Study Notes for

NISM Series VII : SECURITIES OPERATIONS & RISK MANAGEMENT MODULE ( SORM )

Version – June 2017

Prepared By

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<table>
<thead>
<tr>
<th>Trial Mock Test Pack Starts from Rs 49 Onwards</th>
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<tr>
<td>HARDCOPY / SOFTCOPY of the tests will NOT be provided</td>
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**NISM SERIES VII : SECURITIES OPERATIONS & RISK MANAGEMENT**

**Exam Details**

<table>
<thead>
<tr>
<th>Total Questions</th>
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**Chapterwise Weightages**

<table>
<thead>
<tr>
<th>Unit 1: Introduction to Securities Markets</th>
<th>5%</th>
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<tr>
<td>Unit 2: Market Participants in the Securities Markets</td>
<td>10%</td>
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<tr>
<td>Unit 3: Introduction to Securities Broking Operations</td>
<td>20%</td>
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<td>Unit 4: Risk Management</td>
<td>15%</td>
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<td>Unit 5: Clearing Process</td>
<td>15%</td>
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<td>Unit 6: Settlement Process</td>
<td>15%</td>
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<tr>
<td>Unit 7: Investor Grievances and Arbitration</td>
<td>10%</td>
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<tr>
<td>Unit 8: Other Services Provided by Brokers</td>
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Chapter 1: Introduction to the Securities Market

Securities market help in transfer of resources from those with idle resources to others who have a productive need for them. A financial market consists of investors (buyers of securities), users of funds (sellers of securities), intermediaries and regulatory bodies. The
The securities market has two interdependent and inseparable segments, viz., the new issuers (the primary market) and stock (secondary) market.

**The primary market** is used by issuers for raising fresh capital from the investors by making initial public offers or rights issues or offers for sale of equity or debt; on the other hand the secondary market provides liquidity to these instruments, through trading and settlement on the stock exchanges.

The resources in the primary market can be raised either through the private placement route or through the public issue route by way of Initial Public Offer (IPO) or Follow on Public Offer (FPO). It is a public issue, if anybody and everybody can subscribe for it, whereas, if the issue is made to select group of people then it is termed as private placement.

**The secondary market** on the other hand operates through two mediums, namely, the Over-The-Counter (OTC) market and the Exchange Traded Market. OTC markets are the informal type of markets where trades are negotiated. In this type of market, the securities are traded and settled bilaterally over the counter. Indian markets have recognized OTC exchanges like the OTCEI, however they do not give much volumes. The other option of trading is through the stock exchange route, where trading and settlement is done through the stock exchanges and the buyers and sellers don’t know each other.

**Money market** is a market for financial assets that are close substitutes for money. It is a market for short term funds and instruments having a maturity period of one or less than one year.

Money market provides short term debt financing and investment. The money market deals primarily in short-term debt securities and investments, such as banker’s acceptances, negotiable certificates of deposit (CDs), repos and Treasury Bills (T-bills), call/notice money market, commercial papers. Government securities are also a part of the money market.

**Equity Markets and its Products**

**Equity Shares** represents the form of fractional ownership in a business venture.

**Debentures** are instruments for raising long term debt. Debentures in India are typically secured by tangible assets. There are fully convertible, non-convertible and partly convertible debentures.
**Warrants** entitle an investor to buy equity shares after a specified time period at a given price. Mutual Funds are investment vehicles where people with similar investment objective come together to pool their money and then invest accordingly.

**Derivative Market and its Products**

Derivative is a product whose value is derived from the value of one or more basic variables, called bases (underlying asset, index, or reference rate), in a contractual manner. The underlying asset can be equity, forex, commodity or any other asset.

At any point in time there are only three (3) contract months available for trading, with 1 month, 2 months and 3 months to expiry. These contracts expire on the last Thursday of the expiry month and have maximum of 3 month expiration cycles. Quarterly contracts however have been introduced only for index futures for 5 years. In case the last Thursday is a trading holiday, the contracts expire on the previous trading day. A new contract is introduced on the next trading day following the expiry of the near month contract. All these derivative trades are settled in cash.

**Index/Stock Future** is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price.

**Index / Stock Options** are of two types - calls and puts. Calls give the buyer the right, but not the obligation, to buy a given quantity of the underlying asset, at a given price on or before a given future date. Puts give the buyer the right, but not the obligation, to sell a given quantity of the underlying asset at a given price on or before a given date.

**Currency Derivatives** trading was introduced in the Indian financial markets with the launch of currency futures trading in the USD-INR pair at the National Stock Exchange of India Limited on August 29, 2008. As at end October 2010, currency futures are traded on the USD-INR, GBP-INR, EUR-INR and JPY-INR at the NSE, USE & MCX.

**Commodity Derivatives** markets are markets where raw or primary products are exchanged.

**Interest Rate Futures** trading is based on notional 10 year coupon bearing GOI security.

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Foreign Stock Indices Derivatives – SEBI in January 2011 has permitted the stock exchanges to introduce derivative contracts on the foreign stock indices.

Debt Market and its Products

Debt market consists of Bond markets, which provide financing through the issuance of Bonds, and enable the subsequent trading thereof. Instruments like bonds/debentures are traded in this market. Government securities are of two types- treasury bills and government dated securities.

Government Securities Market & Corporate Bond Market

The underlying bond in case of interest rate futures contracts is a notional 10 year, 7% coupon- bearing GOI bond. The lot size, which is the minimum amount that can be traded on the Exchange is 2000 bonds at the rate of Rs. 100 per bond. New contracts can be introduced by the Exchange on any day of a calendar month. At the time of introduction, the duration of any contract can vary from 1 month to 12 months. The contract cycle consists of 4 fixed quarterly contracts for entire year expiring in March, June, September & December.

In case of 91 days T-Bill the underlying is 91 day GOI T-Bill. The lot size is 2 Lakh. The contract cycle consist of 3 monthly serial contracts followed by 3 quarterly contracts on March, June, September and December.

Chapter 2: Market Participants in the Securities Market

The four important participants of securities markets are the investors, the issuers, the intermediaries and regulators.

Investors in securities market can be broadly classified into Retail Investors and Institutional Investors.

Retail Investors are individual investors who buy and sell securities for their personal account, and not for another company or organization. This category also includes High Networth Individuals (HNI) which comprise of people who invest above rupees two lakh in a single transaction.

Institutional Investors comprise domestic Financial Institutions, Banks, Insurance
Companies, Mutual Funds and FIIs (A Foreign Institutional investor is an entity established or incorporated outside India that proposes to make investments in India)

Indian companies have raised resources from international capital markets through Global Depository Receipts (GDRs)/American Depository Receipts (ADRs), Foreign Currency Convertible bonds (FCCBs) and External Commercial Borrowings (ECBs).

