

6. Prohibiting fraudulent and unfair trade practices relating to securities markets.

7. Promoting investors' education and training of intermediaries of securities markets.

8. Prohibiting insider trading in securities.

9. Regulating substantial acquisition of shares and take-over of companies.

10. Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, (mutual funds) and other persons associated with the securities market and intermediaries and self- regulatory organizations in the securities market.

11. Performing such functions and exercising such powers under the provisions of securities contracts (regulation) act, 1956, as may be delegated to it by the central government.

12. Levying fees or other charges for carrying out the purpose of this section.

13. Conducting research for the above purposes.

BOMBAY STOCK EXCHANGE OF INDIA LIMITED

Bombay Stock Exchange Limited
The edge is efficiency

Bombay Stock Exchange Limited is the oldest stock exchange in Asia with a rich heritage. Popularly known as "BSE", it was established as "The Native Share & Stock Brokers Association" in 1875. It is the first stock exchange in the country to obtain permanent recognition in 1956 from the Government of India under the Securities Contracts (Regulation) Act, 1956.

The Exchange's pivotal and pre-eminent role in the development of the Indian capital market is widely recognized and its index, *SENSEX*, is tracked worldwide. Earlier an Association of Persons (AOP), the Exchange is now a demutualised and corporative entity incorporated under the provisions of the Companies Act, 1956, pursuant to the BSE (Corporatization and Demutualization) Scheme, 2005 notified by the Securities and Exchange Board of India (SEBI).

With demutualization, the trading rights and ownership rights have been de-linked effectively addressing concerns regarding perceived and real conflicts of interest. The Exchange is professionally managed under the overall direction of the Board of Directors.

The Board comprises eminent professionals, representatives of Trading Members and the Managing Director of the Exchange. The Board is inclusive and is designed to benefit from the participation of market intermediaries.

In terms of organization structure, the Board formulates larger policy issues and exercises over-all control. The committees constituted by the Board are broad-based. The day-to-day operations of the Exchange are managed by the Managing Director and a management team of professionals.

The Exchange has a nation-wide reach with a presence in 417 cities and towns of India. The systems and processes of the Exchange are designed to safeguard market integrity and enhance transparency in operations. During the year 2004-2005, the trading volumes on the Exchange showed robust growth.

The Exchange provides an efficient and transparent market for trading in equity, debt instruments and derivatives. The BSE's On Line Trading System (BOLT) is a proprietary system of the Exchange and is BS 7799-2-2002 certified. The surveillance and clearing & settlement functions of the Exchange are ISO 9001:2000 certified.

Bombay Stock Exchange Limited (BSE) which was founded in 1875 with six brokers has now grown into a giant institution with over 874 registered Broker-Members spread over 380 cities across the country. Today, BSE's Wide Area Network (WAN) connecting over 8000 BSE Online Trading (BOLT) System Trader Work Stations (TWS) is one of the largest of its kind in the country.

With a view to provide efficient and integrated services to the investing public through the members and their associates in the operations pertaining to the Exchange, Bombay Stock Exchange Limited (BSE) has set up a unique Member Services and Development to attend to the problems of the Broker-Members.

Member Services and Development Department is the single point interface for interacting with the Exchange Administration to address to Members' issues. The Department takes care of various problems and constraints faced by the Members in various products such as Cash, Derivatives, Internet Trading, and Processes such as

Trading, Technology, Clearing and Settlement, Surveillance and Inspection, Membership, Training, Corporate Information, etc.

PERSONALIZED SERVICE PROVIDER

Member Services and Development has put in place the concept of 'Relationship Managers' whereby an Officer is responsible for providing comprehensive services to a group/ set of Members alloted to him/her. The Relationship Managers maintain a comprehensive database on the members and their associates.

A distinct feature of the functioning of the Relationship Manager is attending to the diverse problems of the Members at one stop by co-ordinating with various departments thus saving valuable time and energy for the Members. This synergetic effort will benefit both the Exchange and its members in consolidating the business and exploiting the opportunities.

VISION OF BSE

“Emerge as the premier Indian stock exchange by establishing global benchmarks"

COMMODITY EXCHANGES

There are three categories:

- **NCDEX**
- **MCX**
- **NMCE**

A brief description of commodity exchanges are those which trade in particular commodities, neglecting the trade of securities, stock index futures and options etc.

In the middle of 19th century in the United States, businessmen began organizing market forums to make the buying and selling of commodities easier. These central marketplaces provided a place for buyers and sellers to meet, set quality and quantity standards, and establish rules of business.

Agricultural commodities were mostly traded but as long as there are buyers and sellers, any commodity can be traded. In 1872, a group of Manhattan dairy merchants got together to bring chaotic condition in New York market to a system in terms of storage, pricing, and transfer of agricultural products.

In 1933, during the Great Depression, the Commodity Exchange, Inc., was established in New York through the merger of four small exchan ges – the National Metal Exchange, the Rubber Exchange of New York, the National Raw Silk Exchange, and the New York Hide Exchange.

The major commodity markets are in the United Kingdom and in the USA. In india there are 25 recognized future exchanges, of which there are three national level multi-commodity exchanges. After a gap of almost three decades, Government of India has allowed forward transactions in commodities through Online Commodity Exchanges, a modification of traditional business known as Adhat and Vayda Vyapar to facilitate better risk coverage and delivery of commodities.

The three exchanges are:

1. **National Commodity & Derivatives Exchange Limited (NCDEX)**
2. **Multi Commodity Exchange of India Limited (MCX)**
3. **National Multi-Commodity Exchange of India Limited (NMCEIL)**

All the exchanges have been set up under overall control of Forward Market Commission (FMC) of Government of India.

National Commodity & Derivatives Exchange Limited (NCDEX)

National Commodity & Derivatives Exchange Limited (NCDEX) located in Mumbai is a public limited company incorporated on April 23, 2003 under the Companies Act, 1956 and had commenced its operations on December 15, 2003.This is the only commodity exchange in the country promoted by national level institutions.

It is promoted by ICICI Bank Limited, Life Insurance Corporation of India (LIC), National Bank for Agriculture and Rural Development (NABARD) and National Stock Exchange of India Limited (NSE).

It is a professionally managed online multi commodity exchange. NCDEX is regulated by Forward Market Commission and is subjected to various laws of the land like the Companies Act, Stamp Act, Contracts Act, Forward Commission (Regulation) Act and various other legislations.

Multi Commodity Exchange of India Limited(MCX)

Headquartered in Mumbai Multi Commodity Exchange of India Limited (MCX), is an independent and de-mutulised exchange with a permanent recognition from Government of India. Key shareholders of MCX are Financial Technologies (India) Ltd., State Bank of India, Union Bank of India, Corporation Bank, Bank of India and Canara Bank. MCX facilitates online trading, clearing and settlement operations for commodity futures markets across the country.

MCX started offering trade in November 2003 and has built strategic alliances with Bombay Bullion Association, Bombay Metal Exchange, Solvent Extractors' Association of India, Pulses Importers Association and Shetkari Sanghatana.

National Multi-Commodity Exchange of India Limited (NMCEIL)

National Multi Commodity Exchange of India Limited (NMCEIL) is the first de-mutualzed, Electronic Multi-Commodity Exchange in India. On 25th July, 2001, it was granted approval by the Government to organize trading in the edible oil complex.

It has operationalised from November 26, 2002. It is being supported by Central Warehousing Corporation Ltd., Gujarat State Agricultural Marketing Board and Neptune Overseas Limited. It got its recognition in October 2000.

Commodity exchange in India plays an important role where the prices of any commodity are not fixed, in an organized way. Earlier only the buyer of produce and its seller in the market judged upon the prices. Others never had a say.

Today, commodity exchanges are purely speculative in nature. Before discovering the price, they reach to the producers, end-users, and even the retail investors, at a grassroots level. It brings a price transparency and risk management in the vital market.

A big difference between a typical auction, where a single auctioneer announces the bids, and the Exchange is that people are not only competing to buy but also to sell.

By Exchange rules and by law, no one can bid under a higher bid, and no one can offer to sell higher than someone else's lower offer. That keeps the market as efficient as possible, and keeps the traders on their toes to make sure no one gets the purchase or sale before they do.

