INTRODUCTION:-

What is Speculation?

Speculation is a financial action that does not provide safety of initial investment along with the return on the principal sum.

Who is a Speculator?

A speculator is a trader who approaches the financial markets with the intention to make a profit by buying low and selling high (or higher), not necessarily in that order. The speculator is distinguished from the investor, who approaches the financial markets with the intention of making a return on his capital and does not try to predict the ups and downs of the market.

What is Investment?

Investment may be defined as “a commitment of funds made in the expectation of some positive rate of return“.

TRADING AND SETTLEMENT

(i) In case of offer for sale, there should be at least 10 public shareholders for every Rs. One lakh equity offered to public.

(ii) Minimum capital of the company seeking listing should be Rs. 10 crore.

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(iii) Non manufacturing companies cannot make n public issue unless they have track record of dividend payments for at least 3 years out of 5 preceding years.

(iv) Securities are grouped as specified or Group A securities and uunspecified or group B securities.

(v) Transactions on stock exchanges are carried out either on cash basis or clearing basis.

(v) At the end of settlement period the investors in specified shares has 3 options

a. Square of the transaction on the same date

b. Delivery of payment

c. Carry over the contract for the next settlement

(vi) Margins are required to stipulate on the basis of risk involved in the securities. they also restrain and regulate overtrading, reckless trading, excessive speculation etc

(vii) Margins are required to cover defaults in the event of adverse price movements.

KINDS OF SPECULATORS

Four kinds of speculators operate in the Indian Stock Exchange. They are:

1. Bull

A Bull also called as Tejiwala is an operator who is hopeful of price rise in the near future. In anticipation of price rise he makes purchases of shares and other securities with the intention of selling them at higher prices in future.

2. Bear

A bear or a Mandiwala on the other hand is a speculator who is wary of fall in the prices and hence sells securities so that he may buy them at cheap price in future. A bear does not have securities at present but sells them at higher prices in anticipation that he will supply them business purchasing at lower prices in the future. If the prices move down as per the expectation of the bear he will earn profits out of them.

3. Stag

A slang is a term for short-term speculator. A stag would be equivalent to a day trader who attempts to profit Off short-term market moves by quickly moving in cut of positions. In short a Stag is speculator who applies for a new issue of securities with the of aim of selling them at a profit after the allotment of securities.

4. Lame Duck

Lame Duck is nothing but a stressed bear. When a bear finds it difficult to complete his promise he is labeled as a lame duck.. In the other words lame duck is a bear speculator who has agreed to sell certain securities on particular date at a specific price but finds it difficult to supply the securities on the settlement date.

STOCK BROKER

A stockbroker is a regulated profession al individual, usually associated with brokerage firm or broker- dealer, who buys and sells shares and other securities f0 both retail and institutional clients, through a stock exchange or over the counter, in return for a fee or commission.

A Stock broker is a member of a recognized Stock exchange, who buys, sells or deals in securities. A certificate of registration from SEBI is mandatorily to act as broker. SEBI is empowered to impose conditions while granting the certificate

ACTIVITIES OF BROKERS

The stock brokers are a major player in the activities leading to the public offer of securities 1n the primary market. It is important that the brokerage firm exercises care and demonstrates a reasonable amount of skill in fulfilling the customer’s order. The brokerage firm may be held liable for any losses resulting from its mistakes. The care with Which the brokerage firm executes orders is determined by What is reasonable practice in their business.

The exercise 0f care and skill requires that the broker follows instructions and Places the order in the market When the security is traded in the fastest possible time. The brokerage firm is also obligated to refrain from making secret profits 0n transactions or from crossing orders in its office by acting as both broker and dealer in the same transaction.

The brokerage firm cannot act as both broker and dealer in the same transaction because there could be conflict of interest or a double commission might result. If the securities are not listed on an exchange but traded in the over-the-counter market, the broker might own the shares himself. He would be acting as a principal or dealer in the transaction.

The broker makes his fee from the difference between the price at which he buys the shares for his own account and the price at which he sells them to customers. The difference between the asked price and bid price by the brokerage firm is known as spread and is the compensation for making a market in that security.

BROKER CHARGE

Brokerage Charge is a fee charged by an agent, or agent's company to facilitate transactions between buyers and sellers. The brokerage fee is charged for serviwS BUCh as negotiations, sales, purchases, delivery or advice on the transaction. There are many types of brokerage fees added in areas such as insurance, realty, delivery services or stocks. Brokerage fees will usually be based on an either a percentage of the transaction or a flat fee.

Traditionally in India share brokers used to charge a certain percentage value of trade (for ex. ICICI direct charges 0.5% for delivery based trading). So if you were a trader or a large investor, you ended up paying a huge brokerage on your transaction. Most of the trader and large investor ended up paying brokerage worth Lakhs of rupees. These types of brokers are known as traditional or full service brokers. Most of the retail investor were also using them for trading needs as these brokers where mostly linked with your bank like ICICI direct with ICICI bank and it was very easy to open and manage account with them.

