STUDY NOTES for
NCFM CAPITAL MARKET DEALER'S MODULE (CMDM)

Prepared By
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The contents have been prepared by our Company AKSHAYA INVESTMENTS, a Madurai based Financial Services & Training firm. We are into NISM / NCFM / BCFM / AMFI (Mutual Fund) Training, Stock advisory, Life & Health Insurance, Mutual Funds distribution and Tax Planning.

Training Profile of AKSHAYA INVESTMENTS

We have been training individuals in NCFM, BCFM and NISM modules for the past 7 years. Over the last 7 years, we have delivered over 10,000 Hours of mass outreach education to Financial intermediaries, Bankers, Individual agents, Students etc in over 20 Cities.

We have been empanelled as Trainers in the following organizations

National Stock Exchange – (For their Financial Literacy Program)
Bombay Stock Exchange – (For their Investor Awareness Programs)
Reliance Mutual Fund – (EDGE Learning Academy)
NJ India Invest – (NJ Gurukul)
ICICI Securities – (I-DIRECT)

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We have conducted NCFM / BCFM / NISM / IAP sessions in the following Colleges

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2. PSG Institute of Management
3. Vellore Institute of Technology
4. Pondicherry University
5. Bishop Heber College
6. Lady Doak college
7. Sourashtra College for women
8. Gnanam School of Business
9. NPR College of Arts and Science
10. SVN College of Arts and Science
11. Hindusthan College of Arts & Science
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2. NCFM Derivatives Market
3. NCFM Financial Market
4. NISM Currency Derivatives
5. NCFM Securities Market
6. NCFM Option Strategies
7. NISM Mutual Fund Distributors
8. NISM Interest Rate Derivatives
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11. RBI Operations
12. Macro-Economic Policies
13. BCFM Modules
14. NSDL Depository
15. Taxation
16. Debt Markets
17. Fundamental Analysis
18. Technical Analysis
19. NCFM Commodities

Kindly Contact us for any training requirements on NCFM, NISM & BCFM certifications.

NCFM CAPITAL MARKET DEALERS MODULE

INSTRUCTIONS FOR EXAM PREPARATION

1. Go through "Checklist of Learning Points" provided below.

2. Attend Model Test → www.modelexam.in

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Checklist of Learning Points

- Screen Based Trading System - SBTS electronically matches orders on a strict price/time priority
- Very Small Aperture Terminal (VSAT)
- The main computer runs on a fault tolerant STRATUS mainframe computer at the Exchange
- NEAT system provides an Open Electronic Consolidated Limit Order Book (OECLOB).
- The order book is visible to all market participants; it is termed as an 'Open Book'.
- Normal market order types - Regular Lot Orders, Special Term Orders, Negotiated Trade Orders and Stop Loss Orders
- Odd lot market facility is used for the Limited Physical Market
- In the Auction market, auctions are initiated by the Exchange on behalf of trading members for settlement related reasons
- The corporate manager is a term assigned to a user placed at the highest level in a trading firm. He sets Branch Order Value Limits and User Order Value Limits.
- When the market is opening for trading, the trading member cannot login to the system. A message 'Market status is changing. Cannot logon for sometime ' is displayed.
- Open Phase - The activities that are allowed at this stage are Inquiry, Order Entry, Order Modification, Order Cancellation (including quick order cancellation) Order Matching and trade cancellation.
- **Pre-open:** The pre-open session is for duration of 15 minutes i.e. from 9:00 am to 9:07/08 am. The pre-open session is comprised of Order collection period and order matching period.
- The order collection period of 8* minutes shall be provided for order entry, modification and cancellation. (* - System driven random closure between 7th and 8th minute). During this period orders can be entered, modified and cancelled.
- Indicative NIFTY Index value & % change of indicative equilibrium price to previous close price are computed based on the orders in order book and are disseminated during pre-open session.
- Order matching period starts immediately after completion of order collection period.
- Orders are matched at a single (equilibrium) price which will be open price.
- Normal Market / Odd lot Market and Retail Debt Market opens for trading after closure of pre-open Session i.e. 9:07/08 am. Block Trading session is available for the next 35 minutes from the open of Normal Market. The equilibrium price is the price at which the maximum volume is executable.
- **Post-Close Market:** This closing session is available only in Normal Market Segment. Its timings are from 3.50 PM to 4.00 PM. Only market price orders are allowed.
- Surveillance and Control (SURCON) is that period after market close - the users have inquiry access only. Data is processed for making the system available for the next trading day.
- Users can place bulk orders in pre-open with book type as 'PO'
- **Debarred Client Maintenance:** This facility allows maintaining a list of Debarred Clients. The user is provided option to add, modify, save, upload or delete debarred clients

