

## **SECONDARY MARKET/ STOCK EXCHANGES**

### **MEANING OF STOCK EXCHANGE:**

Stock exchange is an organised market for the sale and purchase of shares, debentures as well as, other financial securities.

According to Securities Contract (Regulation) Act. 1956 "Stock exchange is an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities."

An analysis of the above definition reveals that a stock exchange:

- (1) is an association or organisation of individuals;
- (2) is established for the purpose of assisting, regulating and controlling the business of dealings in securities.

It implies that a stock exchange is a market which provides necessary facilities for transfer of all kind of securities at competitive rates and without undue delay.

### **CHARACTERISTICS OF STOCK EXCHANGE**

The main characteristics of stock exchanges are

- (1) Organised market:** Stock exchanges are organised markets for sale and purchase of securities
- (2) Dealings in securities:** Different kinds of securities like shares debentures, bonds are bought and sold here.
- (3) Working according to rules regulations:** All transactions on stock exchanges are conducted according to bye-laws of stock exchanges and SEBI guidelines.
- 4) Dealing in listed securities only:** Only listed securities can be bought and sold in the stock exchanges. Listed securities are those securities permission for dealings in which has been granted by stock exchanges.
- (5) Dealings between authorised persons only:** Only those persons can do buying or selling in a stock exchange who are members of that stock exchange. Any outsider wanting to sell or buy securities can do so through some member of the stock exchange, who acts as his broker.

### **FUNCTIONS OR SERVICES OF STOCK EXCHANGES**

Stock exchanges perform important economic functions; among other things they help in proper working of the corporate sector. Following are the main functions of a stock exchange:

**1, Ready market of securities:** Stock exchanges provide a ready market for sale and purchase of existing i.e., old securities. Stock exchange facilitate marketability of securities resulting in increase in their liquidity which enhances their value. It makes shares, debentures etc. worthy as collateral security for loans.

**2. Continuous appraisal of securities:** Under stock exchange rules, all the transactions done, are required to be recorded and made public so that the prices paid and received become the official

market quotations which are published in financial and other newspapers. On the basis of these quotations every holder of securities can know their worth. This way, the stock exchanges assist in evaluating the prices of all active securities. The market quotations also help those persons who lend on the security of shares, they can know the worth of the security.

**3. Protects investors:** Stock exchanges work under strict rules and regulations; the investors are assured of fair dealings. Any unfair dealing on the part of member or broker of any stock exchange is severely dealt with by stock exchange authorities.

**4. Channelization of capital in profitable ventures:** Stock exchange provides mobility of capital in the direction of profitable avenues. If a company does not perform well, its investors sell of their shares and invest that money in the securities of better companies. Inefficient companies are unable to raise fresh capital from the market. This way the savings of the people are channelized into industries yielding better returns.

**5. Encourage capital formation.** The publicity which stock exchanges give to various securities through price quotations and reports in the press and television induce people to invest their savings in industry which encourages capital formation in the country. The steady and continuous facilities provided by stock exchanges for purchase and sale of securities encourage people to invest their savings in commerce and industry. In this manner stock exchanges maintain a steady and regular flow of capital into new enterprises.

**6. Facilities for speculation.** Smart investors who can correctly speculate as to what way the things will move in the security market, can use stock exchanges to make quick money. Speculations is really an integral part of stock exchange operations. As a result of speculation the supply and demand for securities at different times and places gets equalized. Speculators smoothen the price movements of securities with their activities. There cannot be violent changes in their prices.

**7. Serves as Economic Barometer:** Stock exchange indicates the state of health of companies and the national economy. It acts as a barometer of the economic situation / conditions.

## **BENEFITS OR ROLE OF STOCK EXCHANGES**

Stock exchanges play a vital role in the economic prosperity of the society the company and the investor. Their role in different fields is summarized under three heads:

### **A. ROLE TOWARDS COMMUNITY**

**1. Generate economic growth:** Stock exchanges generate economic growth of the country by encouraging investors to invest their savings in productive enterprises.

**2. Facilitate marketability of securities:** By providing an organised and regulated platform for sale and purchase of securities, stock exchanges increase marketability of securities.