But in last few years, with the advancement in technology, there is a new breed of brokers available in Indian market which is called Flat fee or discount brokers. They have quickly taken a large share of trading value based on their aggressive Lowest Brokerage Charges brokerage charges. Flat Fee Stock brokers (also known as discount brokers) charges a fixed amount (i.e. Rs. 15 or Rs. 20) per trade irrespective to the size of the trade. The trader pays fixed price brokerage, say Rs. 20, for trade of Rs. 10,000 or Rs. 1,00,000. This makes lot of sense to traders who trade multiple times a day.

SETTLEMENT PROCEDURE

Stock market is a trading platform which provides an opportunity to buyers and sellers of securities to do transactions. As of now there are 23 recognized stock exchanges in India and 24th is likely to get functional soon. However the majority of transactions in securities happen only on the National Stock Exchange. The Bombay stock Exchange is the second largest contributor in the overall pie of total transactions. However it's contribution is restricted to 5 to 7 percent only. There are three types of instruments that are traded on National Stock Exchange namely equities, derivatives and debt instruments. This article attempts to explain the Procedure involved in trading and settlement of equities.

Before understanding the procedure of trading and settlement, it is important to have an overview of changes that have taken place in Indian securities market in last ten years. Three most noticeable changes which have taken place are 1) Dematerialization, 2) Introduction of screen based trading and 3) Shortening trading and settlement cycles. The Depositories Act was passed by the parliament in 1995 and this paved the way for conversion of physical securities into electronic. With establishment of National Stock Exchange, there was a significant Change in the level of technology used for the operation of stock market. It led to introduction of Screen Based ’l‘mding thereby removing the earlier system of open outcry where prices of securities were quoted by symbols. Now all the transactions happen on computer which is spread across country and connected to National Stock Exchange through VSA’I‘. Those two l'nctors combined together helped in reducing the trading and settlement cycle in securities market which got reduced from as long as 22 days to 2 days currently.

Presently in India Stock exchanges follow T+2 days settlement cycle. Under this system, trading happens on every business day, excluding Saturday, Sunday and exchange notified holidays. The trading schedule is between 10:00 a.m. in the morning to 3:30 p.m. in the evening. During this period, shares of the companies listed on a particular stock exchange can be bought and sold. The SEBI has made it mandatory that only brokers and sub-brokers registered with it can buy and sell shares in the stock exchange. A person desirous of buying or selling shares on the stock market needs to got himself registered with one of these brokers / sub-brokers. There is a provision for signing of broker/sub-broker client agreement form. Brokers/ sub brokers ask their clients to deposit money with them known as margin based on which brokers provide exposure to the clients in the stock market.

However signing of client-broker agreement is not sufficient. It is also essential for a person to open a demat account through which securities are delivered and received. This demat account can be opened with a depository participant which again is a SEBI registered intermediary. Some of the leading depository in the country is Stock Holding Corporation of India Ltd., ICICI Bank, HDFC Bank etc. If an individual buys shares, it is in the demat account shares to the brokers account through his demat account. All the brokers/sub-brokers also essentially have a demat account.

Shares can be bought and sold through a broker on telephone. Brokers identify their clients by a unique code assigned to a client. After the transaction is done by a client broker issues him contract note which provides details of transaction. Apart from the purchase price of security, a client is also supposed to pay brokerage, stamp duty and securities transaction tax. In case of sale transaction, these costs are reduced from the sale proceeds and then remaining amount is paid to the client. Trading of securities happen on the first day while settlement of the same happens two days after. This means that a security bought on Monday will be received by the client earliest on Wednesday which is called pay out day by the exchange. However there is provision which allows a broker to transfer securities till 24 hours after pay out receipt. Hence the banker may transfer shares latest by Thursday for a security bought on Monday. Any transfer after Thursday would invite penalty for the broker. If a person has bought security than he is supposed to pay money to the broker before pay in deadline which is two days after trading day but the second day is considered till 10 30 a m. Only Hence the client must pay money to the broker before 10. 30 am On T+2 day.

One of the most noticeable achievements of Indian securities market has been reduction in the settlement cycle which has brought it at par with global securities market. If India is able to attract huge investments in securities now, it is not only because of strength of the economy but also because stock markets have reached very advanced stage which make outsiders to understand the process in Indian market easily out receipt. Hence the broker may transfer shares latest by Thursday for a security bought on Monday. Any transfer after Thursday would invite penalty for the broker. 1! a person has bought security than he is supposed to pay money to the broker before pay in deadline which is two days after trading day but the second day is considered till 10:30 a.m. Only. Hence the client must pay money to the broker before 10:30 am. On T+2 day.