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- **Reset Password:** This screen enables Corporate Manager to reset the password and to enable the users of their trading member who got disabled by entering wrong passwords for more than 6 times.
- *DQ*: An order with a Disclosed Quantity (DQ) allows the user to disclose only a portion of the order quantity to the market. For e.g. if the order quantity is 10,000 and the disclosed quantity is 2,000, then only 2,000 is released to the market. After this quantity is fully matched, a subsequent quantity of 2,000 is disclosed. Thus, totally five disclosures with the same order number are shown one after the other in the market.
- The Exchange has introduced a separate trading session for the block trades from November 14, 2005. In this session, trading is conducted in the Odd Lot market (market type 'O') with Book Type 'OL' and series 'BL'. It is a 35 minute market; i.e. the trading window shall normally remain open from 9:15 hours to 9:50 hours. There is no pre-open and post close in the block trade session. For a block trade, order should be of a minimum quantity of 5,00,000 shares or minimum value of Rs 5 crore which ever is lower. As per SEBI requirement, member is required to put orders at a price not exceeding (+/-) 1% from the previous close price/ruling market price, as applicable, of normal market.
- LOGGING ON- a) User ID - b) Trading Member ID c) Password d) New Password
- default password - 'NEATCM' – 6- 8 characters
- User forgetting his password - the trading member informs the Exchange in writing with a request to reset the password.
- If 3 attempts are made by a user to log on with an incorrect password, then that user is automatically disabled. TM written request to the exchange for resetting of password.
- 3 types of logoff a) Permanent sign off   b) Temporary sign off, and c) Exit
- Temporary signoff period - the software continues to receive all market updates in background.
- The temporary sign off is automatically activated when the user is inactive for a 5 minutes.
- Title bar: It displays trading system name i.e. NEAT, the date and the current time.
- Ticker Window: The ticker displays information of all trades in the system as and when it takes place.
- The Market Watch window is the main area of focus for a trading member- continuous monitoring of the securities - displays trading information for the selected securities.
- Inquiry Window: enables the user to view information such as Market By Price (MBP), Previous Trades (PT), Outstanding Orders (OO), Activity Log (AL)
- Snap Quote: allows a trading member to get instantaneous information
- no delivery period indicator - "ND"
- The purpose of Market by Price (MBP) is to enable the user to view Limit Orders
- All buyback orders are identified by an '*' in the MBP screen
- Trade cancellation can be requested from the Previous Trade screen.
- This facility is available only for member's own trades.
- The Activity Log (AL) shows all the activities that have been performed on any order belonging to that user. Order modification/cancellation, partial/full trade, trade modification/cancellation. Chronological orders.
- The purpose of the Order Status (OS) - current status of orders - presented in chronological order.

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- Corporate action indicator 'Ex/Cum' - no delivery indicator 'ND'.
- The Market Movement screen - information to the user regarding the movement of a security for the current day - chronological sequence.
- Market Inquiry – View the market statistics, for a particular market, for a security - displays the open price and previous close price for a security.
- 'S' indicates that the security is suspended; 'P' indicates that the security is in pre open.
- "CD" = cum-dividend "XD" = ex-dividend "CR" = cum-rights "XR" = ex-rights "CB" = cum-bonus "XB" = ex-bonus "CI" = cum-interest "XI" = ex-interest
- C* - More than 1 C   , X* - More than 1 X
- Auction Inquiry (AI) - view the auction activities for the current trading day. S - Auction is in Solicitor Period M - System is matching the orders, F - Auction is over , X - Auction is deleted, P - Auction is pending and yet to begin.
- Security List: The user can select securities based on Symbol, Series, Instrument Type and Market Type.
- Portfolio List: Portfolio created can be used for basket order entry also.
- On Line Backup - backup of all order and trade related information for the user.- utility generates two ASCII files namely Order.txt & Trade.txt.-utility will help the user to generate the Contract Notes.
- Basket Trading -   creates offline order entry file for a selected portfolio. Max amount <= Rs. 3000 lakh. A Reverse File with the same name is also generated in 'R_Basket' directory of the current login drive. The Reverse File contains reverse order (if user has selected buy then it contains sell orders
- All the orders generated through the offline order file are priced at the available market price.
- SEBI Notification, dated 14 November, 1998,- buyback of securities is permitted
- Report selection window - allows the corporate manager and branch manager to specify the number of copies to be printed for each report.
- Open Order: details for all dealers with currently outstanding or unmatched orders.
- Order Log: gives activity log of the orders for the dealers belonging to a TM.
- Trades Done Today: trading activity by the trading member
- Market Statistics: details related to all the securities traded on that day for all markets.
- Full Message Display- display of all the system messages right from the start of opening phase
- ALL All messages - AUC Auction order/trade messages - AUI Auction initiation messages - LIS All listing related messages - ORD Order Related messages - OTH Miscellaneous - SPD Security Suspension/De-suspension - SYS System Messages- TRD Trades.
- the user has to position the highlight bar on the desired screen & select any one of the 16 colour buttons
- The 'Print System Messages ON/OFF' enables/disables printing of the system messages as and when they appear in the messages window. By default the option is set to `OFF'.
- The ticker selection screen allows to set up the securities in the user's ticker window.
- Index Inquiry gives information on Previous Close, Open, High, Low and Current Index values of S&P CNX Nifty at the time of invoking this inquiry screen.

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- Order limits are set by individual users and are provided as safety measure against any inadvertent error during data entry while entering orders. The order limits can be modified during market hours
- Market Price protection functionality: This functionality gives an option to a Trader to limit the risk of a market order, within a pre-set percentage of the Last Trade Price (LTP).The pre-set Market price protection percentage is by default set to 5% of the LTP.
- CM and BM to restrict the total value of order entered by the users, it is not possible to restrict buying or selling in specific securities.
- An additional facility for setting up Security wise User wise Order Quantity Limits (SUOQL) for buy and/or sell has been provided. This function will be available only to the NEAT users.
- PRO/CLI –Proprietary/Client
- The values for the branch order limit are displayed in Rs. lakhs.
- The corporate manager can authorize a branch with unlimited order entry by clicking on 'Unlimited'.
- Net position screen displays the Net Mark to market value scrip wise & total net mark to market value.
- The 'One Line or Tabular slips' is used to select the format for printing confirmation slips.
- User order value limit is the cumulative value of orders placed during the day across all securities.
- corporate manager sets the branch order value limit as unlimited then the user order value limit can either be set unlimited or a specified limit. Also, user order value limit cannot be set as unlimited if branch order value limit is set as specific value. The user order value limit can be revised during trading hours.
- Client Master Maintenance - can add, modify, upload or delete clients.
- The purpose of Index Trading is to provide NEAT users with a facility of buying and selling of Indices, in terms of securities that comprises the Index
- The Purpose of Reverse Basket Trading is to provide the users with an offline file for reversing the trades that have taken place for a basket order.
- Reset User ID- members to terminate the active session for users
- When any order enters the trading system, it is an active order. It tries to find a match on the other side of the books. If it finds a match, a trade is generated. If it does not find a match, the order becomes a passive order and goes and sits in the order book.
- Regular Lot Book: An order that has no special condition associated with it is a Regular Lot order
- Special Terms Book: Orders having special term attribute attached to it are special terms orders.
- Stop Loss Book: Stop Loss orders are released into the market when the last traded price for that security in the normal market reaches or surpasses the trigger price
- Negotiated Trade Book: Two trading members can negotiate a trade outside the Exchange
- Odd Lot Book: This can be selected in the order entry screen in order to trade in the Odd Lot market
- RETDEBT Order Book: RETDEBT market orders can be entered