**GDRs** are essentially equity instruments issued abroad by authorized overseas corporate bodies against the shares/bonds of Indian companies held with nominated domestic custodian banks.

**ADRs** are negotiable instruments, denominated in dollars and issued by the US Depository Bank.

**FCCBs** are bonds issued by Indian companies and subscribed to by a non-resident in foreign currency. They carry a fixed interest or coupon rate and are convertible into a certain number of ordinary shares at a preferred price.

**ECBs** are commercial loans (in the form of bank loans, buyers, credit, suppliers credit, securitised instruments, floating rate notes and fixed rate bonds) availed from any internationally recognised source such as bank, export credit agencies, suppliers of equipment, foreign collaborators, foreign equity holders and international capital market. Indian companies have preferred this route to raise funds as the cost of borrowing is low in the international markets.

Latest development on reforms has allowed foreign companies to raise capital from Indian markets. They can issue IDR (Indian Depository Receipts). This will be in rupee term and in similar nature of IDR. Standard Chartered Bank is the first entity to raise capital through issuing IDR.

**The Securities Contract (Regulation) Act, 1956 (SCRA)** defines ‘Stock Exchange’ as a body of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying, selling or dealing in securities.
A Clearing Corporation / Agency is a part of an exchange or it can also be a separate entity, which performs three main functions, namely, clearing and settling all transactions executed in the stock market, i.e. completes the process of receiving and delivering shares/funds to the buyers and sellers in the market, providing financial guarantee for all transactions executed on the exchange and providing risk management functions. This process is called novation.

The clearing corporation acts as a central counterparty to all the trades.
Trading member means a member of a Stock Exchange and Sub-broker means any person not being a member of Stock Exchange who acts on behalf of a trading member as an agent or otherwise for assisting the investors in buying, selling or dealing in securities through such trading members. Trading members can be individuals (sole proprietor), Partnership Firms, Corporates and Banks.
<table>
<thead>
<tr>
<th>Role</th>
<th>Features</th>
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<tbody>
<tr>
<td>Trading cum Clearing Member</td>
<td>• Can do both clearing &amp; Trading</td>
</tr>
<tr>
<td></td>
<td>• Can clear for other trading members also</td>
</tr>
<tr>
<td>Professional Clearing Member</td>
<td>• Can only do Clearing</td>
</tr>
<tr>
<td></td>
<td>• No Trading</td>
</tr>
<tr>
<td>Self Clearing Member</td>
<td>• Can Clear Own trades only</td>
</tr>
<tr>
<td></td>
<td>• Can not clear others trades</td>
</tr>
<tr>
<td>Custodian</td>
<td>• Settles accounts of a client of Trading member</td>
</tr>
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</table>

A Custodian is an entity that helps register and safeguard the securities of its clients. Besides safeguarding securities, a custodian also keeps track of corporate actions on behalf of its clients. It also helps in:

- Maintaining a client’s securities account
- Collecting the benefits or rights accruing to the client in respect of securities
- Keeping the client informed of the actions taken or to be taken by the issue of securities, having a bearing on the benefits or rights accruing to the client.
The capital adequacy requirements by a trading member comprises of the following two components viz., Base Minimum Capital and the Additional or Optional capital related to the volume of business. An absolute minimum of Rs. 5 lakh as a deposit is required to be kept with the Exchange, which is irrespective of the volume of the business of the trading member. 25% of the base minimum capital is to be maintained in cash with the exchange; another 25% in the form of long term (3 years or more) fixed deposit with the bank with which the stock exchange has given complete lien; the remaining shall be in form of securities with 30% margin (the securities should be in the name of members). The additional capital required at any point of time shall be such that the base minimum capital is not less than 8% of the gross outstanding business in the Exchange.

**Depository and Depository Participants (DPs)**

There are two Depositories in India, Central Depository Services Limited (CDSL) and National Securities Depository Limited (NSDL), which were established under the Depositories Act, for the purpose of facilitating dematerialization of securities and assisting in trading of securities in the demat form. The Depository provides its services to clients through its agents called depository participants (DPs).

**Regulators**

- Securities and Exchange Board of India (SEBI) regulates the Securities Industry.
- Reserve Bank of India (RBI) is the authority to regulate and monitor the Banking sector.
- Insurance Regulatory and Development Authority (IRDA) regulates the Insurance sector.
- Pension Fund Regulatory & Development Authority (PFRDA) regulate the pension fund sector.
- Ministry of Finance (MOF)
- Ministry of Corporate Affairs (MCA)

Most of the powers under the SCRA are exercisable by DEA while a few others by SEBI. The powers of the DEA under the SCRA are also concurrently exercised by SEBI. The powers in respect of the contracts for sale and purchase of securities, gold related securities, money market securities and securities derived from these securities and ready forward contracts in debt securities are exercised concurrently by RBI. The SEBI Act and the Depositories Act are mostly administered by SEBI. The rules under the securities laws are framed by Government and regulations by SEBI. All these are administered by SEBI. The powers under the Companies Act relating to issue and transfer of securities and non-payment of dividend are administered by SEBI in case of listed public companies and public companies proposing to get their securities listed.
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.

Securities Contracts (Regulation) Act, 1956
It provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities. 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.

Depositories Act, 1996
The Depositories Act passed by Parliament received the President's assent on August 10, 1996. The Depositories Act facilitated the establishment of the two depositories in India viz., NSDL and CDSL. Only a company registered under the Companies Act, 1956 and sponsored by the specified category of institutions can set up a depository in India. Before commencing operations, depositories should obtain a certificate of registration and a certificate of commencement of business from SEBI. A depository established under the Depositories Act can provide any service connected with recording of allotment of securities or transfer of ownership of securities in the record of a depository. A depository however, cannot directly open accounts and provide services to clients. Any person willing to avail of the services of the depository can do so by entering into an agreement with the depository through any of its Depository Participants.

Companies Act, 2013
The Companies Act of 2013 deals with issue, allotment and transfer of securities and various aspects relating to company management. It provides for standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and management perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, providing annual reports and other information.

Prevention of Money Laundering Act, 2002
The term money-laundering is defined as “whoever acquires, owns, possess or transfers any
proceeds of crime; or knowingly enters into any transaction which is related to proceeds of crime either directly or indirectly or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India

The offences are classified under Part A, Part B and Part C of the Schedule of the Act. Under Part A, offences include counterfeiting currency notes under the Indian Penal Code (IPC) to punishment for unlawful activities under the Unlawful Activities (Prevention) Act, 1967. Under Part B, offences are considered as money laundering if the total value of such offences is Rs 30 lakh or more. Part C includes all offences under Part A and Part B (without the threshold) that has cross-border implications

Section 12 of PMLA stipulates that every banking company, financial institution and inter-mediary shall maintain a record of all the following transactions. All cash transactions of the value of more than Rs. 10 lakh or its equivalent in foreign currency. All series of cash transactions integrally connected to each other which have been valued below Rs. 10 lakh or its equivalent in foreign currency where such series of transactions take place within one calendar month and the aggregate value of such transaction exceeds Rs. 10 lakh.

