

Department of Commerce (CA)

CLASS: I M. Com. (CA)

Semester: 2

Marketing of Financial Services (18MCC25E)

UNIT 2

Stock Exchanges - Objectives of NSE -  
Bombay Stock Exchange (BSE) - OTCE I

Reference Book

Financial Services

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## UNIT 2

### STOCK EXCHANGE

#### Meaning

Stock exchanges are places where stocks are traded. They allow investors to buy and sell shares of a company among each other in a regulated physical or electronic space.

#### Powers of the Government on the Stock Exchange

- ① It can withdraw recognition of a stock exchange
- ② It can order any enquiry into the affairs of the stock exchange
- ③ It can order any ~~enquiry~~ specific rule of the stock exchange
- ④ It can grant licence to persons outside the exchange to deal in securities
- ⑤ It can suspend the operations of the business for not exceeding 7 days
- ⑥ It can compel any public limited company to get their securities listed in any recognised stock exchange.

## Directorate of stock exchange

- ① To have a constant watch on stock exchanges
- ② To scrutinise the statement submitted by a stock exchange
- ③ To ascertain whether listing requirements for any company have been properly fulfilled by stock exchange
- ④ Granting licence to dealers in securities
- ⑤ To check forward trading and overtrading by members.

## Importance of stock market

- ① It provides a continuous market for securities
- ② Evaluation of securities
- ③ It mobilises savings
- ④ Healthy speculation
- ⑤ Mobility of funds
- ⑥ Protect investors
- ⑦ capital formation
- ⑧ liquidity
- ⑨ Economic bar
- ⑩ Control on companies
- ⑪ Attracts Foreign Capital
- ⑫ Monetary and fiscal policies

## Powers of Stock exchange

- ① Prescribing hours of trade
- ② Procedure for clearing house for settlement of transactions
- ③ Submission of report by clearing house
- ④ Rules pertaining to prohibition of blank transfer
- ⑤ Different classes of contract and payment to the clearing house
- ⑥ Fixing, altering or postponing settlement dates
- ⑦ Fixing of prices such as opening, closing high low
- ⑧ Prescribing margin requirements for contracts
- ⑨ Settlement of disputes
- ⑩ Fixing broker commission
- ⑪ Fixing fees, fines and penalties
- ⑫ Limiting the volume of trade by individual
- ⑬ Procedure for listing securities in stock exchanges.
- ⑭ Regulation of termination of contracts between members

## NATIONAL STOCK EXCHANGE

It was promoted in November 1992 as limited company by Insurance Companies Commercial banks and other financial institutions. It was incorporated with an equity capital of Rs. 25 crores.

### Salient features of NSE

- ① Wide coverage
- ② No fixed location
- ③ Confidential trading
- ④ Transparency
- ⑤ Effective matching
- ⑥ Borrowings made easy
- ⑦ Settlement

### Objectives of NSE

- ① To establish nationwide trading to all types of securities
- ② The national Stock Exchange of India ensures equal access to all investors across the country through an appropriate communication network
- ③ To provide a fair and transparent security market using an electronic trading platform
- ④ Enabling shorter cycles and book entry settlements.
- ⑤ To achieve international standards in respect of securities market.

## Benefits of listing in NSE

- ① A premier market place
- ② visibility
- ③ Largest exchange
- ④ unprecedented reach
- ⑤ Transaction Speed
- ⑥ Short settlement cycles
- ⑦ Broadcast facility for corporate announcements
- ⑧ Trade Statistics for listed companies
- ⑨ Investor Service Centres
- ⑩ Nominal listing fees

## Defects of listing in NSE

- ① It is only an indication of soundness
- ② It does not guarantee for the securities of company
- ③ Listing may encourage speculation in market
- ④ Due to speculation genuine investors may not enter into market
- ⑤ Directors and promoters may take advantage of listing and may go in for personal gain.

## over the Counter Exchange of India (OTCEI)

### Meaning

It can be defined as a stock exchange without a proper trading floor. OTCEI is connected through a computer network and the transactions are taking place through computer operations. It is recognised under the Securities Contract Act.

### Promotion of OTCEI

It was incorporated under Sec 25 of the Companies Act. The word limited need not be used since it is promoted for the interest of small and medium companies.