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- Auction Order Book stores orders entered by the TM to participate in the Exchange initiated auctions
- Quantity Freeze - 0.5% of the issue size of the security or value of the order is around Rs. 2.5 crores or a global alert quantity limit of more than 25000 , whichever is less
- The Exchange has implemented index-based market-wide circuit breakers in compulsory rolling settlement with effect from July 02, 2001. The index-based market-wide circuit breaker system applies at 3 stages of the index movement at 10%, 15%, 20%
- For auction market the price bands of 20% are applicable
- Time Conditions - DAY: All orders entered into the system are presently considered as Day orders only.
- IOC: Immediate or Cancel DQ: An order with a Disclosed Quantity
- The client account field is an alphanumeric field
- Counterparty ID: In case a negotiated trade order is entered, the system requests the user to enter the counterparty trading member id which is to be obtained by the user from the counter party itself
- Once an order is modified, the branch order value limit for the branch gets adjusted Automatically
- Order cancellation can be performed only for orders which have not been fully or partially traded
- The user is not allowed to cancel auction initiation and competitor orders in auction market. Order cancellation is also not allowed for those negotiated trade orders that have not resulted as an alert.

- Quick Order Cancellation (Cancel All) is an extension of Single Order Cancellation enabling a user to cancel multiple outstanding orders
- In case a member is suspended from trading by the Exchange, all pending orders in all books except for Negotiated Trade orders of the member are immediately cancelled by the system
- Matching Priority- By Price, by time.
- A trade is an activity in which a buy and a sell order match with each other.
- The user can use trade cancellation screen for cancelling trades done during the day. If the user is a corporate manager of a trading member firm, he can request for trade cancellation for the trades of any dealer of the trading members firm and if he is a branch manager of a branch, then he can request for trade cancellation for the trades for any dealer of the branch of the trading member firm. If counter party to the trade does not enter a trade cancellation request the Exchange will reject the request.
- Auctions are initiated by the Exchange on behalf of trading members for settlement related reasons.
- The Auctions reasons - Shortages, Bad Deliveries and Objections
- Competitor period is the period during which competitor order entries are Allowed
- After the competitor period ends, the solicitor period for that auction starts.
- The user can do auction order entry by entering 'AU' in the book type of the order entry screen
- The user is not allowed to modify any auction orders.

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- The Limited Physical Market was introduced on June 7, 1999
- Trading is conducted in the Odd Lot market (market type 'O') with Book Type 'OL' and series 'BT'.
- RETDEBT - Face Value Rs. 100/- , Permitted Lot Size 10 , Tick Size Rs. 0.01 , Operating Range +/- 5%
- Mkt. Type Indicator D (RETDEBT) , Book Type RD
- Circulars as and when issued by NSE, are available to members on the intranet in their respective trading member directory identified by their trading member id.
- The order/trade slips are Confirmation/Modification/ Cancellation/Rejection slips. The trade and order slips are generated on-line.
- The x25 address check is also performed by the system for report download and therefore, allotted user ids cannot be used interchangeably from any other location apart from the specified location
- Members can also view their reports in MSDOS editor.
- coo, col, ctd (printable format) cod, cld, ctt (comma delimited format) boo, bol, btd
- (printable format) and bod, bld, btt (comma delimited format)
- Trade details are available for verification on the same day (i.e. T itself) after 19:00 hours IST
- Trade details for the last 5 trading days would be available on the website. That is, trades executed on 'T' day, can be verified till the T+4th day.
- Internet as an Order Routing System (ORS)
- NSE launched internet trading in early February 2000. It is the first stock exchange in the country to provide web-based access to investors to trade directly on the exchange.
- SEBI has also approved trading through wireless medium on WAP Platform.
- NSE.IT launched the Wireless Application Protocol (WAP) in November 2000.
- **Bhav copy:** Bhav copy is downloaded in \nsecmtdr\reports directory on a daily basis. It is downloaded two times after market close. First bhav copy (Interim bhav copy) downloaded approximately 20 minutes after the market close time. The second bhav copy (final bhav copy) downloaded 20 minutes after the post close market. The interim bhav copy is overwritten by final bhav copy
- Exchanges internationally are introducing co-location services to support high frequency trading using Algorithmic Trading (ALGO) and Direct Market Access (DMA). In keeping with the global trends and maintaining high service excellence, NSE started co-location facility in Jan 2010.
- **Security sigma:** It means the volatility of the security computed at the end of the previous trading day.
- **Security VaR:** It means the higher of 7.5% or 3.5 security sigmas.
- **Index sigma**: It means the daily volatility of the market index (S&P CNX Nifty or BSE Sensex) computed as at the end of the previous trading day.
- **Index VaR:** It means the higher of 5% or 3 index sigmas.