All suspicious transactions whether or not made in cash.

The offence of money laundering is punishable with rigorous imprisonment for a term which shall not be less than 3 years but which may extend to 7 years and shall also be liable to fine which may extend to Rs. 5 lakh.

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
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<tbody>
<tr>
<td>Section 6</td>
<td>Central Government can appoint Adjudicating Authorities</td>
</tr>
<tr>
<td>Section 9</td>
<td>If the Adjudicating Authority (AA) passes order of confiscation of any property, then all the rights and title in such property shall be with the Central Government</td>
</tr>
<tr>
<td>Section 11</td>
<td>Adjudicating Authority shall have the same powers as are vested in a civil court</td>
</tr>
<tr>
<td>Section 12</td>
<td>every banking company, financial institution and inter-mediary shall maintain a record of all the big &amp; suspicious transactions</td>
</tr>
<tr>
<td>Section 16, 17</td>
<td>powers of the authorities to carry out surveys, searches and seizures</td>
</tr>
<tr>
<td>Section 24</td>
<td>when a person is accused of having engaged in money-laundering, the burden of proving that the proceeds of the alleged crime are untainted shall be on the accused</td>
</tr>
<tr>
<td>Section 25 &amp; 26</td>
<td>establishment of an Appellate Tribunal and the procedures for filing an appeal</td>
</tr>
</tbody>
</table>
### Section 42
Deals with appeals against any decision or order of the Appellate Tribunal.

### Section 43
Empowers the Central Government to designate Courts of Session as Special Courts for the trial of the offence of money-laundering.

General guidelines for dealing with conflict of interest

On the lines of Principle 8 of the International Organisation of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulations, SEBI has put in place comprehensive guidelines for elimination of conflict of interest of intermediaries and associated persons.

The core principles include:
- Laying down procedure to manage actual or potential conflict of interest
- Not deal in securities while in possession of unpublished information and also not communicate such unpublished information
- Not contribute to the manipulation of demand and supply of securities or influence the price of the securities in the market
- Not have incentive structure which may encourage sale of products not suitable for the risk profile of the clients
- Not share client information received for personal interest

**SEBI (Prohibition of Insider Trading) Regulations, 2015**

Insider Trading is considered as an offence and is hence prohibited as per the SEBI (Prohibition of Insider Trading) Regulations, 2015. The act prohibits an insider from dealing (on his behalf or on behalf of any other person) in securities of a company listed on any stock exchange, when in possession of any unpublished price sensitive information. Further, it also prohibits any insider from communicating, counseling or procuring directly or indirectly any unpublished price sensitive information to any outside person.

Price sensitive information means any information which is related directly or indirectly to a company and which if published is likely to materially affect the price of securities of a company. It includes information like periodical financial results of the company, 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, merger or takeovers, disposal of the whole or substantial part of the undertaking and significant changes in policies, plans or operations of the company.
**Chapter 3: Introduction to Securities Broking Operations**

A trade is the conversion of an order placed on the exchange which results into pay-in and pay-out of funds and securities. Trade ends with the settlement of the order placed. The following steps are involved in a trade’s life cycle:

1. Placing of Order
2. Risk management and routing of order
3. Order matching and its conversion into trade
4. Affirmation and Confirmation (only for institutional deals)
5. Clearing and settlement

In the year 2008, SEBI permitted the facility of Direct Market Access for institutional clients. DMA is a facility which allows brokers to offer its institutional clients direct access to the exchange trading system through the broker’s infrastructure. This does not involve any manual intervention of the broker.

All the institutional trades executed on the stock exchanges would be mandatorily processed through the Straight through Processing System (STP) w. e. f. July 01, 2004. STP is a mechanism that automates the end-to-end processing of transactions of the financial instruments.

It involves use of a single system to process or control all elements of the work-flow of a financial transaction, including what is commonly known as the Front, Middle, and Back office, and General Ledger. STP can be defined as electronically capturing and processing transactions in one pass, from the point of first ‘deal’ to final settlement.

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Contract Notes
A contract note is a confirmation of trade done on a particular day for and on behalf of a client. A contract note is issued in the format and manner prescribed by the Exchanges. It establishes a legally enforceable relationship between the stock broker and the client in respect of settlement of trades executed on the exchange as stated in the contract note. Every trade executed by a stock broker on behalf of his client should be supported by a contract note. Contract note should be issued within 24 hours and in the format prescribed by exchanges/SEBI.

These should be issued in physical form or electronic form depending on the mode chosen by client. The contract notes should be acknowledged by the clients along with date in case of personal delivery.

Stock brokers are required to maintain proof of dispatch of contract notes in the case of delivery of physical contract notes through post/courier. In the case of Electronic Contract Note (ECN), log of sending ECN to client’s email id should be maintained.

The contract notes should be acknowledged by the clients along with date in case of personal delivery. Stock brokers are required to maintain proof of dispatch of contract notes in the case of delivery of physical contract notes through post/courier. In the case of Electronic Contract Note (ECN), log of sending ECN to client’s email id should be maintained.

The contract notes should be serially numbered starting from the beginning of the financial year. They should be issued with the client’s name, PAN and client’s code written on them. It should also contain the exact order number, order entry time, trade number, trade time, quantity of securities transacted, rates/price, etc.

Contract notes with weighted average rates of trade should contain an annexure with the details thereon. Electronic contract notes should be issued only if the client has pre-authorized the stock broker and provided his/her email ID. The contract note should be digitally signed, encrypted, non-tamperable, and in accordance with the Information Technology Act, 2000.

Stock brokers are required to maintain duplicate copy or counter foil of the contract notes. The contract notes should be signed by stock broker or by an authorised signatory of the stock broker. A contract note without consideration is null and void under Indian Contracts Act and hence all contracts should mention the consideration separately.
Contract should also mention all statutory charges like Securities Transaction Tax (STT), Service Tax (ST), Education Cess, SEBI and Exchange charges, etc. Contract notes should be affixed with the brokers note stamps, as a percentage of the total value of the contract, as per the respective state government stamp acts / rules.

Contract note also should clearly specify the complete address, phone number, e-mail IDs, fax numbers, etc. of the broker alongwith the PAN.

