Secondary Market FAQ

- The primary market deals with the new issues of securities. The secondary market, is a financial market in which previously issued financial instruments such as stock, bonds, options and debt instruments are bought and sold. Secondary market is also known as Stock Market.

Functions of stock exchange:

- Maintains Active Trading Shares are traded on the stock exchanges, enabling the investors to buy and sell securities. The prices may vary from transaction to transaction. A continuous trading increases the liquidity or marketability of the shares traded on the stock exchanges. Fixation of Prices Price is determined by the transactions that flow from investors' demand and supplier's preferences. Usually the traded prices are made known to the public. This helps the investors to make better decisions. Ensures Safe and Fair Dealing The rules, regulations and by-laws of the stock exchanges' provide a measure of safety to the investors. Transactions are conducted under competitive conditions enabling the investors to get a fair deal.

- Dissemination of Information Stock exchanges provides information through their various publications. They publish the share prices traded on daily basis along with the volume traded. Directory of Corporate information is useful for the investors' assessment regarding the corporate. Hand-outs, handbooks and pamphlets provide information regarding the functioning of the stock exchanges. Performance Inducer The prices of stock reflect the performance of the traded companies. This makes the corporate more concerned with its public image and tries to maintain good performance

- Settlement cycle in secondary market A settlement cycle consists of five days trading period within which any transaction buy/sell must be completed. There are two types of settlement: Fixed and Rolling. A fixed cycle starts on a particular day and ends after five days. For example, in the Mumbai stock exchange the settlement cycle starts on Monday and ends of Friday. In the NSE it starts on Wednesday of one week and ends on the Tuesday of the following week. A pay-in day and a pay-out day follow the settlement cycle The pay-in day refers to all the buyer brokers depositing the money for the purchase of shares. The pay-out day refers to the exchange handing over the proceeds to the seller brokers.

- TYPES OF ORDER Limit Orders are limited by a fixed price. 'Buy Reliance Petroleum at Rs 50. Here, the order has clearly indicated the price at which it has to be bought and the investor is not willing to give more than Rs 50. Best Rate Order Here, the buyer or seller gives the freedom to the broker to execute the order at the best possible rate quoted on that particular date for buying. It may be the lowest rate for buying and the highest rate for selling. Discretionary Order The investor gives the range of price for purchase and sale. The broker can use his discretion to buy within the specified limit. Generally the approximate price is fixed. The order stands as this 'Buy BRC 100 shares around Rs 40'. Stop Loss Order the orders are given to limit the loss due to unfavorable price movements in the market. A particular limit is given for waiting. If the price falls below the limit, the broker is authorized to sell the shares to prevent .

FAQ'S on Secondary Market What is the role of SEBI in secondary market??

- The SEBI is the regulatory authority established under Section 3 of SEBI Act 1992 to protect the interests of the investors in securities and to promote the development of, and to regulate, the securities market and for matters connected therewith and incidental thereto. What are the products dealt in the secondary markets? Equity Equity shares Rights issue Bonus shares Government securities Commercial papersTreasury bills etc…,

Who is a broker?

- A broker is a member of a recognized stock exchange, who is permitted to do trades on the screen-based trading system of different stock exchanges. He is enrolled as a member with the concerned exchange and is registered with SEBI. Who is a sub broker? A sub broker is a person who is registered with SEBI as such and is affiliated to a member of a recognized stock exchange. What is meant by Unique Client Code? In order to facilitate maintaining database of their clients and to strengthen the know your client (KYC) norms; all brokers have been mandated to use unique client code linked to the PAN details of the respective client which will act as an exclusive identification for the client.

What is the maximum brokerage that a broker can charge?

- The maximum brokerage that can be charged by a broker has been specified in the Stock Exchange Regulations and hence, it may differ from across various exchanges. As per the BSE & NSE Bye Laws, a broker cannot charge more than 2.5% brokerage from his clients.

What is STT?

- Securities Transaction Tax (STT) is a tax being levied on all transactions done on the stock exchanges at rates prescribed by the Central Government from time to time. Pursuant to the enactment of the Finance (No.2) Act, 2004, the Government of India notified the Securities Transaction Tax Rules, 2004 and STT came into effect from October 1, 2004.

What should a stock market index be?

- A stock market index should capture the behaviour of the overall equity market. Movements of the index should represent the returns obtained by "typical" portfolios in the country. What do the ups and downs of an index mean? They reflect the changing expectations of the stock market about future dividends of India's corporate sector. When the index goes up, it is because the stock market thinks that the prospective dividends in the future will be better than previously thought. When prospects of dividends in the future become pessimistic, the index drops. The ideal index gives us instant-to-instant readings about how the stock market perceives the future of India's corporate sector.

What is the basic idea in an index?

- Every stock price moves for two possible reasons: news about the company (e.g. a product launch, or the closure of a factory, etc.) or news about the country (e.g. nuclear bombs, or a budget announcement, etc.). The job of an index is to purely capture the second part, the movements of the stock market as a whole (i.e. news about the country). Derivatives Trading What are derivatives? Derivatives, such as futures or options, are financial contracts which derive their value from a spot price, which is called the "underlying". For example, wheat farmers may wish to enter into a contract to sell their harvest at a future date to eliminate the risk of a change in prices by that date. Such a transaction would take place through a forward or futures market. This market is the "derivatives market".