3. NSE - A NEW IDEOLOGY

GENESIS

Capital market reforms in India have outstripped the process of liberalization in most other sectors of the economy. However, the creation of an independent capital market regulator was the initiation of this reform process. After the formation of the Securities Market regulator, the Securities and Exchange Board of India (SEBI), attention were drawn towards the inefficiencies of the bourses and the need was felt for better regulation, discipline and accountability. A Committee recommended the creation of a 2nd stock exchange in Mumbai called the "National Stock Exchange". The Committee suggested the formation of an exchange which would provide investors across the country a single, screen based trading platform, operated through a VSAT network. It was on this recommendation that setting up of NSE as a technology driven exchange was conceptualized. NSE has set up its trading system as a nation-wide, fully automated screen based trading system. It has written for itself the mandate to create a world-class exchange and use it as an instrument of change for the industry as a whole through competitive pressure. NSE was incorporated in 1992 and was given recognition as a stock exchange in April 1993. It started operations in June 1994, with trading on the Wholesale Debt Market Segment. Subsequently it launched the Capital

Market Segment in November 1994 as a trading platform for equities and the Futures and Options Segment in June 2000 for various derivative instruments.

NSE was set up with the objectives of:

- Establishing a nationwide trading facility for all types of securities;
- Ensuring equal access to investors all over the country through an appropriate communication network;
- Providing a fair, efficient and transparent securities market using electronic trading system;
- Enabling shorter settlement cycles and book entry settlements; and
- Meeting international benchmarks and standards.

NSE has been able to take the stock market to the doorsteps of the investors. The technology has been harnessed to deliver the services to the investors across the country at the cheapest possible cost. It provides a nation-wide, screen-based, automated trading system, with a high degree of transparency and equal access to investors irrespective of geographical location. The high level of information dissemination through on-line system has helped in integrating retail investors on a nation-wide basis. The standards set by the exchange in terms of market practices, products, technology and service standards have become industry benchmarks and are being replicated by other market participants.

Within a very short span of time, NSE has been able to achieve all the objectives for which it was set up. It has been playing a leading role as a change agent in transforming the Indian Capital Markets to its present form. The Indian Capital Markets are a far cry from what they used to be a decade ago in terms of market practices, infrastructure, technology, risk management, clearing and settlement and investor service.

NSE - A New ideology

The broad objective for which the exchange was set up has made it to play a leading role in enlarging the scope of market reforms in securities market in India. During last one decade it has been playing the role of a catalytic agent in reforming the markets in terms of market microstructure and in evolving the best market practices keeping in mind the investors.

The Exchange is set up on a demutualised model wherein the ownership, management and trading rights are in the hands of three different sets of people. This has completely eliminated any conflict of interest. This has helped NSE to aggressively pursue policies and practices within a public interest framework.

NSE's nationwide, automated trading system has helped in shifting the trading platform from the trading hall in the premises of the exchange to the computer terminals at the premises of the trading members located at different geographical locations in the country and subsequently to the personal computers in the homes of investors and even to hand held portable devices for the mobile investors. It has been encouraging corporatization of membership in securities market.

It has also proved to be instrumental in ushering in scrip less trading and providing settlement guarantee for all trades executed on the Exchange. Settlement risks have also been eliminated with NSE's innovative endeavors in the area of clearing and settlement viz., establishment of the clearing corporation (NSCCL), setting up a settlement guarantee fund (SGF), reduction of settlement cycle, implementing on-line, real-time risk management systems, dematerialization and electronic transfer of securities to name few of them.

As a consequence, the market today uses state-of-the-art information technology to provide an efficient and transparent trading, clearing and settlement mechanism. In order to take care of investors interest, it has also created an investors protection fund (IPF), that would help investors who have incurred financial loss due to default of brokers.

Ownership and Management the NSE

NSE is owned by a set of leading financial institutions, banks, insurance companies and other financial intermediaries. It is managed by a team of professional managers and the trading rights are with trading members who offer their services to the investors.

The Board of NSE comprises of senior executives from promoter institutions and eminent professionals, without having any representation from trading members. While the Board deals with the broad policy issues, the Executive Committees which include trading members, formed under the Articles of Association and the Rules of NSE for different market segments, set out rules and parameters to manage the day-to-day affairs of the Exchange. The ECs have constituted several committees, like Committee on Trade Related Issues (COTI), Committee on Settlement Issues (COSI) etc., comprising mostly of trading members, to receive inputs from the market participants and implement suggestions which are in the best interest of the investors and the market.

The day-to-day management of the Exchange is delegated to the Managing Director and CEO who is supported by a team of professional staff. Therefore, though the role of trading members at NSE is to the extent of providing only trading services to the investors, the Exchange involves trading members in the process of consultation and participation in vital inputs towards decision making.

Achievements/Milestones

Month/Year	Event
April 1993	Recognition as a stock exchange.
May 1993	Formulation of business plan.
June 1994	WDM segment goes live.
November 1994	CM segment goes live through VSAT.
March 1995	Establishment of Investor Grievance Cell.
April 1995	Establishment of NSCCL, the first Clearing Corporation.
June 1995	Introduction of centralised insurance cover for all trading members.
July 1995	Establishment of Investor Protection Fund.
October 1995	Became largest stock exchange in the country.
April 1996	Commencement of clearing and settlement by NSCCL.
April 1996	Launch of S&P CNX Nifty.
June 1996	Establishment of Settlement Guarantee Fund.
November 1996	Setting up of National Securities Depository Ltd., first depository in India, co-promoted by NSE.
November 1996	'Best IT Usage' award by Computer Society of India.
December 1996	Commencement of trading/settlement in dematerialised securities.

Contd...

Month/Year	Event
December 1996	Dataquest award for 'Top IT User'.
December 1996	Launch of CNX Nifty Junior.
February 1997	Regional clearing facility goes live.
November 1997	'Best IT Usage' award by Computer Society of India.
May 1998	Promotion of joint venture, India Index Services & Products Limited (IISL).
May 1998	Launch of NSE's Web-site : www.nse.co.in.
June 1998	Launch of MIBID/MIBOR.
July 1998	Launch of 'NSE's Certification Programme in Financial Markets'.
August 1998	'CYBER CORPORATE OF THE YEAR 1998' award.
April 1999	'CHIP Web Award' by CHIP magazine.
October 1999	Setting up of NSE.IT Ltd.
January 2000	Launch of NSE Research Initiative.
February 2000	Internet Trading in CM segment.
May 2000	Launch of DotEx International Ltd, e-trading joint venture, by NSE.IT Ltd. and i-flex Solutions Ltd.
June 2000	Commencement of Derivatives Trading (in Index Futures).
September 2000	Launch of Zero Coupon Yield Curve.
December 2000	Launch of Wireless Application Protocol by NSE.IT Ltd.
May 2001	Internet Trading in F&O segment.
June 2001	Commencement of Trading in Index Options
July 2001	Commencement of Trading in Options on Individual Securities
November 2001	Commencement of Trading in Futures on Individual Securities
December 2001	Launch of *finvarsity*, e-learning portal, by NSE.IT Ltd.
December 2001	Launch of Nifty BeES - first Exchange Traded Fund in India.
January 2002	Launch of 'NSE-VAR' system for Government Securities
March 2002	Inauguration of NSE's Business Continuity Plan (BCP) site at Chennai
May 2002	NSE wins the Wharton-Infosys business Transformation Award in the organization-wide transformation category
October 2002	Launch of Government Securities Index
January 2003	Launch of Retail Debt of Government Securities
June 2003	Launch of Exchange Traded Interest Rate derivatives on Notional 91 day T-bills and Notional 10 year bonds
August 2003	Launch of Futures and Options on CNX IT Index
June 2004	Launch of STP Interoperability
August 2004	Launch of NSE's electronic interface for listed companies
November 2004	Selected one of the Super Brands of the country
February 2005	Indian Innovation Award 2005 Citation

Market Segments and Products

NSE provides an electronic trading platform for of all types of securities for investors under one roof - Equity, Corporate Debt, Central and State Government Securities, T-Bills, Commercial Paper, Certificate of Deposits (CDs), Warrants, Mutual Funds units, Exchange Traded Funds, Derivatives like Index Futures, Index Options, Stock Futures, Stock Options, Futures on Interest Rates etc., which makes it one of the few exchanges in the world providing trading facility for all types of securities on a single exchange.

The Exchange provides trading in 3 different segments viz.