**Affirmation and Confirmation (For Institutional Clients)**

FIIs trading in the Indian securities market use the services of a custodian to assist them in the clearing and settlement of executed trades. Custodians are clearing members of the Exchange. On behalf of their clients, they settle the trades that have been executed through other brokers. A broker assigns a particular trade to a custodian for settlement. Upon Confirmation by the custodian whether he would settle the trade, the broker communicates the same to the clearing corporations who then assigns the obligation to the custodian. The overall risk that the custodian is bearing by accepting the trade is constantly measured against the collateral that the institution (who trades) submits to the custodian for providing this service.

In 2004, SEBI had mandated that all the institutional trades executed on the Stock Exchanges should be processed through the Straight through Processing (STP) system. STP is a mechanism that automates the end-to-end processing of transactions of the financial instruments.

**Front Office Operations**
The front office is responsible for trade capture and execution. This is where the trade originates and the client relationship is maintained. The front office makes/takes orders and executes them.

Traders and sales staff are considered front office staff.

**Account Opening - Documents Required**
1) Client Account Opening Form which is in two parts.
   a) Know Your Client (KYC) - form capturing the basic information about the client and instruction/check list to fill up the form and
b) Additional Document capturing additional information about the client related to trading account.

2) Document stating the Rights & Obligations of stock broker (Member-Client Agreement), sub-broker and client for trading on Exchanges (including additional rights & obligations in case of internet/wireless technology based trading).

3) Uniform Risk Disclosure Documents (RDD) for all segments/Exchanges.

4) Guidance Note detailing Do’s and Don’ts for trading on Exchanges.

5) Document describing the Policies and Procedures of the stock broker

6) A tariff sheet specifying various charges, including brokerage, payable by the client to avoid any disputes at a later date.

SEBI has prescribed a new simplified Account Opening Form (‘AOF’) or ‘SARAL AOF’ for new individual investors participating in the cash segment of the Exchange but not availing facilities such as internet trading, margin trading, derivative trading and use of power of attorney.

KYC is an acronym for “Know your Client”, a term commonly used for Customer Identification Process. SEBI has prescribed certain requirements relating to KYC norms for Financial Institutions and Financial Intermediaries including Mutual Funds and Stock Brokers to ‘know’ their clients. This entails verification of identity and address, financial status, occupation and such other personal information as may be prescribed by guidelines, rules and regulation. UID – Unique Identification Number (Aadhaar) can be a proof of Identity. The e-KYC service launched by UIDAI is accepted as a valid process for KYC verification, provided the client has authorized the intermediary to access his data through UIDAI system.

Normally the client prefers to open both trading and demat account with the same broker. In that case the client is willing to give Power of Attorney (POA) in favour of broker for smooth functioning it has to. The retail clients normally do not wish to exchange cheques to and fro for every contract. They prefer to settle the account with the broker at periodic interval. To facilitate this SEBI has approved brokers to collect running authority letter from the client. In spite of this letter the broker should settle the accounts at least once a quarter or earlier.
Unique Client Code
Once the formalities of KYC and other details thereon are complete, each client is assigned a unique client code (UCC) by the broker. This acts as an identity for the client with respect to the broker.

KRA – Know Your Client Registration Agency
The new KRA system was developed for centralization of KYC records in the securities markets. It is applicable from January 1, 2012. The members may upload the KYC data on the KRA system and send the relevant KYC documents within 10 working days.

Order Management
Order management consists of entering orders, order modification, order cancellation and order matching. The main components of an order are:

- Price
- Time
- Quantity
- Security (What to buy and what to sell))
- Action (Buy / Sell)
- Client identity (UCC)

Types of order
Price, time and quantity are three major components of an order
A market order is where a trader purchases or sells their security at the best market price available. In the market order there is no need to specify the price at which a trader wants to purchase or sell.

Market order without Protection – Best available price in the market at that time
Market order with Protection – Best Available price within a specified range
Limit Order - Buying at a Lower Price/Selling at a Higher Price Limit orders involve setting the entry or exit price and then aiming to buy at or below the market price or sell at or above it.
Unlike market order, the trader here needs to specify at least one price.
There is one more variation in Limit order called IOC (immediate or cancel)

Types of Risk
Operational risk is the risk of monetary loss resulting from inadequate or failed internal processes, people and systems or external events. For the stock broker, operations risk is essentially counter-party risks such as non-payment, non-delivery of scrip, denial of matched
order by client/s, trading errors, and sudden closure of banks where funds are deposited. Market risk refers to the possibility of incurring large losses from adverse changes in financial asset prices such as stock prices or interest rates. This risk entails the erosion of value of marketable securities and assets, due to factors beyond an enterprise’s control. Market risk is usually affected by economic developments, political destabilization, rising fiscal gap, and national debt, terrorism, energy price shocks, increase in interest rates, all resulting in a drop in equity prices.

Regulatory risk occurs when the rules governing the securities industry are changed, giving rise to potential loss. For example, the ‘customer first’ policy makes it difficult to trade house accounts and therefore a broker may not be able to liquidate a position immediately, leading to potential or actual loss. The back office exists for three reasons: confirmation, payments, settlements and accounting.

**Trade Enrichment**
Trade Enrichment is performed automatically after each trade execution. In this step, all necessary details for the clearing of futures and option contracts, or the settlement of cash securities are added. Trade enrichment is defined as process of including additional information in one instruction in a trade which is already being executed. Instructions can be enriched either before or after matching. Instructions could include adding specific and relevant data of counter-party, settlement instruction, etc.

**Trade Allocation**
For example, hedge fund makes a trade, and manages several portfolios. Often, they will choose to allocate their trade to various portfolios for a number of reasons.

**Clearing and Settlement Process**
Clearing and Settlement is a post trading activity that constitutes the core part of equity trade life cycles. Clearing house is an entity through which settlement of securities takes place. The details of all transactions performed by the brokers are made available to the Clearing House by the Stock Exchange. Pay-In is a process whereby a stock broker and Custodian (in case of Institutional deals) bring in money and/or securities to the Clearing House. This forms the first phase of the settlement activity. Pay-Out is a process where Clearing House pays money or delivers securities to the brokers and Custodians. This is the second phase of the settlement activity. In India, the Pay-in of securities and funds happens on T+ 2 by 11 AM, and Pay-out of securities and funds happen on T+2 by 3 PM.
Accounting

The stock brokers are required to maintain books of account as prescribed by the Securities Contracts (Regulation) Rules, SEBI (Stock brokers and Sub-brokers) Regulations and requirements of Exchanges. These are to be maintained for a minimum period of 5 years. For a minimum of 7 years, the stock broker has to maintain a mapping of the client IDs used at the time of order entry in the system with the client’s unique client ID along with all the particulars given in the KYC form.