- **Cross Margining -** An off-setting position for a client in different segments has lower risk as loss on one position is off-set by profit in the other position. An example for an off-setting

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- position can be a buy position of 100 in security "A" in capital market and short position of 100 in stock futures of security "A" in derivative segment. As the risk of the off-setting positions is lower, the margin requirement for the combined positions has to be lower which is considered as cross margining.
- The benefit of cross margining is provided on the following off setting positions:
    - ○ Index futures and constituent stock futures for same expiry in F&O segment
    - ○ Index futures and constituent stock positions in Cash segment
    - ○ Stock futures in F&O segment and stock positions in Cash segment
- NSCCL becomes the legal counterparty to the net settlement obligations of every member. This principle is called `novation'
- In the capital market segment, all trading members of the Exchange are required to become the Clearing
- Member of the Clearing Corporation
- A custodian is a person who holds for safekeeping the documentary evidence of the title to property belonging like share certificates,
- In NSCCL, custodian is a clearing member but not a trading member.
- A depository is an entity where the securities of an investor are held in electronic form. The person who holds a demat account is a beneficiary owner.
- A PCM has no trading rights but has only clearing rights,
- Counterparty Risk: This arises if parties do not discharge their obligations fully when due or at any time thereafter. This has two components, namely replacement cost risk prior to settlement and
  principal risk during settlement. (a) The replacement cost risk arises from the failure of one of the parties to transaction.
- The principal risk arises if a party discharges his obligations but the counterparty defaults
- A variant of counterparty risk is liquidity risk which arises if one of the parties to transaction does not settle on the settlement date, but later
- Another variant is the third party risk which arises if the parties to trade are permitted or
- required to use the services of a third party which fails to perform
- System Risk: This comprises of operational, legal and systemic risks. The operational risk arises from possible operational failures such as errors, fraud, outages etc. The legal risk arises if the laws or
- regulations do not support enforcement of settlement obligations or are uncertain. Systemic risk arises when failure of one of the parties to discharge his obligations leads to failure by other parties.
- Bad deliveries (deliveries which are prima facie defective) are required to be reported to the clearing house within two days from the receipt of documents
- With effect from April 1, 2003 the settlement cycle has been further reduced from T+3 to T+2.
- The CM on whom company objection is lodged has an opportunity to withdraw the objection if the objection is not valid or the documents are incomplete , within 7 days of lodgement against him. If the CM is unable to rectify/replace defective documents on or before 21 days, NSCCL conducts a buying-in auction for the non-rectified part of defective document on the next auction day

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- At NSE, trades in rolling settlement are settled on a T+2 basis
- Limited Physical Market - Settlement for trades is done on a trade-for-trade basis - Shortages, if any, are compulsorily closed-out at 20% over the actual traded price.
- Inter Institutional Segment - Trading in this market segment is available for 'institutional investors' only Members are required to enter the custodian participant code at the time of order entry
- Delivering members are required to deliver all documents to the Clearing House (in case of physical settlement) between 9:30 a.m. and 10:30 a.m. on the settlement day. Receiving members are required to collect the documents from the Clearing House between 2:00 p.m. and 2:30 p.m. In case of dematerialised settlement, the members receive their obligation by 2.30 pm on T + 1 day. The members need to arrange for the securities as per their obligations and give instructions by 10.30 am on the pay-in day
- NSCCL has introduced a settlement system for direct delivery of securities to the investors accounts with effect from April 2, 2001.
- Clearing members are provided with an application in the clearing front end for the purpose of capturing the requisite data and generating the file. This front end is a part of the Clearing Front End Version 4.2
- The time limit for submission of files is up to 9.30.am on the pay out Day
- On the securities pay-in day, NSCCL identifies short deliveries and the respective clearing member is debited by an amount equivalent to the securities not delivered by him and valued at a valuation price. This is called a valuation debit.
- For Regular Market- 20% above the closing price on the auction day
- For Limited Physical Market Deals-At 20% over the actual trade Price
- Auction Market:Non-delivery-highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 20% over the official closing price on the close out day whichever is higher
- Auction Market:bad-delivery- highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 10% over the official closing price on the close out day
- Company objection- 10% above the official closing price on the auction day
- deleted security- 20 % over the official closing price on the last traded day
- Close out price for bonds- highest rate prevailing on the Exchange from the first day of the relevant trading period till the day of closing out or 5% over the official closing price on the auction day, whichever is higher.
- The National Securities Clearing Corporation Ltd. (NSCCL), a wholly owned subsidiary of NSE, was incorporated in August 1995. NSCCL commenced clearing operations in April 1996
- Additional Base Capital
- Cash, Fixed Deposit Receipts (FDRs) , Bank Guarantee from a bank whose networth is above Rs.500 crores, Approved securities in demat form, Government Securities, the haircut for the Government Securities shall be 10%., Units of the schemes of liquid mutual funds or government securities mutual funds. The haircuts for units of liquid funds or government securities mutual funds shall be 10% of Net Asset Value (NAV). Units of all Mutual Funds schemes except Liquid Mutual Funds and Government

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- Securities Mutual Funds (in demat) are eligible security for the purpose of non-cash component of additional capital and margin.
- All Additional Base Capital (ABC) given in the form of cash / FDR/BG's from approved Banks (hereinafter referred to as 'Cash Component') should be atleast 50% of the capital in respect of every trading member.
- Incase where non - cash component is more than 50 % of the total capital, the excess non-cash component is ignored for the purpose margins requirements.