- **Wholesale debt market (WDM)**
- **Capital market (CM) segment and**
- **The futures & options (F&O) segment.**

The **Wholesale Debt Market** segment provides the trading platform for trading of a wide range of debt securities which includes State and Central Government securities, T-Bills, PSU Bonds, Corporate Debentures, CPs, CDs etc. However, along with these financial instruments, NSE has also launched various products (e.g. FIMMDA-NSE MIBID/MIBOR) owing to the market need. A reference rate is said to be an accurate measure of the market price. In the fixed income market, it is the interest rate that the market respects and closely matches. In response to this, NSE started computing and disseminating the NSE Mumbai Inter-bank Bid Rate (MIBID) and NSE Mumbai Inter-Bank Offer Rate (MIBOR). Owing to the robust methodology of computation of these rates and its extensive use, this product has become very popular among the market participants.

Keeping in mind the requirements of the banking industry, FIs, MFs, insurance companies, who have substantial investments in sovereign papers, NSE also started the dissemination of its yet another product, the ‘Zero Coupon Yield Curve’. This helps in valuation of sovereign securities across all maturities irrespective of its liquidity in the market. The increased activity in the government securities market in India and simultaneous emergence of MFs (Gilt MFs) had given rise to the need for a well defined bond index to measure the returns in the bond market. NSE constructed such an index the, ‘NSE Government Securities Index’. This index provides a benchmark for portfolio management by various investment managers and gilt funds.

The **Capital Market segment** offers a fully automated screen based trading system, known as the National Exchange for Automated Trading (NEAT) system. This operates on a price/time priority basis and enables members from across the country to trade with enormous ease and efficiency. Various types of securities e.g. equity shares, warrants, debentures etc. are traded on this system. The average daily turnover in the CM Segment of the Exchange during 2004-05 was nearly Rs. 4,506 crs.

NSE started trading in the equities segment (Capital Market segment) on November 3, 1994 and within a short span of 1 year became the largest exchange in India in terms of volumes transacted.

Trading volumes in the equity segment have grown rapidly with average daily turnover increasing from Rs.17 crores during 1994-95 to Rs.6,253 crores during 2005-06. During the year 2005-06, NSE reported a turnover of Rs.1,569,556 crores in the equities segment.

The Equities section provides you with an insight into the equities segment of NSE and also provides real-time quotes and statistics of the equities market. In-depth information regarding listing of securities, trading systems & processes, clearing and settlement, risk management, trading statistics etc are available here.

Futures & Options segment of NSE provides trading in derivatives instruments like Index Futures, Index Options, Stock Options, Stock Futures and Futures on interest rates. Though only four years into its' operations, the futures and options segment of NSE has made a mark for itself globally. In the Futures and Options segment, trading in Nifty and CNX IT index and 53 single stocks are available. W.e.f. May 27 2005, futures and options would be available on 118 single stocks. The average daily turnover in the F&O Segment of the Exchange during 2004-05 was nearly Rs. 10,067 crs.

The statistical details of these segments are presented below:

Market Segments - Selected Indicators

Segment	At end of March 2005			2004-05		1995-96 to 2004-05
	No. of Members	No. of Securities/ Contracts Available[a]	Market Capitalisation (Rs. crore)	Trading Value (Rs. crore)	Market Share (%)	Annual Compound Growth Rate (%)
CM	881	839	1,585,585	1,140,072	68.7	36.95
WDM	75	3,097	1,461,734	887,294	67.3[b]	61.51
F&O	661	4,841[c]	--	2,547,053[d]	99.5	--
Total	891[e]	8,777	3,047,319	4,574,419	--	43.38

a Excludes suspended securities.

b Share in Outright SGL transcations.

c Includes 3 Nifty futures, 3 CNX IT Futures, 174 Nifty options, 190 CNX IT Options, 157 stock futures, 4296 stock options and 18 interest rate futures contracts

d Includes notional turnover [(Strike Price + Premium) × Quantity] in case of index options and stock options.

e Do not add up to total because of multiple membership.

Technology

Technology has been the backbone of the Exchange. Providing the services to the investing community and the market participants using technology at the cheapest possible cost has been its main thrust. NSE chose to harness technology in creating a new market design. It believes that technology provides the necessary impetus for the organisation to retain its competitive edge and ensure timeliness and satisfaction in customer service. In recognition of the fact that technology will continue to redefine the shape of the securities industry,

NSE stresses on innovation and sustained investment in technology to remain ahead of competition. NSE is the first exchange in the world to use satellite communication technology for trading. It uses satellite communication technology to energise participation through about 2,829 VSATs from nearly 345 cities spread all over the country.

The list of towns and cities and the state-wise distribution of VSATs as at end March 2005. Its trading system, called National Exchange for Automated Trading (NEAT), is a state of the art client server based application. At the server end all trading information is stored in an in-memory database to achieve minimum response time and maximum system availability for users.

It has uptime record of 99.7%. For all trades entered into NEAT system, there is uniform response time of less than 1.5 seconds. NSE has been continuously undertaking capacity enhancement measures so as to effectively meet the requirements of increased users and associated trading loads.

With recent up gradation of trading hardware, NSE can handle up to 6 million trades per day. NSE has also put in place NIBIS (NSE's Internet Based Information System) for on-line real-time dissemination of trading information over the Internet. As part of its business continuity plan, NSE has established a disaster back-up site at Chennai along with its entire infrastructure, including the satellite earth station and the high-speed optical fiber link with its main site at Mumbai.

This site at Chennai is a replica of the production environment at Mumbai. The transaction data is backed up on near real time basis from the main site to the disaster back-up site through the 2 mbps high-speed link to keep both the sites all the time synchronized with each other.

Application Systems

The various application systems that NSE uses for its trading as well clearing and settlement and other operations form the backbone of the Exchange. The application systems used for the day-to-day functioning of the Exchange can be divided into

(a) Front end applications

(b) Back office applications.

IN THE FRONT END APPLICATION SYSTEM, THERE ARE 6 APPLICATIONS:

- **NEAT – CM system** takes care of trading of securities in the Capital Market segment that includes equities, debentures/notes as well as retail Gilts. The NEAT – CM application has a split architecture wherein the split is on the securities and users. The application runs on two Stratus systems with Open Strata Link (OSL). The application has been benchmarked to support 15000 users and handle more than 6 million trades daily. This application also provides data feed for processing to some other systems like Index, OPMS through TCP/IP. This is a direct interface with the trading members of the CM segment of the Exchange for entering the orders into the main system. There is a two way communication between the NSE main system and the front end terminal of the trading member.

- **NEAT – WDM system** takes care of trading of securities in the Wholesale Debt Market (WDM) segment that includes Gilts, Corporate Bonds, CPs, T-Bills, etc. This is a direct interface with the trading members of the WDM segment of the Exchange for entering the orders/trades into the main system. There is a two way communication between the NSE main system and the front end terminal of the trading member.

- **NEAT – F&O system** takes care of trading of securities in the Futures and Options (F&O) segment that includes Futures on Index as well as individual stocks and Options on Index as well as individual stocks. This is a direct interface with the trading members of the F&O segment of the Exchange for entering the orders into the main system. There is a two way communication between the NSE main system and the front end terminal of the trading member.

- **NEAT – IPO system** is an interface to help the initial public offering of companies which are issuing the stocks to raise capital from the market. This is a direct interface with the trading members who are registered for undertaking order entry on behalf of their clients for IPOs. NSE uses the NEAT IPO system that allows bidding in several
- issues concurrently. There is a two way communication between the NSE main system and the front end terminal of the trading member.

- **NEAT – MF system** is an interface with the trading members for order collection of designated mutual funds units.

- **Surveillance system offers** the users a facility to comprehensively monitor the trading activity and analyze the trade data online and offline. In the back office, the following important application systems are operative:

(A) NCSS (Nationwide Clearing and Settlement System) is the clearing and settlement system of the NSCCL for the trades executed in the CM segment of the Exchange. The system has 3 important interfaces – OLTL (Online Trade loading) that takes each and every trade executed on real time basis and allocates the same to the clearing members, Depository Interface that connects the depositories for settlement of securities and Clearing Bank Interface that connects the 10 clearing banks for settlement of funds. It also interfaces with the clearing members for all required reports. Through collateral management system it keeps an account of all available collaterals on behalf of all trading/clearing members and integrates the same with the position monitoring of the trading/ clearing members. The system also generates base capital adequacy reports.