Settlement of securities is done by the clearing corporation of the exchange. Settlement of funds is done by a panel of banks registered with the exchange. Clearing corporation identifies payable/ receivable position of brokers based on which obligation report for brokers is created. On T+2 days all the brokers who have transacted two days before receive shares or give shares to the clearing corporation of exchange. This all is done through automated set up Depository which involves NSDL and CDSL.

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STEPS IN SETTLEMENT PROCEDURE

Step 1: Trade details from exchange to NSCCL (clearing house of N SE)

Step 2: NSCCL notifies the trade details to Clearing members/ Custodians

Step 3: Download of obligation/ pay-in advice of funds/ securities

Step 4: Instructions to clearing banks to arrange funds by pay-in time

Step 5: Instruction to depositories for same

Step 6: Pay-in of securities

Step 7: Pay-in of funds

Step 8: Pay-out of securities

Step 9: Pay-out of funds

Step 10: Depository informs custodians/ Clearing members through DP

Step 11: Clearing banks inform custodians/ Clearing members,

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TRADING IN STOCK MARKET

1. One should have a demat and trading account, computer and internet connection and he/she can start the share trading or investing from anywhere.

2. A person who wants to buy/sell stocks in the stock market has to first place his/her order with a broker or can do themselves using online trading systems.

3. The stocks purchased will be sent to the investor either in physical or demat format. This process is called Rolling Settlement Cycle

4. The market regulator, the Securities and Exchange Board of India (SEBI), has made it compulsory to open the demat account if you want to buy and sell stocks.

5. Demat (Dematerialization) is the process by which an investor can get stocks converted into electronic form maintained in an account with the Depository Participant (DP). Depository Participant (DP) could be organizations involved in the business of providing financial services like banks, brokers, financial institutions etc. DPs are like agents of Depository.

6. You have to approach a DP to open a Demat account. Most banks are DP participants so you may approach them. A broker and a DP are two different people. A broker is a member of the stock exchange, who buys and sells stocks on his behalf and also on behalf of his customers.

NSDL (NATIONAL SECURITIES DEPOSITORY LIMITED)

National Securities Depository Limited is the first depository to be set-up in India. It was incorporated on December 12, 1995. The Industrial Development Bank of India (IDBI) the largest development bank in India, Unit Trust of India (UTI) the largest Indian mutual fund and the National Stock Exchange (NSE) the largest stock exchange in India, sponsored the setting up of NSDL and subscribed to the initial capital. NSDL commenced operations on November 8, 1996.

The term Depository means a place where a deposit of money, securities, property etc. is deposited for safekeeping under the terms of depository agreement. A depository is an organisation, which assists in the allotment and transfer of securities and securities lending. The shares here are held in the form of electronic accounts i.e. dematerialized form and the depository system revolves around the concept of paperless.

Objectives of NSDL

The NSDL was set up to realize the following objectives:
1. Providing support to investors and brokers in the capital market of the country by using innovative and flexible technology system"
2. Ensuring the safety and soundness of Indian market place by developing settlement solutions that increase efficiency.
3. Minimizing risk and reducing costs.
4' Developing products and services that will continue to nurture the growing need Of the Financial services industry.

Ownership

NSDL is a public limited company incorporated under the Companies Act,1956 NSDL had a paid up equity capital of Rs. 105 crore. The paid up capital has been reduced to Rs. 80 crore since NSDL has bought back its shares of the face value of Rs.25 crore in the year 2000. However, its net worth is above Rs.100 crore, as required by SEBI regulations.

The following organizations are shareholders of NSDL as on March 31, 2002:

1) Industrial Development Bank of India
2) Unit trust of India
3) National Stock Exchange
4) State Bank of India
5) Global Trust Bank Limited
6) Citibank
7) Standard Chartered Bank
8) HDFC Bank Limited
9) The Hongkong and Shanghai Banking Corporation Limited
10) Deutsche Bank
11) Dena Bank
12) Canara Bank

Management of NSDL

NSDL is a public limited company managed by a professional Board of Directors The day-to-day operations are conducted by the Managing Director. To assist the MD in his functions, the Board appoints an Executive Committee (EC) of not more than 15members. The eligibility criteria and period of nomination, etc. are governed by the Dye-laws of NSDL.

FUNCTIONS OF NSDL

NSDL performs the following functions through depository participants (DPS):

It enables the surrender and withdrawal of securities to and from the depository (dematerialization and re-materialization).

It maintains investor holdings in the electronic form.

(iii) Effects settlement of securities traded on the exchanges.

(iv) Carries out settlement of trades not done on the stock exchange (off-market trades).

(V) Transfer of securities.

(Vi) Pledging / hypothecation of dematerialized securities.

(Vii) Electronic credit in public offerings of companies or corporate actions.