It was promoted by a group of companies consisting of UTI, ICICI, IDBI, SBI Capital Market, IFCI, LIC, GIC and Can Bank Financial Services (which is a subsidiary of Canara Bank).

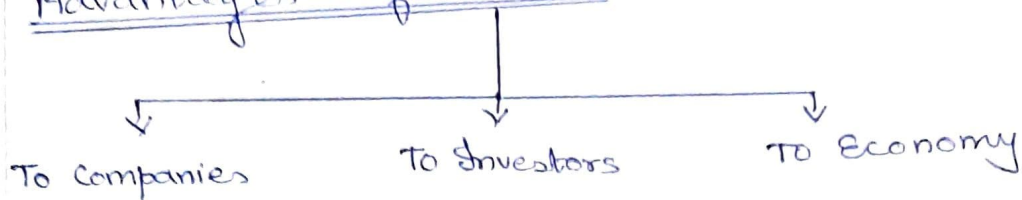
### Special features of OTCEI

1. Use of modern technology
2. Restrictions for other stock
3. Minimum issued capital requirements
4. Restrictions for large companies
5. Base capital requirement for members
6. All India net work
7. Satellite facility
8. Computerisation of transactions

## Constituents of OTCEI

- ① Companies
- ② Dealers
- ③ members
- ④ Investors
- ⑤ Custodian or settlers
- ⑥ transfer agents
- ⑦ Government
- ⑧ SEBI

## Advantages of OTCEI



### To Companies

- ① Provides method for raising funds
- ② Saves unnecessary issue expenses on raising funds.
- ③ Offer documents of companies seeking listing on OTCEI will not be verified by SEBI
- ④ Retains greater degree of management stability
- ⑤ Provides greater accessibility to large pool of captive investor base

### To Investors:

- ① Investment in Stock becomes easier
- ② Provides greater confidence and fidelity of trade
- ③ Enables transactions to be completed quickly
- ④ Provides definite liquidity to investors
- ⑤ Investors may get a greater security



## To economy

- ① It helps to spread the stock exchange operations geographically
- ② It encourages closely held companies to go public
- ③ Encourages venture capital activities to boost entrepreneurs

## Differences between stock exchanges (Regular) & OTCEI

S. No	Regular Stock Exchange	OTCEI
1.	Trading is done on floor	Trading is done through network or computer system
2.	For listing minimum paid up capital is Rs. 5 Crores	Minimum paid up capital is Rs. 2 crores.
3.	Membership is restricted to region or location	Membership is restricted throughout the country
4.	Need for a market maker depends upon the exchange	Market maker is must for securities of each company
5.	Settlement of Transactions on the basis of T+5	Settlement as per the rules of OTCEI
6.	The primary objective is to improve capital market	The primary objective is to help small companies to raise funds.

## BOMBAY STOCK EXCHANGE (BSE)

BSE Limited is the oldest stock exchange in the entire Asia. It is located in Dalal Street, Mumbai. It was established in 1875, 9<sup>th</sup> July. It is the world's 10<sup>th</sup> largest stock exchange with an overall market capitalisation of more than US \$ 2.2 trillion.

### Objectives of BSE

- ① Establishing a nationwide trading facility for all types of securities
- ② Ensuring equal access to all investors
- ③ Providing fair, efficient and transparent securities market using electronic trading system.
- ④ Enabling shorter settlement cycles and book entry settlements
- ⑤ Meeting international standards
- ⑥ Discouraging malpractices

## Interesting facts about BSE

- ① BSE has the largest numbers of Companies listed in the world with more than 5000
- ② Trading on BSE was done under a Banyan tree in 1955
- ③ It was established as the Native Share & Stock brokers' Association in 1875
- ④ The first stock to be traded was Dutch East India Company
- ⑤ It is called world's fastest Stock exchange
- ⑥ It's Asia's first stock exchange

## Differences between BSE and NSE

Criteria	BSE	NSE
BSE & NSE full form	Bombay Stock Exchange	National Stock Exchange
Listed Companies	5000 +	1700 +
Year of Establishment	1875	1992
Timings	9.15 - 15.50 (3.50 am)	9.15 - 15.50
Chairman	Mr. Girish Chandra Chaturvedi	Just. Vikramjit Sen
Indices	Sensex + 22 indices	Nifty 50 + 54 Indices