(B) FOCASS is the clearing and settlement system of the NSCCL for the trades executed in the F&O segment ofthe Exchange. It interfaces with the clearing members for all required reports. Through collateral management system it keeps an account of all available collaterals on behalf of all trading/ clearing members and integrates the same with the position monitoring of the trading/clearing members. The system also generates base capital adequacy reports.

(C) OPMS – the online position monitoring system that keeps track of all trades executed for a trading member vis-à-vis its capital adequacy.

(D) PRISM is the parallel risk management system for F&O trades using Standard Portfolio Analysis (SPAN). It is a system for comprehensive monitoring and load balancing of an array of parallel processors that provides complete fault tolerance. It provides real time information on initial margin value, mark to market profit or loss, collateral amounts, contract-wise latest prices, contract-wise open interest and limits. The system also tracks online real time client level portfolio, base upfront margining and monitoring.

(E) Data warehousing, that is the central repository of all data in CM as well as F&O segment of the Exchange.

(F) Listing system, that captures the data of companies which are listed on the Exchange and integrates the same with the trading system for necessary broadcasts, information dissemination and

(G) Membership system, hat keeps track of all required details of the Trading Members of the Exchange.

4. NSE FAMILY

NSCCL

National Securities Clearing Corporation Ltd. (NSCCL), a wholly-owned subsidiary of NSE, was incorporated in August 1995 and commenced clearing operations in April 1996. It was the first clearing corporation in the country to provide notation/settlement guarantee that revolutionized the entire concept of settlement system in India. It was set up to bring and 9 sustain confidence in clearing and settlement of securities; to promote and maintain short and consistent settlement cycles; to provide counter-party risk guarantee, and to operate a tight risk containment system. It carries out the clearing and settlement of the trades executed in the equities and derivatives segments of the NSE. It operates a well-defined settlement cycle and there are no deviations or deferments from this cycle. It aggregates trades over a trading period T, nets the positions to determine the liabilities of members and ensures movement of funds and securities to meet respective liabilities. It also operates a Subsidiary General Ledger (SGL) for settling trades in government securities for its constituents. It has been managing clearing and settlement functions since its inception without a single failure or clubbing of settlements. It assumes the counter-party risk of each member and guarantees financial settlement. It has tied up with 10 Clearing Banks viz., Canara Bank, HDFC Bank, IndusInd Bank, ICICI Bank, UTI Bank, Bank of India, IDBI Bank and Standard Chartered Bank for funds settlement while it has direct connectivity with depositories for settlement of securities. It has also initiated a working capital facility in association with the clearing banks that helps clearing members to meet their working capital requirements. Any clearing bank interested in utilizing this facility has to enter into an agreement with NSCCL and with the clearing member. NSCCL has also introduced the facility of direct payout to clients' account on both the depositories. It ascertains from each clearing member, the beneficiary account details of their respective clients who are due to receive pay out of securities. It has provided its members with a front-end for creating the file through which the information is provided to NSCCL. Based on the information received from members, it sends payout instructions to the depositories, so that the client receives the pay out of securities directly to their accounts on the pay-out day. NSCCL currently settles trades under T+2 rolling settlement. It has the credit of continuously upgrading the clearing and settlement procedures and has also brought Indian financial markets in line with international markets. It has put in place online real-time monitoring and surveillance system to keep track of the trading and clearing members' outstanding positions and each member is allowed to trade/operate within the pre-set limits fixed according to the funds available with the Exchange on behalf of the member. The online surveillance mechanism also generates various alerts/reports on any price/volume movements of securities not in line with the normal trends/patterns.

IISL

India Index Services and Products Limited (IISL), a joint venture of NSE and Credit Rating Information Services of India Limited (CRISIL), was set up in May 1998 to provide indices and index services. It has a consulting and licensing agreement with Standard and Poor's (S&P), the world's leading provider of invest able equity indices, for co-branding equity indices. IISL pools the index development efforts of NSE and CRISIL into a coordinated whole. It is India's first specialized company which focuses upon the index as a core product. It provides a broad range of products and professional index services. It maintains over 70 equity indices comprising broad-based benchmark indices, sectoral indices and customized indices. Many investment and risk management products based on IISL indices have been developed in the recent past. These include index based derivatives on NSE, a number of index funds and India's first exchange traded fund.

NSDL

Prior to trading in a dematerialized environment, settlement of trades required moving the securities physically from the seller to the ultimate buyer, through the seller's broker and buyer's broker, which involved lot of time and the risk of delay somewhere along the chain.

Further, the system of transfer of ownership was grossly inefficient as every transfer involved physical movement of paper to the issuer for registration, with the change of ownership being evidenced by an endorsement on the security certificate. In many cases, the process of transfer took much longer than stipulated in the then regulations. Theft, forgery, mutilation of certificates and other irregularities were rampant. All these added to the costs and delays in settlement and restricted liquidity.

To obviate these problems and to promote dematerialization of securities, NSE joined hands with UTI and IDBI to set up the first depository in India called the "National Securities Depository Limited" (NSDL).

The depository system gained quick acceptance and in a very short span of time it was able to achieve the objective of eradicating paper from the trading and settlement of securities, and was also able to get rid of the risks associated with fake/forged/stolen/bad paper.

Dematerialized delivery today constitutes almost 100% of the total delivery based settlement.

NSE.IT

NSE.IT Limited, a 100% technology subsidiary of NSE, was incorporated in October 1999 to provide thrust to NSE's technology edge, concomitant with its overall goal of harnessing latest technology for optimum business use.

It provides the securities industry with technology that ensures transparency and efficiency in the trading, clearing and risk management systems. Additionally, NSE.IT provides consultancy services in the areas of data warehousing, internet and business continuity plans.

Amongst various products launched by NSE.IT are NEAT XS, a Computer-To-Computer Link (CTCL) order routing system, NEAT iXS, an internet trading system and Promos, professional broker's back office system. NSE.IT also offers an e-learning ortal, invarsitywww.finvarsity.com) dedicated to the finance sector.

The site is powered by Enlitor - a learning management system developed by NSE.IT jointly with an e-learning partner. New initiatives include payment gateways, products for derivatives segments and Enterprise Management Services (EMSs).

NCDEX

NSE joined hand with other financial institutions in India viz., ICICI Bank, NABARD, LIC, PNB, CRISIL, Canara Bank and IFFCO to promote the NCDEX which provide a platform for market participants to trade in wide spectrum of commodity derivatives. Currently NCDEX facilitates trading of 37 agro based commodities, 1 base metal and 2 precious metal.

Shareholders of NSEIL

1. Industrial Development Bank of India Limited
2. Industrial Finance Corporation of India Limited
3. Life Insurance Corporation of India
4. State Bank of India
5. ICICI Bank Limited
6. IL & FS Trust Company Limited
7. Stock Holding Corporation of India Limited
8. SBI Capital Markets Limited
9. The Administrator of the Specified Undertaking of Unit Trust of India
10. Bank of Baroda
11. Canara Bank
12. General Insurance Corporation of India
13. National Insurance Company Limited
14. The New India Assurance Company Limited
15. The Oriental Insurance Company Limited
16. United Insurance Company Limited
17. Punjab National Bank
18. Oriental Bank of Commerce
19. Corporation Bank
20. Indian Bank
21. Union Bank of India

Board of Directors

1. Mr. S. B. Mathur, Administrator of the Specified Undertaking of Unit Trust of India Chairman
2. Mr. Ravi Narain - Managing Director& CEO
3. Ms. Chitra Ramkrishna – Managing Director
4. Mr. R. N. Bhardwaj, Chairman, Life Insurance Corporation of India Director
5. Mr. S. P. Chhajed, Sr. Partner, M/s. Chhajed & Doshi, Chartered Accountants Director
6. Mr. R. P. Chitale, Managing Partner, M/s M P Chitale & Co., Chartered Accountants Director
7. Mr. Indrajit Gupta, Managing Director & CEO, SBI Capital Markets Limited Director
8. Mr. N. S. Kannan, Chief Financial Officer & Treasurer, ICICI Bank Limited Director
9. Mr. S. H. Khan, Chairman, Feedback First Urban Infrastructure Development Director Company Limited
10. Mr. A. P. Kurian , Chairman, Association of Mutual Funds in India Director
11. Mr. Anand G. Mahindra, Vice Chairman & Managing Director, Mahindra & Director Mahindra Lminted.
12. Mr. Y. H. Malegam, Chartered Accountant Director
13. Prof. (Dr.) K. R. S. Murthy, Professor & Former Director, IIM, Bangalore Director
14. Mr. Ravi Parthasarathy, Chairman & Managing Director, IL&FS Ltd. Director
15. Dr. R. H. Patil, Chairman, The Clearing Corporation of India Limited Director
16. Mr. Justice M. L. Pendse (Retd.), Former Chief Justice of Karnataka High Court & Director Judge of Bombay High Court
17. Mr. M. Raghavendra, Ex-General Manager, General Insurance Corporation of India Director
18. Mr. S. Venkiteswaran, Sr. Advocate Director