The **register of transactions** (**sauda book**) is to include each transaction effected. This would show the name of the security, its value, rates gross and net of brokerage and names of the clients.

- The **client’s ledger**, as the name suggests, has the details of all clients, and their transactions through the broker.
- The **general ledger** accounts for all general transactions including expenses, overheads salaries, petty cash, etc.
- The **journal** is the accounting book of the general ledger. Any adjustment entries for e.g., interest receivable, etc., is accounted here.
- The **cash and bank book** contain records of all cash and cheque transactions and are normally balanced daily.
- The **securities register** is required to be maintained client-wise and scrip-wise. The details provided would include date of receipt/delivery of the security, quantity received/delivered, party from whom delivered/to whom delivered, the purpose of receipt/delivery and the balance quantity.
- A **contract note** is a confirmation of trade done on a particular day for and on behalf of a client. A contract note issued in the format and manner prescribed by the exchanges establishes a legally enforceable relationship between the stock broker and the client in respect of settlement of trades executed on the exchange as stated in the contract note. The copies of the original contract notes issued to the client are to be maintained by the broker.
- The **margin deposit book** contains details of margins paid and collected and payable and collectable.
Securities Transaction Tax

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Taxable securities transaction</th>
<th>Rates w.e.f June 1, 2016</th>
<th>Payable by</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Purchase of an equity share</td>
<td>0.1 Percent</td>
<td>Purchaser</td>
</tr>
<tr>
<td>2</td>
<td>Sale of an equity share</td>
<td>0.1 Percent</td>
<td>Seller</td>
</tr>
<tr>
<td>3</td>
<td>Sale of a unit of an equity oriented fund</td>
<td>0.001 Percent</td>
<td>Seller</td>
</tr>
<tr>
<td>4</td>
<td>Sale of an equity share where there is no delivery</td>
<td>0.025 percent</td>
<td>Seller</td>
</tr>
<tr>
<td>5</td>
<td>Sale of an option in securities</td>
<td>0.05 per cent</td>
<td>Seller</td>
</tr>
<tr>
<td>6</td>
<td>Sale of an option in securities, where option is exercised</td>
<td>0.125 per cent</td>
<td>Purchaser</td>
</tr>
<tr>
<td>7</td>
<td>Sale of a futures in securities</td>
<td>0.01 percent</td>
<td>Seller</td>
</tr>
</tbody>
</table>

Bulk Deal

Bulk Deal is defined as “all transactions in a scrip (on an Exchange) where the total quantity of shares bought/sold is more than 0.5% of the number of equity shares of the company listed on the Exchange”. However, the quantitative limit of 0.5% could be reached through one or more transactions executed during the day in the normal market segment.

Block Deals

A trade, with a minimum quantity of 5,00,000 shares or minimum value of Rs. 5 crore executed through a single transaction on this separate window of the stock Exchange constitutes a “block deal” as distinguished from “bulk” deal.

Chapter 4: Risk Management

The main concepts of a Risk Management System are listed below:

• There should be a clear balance available in the client’s ledger account in the broker’s books.
• The clients are required to provide margins upfront before putting in trade requests with the brokers.
• The aggregate exposure of the client’s obligations should commensurate with the capital and networth of the broker.
• Ideally, the client must square-up all the extra positions that have been created on an intra-day basis before 3.00 p.m.
• The clients must settle the debits, if any, arising out of MTM settlements.
• In futures and options segment, the positions are allowed based on the margin available to satisfy initial margin requirements of the Exchange
Base minimum capital/ Additional Base Capital

Base Minimum capital is the deposit a stock broker has to make with the stock exchange to get trading rights on the exchange. Even then, the broker may take positions (the sum of his and his clients') only up to a prespecified multiple of this deposit amount.

<table>
<thead>
<tr>
<th>Categories</th>
<th>BMC Deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only Proprietary trading without Algorithmic trading (Algo)</td>
<td>Rs.10 Lacs</td>
</tr>
<tr>
<td>Trading only on behalf of Client (without proprietary trading) and without Algo</td>
<td>Rs.15 lacs</td>
</tr>
<tr>
<td>Proprietary trading and trading on behalf of Client without Algo</td>
<td>Rs.25 lacs</td>
</tr>
<tr>
<td>All Trading Members/Brokers with Algo</td>
<td>Rs.50 lacs</td>
</tr>
</tbody>
</table>

For stock brokers/trading members who do not have nationwide trading terminal, BMC requirement is 40% of the amount stipulated above. No exposure will be granted on the BMC deposit. The additional or optional capital required of a member shall at any point be such that together with the base minimum capital it is not less than 8% of the gross outstanding business in the Exchange. The gross outstanding business would mean aggregate of up-to-date sales and purchases by a member broker in all securities put together at any point of time during the current settlement.

<table>
<thead>
<tr>
<th>segments</th>
<th>NSE Capital &amp; derivatives Segment - Corporate</th>
<th>NSE Capital &amp; Derivatives Segment - Individual</th>
<th>MCX - Capital Market &amp; Derivatives segment</th>
<th>MCX - Derivatives segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFSD</td>
<td>125 Lakhs</td>
<td>25 Lakhs</td>
<td>20 Lakhs + 20 Lakhs</td>
<td>10 Lakhs</td>
</tr>
<tr>
<td>CSD</td>
<td>25 Lakhs</td>
<td>25 Lakhs</td>
<td>50 Lakhs</td>
<td>50 Lakhs</td>
</tr>
</tbody>
</table>

Internal client account control

The stock broker shall segregate client funds from its own funds. Stock broker shall keep the client’s money in a separate bank account designated as client account and their own money in a separate bank account.

Pre trade risk control - Order limit

Orders entered into for stocks, ETFs, index futures and stock futures will have a value limit of

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Rs.10 crores per order. Order exceeding this limit will be rejected by the Stock Exchanges. Similarly, brokers are also required to set internal limits for cumulative outstanding orders emanating from their terminals and monitor the same on an ongoing basis

**Margin Requirements – On what Basis it is Calculated**

The Exchange levies daily margin, Mark-to-Market (MTM) margin, Extreme loss margin in the equities segment and initial margin and MTM margin in case of futures and options segment. Initial Margin is calculated on a portfolio basis and not on individual scrip basis. The margin calculation is done using SPAN (Standard Portfolio Analysis of Risk) a product developed by Chicago Mercantile Exchange. The margin is levied at trade level on real-time basis. The rates are computed at 5 intervals one at the beginning of the day 3 during market hours and one at the end of the day. The objective of SPAN is to identify overall risk in a portfolio of futures and options contracts for each client.

Initial margin requirements are based on 99% value at risk over a one-day time horizon. Exposure Margin is based on a single percentage on the value of the scrip determined at the beginning of every month for the following month by the exchange. This is charged over and above the initial margin and is popularly referred as second line of defense.