Group	Trading frequency (over the previous six months*)	Impact Cost (over the previous six months*)
Liquid Securities (Group I)	At least 80 % of the days	Less than or equal to 1 %
Less Liquid Securities (Group II)	At least 80 % of the days	More than 1 %.
Illiquid Securities (Group III)	Less tha 80 % of the days	More than 1 %.

- Value at Risk (VaR) margin
- Extreme Loss Margin
- Mark to Market Margin
- The margins are computed at client level.
- Value at Risk Margin - VaR is a single number- the risk in a portfolio.- measures potential loss - It involves using historical data on market prices- 99th percentile loss - VaR Margin is a margin intended to cover the largest loss that can be encountered on 99% of the days.
- Mark-to-Market Margin - Mark to market loss is calculated by marking each transaction in security to the closing price of the security at the end of trading.
- Extreme Loss Margin - The Extreme Loss Margin for any security is higher of:
- 5%, or 1.5 times the standard deviation of daily logarithmic returns of the security price in the last 6 months
- Margin Shortfall-Fine amount
- 1st instance   0.07% per day
- 2nd to 5th instance of disablement   0.07% per day +Rs.5000/- per instance from 2nd to 5th
- 6th to 10th instance of disablement   0.07% per day+ Rs. 20000 (for 2nd to 5th instance)
  - +Rs.10000/- per instance from 6th to 10th instance
- 11th instance onwards   0.07% per day +Rs. 70,000/- (for 2nd to 10th instance)
  - +Rs.10000/- per instance from 11th instance
- In cases where early pay-in of securities is made prior to the securities pay-in, such positions for which early pay-in (EPI) of securities is made shall be exempt from margins

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- On-Line Exposure Monitoring- alerted as per pre-set levels (reaching 70%, 85%, 90%, 95% and 100%)
- The on-line surveillance mechanism also generates various alerts/reports on any price/volume movement of securities not in line with past trends/patterns
- Off-line surveillance activity consists of inspections and investigations. As per regulatory requirement, a minimum of 20% of the active trading members are to be inspected every year
- No price bands for Derivative Scrips. However in order to prevent members from entering orders at non genuine prices in such securities, there is a fixed operating range of 20% for such securities.
- Whenever a book closure or a record date is announced by a company, the exchange sets up a 'no-delivery period for that security. During this period, trading is permitted in the security
- SEBI being the National Numbering Agency for India has permitted NSDL to allot International Securities Identification Number (ISIN) for demat shares.
- Investor Protection Fund (IPF) has been set up as a trust under Bombay Public Trust Act, 1950. The maximum amount of claim payable from the IPF to the investor is Rs. 11 lakh.
- A notice is published in widely circulated daily newspapers notifying the trading member who has been declared defaulter/expelled member. Claims against the defaulter/expelled member specified in the notice are required to be made, on or before three months from the date of such notice.
- NSCCL downloads the data for the day in a consolidated DAT file containing data regarding trades, obligations, deliveries, auctions, corporate actions and valuation prices for the day.
- Members can access the files through extranet server using VSAT during off trading hours (between 4:15 p.m. and 9:30 a.m.)
- A broker is an intermediary who arranges to buy and sell securities on behalf of clients.
- The different segments currently available on the Exchange for trading are:
- Capital Market (Equities & Retail Debt), Wholesale Debt Market , Derivatives (Futures and Options)
- segment groups:
  - o Wholesale Debt Market (WDM) Segment
  - o Capital Market (CM) and Wholesale Debt Market (WDM) segments
  - o Capital Market (CM) and Futures & Options (F&O) segments
  - o Capital Market (CM), Wholesale Debt Market (WDM) and Futures & Options (F&O) segment
  - o Clearing Membership of National Securities Clearing Corporation Ltd.

- Eligibility for acquiring new membership of NSE - The following persons are eligible to become TM
  - o Individuals
  - o Partnership firms registered under the Indian Partnership Act, 1932, Individual and Partnership firm are not eligible to apply for membership on WDM segment.
  - o Institutions, including subsidiaries of banks engaged in financial services.
  - o Body Corporates including companies as defined in the Companies Act, 1956.

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- Dominant Promoter /Shareholder Group (DPG) –
- Unlisted corporate trading member – Max 4 with 51%
- The securities market has two interdependent and inseparable segments: (i) primary market and (ii) secondary market.
- The primary market issuance is done either through public issues or private placement. Under Companies Act, 1956, an issue is referred as *public* if it results in allotment of securities to 50 investors or more. However, when the issuer makes an issue of securities to a select group of persons not exceeding 49 and which is neither a rights issue nor a public issue it is called a private placement.
- The secondary market is operated through two mediums, namely, the Over-the-Counter (OTC) market and the Exchange-Traded market. OTC markets are informal markets where trades are negotiated.
- An Index is used to give information about the price movements of products in the financial, commodities or any other markets.
- Market capitalisation is defined as value of all listed shares on the country's Exchanges
- *Market Capitalisation = Closing price of share * Number of outstanding shares*
- The market capitalization ratio is defined as market capitalization of stocks divided by GDP. It is used as a measure of stock market size.
- *Turnover Ratio= Turnover at Exchange / Market Capitalisation at Exchange*
- The securities market has essentially three categories of participants (i) the investors, (ii) the issuers, (iii) the intermediaries
- **Capital Market (CM) Segment:** This segment at NSE commenced its operations in November 1994. It offers a fully automated screen based trading system, known as the National Exchange for Automated Trading (NEAT) system. Various types of securities e.g. equity shares, warrants, debentures etc. are traded on this system.
- **Futures & Options (F&O) Segment:** This segment provides trading in derivatives instruments like index futures, index options, stock options, and stock futures, and commenced its operations at NSE in June 2000.
- **Currency Derivatives Segment (CDS) Segment:** This segment at NSE commenced its operations on August 29, 2008, with the launch of currency futures trading in US Dollar-Indian Rupee (USD-INR). Trading in other currency pairs like Euro-INR, Pound Sterling-INR and Japanese Yen-INR was further made available for trading in February 2010. 'Interest rate futures' was another product made available for trading on this segment with effect from August 31, 2009.
- In December 2001, all scrips were moved to rolling settlement and the settlement period was reduced progressively from T+5 to T+3 days. From April 2003 onwards, T+2 days settlement cycle is being followed.
- **Demutualisation:** Historically, stock exchanges were owned, controlled and managed by the brokers. In case of disputes, integrity of the stock exchange suffered. NSE, however, was set up with a pure demutualised governance structure, having ownership, management and trading with three different sets of people.
- The public listed companies making IPO of any security for Rs.10 crore or more have to make the IPO only in dematerialised form.