(As of March 31, 2005 – data from www.nseindia.com)

Executive Committees

ICM & WDM SEGMENTS

1. Mr. Ravi Narain, MD & CEO, National Stock Exchange of India Ltd. Chairman
2. Mr. Mukesh Kansal, Managing Dircetor, M/s. K & A Securities (P) Ltd. Trading Member
3. Mr. Hemang Raja, Managing Director, M/s. IL&FS Investmart Ltd. Trading Member
4. Mr. Shailesh Saraf, Wholetime Director, M/s. Dynamic Equities Pvt. Ltd. Trading Member
5. Mr. C. Parthasarathy, Director, M/s. Karvy Stock Broking Ltd. Trading Member
6. Mr. R. P. Chitale, Managing Partner, M/s. M. P. Chitale & Co. Public Chartered Accountants Representative
7. Mr. Y. H. Malegam, Chartered Accountant Public Representative
8. Mr. S. Venkiteswaran, Sr. Advocate Public Representative
9. Ms. Chitra Ramkrishna, Dy. Managing Director, National Stock Exchange Other Nominees of India Ltd.
10. Mr. P. M. Venkatasubramanian, Ex-Managing Director, GIC Other Nominees
11. Mr. N. S. Kannan, Chief Financial Officer & Treasurer, ICICI Bank Ltd. Other Nominees

F&O MARKET SEGMENT

1. Mr. Ravi Narain, MD & CEO, NSEIL Chairman
2. Mr. D. C. Anjaria, Director, International Finance Solutions Pvt. Ltd. Public Representative
3. Mr. Shailesh Haribhakti, Partner, M/s. Haribhakti & Co. Public
4. Representative
5. Prof. V Ravi Anshuman, I. I. M., Bangalore Public Representative
6. 5 Mr. Vineet Bhatnagar, Managing Director, M/s. Refco-Sify Securities Trading Member (Pvt.) Ltd.
7. 6 Mr. Shitin D Desai, Executive Vice Chairman, M/s. DSP Merrill Lynch Ltd. Trading Member
8. Mr. M. Raghavendra, Ex-General Manager, General Insurance Corporation Other Nominee of India Ltd.
9. Mr. M. L. Soneji, Director (Operations & Surveillance), NSEIL Other Nominee

(As of March 31, 2005 – data from www.nseindia.com)

5. LISTING OF SECURITIES

The stocks, bonds and other securities issued by issuers require listing for providing liquidity to investors. Listing means formal admission of a security to the trading platform of the Exchange. It provides liquidity to investors without compromising the need of the issuer for capital and ensures effective monitoring of conduct of the issuer and trading of the securities in the interest of investors. The issuer wishing to have trading privileges for its securities satisfies listing requirements prescribed in the relevant statutes and in the listing regulations of the Exchange. It also agrees to pay the listing fees and comply with listing
requirements on a continuous basis. All the issuers who list their securities have to satisfy the corporate governance requirement framed by regulators.

Benefits of Listing on NSE

- NSE provides a trading platform that extends across the length and breadth of the country. Investors from approximately 345 centers can avail of trading facilities on the NSE trading network. Listing on NSE thus, enables issuers to reach and service investors across the country.

- NSE being the largest stock exchange in terms of trading volumes, the securities trade at low impact cost and are highly liquidity. This in turn reduces the cost of trading to the investor.

- The trading system of NSE provides unparallel level of trade and post-trade information. The best 5 buy and sell orders are displayed on the trading system and the total number of securities available for buying and selling is also displayed. This helps the investor to know the depth of the market. Further, corporate announcements, results, corporate actions etc are also available on the trading system, thus reducing scope for price manipulation or misuse.

- The facility of making initial public offers (IPOs), using NSE's network and software, results in significant reduction in cost and time of issues.

- NSE's web-site www.nseindia.com provides a link to the web-sites of the companies that are listed on NSE, so that visitors interested in any company can visit that company's web-site from the NSE site.

- Listed companies are provided with monthly trade statistics for the securities of the company listed on the Exchange.

- The listing fee is nominal.

CM Segment

Two categories, namely 'listed' and 'permitted to trade' categories of securities (equity shares, preference shares and debentures) are available for trading in the CM segment. However, the permitted to trade category is being phased out gradually and no new company is been given the benefit of this category. At the end of March 2005, 970 'listed' and 1 'permitted to trade' companies were available for trading. These securities had a market capitalisation of Rs. 1,585,585 crore.

Listing Criteria

The Exchange has laid down criteria for listing of new issues by companies, companies listed on other exchanges, and companies formed by amalgamation/restructuring, etc. in conformity with the Securities Contracts (Regulation) Rules, 1957 and directions of the Central Government and the Securities and Exchange Board of India (SEBI). The criteria include minimum paid-up capital and market capitalisation, project appraisal, company/promoter's track record, etc. The issuers of securities are required to adhere to provisions of the Securities Contracts (Regulation) Act, 1956, the Companies Act, 1956, the Securities and Exchange Board of India Act, 1992, and the rules, circulars, notifications, guidelines, etc. prescribed there under.

Listing Agreement

All companies seeking listing of their securities on the Exchange are required to enter into a listing agreement with the Exchange. The agreement specifies all the requirements to be continuously complied with by the issuer for continued listing. The Exchange monitors such compliance. Failure to comply with the requirements invites suspension of trading, or withdrawal/delisting, in addition to penalty under the Securities Contracts (Regulation) Act, 1956. The agreement is being increasingly used as a means to improve corporate governance.

Shareholding Pattern

In the interest of transparency, the issuers are required to disclose shareholding pattern on a quarterly basis. On an average, the promoters hold more than 55.63% of total shares. Though non-promoter holding is nearly 44.37%, Indian public held only 17.03% and the public float (holding by foreign institutional investors, mutual funds, and Indian Public) is at best 27.27%.

Listing Fees in the CM Segment

Listing Fees	Amount (Rs.)
Initial Fees	7,500
Annual Fees	
Companies with Paid-up Share and/or Debenture Capital (Rs. crore):	
Of 1	4,200
> 1 to ≤ 5	8,400
> 5 to ≤ 10	14,000
> 10 to ≤ 20	28,000
> 20 to ≤ 50	42,000
> 50	70,000
	plus Rs. 1,400 for every additional Rs. 5 crore or part thereof

De-listing

The securities listed on NSE can be de-listed from the Exchange as per the SEBI (Delisting of Securities) Guidelines, 2003 in the following manner:

Voluntary De-listing of Companies

Any promoter or acquirer desirous of delisting securities of the company under the provisions of these guidelines shall obtain the prior approval of shareholders of the company by a special resolution passed at its general meeting, make a public announcement in the manner provided in these guidelines, make an application to the delisting exchange in the form specified by the exchange, and comply with such other additional conditions as may be specified by the concerned stock exchanges from where securities are to be de-listed. Any
promoter of a company which desires to de-list from the stock exchange shall also determine an exit price for delisting of securities in accordance with the book building process as stated in the guidelines. The stock exchanges shall provide the infrastructure facility for display of the price at the terminal of the trading members to enable the investors to access the price on the screen to bring transparency to the delisting process.

Compulsory De-listing of Companies

The stock exchanges may de-list companies which have been suspended for a minimum period of six months for non-compliance with the listing agreement. The stock exchanges have to give adequate and wide public notice through newspapers and also give a show cause notice to a company. The exchange shall provide a time period of 15 days within which 30 representation may be made to the exchange by any person who may be aggrieved by the proposed delisting. Where the securities of the company are de-listed by an exchange, the promoter of the company shall be liable to compensate the security holders of the company by paying them the fair value of the securities held by them and acquiring their securities, subject to their option to remain security-holders with the company.