**3. Encourage capital formation**

**4. Help governments to raise funds** from the public and thus encourage development projects

## **B. ROLE TOWARDS COMPANY**

- 1. Greater reputation:** A company whose shares are traded on stock exchange enjoys greater reputation in the credit market.
- 2. Wide Market:** If the shares of a company are listed in stock exchanges, their market is widened.
- 3. Higher price:** If the shares of a company are bought and sold in exchange, their market value is prone to be higher in relation to companies earning capacity.

## **C. ROLE TOWARDS INVESTORS**

- 1. Fair dealings.** Because stock exchanges are governed by strict rules and regulations, the investor is assured of fair dealings.
- 2. Liquidity.** Stock exchanges provide liquidity to investment of investors because listed securities-can be easily sold in the market.
- 3. True worth of securities can be known.** As the value of securities in stock exchange is determined by demand and supply forces the investor can know the true worth of his investments through price quotations.
- 4. Security for loan.** When a security is dealt on a stock exchange it makes it a worthy security for a loan.
- 5. Incentive to invest.** The facility of ready marketability of securities provide incentive to people to invest their savings in companies, they know that they will be able to sell them easily.

## **NATIONAL STOCK EXCHANGE OF INDIA**

The National Stock Exchange of India Limited (*NSE*) is the leading stock exchange of India, located in Mumbai. The NSE was established in 1992 recognised as stock exchange in April, 1993 as the first demutualized electronic exchange in the country and was. NSE was the first exchange in the country to provide a modern, fully automated screen-based electronic trading system which offered easy trading facility to the investors spread across the length and breadth of the country. Vikram Limaye is Managing Director & Chief Executive Officer (MD & CEO) of NSE.

National Stock Exchange was set up in April 1993 with the objectives of:

- (a) establishing a nationwide trading facility for all types of securities,
- (b) ensuring equal access to all investors all over the country through an appropriate communication network,
- (c) providing a fair, efficient and transparent securities market using electronic trading system,
- (d) enabling shorter settlement cycles and book entry settlements and
- (e) meeting the international benchmarks and standards.

NSE has set up infrastructure that serves as a role model for the securities industry in terms of trading systems, clearing and settlement practices and procedures. The standards set by NSE in terms of market practices, products, technology and service standards have become industry benchmarks and are being replicated by other market participants.

It provides 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 Exchange currently operates four market segments, namely Capital Market Segment, Wholesale Debt Market Segment, Futures and Options segment and the Currency Derivatives Segment. NSE's Futures & Options segment provides trading of a wide range of derivatives like Index Futures, Index Options, Stock Options and Stock Futures

NSE provides a trading platform for all types of securities-equity and debt, corporate government and derivatives. On its recognition as a stock exchange under the Securities Contracts (Regulation) Act, 1956 in April 1993, it commenced operations in the Wholesale Debt Market (WDM) segment in June 1994, in the Capital Market (CM) segment in November 1994, in Futures & Options (F&O) segment in June 2000 and in Currency Derivative segment (CDS) in August 2008.

NSE's Capital Market segment offers a fully automated screen based trading system, known as the National Exchange for Automated Trading (NEAT) system, which operates on a strict price/time priority. It enables members from across the country to trade simultaneously with enormous ease and efficiency.

NSE was also instrumental in creating the National Securities Depository Limited (NSDL) which allows investors to securely hold and transfer their shares and bonds electronically. NSE has continuously worked towards ensuring that the settlement cycle comes down. Settlements have always been handled smoothly. The settlement cycle has been reduced from T+3 to T+2/T+1.

## **OVER THE COUNTER EXCHANGE OF INDIA**

The OTC Exchange of India (OTCEI), also known as the Over-the-Counter Exchange of India, was based in Mumbai, Maharashtra. It was India's first exchange for small companies as well as the first screen-based, computerized, nationwide stock exchange in India. OTCEI was set up to access high-technology enterprising promoters in raising finance for new product development in a cost-effective manner and to provide a transparent and efficient trading system to investors. It was modelled on NASDAQ stock exchange of USA.

OTCEI was promoted by the Unit Trust of India, the Industrial Credit and Investment Corporation of India, the Industrial Development Bank of India, the Industrial Finance Corporation of India, and other institutions, and is a recognised stock exchange under the SCR Act.

The OTC Exchange of India was founded in 1990 and started functioning in 1992. It was founded under the Companies Act 1956 and was recognized by the Securities Contracts Regulation Act,

1956 as a stock exchange. The OTCEI is no longer a functional exchange as the same has been de-recognised by SEBI vide its order dated 31 Mar 2015.