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- Indian companies have been permitted to raise resources overseas through issue of ADRs, GDRs, FCCBs and ECBs. Further, FIIs have been permitted to invest in all types of securities, including government securities and tap the domestic market. The investments by FIIs enjoy full capital account convertibility. They can invest in a company under portfolio investment route upto 24% of the paid up capital of the company.
- RBI permitted two-way fungibility for ADRs / GDRs, which means that the investors (foreign institutional or domestic) who hold ADRs / GDRs can cancel them with the depository and sell the underlying shares in the market.
- Volatility index is a measure of market's expectation of volatility over the near term.
- India's first volatility index, **India VIX** (based on the Nifty 50 Index Option prices) was launched by NSE in April 2008.
- In April 2008, SEBI allowed the direct market access (DMA) facility to the institutional investors
- Application Supported by Blocked Amount (ASBA) is a major primary market reform. It enables investors to apply for IPOs / FPOs and rights issues without making a payment. Instead, the amount is blocked in investors' own account and only an amount proportionate to the shares allotted goes out when allotment is finalized.
- In August 2009, the SEBI issued Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009, replacing the Disclosure and Investor Protection (DIP) Guidelines 2000.
- The following entities are allowed to be identified as dominant shareholder(s) provided they have a networth of at least Rs.50 crores:
    o Scheduled Banks;
    o Central or State Government owned Finance and/or Development Institutions;
    o Any financial institution registered and regulated by any regulatory authority such as RBI, SEBI, IRDA;
    o Any other entity that is fit to be identified as dominant shareholder in the opinion of relevant authority.

    o In case of an unlisted corporate trading member, there are three conditions under which the corporate trading member will be eligible to constitute dominant promoter group. These conditions are given below:
    o If a person holds 51% of shares in the trading member corporate on his own or together with
       his relatives

- Banks authorized by the Reserve Bank of India under section 10 of the Foreign Exchange Management Act, 1999 as 'AD Category - I bank' are permitted to become trading and clearing members of the currency derivatives market of the recognized stock exchanges, subject to minimum prudential requirements of minimum net worth of Rs. 500 crores, minimum CRAR of 10 per cent, net NPA not exceeding 3 per cent and net profit should have been made for last 3 years.
- The Membership Recommendation Committee (MRC) consists of seven persons from various disciplines. The MRC conducts interviews of the applicants for trading membership

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- The following persons have to appear for the interview:
  - Corporates - A dominant shareholder and a Whole-time Director
  - Individuals – individual himself
  - Partnership Firms – Two partners
- .
- The MRC is only a recommendatory body about the admissibility of the prospect or otherwise to the Board of Directors of the Exchange.
- SEBI Application form along with DD of Rs. 5000/- favouring SEBI for Capital Market, Rs. 10,000/- for F&O trading only and Rs. 50,000/- for Trading cum Clearing/ Self clearing member on F&O segment.
- Every TM has to necessarily take Insurance cover with either New India Assurance Company Ltd. or Oriental Insurance Company Ltd. or National Insurance Company Ltd. The policy covers claims for:
  - Fake/Forged/Counterfeit/Stolen securities , Loss of Securities / Cash, Errors & Omission
- Employees Infidelity / fraud
- Authorised Person can receive remuneration - fees, charges, commission, salary, etc. for his services only from the stock broker and shall not charge any amount from the clients.
- The clients introduced by the authorised person should have a direct relationship with the trading member i.e. the member-constituent agreement, know your client forms, risk disclosure document, etc. are executed between the client and the trading member.
- A sub-broker may be an individual, a partnership firm or a corporate. In case of corporate or partnership firm, the directors or partners and in the case of an individual sub-broker applicant should comply with the following requirements:
  - They should not be less than 21 years of age;
  - They should not have been convicted of any offence involving fraud or dishonesty;
  - They should have either passed 12th standard equivalent examination from an institution recognized by the Government or 10th standard with 2 years of work experience in securities market.
  - They should not have been debarred by SEBI
- SEBI has made it mandatory for all trading members/brokers to use unique client codes for all clients

- Brokers shall collect and maintain in their back office the Permanent Account Number (PAN) allotted by Income Tax Department for all their clients.
- A contract note shall be issued to a client within 24 hours of the execution of the contract duly signed by the TM or his Authorized Signatory
- the TM shall preserve the duplicate copy of the contract notes issued for a minimum of 5 years.
- The contract note should contain name and address (registered office address as well as dealing office address) of the TM, the SEBI registration number of the TM, details of trade viz. order number, trade number, order time, trade time, security name, quantity, trade price, brokerage, settlement number