WDM Segment

In the WDM segment, all government securities, state development loans and treasury bills are 'deemed' listed as and when they are issued. The other categories of securities are traded under the 'listed' category. All eligible securities whether publicly issued or privately placed can be made available for trading in the WDM segment. Amongst other requirements, privately placed debt paper of banks, institutions and corporates require credit rating to be eligible for listing.

Table 3-4: Eligibility Criteria for Securities on WDM Segment

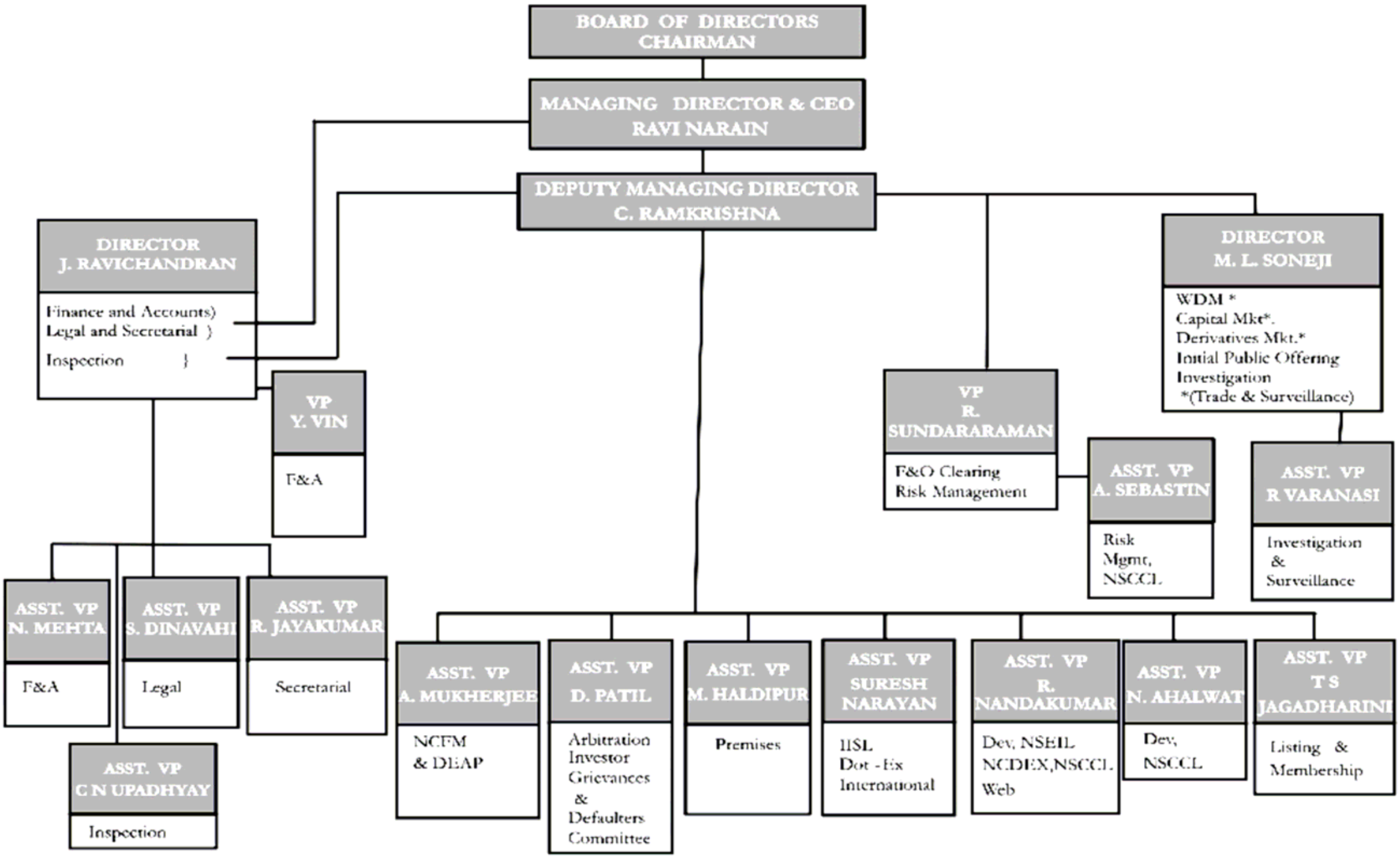
Issuer	Listing Criteria: Public Issue	Listing Criteria: Private Placement
a. Public Sector Undertakings / Statutory Corporations		
– Minimum 51% holding by Govt.	As applicable to corporates	As applicable to corporates
– Less than 51% holding by Govt.	As applicable to corporates	As applicable to corporates
b. Statutory Corporation/local bodies/authorities		
– Minimum 51% holding by Govt.	– As applicable to PSUs	– As applicable to corporates
– Less than 51% shareholding	As applicable to corporates	As applicable to corporates
c. Financial Institutions (SLR Bonds & Non-SLR Bonds)	– Eligible	– Investment Grade Credit Rating
d. Scheduled Commercial Banks (SCBs)	– Net worth of Rs. 50 crore or above	– Net worth of Rs. 50 crore or above – Investment Grade Credit Rating
e. Infrastructure Companies	Investment Grade Credit Rating	Investment Grade Credit Rating
f. Corporates	– Minimum Paid-up capital of Rs. 10 crore, OR – Market Capitalisation of Rs. 25 crore (Net worth in case of unlisted companies)	– Minimum Paid-up capital of Rs. 10 crore, OR – Market Capitalisation of Rs. 25 crore (Net worth in case of unlisted companies) – Investment Grade Credit Rating
g. Mutual Funds	SEBI registered Mutual Fund/Scheme having an investment objective to invest predominantly in debt instruments.	SEBI registered Mutual Fund/Scheme having an investment objective to invest predominantly in debt instruments.
h. Securitised Debt	Minimum tranche of Rs. 20 crore Investment Grade Credit Rating	Minimum tranche of Rs. 20 crore Investment Grade Credit Rating

Table 3-5: Securities Available for Trading on WDM Segment (as on March 31)

(Amount in Rs. crore)

Securities	As on March 31									
	2001		2002		2003		2004		2005	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Government Securities	409	416,834	560	512,279	719	605,459	920	846,532	1,204	1,119,224
T-Bills	54	18,480	39	24,489	39	35,753	39	33,274	39	74,919
PSU Bonds	312	35,262	401	38,755	457	37,101	707	55,231	743	67,037
Institutional Bonds	306	27,171	338	25,366	353	21,475	360	27,684	411	27,795
Bank Bonds	51	3,911	58	6,506	73	7,056	110	14,160	121	18,885
Corporate Bonds	343	14,790	337	17,656	306	16,269	455	30,591	563	39,360
Others	59	31,489	57	31,187	43	13,388	30	9,451	16	2,598
Total	**1,534**	**547,937**	**1,790**	**656,238**	**1,990**	**736,502**	**2,621**	**1,016,923**	**3,097**	**1,349,817**

Chart 1-1: Organisation Structure of NSE



6. MEMBERSHIP ADMINISTRATION

The trading in NSE has a three tier structure-the trading platform provided by the Exchange, the broking and intermediary services and the investing community. The trading members have been provided exclusive rights to trade subject to their continuously fulfilling the obligation under the Rules, Regulations, Byelaws, Circulars, etc. of the Exchange. The trading members are subject to its regulatory discipline. Any entity can become a trading member by complying with the prescribed eligibility criteria and exit by surrendering trading membership. There are no entry/exit barriers to trading membership.

Eligibility Criteria

The Exchange stresses on factors such as corporate structure, capital adequacy, track record, education, experience, etc. while granting trading rights to its members. This reflects a conscious effort by the Exchange to ensure quality broking services which enables to build and sustain confidence in the Exchange's operations. The standards stipulated by the Exchange for trading membership are substantially in excess of the minimum statutory requirements as also in comparison to those stipulated by other exchanges in India. The exposure and volume of transactions that can be undertaken by a trading member are linked to liquid assets in the form of cash, bank guarantees, etc. deposited by the member with the Exchange as part of the membership requirements. The trading members are admitted to the different segments of the Exchange subject to the provisions of the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India Act, 1992, the rules, circulars, notifications, guidelines, etc., issued there under and the byelaws, Rules and Regulations of the Exchange. All trading members are registered with SEBI.