Standard Portfolio Analysis of Risk (SPAN) Developed by the Chicago Mercantile Exchange in 1988, the Standard Portfolio Analysis of Risk (SPAN) performance bond margining system for calculating margin requirements has become the futures industry standard. The index VaR, for the purpose, is the higher of the daily Index VaR based on S&P CNX NIFTY or BSE SENSEX, subject to a minimum of 5%.

**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 six months. The Extreme Loss Margin is collected/ adjusted against the total liquid assets of the member on a real-time basis. The Extreme Loss Margin is collected on the gross open position of the stock broker. The gross open position for this purpose means the gross of all net positions across all the clients of a member including its proprietary position.

Section 15A of the SEBI Act, 1992, prescribes penalty for failure to furnish information, return, etc. It reads as under: If any person, who is required under this Act or any rules or regulations made there under,

(a) to furnish any document, return or report to the Board, fails to furnish the same, he shall be liable to a penalty of one lakh rupees for each such day during which such failure continues or one crore rupees, whichever is less

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Rule 15 of the said Rules also states that every member of a recognised stock exchange should maintain and preserve the following documents for a period of two years:

(a) **Members' 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.

(b) **Counter-foils or duplicates of contract notes** issued to clients. (c) Written consent of clients in respect of contracts entered into as principals

Submission of various periodic reports

These include:
- System Audit Report - By 31 July yearly
- Annual Returns - Within 6 months from the end of accounting year
- Client wise Funding Report - Within seven days form the end of the month
- Internal Audit Report Half yearly basis - Within 3 months from half year ended March and September
- Net worth certificate Half yearly basis - Within 3 months from half year ending
- Networth certificate in Margin Trading for CM Segment - Within one month from the end of half year
- Proof of Insurance cover - By July 31 yearly
- Client details for Margin Trading facility - Before 9:00pm on the trade day

**Chapter 5: Clearing Process**

The clearing process follows the trading process.
1. At the end of the day’s trade, all details about the trades are sent by the stock exchanges to the clearing house/corporation.
2. The clearing corporation/house then groups the trades under the various clearing members and informs them about the transactions of their clients.
3. The clearing members then confirm back regarding the trades by 11.00 a.m. the next day.
4. The clearing house/corporation then performs multilateral netting and determines the obligations of all clearing members. These details are then sent to the clearing members by 1.30 p.m.

The National Securities Clearing Corporation Limited (NSCCL) takes care of the clearing and settlement on NSE. It is a fully owned subsidiary of NSE and is called the clearing corporation.
The Bank of India Share Holding Limited (BOISL) takes care of the clearing and settlement on BSE. It is a subsidiary of BSE and Bank of India and is called the clearing house. MCX-SXCCL is the clearing corporation for all the trades executed on the Metropolitan Stock Exchange of India Limited. Once this is done, the clearing agency then determines the net obligations of the clearing members through multilateral netting.

It is mandatory for clearing members to open demat accounts with both the depositories, i.e., CDSL and NSDL. This account is called a clearing member account. Separate accounts are to be opened for all the exchanges.

Movement of Securities

In the depository system both transferor and transferee have to give instructions to its depository participants [DPs] for delivering [transferring out] and receiving of securities. However, transferee can give 'Standing Instructions' [SI] to its DP for receiving in securities. If SI is not given, transferee has to give separate instructions each time securities have to be received.

Transfer of securities from one account to another may be done for any of the following purposes:

a. Transfer due to a transaction done on a person to person basis is called 'off-market' transaction.
b. Transfer arising out of a transaction done on a stock exchange.

c. Transfer arising out of transmission and account closure. A beneficiary account can be debited only if the beneficial owner has given 'Delivery Instruction' [DI] in the prescribed form.

Any trade that is cleared and settled without the participation of a clearing corporation is called off-market trade

A market trade is one that is settled through participation of a Clearing Agency clearing and settlement process can be classified into: Matching, Central counterparty, Cash settlement and Delivery Matching means that the parties agree on the conditions of the transaction, i.e. what has been bought or sold, price, quantity, etc. ‘Central counterparty clearing’ is when the clearing organization becomes the legal counterparty in a transaction. Cash settlement refers to settlement of premiums, fees, mark-to-market and other cash settlements, and delivery of the underlying instrument or cash settlement occurs after expiration or premature exercise.

As central counterparty, the clearing agency:
• Participates as counterparty in every transaction, which is commonly referred to as a ‘counterparty undertaking
• Reduces the number of payments due to netting and handles all payments not relating to deliveries on behalf of members.
• Provides possibilities to net deliveries of underlying stocks on a member level compared with netting of payments, which are always netted.

The time line followed for the custodian settled trade for institutional clients is as follows:
• T is trade date by broker
• On T+1 morning Trade confirmation to broker ( exchange obligations move from broker to custodian)
• On T+1 evening payment of margins. Usually it is 100% of funds/ securities
• On T+2/T+3 credit of shares /funds to client account

A TMs open position is arrived at as the summation of his proprietary open position and client’s open positions, in the contracts in which they have traded.

All derivatives contracts irrespective of whether it is index futures, stock futures, index options, stock options or currency futures and options are cash settled. The settlement amount for a clearing member is netted across all their TMs/Clients with respect to their obligations on Mark-to-Market settlement.

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Chapter 6: Settlement Process

T+2 settlement cycle is followed in the Indian equities market, i.e. which means that a transaction entered into on Day 1 has to be settled on the Day 1 + 2 working days, when funds pay in or securities pay out takes place. "T+2" here, refers to Trade day + 2 working days.

The settlement of derivative trades is on T + 0 or T + 1 working day basis. Final settlement of Currency derivatives is T + 2 days. Members with a funds pay-in obligation are required to have clear funds in their primary clearing account on or before 10.30 a.m. on the settlement day. The payout of funds is credited to the primary clearing account of the members thereafter Settlement Price for derivatives is given in the following table:

<table>
<thead>
<tr>
<th>Product</th>
<th>Settlement</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Futures Contracts on Index or Individual Security</td>
<td>Daily</td>
<td>Closing price of the futures contracts on the trading day (closing price for a futures contract shall be calculated on the basis of the last half an hour weighted average price of such contract).</td>
</tr>
<tr>
<td>Un-expired illiquid futures contracts</td>
<td>Daily</td>
<td>Theoretical Price computed as per formula F=S *ert</td>
</tr>
<tr>
<td>Futures Contracts on Index or Individual Securities</td>
<td>Final</td>
<td>Closing price of the relevant underlying index / security in the Capital Market segment of NSE, on the last trading day of the futures contracts.</td>
</tr>
<tr>
<td>Futures Contracts on Global Indices (S&amp;P 500 &amp; DJIA)</td>
<td>Final</td>
<td>The Special Opening Quotation (SOQ) of the Global Indices S&amp;P 500 and DJIA on the last trading day of the futures contracts.</td>
</tr>
<tr>
<td>Options Contracts on Global Indices (S&amp;P 500 &amp; DJIA)</td>
<td>Final</td>
<td>The Special Opening Quotation (SOQ) of the Global Indices S&amp;P 500 and DJIA on the last trading day of the futures contracts.</td>
</tr>
<tr>
<td>Options Contracts on Index and Individual Securities</td>
<td>Final</td>
<td>Closing price of such underlying security (or in-dex) on the last trading day of the options contract.</td>
</tr>
<tr>
<td>USD INR Currency Derivatives</td>
<td>Daily</td>
<td>Closing price of the futures contracts for the trading day.</td>
</tr>
<tr>
<td>Final Settlement Price</td>
<td>Final</td>
<td>The reference rate fixed by RBI.</td>
</tr>
</tbody>
</table>

The member can download these reports on second day of the Settlement end date.

- Statement of scrip-wise net deliveries to be made by the member.
- Statement of scrip-wise net deliveries to be received by the member.
• Balance Sheet showing the net receivable or net payable by the Member.
The Members has to deliver the Securities (otherwise known as Securities pay-in) to the Exchange as per the Statement of scrip-wise net deliveries downloaded by them.

**Margin Payment**
The initial and exposure margin is payable upfront by Clearing Members. Initial margins can be paid by members in the form of Cash, Bank Guarantee, Fixed Deposit Receipts and approved securities.

**Settlement through the Depository Clearing System**
The securities pay in takes place on the T+2 day after the trade date. Members are required to provide information regarding their client beneficiary accounts on T+2 day by 9:30 a.m. Based on the information received from members, the Clearing Corporation sends pay-out instructions to the depositories, so that the client receives the pay out of securities directly to their accounts on the pay-out day.
The securities pay-out is done simultaneously through both depositories and the process is usually completed by 1.30 p.m

**Corporate Actions to be adjusted**
The corporate actions may be broadly classified under stock benefits and cash benefits. The various stock benefits declared by the issuer of capital are:

- Bonus
- Rights
- Merger / De-merger
- Amalgamation
- Splits
- Consolidations
- Hive-off
- Warrants
- Secured Premium Notes (SPNs) among others.

The cash benefit declared by the issuer of capital is cash dividend

**Adjustment**
Adjustments may entail modifications to positions and / or contract specifications as listed below, such that the basic premise of adjustment laid down above is satisfied:

a) Strike Price
b) Position
c) Market Lot / Multiplier

<table>
<thead>
<tr>
<th>Adjustment factor:</th>
<th>Adjustment factor: ((A+B)/B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus - Ratio A:B</td>
<td></td>
</tr>
</tbody>
</table>

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Stock Splits and Consolidations  
Ratio - A : B  

Adjustment factor : A/B

**Dividends**

Dividends which are below 10% of the market value of the underlying stock, would be deemed to be ordinary dividends and no adjustment in the Strike Price would be made for ordinary dividends. For extra-ordinary dividends, above 10% of the market value of the underlying security, the Strike Price would be adjusted. To decide whether the dividend is "extra-ordinary" (i.e. over 10% of the market price of the underlying stock.), the market price would mean the closing price of the scrip on the day previous to the date on which the announcement of the dividend is made by the Company after the meeting of the Board of Directors An Auction Tender Notice is issued by BSE to the Members informing them about the names of the scrips short or not delivered, quantity slated for auction and the date and time of the auction session on the BOLT. The auction for the undelivered quantities is conducted on T+2 day between 2 pm and 2.45pm for all the scrips under Compulsory Rolling Settlements except those in "Z" group and scrips on "trade for trade" basis which are directly closed-out.

**Chapter 7: Investor Grievances and Arbitration**

When a complaint is filed by the investor, care is taken to settle the matter at the branch level or the firm level depending upon the nature of the complaint. In case the complainant is unsatisfied then the same is taken to the Exchange or the SEBI. The Exchange normally has an Investor Grievance Redress Committee (IGRC) / Investor Services Cell which looks into all the complaints /matters against the trading members registered with the Exchange.

Investor complaints should be resolved by trading members within 15 days. If it is not resolved, the Exchange’s Investor Grievance Redressal Committee (IGRC) will try to resolve the matter amicably within 15 days. If not resolved, IGRC will determine the claim value and the Exchange will block the amount from the deposit of the member. If the trading member doesn’t inform the intention to pursue arbitration within 7 days, the blocked amount will be released to the investor.

In case the member decides to pursue arbitration and the claim amount is less than Rs.10 lakhs, Exchange will be required to release staggered amount to the investor from IPF till completion of the arbitration.

Appropriate indemnity will be obtained from investor to return the amount dispersed if the
award is not in favour of the investor. If the investor fails to return the amount, investor will not be allowed to trade further and their demat account will be frozen.

**Investor Protection Fund**

Stock Exchanges have set up and managed Investor Protection Fund (IPF) to compensate clients who suffer financial loss due to their member being declared defaulter

**Constitution and Management**

- The fund should be administered by way of a Trust created for the purpose.
- The Trust should have at least one public representative, one representative from the registered investor associations recognised by SEBI and the Executive Directors/Managing Directors/Administrators of the Stock Exchange.
- The Stock Exchange shall provide the secretariat for the IPF/CPF Trust.
- The Stock Exchange shall ensure that the funds in the IPF/CPF are well segregated and that the IPF/CPF is immune from any liabilities of the Stock Exchange.

**Contribution**

a) 1 percent of the listing fees received, on a quarterly basis.
b) 100 percent of the interest earned on the 1 percent security deposit kept by the issuer companies towards public issue.
c) Difference between auction price and close out price.
d) Proceeds from the sale of securities written off by Foreign Institutional Investors (FIIs) held by them for their sub accounts, where the custodian is unable to determine claimant for various reasons as per SEBI circular No. FITTC/FII/02/2002 dated May 15, 2002.
e) The amounts specified in pursuance of Regulation 28(12) (e) (ii), Regulation 28(13) and Regulation 29 (2) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997.
f) Contribution towards the IPF based on the transaction charges collected by Stock Exchanges, as per Stock Exchange practice.

**Arbitration**

Arbitration, which is a quasi judicial process, is an alternate dispute resolution mechanism prescribed under the Arbitration and Conciliation Act, 1996

The Exchanges have a panel of arbitrators that consists of retired judges from High-Courts, Chartered Accountants, Advocates and other Professionals having knowledge related to the
Capital Markets. Arbitration facility is provided at all centers which are specified by SEBI from time to time. SEBI has now identified 16 such centers where investor services as well arbitration facility are to be provided by stock exchanges.