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- The maximum brokerage chargeable by TM – 2.5% of the contract price, exclusive of statutory levies
- This maximum brokerage is inclusive of sub-brokerage
- Sub-broker is an important intermediary between stock broker and client in Capital Market segment
- A sub-broker shall have to enter into a tripartite agreement with its clients and the stock broker
- Sub-broker is entitled to sub-brokerage not exceeding 1.5% of the transaction value.
- Investor complaints received against the trading members / companies in respect of claims/disputes for transactions executed on the Exchange are handled by the Investor Service Cell (ISC).
- Arbitration, which is a quasi judicial process, is an alternate dispute resolution mechanism prescribed under the Arbitration and Conciliation Act, 1996
- The reference for arbitration should be filed within six months from the date when the dispute arose
- The parties (applicant and respondent) have to select seven names in the descending order of preference from the eligible list of Arbitrators if arbitration reference is filed at Mumbai and five names in the descending order of preference from the eligible list of Arbitrators if arbitration reference is filed at Delhi, Chennai or Kolkata.
- Sole Arbitrator - If the claim amount is upto Rs.25 lakhs
- panel of Arbitrators comprising of three persons - if the claim amount is more than Rs.25 lakhs
- No Mandatory hearing by Arbitrators – if claim amount is Rs. 25,000/- or less
- CODE OF ADVERTISEMENT
- The Advertisement shall contain:
    - Name and/or his logo, code of National Stock Exchange membership.
    - Registration Number allotted by the Securities and Exchange Board of India
- SEBI has advised the Stock Exchanges to ensure that their brokers do not advertise their business, including in their internet sites, by subsidiaries, group companies etc., in prohibition of code of conduct specified in the Schedule II of the SEBI (Stock Brokers and Sub-brokers) Regulations, 1992
- Capital Issues (Control) Act, 1947 - origin during the war in 1943 - objective was to channel resources to support the war effort.- repealed in 1992
- Securities Contracts (Regulation) Act, 1956 - It gives Central Government regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges.
- SEBI Act, 1992 - The SEBI Act, 1992 was enacted to empower SEBI with statutory powers for (a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market

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- Depositories Act, 1996 - objective of ensuring free transferability of securities with speed, accuracy and security by (a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerialising the securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form
- Companies Act, 1956 - It deals with issue, allotment and transfer of securities and various aspects relating to company management
- Prevention of Money Laundering Act, 2002 - to prevent money-laundering and to provide for confiscation of property derived from or involved in money-laundering. The term money-laundering is defined as whoever acquires, owns, possess or transfers any proceeds of crime
- The self-regulatory organisaitons (SROs) like stock exchanges
- The responsibility for regulating the securities market is shared by Department of Economic Affairs (DEA), Department of Company Affairs (DCA), Reserve Ba nk of India (RBI) and Securities and Exchange Board of India (SEBI)
- Securities Contracts (Regulation)   Act, 1956
- 4A Corporatisation and demutualisation of stock exchanges
- 4B Procedure for Corporatisation and demutualization
- Application for recognition of stock exchanges
- Grant of recognition to stock exchanges
- 22F Appeal against the decision of SAT
- SEBI Act, 1992 – 15 - Establishment of SAT
- Five years:
  - o   Register of transactions (Sauda book). , Clients' ledger.
  - o   General ledger. , Journals., Cash book. , Bank pass-book.
  - o   Documents register showing full particulars of shares and securities received and delivered.
- (2) Every member of a recognised stock exchange shall maintain and preserve the following documents for a period of two years:
- Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counter-foils or duplicates of memos of confirmation issued to such other members.
- Counter-foils or duplicates of contract notes issued to clients.
- Written consent of clients in respect of contracts entered into as principals.
- In terms of regulation 2(g), 'small investor' – whose turnover less than 50000 per day
- SEBI may on sufficient cause being shown permit the stockbroker to pay such fees at any time before the expiry of six months from the date for which such fees become due
- 'Insider' means any person who, is or was connected with the company or is deemed to have been connected with the company, and who is reasonably expected to have access to unpublished price sensitive information in respect of securities of a company, or who has received or has had access to such unpublished price sensitive information.
- connected person - Employee, Director
- deemed to be a connected person – Relatives, Subsidiaries, Intermediaries, Investment Bankers

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- Price sensitive information
- periodical financial results of the company;
- (ii) intended declaration of dividends (both interim and final);
  - issue of securities or buy-back of securities;
  - any major expansion plans or execution of new projects;
  - amalgamation, mergers or takeovers;
  - disposal of the whole or substantial part of the undertaking;
  - any significant changes in policies, plans or operations of the company.

- Unpublished means information which is not published by the company or its agents. Speculative reports in print or electronic media shall not be considered as published information.
- FORM A- if buying more than 5%
- FORM B – if joining the company, then disclose number of shares
- FORM C – already holding more than 5%
- FORM D – Employee trading in the company - the change exceeds Rupees 5 lakh in value or 25000 shares or 1% of total shareholding or voting rights, whichever is lower.
- SEBI has advised stock exchanges to adopt the Code of Ethics for their directories and functionaries with effect from 31s t May 2001.
- "Beneficial owner" means a person whose name is recorded as such with a depository.
- "Registered owner" means a depository whose name is entered as such in the register of the issuer.
- INDIAN CONTRACT ACT, 1872
- A standard form contract is a pre-established record of legal terms regularly used by a business entity or firm in transactions with customers.
- The record specifies the legal terms governing the relationship between the firm and another party.
- An agent is a person employed to do any act for another or to represent another in dealings with third persons, as per section 182 of the Indian Contract Act, 1872
- A sub-agent is a person employed by, and acting under the control of, the original agent in the business of the agency

- Every Company shall within 60 days from the day on which the Annual General Meeting is held, prepare and file Annual Return with Registrar of Companies.
- Annual General Meeting (Section 166) - Every AGM shall be called for a time during business hours, on a day that is not a public holiday, and shall be held either
  - at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated.
  - The annual general meeting should be held on the earliest of the three relevant dates as prescribed under section 166 together with section 210:
    - 15 months from the previous annual general meeting;
    - last day of the calendar year.
    - 6 months from the close of the financial year,
- A general meeting of a company may be called by giving at least 21 days' notice in writing.