Trading Membership

A prospective trading member is admitted to any of the following combinations of market segments:

- **Wholesale Debt Market (WDM) segment,**
- **Capital Market (CM) and the Futures and Options (F&O) segments,**
- **CM Segment, the WDM and the F&O segment.**

In order to be admitted as a trading member, at least two directors of the applicant corporate must be graduates and must possess at least two years' experience in securities markets. The applicant/any of its partners /shareholders/directors must not have been declared defaulters on any stock exchange, must not be debarred by SEBI for being associated with capital market as intermediaries and must not be engaged in any fund-based activity.

For the F&O segment, at least two dealers should also have passed SEBI-approved certification test for derivatives. In case of corporate applicant, the minimum paid up capital should be Rs. 30 lakh and the dominant promoter/shareholder group should hold at least 51% (40% in case *2* 20
of listed companies) of paid-up equity capital of such corporate entity. The net worth required for trading members on CM & F&O Segment is Rs. 100 lakh, however, a net worth of Rs. 300 lakh is required for members clearing for self as well as for other trading members.

Clearing Membership

The trades executed on the Exchange may be cleared and settled by a clearing member. The trading members in the CM segment are also clearing members. In the F&O segment, some members, who are registered with SEBI as self-clearing members, clear and settle their own trades. Certain others, registered as trading member-cum-clearing member, clear and settle their own trades as well as trades of other trading members. Besides this, there is a special category of members, called professional clearing members (PCMs), who do not trade but only clear trades executed by others. This means that some members clear and settle their trades through a trading member-cum-clearing member or a PCM, not themselves. The members clearing their own trades or trades of others, and the PCMs are required to bring in additional security deposits in respect of every trading member whose trades they undertake to clear and settle.

Growth and Distribution of Members

As at end March 2005, the Exchange had 891 members including 519 from non-Mumbai centers. A large majority (89%) of them were corporate members, and the remaining, individuals and firms. There were 881, 75 and 661 members in the CM, WDM and F&O segments respectively. The distribution of trading members on the Exchange as at end March 2005 is presented below:

Transaction Charges

In addition to annual fees, members are required to pay transaction charges on trades undertaken by them. They pay transaction charges at the rate of Rs. 4 for every Rs. 1 lakh of turnover in the CM segment, at the rate of Rs. 2 for every Rs. 1 lakh of turnover in Futures contracts and at the rate of 5 paise per Rs. 1 lakh gross trade value up to Rs. 25,000 crors and at the rate of 2 paise per Rs. 1 lakh gross traded value above Rs. 25,000 crors subject to minimum of Rs. 10,000 per annum in the WDM segment. For the transactions in the Options sub-segment the transaction charges are levied on the premium value at the rate of 0.05% (each side).

7. INVESTOR GRIEVANCES

Investors are the backbone of the securities market. Protection of their interests is paramount for NSE. In furtherance of their interests, NSE has put in place systems to ensure availability of adequate, up-to-date and correct information to investors to enable them to take informed decisions. It ensures that critical and price-sensitive information reaching the exchange is made available to all classes of investor at the same point of time.

Such price-sensitive information as bonus announcements, mergers, new line of business, etc. received from the companies is disseminated to all the market participants through the network of NSE terminals all over India. Action is initiated by the Exchange whenever any kind of price sensitive information is not provided to the Exchange at the prescribed time by companies listed on the Exchange.

In an attempt to ease the existing system of information dissemination by the listed companies, NSE launched the electronic interface for listed companies in August 2004. Under the new system, all corporate announcements including that of Board meetings which needs to be disclosed to the market is handled electronically in a straight through and hands free manner.

The Exchange also conducts various seminars and programs for the investors all over the country with a view of educating them on their rights and obligations. Investors are also made aware of the precautions they need to take while dealing in the securities market.

The Exchange makes an audit trail available on request for all transactions executed on NSE to enable investors to counter-check trade details for the trades executed on his behalf by the member. The Exchange has also prescribed and makes efforts to ensure the implementation of various safeguards like time schedules for issuing contract notes, for receiving funds and securities purchased by investors, segregation of client funds and securities from those of members, etc.

In spite of all the necessary steps taken by the Exchange to offer quality services to investors, it is possible that some investors may still have certain complaints, grievances. For this NSE has put in place a system for redressal of investor grievances for matters/issues related to/against trading members/listed companies.

The Investor Grievance Cell (IGC) of NSE is manned by a team of professionals possessing relevant experience in the areas of securities markets, company and legal affairs and specially trained to identify problems faced by the investor and to find and effect a solution quickly. It takes up complaints in respect of trades executed on the NSE through its NEAT terminal and routed through the NSE trading member or SEBI registered sub-broker of NSE trading member and trades pertaining to companies traded on NSE.

Investor Protection Fund

Some cushion to the interests of investors is provided by the Investor Protection Funds (IPFs) set up by the stock exchange. The exchanges maintains an IPF to take care of investor claims, which may arise out of non settlement of obligations by the trading member, who has been declared a defaulter, in respect of trades executed on the Exchange. The maximum amount of claim payable from the Fund to the investor is Rs. 10 lakh.

Arbitration

Arbitration is a speedy and alternative dispute resolution mechanism provided by the Exchange for resolving disputes between the trading members and between a trading member and his client, in respect of trades done on the Exchange. The arbitration mechanism is provided by the Exchange in all its Regional offices to facilitate the speedy dispute resolution mechanism.

The parties to dispute appoint an arbitrator from the panel of arbitrators maintained by the Exchange and approved by SEBI. The arbitrator(s) pronounces an award after going through various documents submitted by the parties and hearing them.

8. DEMATERIALISATION & REMATERIALISATION

DEMATERIALISATION

MEANING

Dematerialisation is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited into the investor's account with his/her DP.

Dematerialising securities (physical holding into electronic holding)

In order to dematerialise physical securities one has to fill in a DRF (Demat Request Form) which is available with the DP and submit the same along with physical certificates one wishes to dematerialise. Separate DRF has to be filled for each ISIN Number. The complete process of dematerialisation is outlined below:

Surrender certificates for dematerialisation to your depository participant.
Depository participant intimates Depository of the request through the system.
Depository participant submits the certificates to the registrar of the Issuer Company.

Registrar confirms the dematerialisation request from depository.

After dematerialising the certificates, Registrar updates accounts and informs depository of the completion of dematerialisation.
Depository updates its accounts and informs the depository participant.
Depository participant updates the demat account of the investor.

REMATERIALISATION

The process of rematerialisation is used to convert the electronic holding into physical holdings. If one wishes to get back his securities in the physical form one has to fill in the RRF (Remat Request Form) and request his DP for rematerialisation of the balances in his securities account. The process of rematerialisation is outlined below:

- One makes a request for dematerialisation.
- Depository participant intimates depository of the request through the system.
- Depository confirms dematerialisation request to the registrar.
- Registrar updates accounts and prints certificates.
- Depository updates accounts and downloads details to depository participant.
- Registrar dispatches certificates to investor.

Procedure for buying & selling dematerialised securities

The procedure for buying and selling dematerialised securities is similar to the procedure for buying and selling physical securities. The difference lies in the process of delivery (in case of sale) and receipt (in case of purchase) of securities.

In case of purchase:-

1. The broker will receive the securities in his account on the payout day
2. The broker will give instruction to its DP to debit his account and credit investor's account
3. Investor will give 'Receipt Instruction to DP for receiving credit by filling appropriate form. However one can give standing instruction for credit into ones account that will obviate the need of giving Receipt Instruction every time.

In case of sale:-

The investor will give delivery instruction to DP to debit his account and credit the broker's account. Such instruction should reach the DP's office at least 24 hours before the pay-in as other wise DP will accept the instruction only at the investor's risk.

9. BROKER & SUB-BROKER

BROKER

A broker is a member of a recognized stock exchange, who is permitted to do trades on the screen-based trading system of different stock exchanges. He is enrolled as a member with the concerned exchange and is registered with SEBI.

sub broker

A sub broker is a person who is registered with SEBI as such and is affiliated to a member of a recognized stock exchange.