The list of arbitrators across all stock exchanges are pooled together and called “Common pool”.

This list grouped centre wise, is made available to the investors on the stock exchanges’ websites. The applicants can choose any arbitrator for the required centre from the “Common Pool”. If they fail to do so, the arbitrator will be chosen by an ‘automatic process’ which is a randomised computer generated selection process.

Arbitration for claims up to Rs. 25 lakh is decided by a sole arbitrator while a claim of above Rs. 25 lakh is dealt by a panel of 3 arbitrators. The stock exchange has to ensure that the process of appointment of arbitrator(s) is completed within 30 days from the date of receipt of application from the applicant.

The Award has to be a Speaking Award. Ex-parte Awards are also given. The Final Award is taken on stamp paper of Rs. 100

Speaking awards are those awards which are passed upon hearing both the parties i.e. the complainant and the respondent. This is unlike the Ex-parte award, wherein one party does not attend the proceedings even upon being served the notice and the arbitrators have to pass a decision based on a documents and arguments given by one party.

Arbitration Fees Each of the parties to arbitration must deposit an amount (as prescribed by the Exchanges) at the time of making an arbitration reference. The deposits may not exceed the amount as indicated under.

<table>
<thead>
<tr>
<th>Amount of claim /counter claim (whichever is higher)</th>
<th>If claim is filed within six months</th>
<th>If claim is filed after six months</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ 10,00,000</td>
<td>1.3% subject to a minimum of Rs. 10,000</td>
<td>3.9% subject to a minimum of Rs. 30,000</td>
</tr>
<tr>
<td>&gt; 10,00,000 - ≤ 25,00,000</td>
<td>Rs. 13,000 plus 0.3% amount above Rs. 10 lakh</td>
<td>Rs. 39,000 plus 0.9% amount above Rs. 10 lakh</td>
</tr>
<tr>
<td>≥25,00,000</td>
<td>Rs. 17,500 plus 0.2% amount above Rs. 25 lakh</td>
<td>Rs. 52,500 plus 0.6% amount above Rs. 25 lakh</td>
</tr>
</tbody>
</table>

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A party aggrieved by the appellate arbitral award may file an application to the Court of competent jurisdiction in accordance with Section 34 of the Arbitration and Conciliation Act, 1996.

**Appellate Arbitration**
A party aggrieved by an arbitral award may appeal to the appellate panel of arbitrators of the stock exchange against such award. An appeal before the appellate panel of arbitrators may be filed within one month from the date of receipt of arbitral award. The appellate panel consists of three arbitrators who are different from the ones who passed the arbitral award appealed against.

A party filing an appeal before the appellate panel is required to pay a fee not exceeding Rs. 30,000, as may be prescribed by the stock exchange, in addition to statutory dues (stamp duty, service tax, etc) along with the appeal. However if a client’s appeal is upto Rs.10 lakhs, the fee cannot exceed Rs.10000/-

**Stock Broker Services**
Normally, a stock broker’s outlet offers these facilities:
• Online BSE and NSE executions through terminals • Investment advice
• Research reports and market review • Mobile Trading • Depository Services • Direct Market Access • Derivatives Trading • Commodities Trading • Smart Order Routing • IPOs & Mutual Funds Distribution • Internet-based Online Trading • Specialised Research For Investors • Margin Funding • Algorithmic Trading

SEBI have introduced a facility called “Application Supported by Blocked Amount (ASBA)” in the Primary market for investor. ASBA provides an alternative mode of payment in issues whereby the application money remains in the investor’s account till finalization of basis of allotment in the issue, or in other words, if an investor is applying through ASBA, his application money is debited from the bank account only if the investors application is selected for allotment after the basis of allotment is finalized, or the issue is withdrawn/failed.

ASBA process facilitates retail individual investors bidding at cut-off, with single option, to apply through Self Certified Syndicate Banks (SCSBs), in which the investors have bank accounts. SCSBs are those banks which satisfy the conditions laid by SEBI. SCSBs would accept
the applications, verify the application, block the fund to the extent of bid payment amount, upload the details in the web based bidding system of the Exchange, unblock the trading members who are AMFI Registration Number (ARN) holders and have passed the AMFI certification examination are permitted to participate in the trading of the Mutual Funds units through the Exchange trading platform. Further, eligible members would have to register as distributor with the Mutual Fund Company. Hence, eligible members would be able to place orders only in respect of Mutual Fund Companies where they have registered as distributor.

The NSE and BSE have the following designated trading platforms for Mutual Fund viz., the Mutual Funds Service System (MFSS) and the BSE Star MF respectively.

The stock broker can request following types of subscription/ redemption requests:
- Physical Subscription – Fresh (first time)
- Physical Subscription – Additional
- Depository Subscription – Fresh (first time)
- Depository Subscription – Additional
- Physical Redemption
- Depository Redemption

No subscription/ redemption order should be entered with amount equal to or greater than Rs. 1 crore.

**PMS**

Many stock brokers also offer Portfolio Management Services (PMS) to their clients. For this, a PMS license has to be obtained by them. This is normally offered to High Networth Individuals (HNIs).

Portfolio manager can be discretionary or non-discretionary. The discretionary portfolio manager individually and independently manages the funds of each client, whereas the non-discretionary portfolio manager manages the funds in accordance with the directions of the client.

**SEBI fee structure & Eligibility criteria**
- Non-refundable Application fee ( Renewal / Registration )- Rs. 1 lakh.
- Initial Registration fee – Rs10 Lakhs
- Minimum of 2 persons with atleast 5 years experience as portfolio manager or stock broker or investment manager or in the areas related to fund management.
- The principal officer of the portfolio manager is to have: (i) a professional
qualification in finance, law, accountancy or business management OR (ii) an experience of at least 10 years in the securities market

- Minimum networth of portfolio manager - 2 crore rupees.
- Every portfolio manager who has total assets more than 500 cr rupees shall appoint a custodian. This condition will not be applicable to portfolio managers offering purely advisory services.
- Min Investment that a portfolio manager can accept from clients – Rs 25 Lakhs

The "total exposure" of the broker towards the margin trading facility should not exceed the borrowed funds and 50 per cent of his "net worth". While providing the margin trading facility, the broker has to ensure that the exposure to a single client does not exceed 10 per cent of the "total exposure" of the broker. Initial margin has been prescribed as 50% and the maintenance margin has been prescribed as 40%.

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 MEMORISE the question & answers. It’s not the right to way to prepare for any NISM exam. Good understanding of Concepts is essential.

All the Best 😊

MODELEXAM

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