- Dividend (Section 205) – Out of this years profits, Out of Previous Years profits, Out of both, Out of grants and donation
- The amount shall be deposited in a bank account within 5 days from the date of declaration of dividend.
- The dividend shall be paid within 30 days from the date of its declaration. (section 205A)
- Investor Education and Protection Fund (Section 205C) - The Central Government notified the establishment of a Fund called the Investor Education and Protection Fund. The fund shall be credited with
  - amounts in the unpaid dividend accounts of companies,
    - application moneys refund
    - matured deposits with companies,
    - matured debentures with companies,
    - the interest accrued on the amounts referred to above (a to d),
    - grants and donations given to the Fund by the Government
    - the interest or other income received out of the investments made from the Fund
- unclaimed and unpaid for a period of 7 years from the date they became due for payment.
- The Income-tax (Eighth Amendment) Rules, 2002 made it mandatory for a person to quote permanent account numbers (PAN), issued by the income tax department, for securities transactions of over Rs. 1 lakh
- Long term – Shares - > 1 year Short term – shares <=1 year
- Long term – for other assets > 3years Short term – for other assets <= 3 years
- The punishment for money - imprisonment - Min term – 3 Years Max Term – 7 Years,
  - Max Claim – 5 lakh rupees.
- private placement - <=50 persons , public placement >50 persons
- Two major types of issuers who issue securities- The corporate entities & governments
- OTC markets are informal markets where trades are negotiated. Most of the trades in the government securities are in the OTC market.
- There are 19 exchanges (at the end of March 2008) in India following T +2 Settlement
- There are two types of options – a put option permits the owner to sell a security to the writer of options at a predetermined price while a call option permits the owner to purchase a security from the writer of the option at a predetermined price. These options can also be on individual stocks or basket of stocks like index.
- There are 19 demutualised stock exchanges
- The stamp duty on transfer of demat securities has been waived.
- There are two depositories in India, viz. NSDL and CDSL
- NSCCL established a Settlement Guarantee Fund (SGF). The SGF provides a cushion for any residual risk and operates like a self-insurance mechanism wherein members contribute to the Fund]
- Central Government has established a fund called Investor Education and Protection Fund (IEPF) in October 2001 for the promotion of awareness amongst investors and protection of the interest of investors.

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- RBI permitted two-way fungibility for ADRs/GDRs, which meant that the investors (foreign institutional or domestic) who hold ADRs/GDRs can cancel them with the depository and sell the underlying shares in the market
- To build debt market infrastructure - Negotiated Dealing System (NDS) and the Clearing Corporation of India Limited (CCIL).
- The statistical measures of a risk of an asset are: (a) Standard Deviation and (b) Co-efficient of variation.
- The market risk of a security reflects its sensitivity to market movements. Such sensitivity of a security is called beta (ß).
- Portfolio Theory developed by Harry Markowitz is essentially a normative approach as it prescribes what a rational investor should do.
- Capital Asset Pricing Model (CAPM) - developed by William Sharpe
- The reserves can be divided into revenue reserves and capital reserves. Revenue reserves represent
- accumulated retained earnings from the profits of business operations.
- Capital reserves are those gained which are not related to business operations. The premium on issue of shares and gain on revaluation of assets are examples of the capital reserves.
- Financial ratios can be broadly classified into three groups: (I) Liquidity ratios , (II) Leverage/Capital structure ratio, and (III) Profitability ratios.
- Current ratio, Acid-test Ratio, Turnover Ratios→ liquidity ratios
- Turnover ratios → -Inventory Turnover Ratio, -Debtors Turnover Ratio, -Average Collection Period, -Fixed Assets Turnover and -Total Assets Turnover
- Leverage/Capital structure ratios→ Debt-Equity ratio, Debt-Asset Ratio, Interest Coverage ratio
- Profitability ratios→ Gross Profit Ratio, Net Profit Ratio, Return on Total Assets, Return on Capital Employed, Return on Shareholders' Equity
- Discrete compounding → $FV = PV (1+r) ^ t$
- Continuous compounding → $FV = PV * e ^ {rt}$
- The bhav copy database contains a directory structure where the date is represented as yyyymmdd. This gives one file for each trading day. The lines in this file have 11 fields per line, delimited by the pipe "|" character. This provides details like Open Price, High Price, Low Price, Closing Price, Last Traded Price, Traded Quantity, Value of shares traded, Number of trades and Corporate Action flags for each security
- The Index directory contains databases connected with stock market indices. Both end-of-day and intra-day information is available. This also provides index movement from second to second
- CNX Defty is the same as Nifty, expressed in dollar terms.
- Trades database is about every trade that take place in the exchange. This information is kept in a distinct file. The main fields available are Trade ID number, Symbol, Series, Timestamp, Price and Quantity traded

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IMPORTANT NOTE :

1. Attend **ALL** Questions
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MUG UP the question & answers. It's not the right to way to prepare for any NISM exam. Good understanding of Concepts is essential.

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