Client Agreement Form

This form is an agreement entered between client and broker in the presence of witness where the client agrees (is desirous) to trade/invest in the securities listed on the concerned Exchange through the broker after being satisfied of brokers capabilities to deal in securities. The member, on the other hand agrees to be satisfied by the genuineness and financial soundness of the client and making client aware of his (broker's) liability for the business to be conducted.

Details of Client Registration form

The brokers have to maintain a database of their clients, for which you have to fill client registration form. In case of individual client registration, you have to broadly provide following information:

- Your name, date of birth, photograph, address, educational qualifications, occupation, residential status(Resident Indian/ NRI/others)
- Unique Identification Number (wherever applicable)
- Bank and depository account details
- Income tax No. (PAN/GIR) which also serves as unique client code.
- If you are registered with any other broker, then the name of broker and concerned Stock exchange and Client Code Number.
- Proof of identity submitted either as MAPIN UID Card/Pan No./Passport/Voter ID/Driving license/Photo Identity card issued by Employer registered under MAPIN

For proof of address (any one of the following):

1. Passport
2. Voter ID
3. Driving license
4. Bank Passbook
5. Rent Agreement
6. Ration Card
7. Flat Maintenance Bill
8. Telephone Bill
9. Electricity Bill
10. Certificate issued by employer registered under MAPIN
11. Insurance Policy

Each client has to use one registration form. In case of joint names /family members, a separate form has to be submitted for each person.

In case of Corporate Client, following information has to be provided:

1. Name, address of the Company/Firm
2. Unique Identification Number (wherever applicable)
3. Date of incorporation and date of commencement of business.
4. Registration number(with ROC, SEBI or any government authority)
5. Details of PAN Account Number:
6. Details of Promoters/Partners/Key managerial Personnel of the Company/Firm in specified format.
7. Bank and Depository Account Details
8. Copies of the balance sheet for the last 2 financial years (copies of annual balance sheet to be submitted every year)
9. Copy of latest share holding pattern including list of all those holding more than 5% in the share capital of the company, duly certified by the Company Secretary / Whole time Director/MD. (copy of updated shareholding pattern to be submitted every year)
10. Copies of the Memorandum and Articles of Association in case of a company / body incorporate / partnership deed in case of a partnership firm
11. Copy of the Resolution of board of directors' approving participation in equity / derivatives / debt trading and naming authorized persons for dealing in securities.
12. Photographs of Partners/Whole time directors, individual promoters holding 5% or more, either directly or indirectly, in the shareholding of the company and of persons authorized to deal in securities.
13. If registered with any other broker, then the name of broker and concerned Stock exchange and Client Code Number.

Unique Client Code

In order to facilitate maintaining database of their clients, it is mandatory for all brokers to use unique client code which will act as an exclusive identification for the client. For this purpose, PAN number/passport number/driving License/voters ID number/ ration card number coupled with the frequently used bank account number and the depository beneficiary account can be used for identification, in the given order, based on availability.

MAPIN

MAPIN is the Market Participants and Investors Integrated Database.

The SEBI (Central Database of Market Participants) Regulations, 2003 were notified on November 20, 2003. As per these regulations, all the participants in the Indian Securities Market viz., SEBI registered intermediaries, listed companies and their associates and the investors would need to get registered and obtain a Unique Identification Number (UIN). The system for allotment of UIN involves the use of biometric impressions for natural persons.

The major objective is creation of a comprehensive database of market participants. Once created, the database would not only help the regulator in establishing the identity of person(s) who have taken large exposures in the market and/or who are trading through a large number of different brokers but also enable the regulator to take adequate risk containment measures such as imposition of margins, trading or exposure limits etc., depending upon the exposures of various investors. Hence, in the event of a failure of market integrity, an immediate audit trail would be possible and the regulator would be able to take early preventive and / or remedial measures and track down the defaulters and / or manipulators.

It has been decided to suspend all fresh registrations for obtaining UIN and the requirement to obtain/quote UIN under the MAPIN Regulations/Circulars with effect from July 01, 2005.

Maximum brokerage that a broker/sub broker can charge

The maximum brokerage that can be charged by a broker has been specified in the Stock Exchange Regulations and hence, it may differ from across various exchanges. As per the BSE & NSE Bye Laws, a broker cannot charge more than 2.5% brokerage from his clients. This maximum brokerage is inclusive of the brokerage charged by the sub-broker. Further, SEBI (Stock brokers and Sub brokers) Regulations, 1992 stipulates that sub broker cannot charge from his clients, a commission which is more than 1.5% of the value mentioned in the respective purchase or sale note.

Charges that can be levied on the investor by a stock broker/sub broker

The trading member can charge:

1. Brokerage charged by member broker.
2. Penalties arising on specific default on behalf of client (investor)
3. Service tax as stipulated.
4. Securities Transaction Tax (STT) as applicable.

The brokerage, service tax and STT are indicated separately in the contract note.

STT (Securities Transaction Tax)

Securities Transaction Tax (STT) is a tax being levied on all transactions done on the stock exchanges at rates prescribed by the Central Government from time to time. Pursuant to the enactment of the Finance (No.2) Act, 2004, the Government of India notified the Securities Transaction Tax Rules, 2004 and STT came into effect from October 1, 2004.

Account Period Settlement

An account period settlement is a settlement where the trades pertaining to a period stretching over more than one day are settled. For example, trades for the period Monday to Friday are settled together. The obligations for the account period are settled on a net basis. Account period settlement has been discontinued since January 1, 2002, pursuant to SEBI directives.

Rolling Settlement

In a Rolling Settlement trades executed during the day are settled based on the net obligations for the day.

Presently the trades pertaining to the rolling settlement are settled on a T+2 day basis where T stands for the trade day. Hence, trades executed on a Monday are typically settled on the following Wednesday (considering 2 working days from the trade day).

The funds and securities pay-in and pay-out are carried out on T+2 day.

10. PAY-IN DAY AND PAY- OUT DAY

Pay in day is the day when the brokers shall make payment or delivery of securities to the exchange. Pay out day is the day when the exchange makes payment or delivery of securities to the broker.

Settlement cycle is on T+2 rolling settlement basis w.e.f. April 01, 2003. The exchanges have to ensure that the pay out of funds and securities to the clients is done by the broker within 24 hours of the payout. The Exchanges will have to issue press release immediately after pay out.

Prescribed pay-in and pay-out days for funds and securities for Normal Settlement

The pay-in and pay-out days for funds and securities are prescribed as per the Settlement Cycle. A typical Settlement Cycle of Normal Settlement is given below:

	ctivity	ay
rading	olling Settlement Trading	
learing	ustodial Confirmation	+1 working days
	elivery Generation	+1 working days
ettlement	ecurities and Funds pay in	+2 working days
	ecurities and Funds pay out	+2 working days
ost Settlement	aluation Debit	+2 working days
	uction	+3 working days
	ad Delivery Reporting	+4 working days
	uction settlement	+5 working days
	lose out	+5 working days
	ectified bad delivery pay-in and ay-out	+6 working days
	e-bad delivery reporting and pickup	+8 working days
	lose out of re-bad delivery	+9 working days

(Note: The above is a typical settlement cycle for normal (regular) market segment. The days prescribed for the above activities may change in case of factors like holidays, bank closing etc. You may refer to scheduled dates of pay-in/pay-out notified by the Exchange for each settlement from time-to-time.)

11. AUCTION

WHAT IS AN AUCTION?

The Exchange purchases the requisite quantity in the Auction Market and gives them to the buying trading member. The shortages are met through auction process and the difference in price indicated in contract note and price received through auction is paid by member to the Exchange, which is then liable to be recovered from the client.

What happens if the shares are not bought in the auction?

If the shares could not be bought in the auction i.e. if shares are not offered for sale in the auction, the transactions are closed out as per SEBI guidelines.

The guidelines stipulate that “the close out Price will be the highest price recorded in that scrip on the exchange in the settlement in which the concerned contract was entered into and up to the date of auction/close out OR 20% above the official closing price on the exchange on the day on which auction offers are called for (and in the event of there being no such closing price on that day, then the official closing price on the immediately preceding trading day on which there was an official closing price), whichever is higher.

Since in the rolling settlement the auction and the close out takes place during trading hours, the reference price in the rolling settlement for close out procedures would be taken as the previous day’s closing price.

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