FACILITIES OFFERED BY NSDL

The full form of NSDL is National Securities Depository Limited. The electroniQ system of trading network is having connectivity between all stock exchanges and the NSDL. Services of NSDL to investors are provided through DPs. DPs am appointed by NSDL with the approval of SEBI. The fill] form of SEBI is Security Exchange Board of India. As per SEBI's guidelines Banks, Financial Institutions) Trading members registered under SEBI may act as DPs.

The NSDL offers the following facilities:

1. Physical certificates can be converted into electronic form. (Dematerialisation)

2. Securities in electronic form can be converted into physical certificates. (Rematerialisation)

3. Repurchasing or redemption of units of mutual funds can be executed easily.

4. There is facility of taking loan by hypothecating or pledging the dematerialized securities.

5. There is provision of receipt of bonus (not in bash) in electronic form declared by companies.

6. The securities like public issues and right issues can also be credited in electronic form.

7. Demat accounts can be freezed for time being to avoid any debit. 8. There is facility of submission of declaration of nomination for Demat account. 9. Address of an account holder can be changed.

10. Provisions of holding debt instruments in the same account, transmission 0‘ securities, lending or borrowing of stock etc are also available.

SERVICES OFFERED BY NSDL

NSD L offers a host of services to the investors through its network of DPS:

(i) Maintenance of beneficiary holdings through DPs.

(ii) Dematerialization.

(iii) Off-market Trades.

(iv) Settlement in dematerialized securities.

(v) Receipt of allotment in the dematerialized form.

(vi) Distribution of corporate benefits.

(vii) Re-materialization.

(vii) Pledging and hypothecation facilities.

(ix) Freezing / locking of investor's account.

(x) Stock lending and borrowing facilities.

Fees Structure of NSDL

NSDL charges the DPS and not the investors directly. These charges are fixed. The DPs, in turn, are free to charge their clients, i.e., the investors for their services. Thus, there is a two tier fee structure.

CENTRAL DEPOSITARY SECURITIES LIMITED

CSDL is a Depository which facilitates holding of securities in the electronic form and enables securities transactions to be processed by book entry by a Depository Participant (DP), who as an agent of the depository, offers depository services to investors. According to SEBI guidelines, financial institutions, banks, custodians, Stockbrokers, etc. are eligible to act as DPS. The investor who is known as Beneficial Owner BO has to open a demat account through any DP for dematerialization of his holdings and transferring securities. The balances in the investors account recorded and maintained with CDSL can be obtained through the DP. The DP is required to provide the investor, at regular intervals, a statement of accounts which gives the details of the securities holdings and the transactions.

Why CDSL

Choosing CDSL is significant because of facilities provided like Convenience, Dependability and Security. These facilities are categorized further:

Convenience

1. Network A vast network of DH: have been established by CDSL and the same is serving more than 1000 Sites. The large network provides the feasibility of attracting an investor from all over the part of country even from remote area too.

2, On-line Services of DP Various DPs who are shouldering the responsibility to run the network are directly connected with CDSL and thus providing a better chain of investors.

3. The number of various securities easily available

Almost the major categories of share of A, B1 and B2 companies are available 835in on affordable rates at CDSL as Demat. In the group of companies registered at CDSL. some of the Public limited and Private limited companies are also grouped. Various types of investment areas like Bonds, Shares, and Deposit Certificates are easily available at CDSL. For investments in various schemes, all the transactions can be managed through dne Demat account only. If one wants the receipts, he must open a separate account with CDSL.

4. Flexibility of fee structure The tariff plan and fee structure has been kept in affordable condition at CDSL so that the an investor can enjoy the facilities.

5. Accessibility of the schemes DPs are well supported with Internet so that they may connect their investor with the CDSL at times.

Dependability

1. Online access for users:- The structure of CDSL is based on a large data base which is capable enough to Provide all the required depository facilities to the investors.

2 Convenient for DPS:- Complete details of an investor are kept secured at CDSL. In case any issues .arise it can be resolved at DPs end and investor do not face any problems.

3 Requirements of User :- The data-base of CDSL is updated and thus many requirements of investor am satisfied

4. Support of Helpdesk

A helpline facility is available at CDSL from where required help can be rendered at all time irrespective of time schedule, both for investors and DPS

Security

1. PC

A recovery system of all the data base has been developed at CDSL and this system enable the DPs and investor to satisfy that his transaction history is safe at CDSL. The data is kept under strong encryption and there is no chance of loss of valuable data.

2. Claims

In case of any claims at DP, the liquidation is managed by the CDSL at once so that relationship between investor and CDSL is not affected.

3. Cover

There is an insurance cover provided by CDSL to protect the investor from any unforeseen incident. This loss can be occurred due to a calamity or by the negligence of staff at CDSL either by DP or system.

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