

## Stock Markets – V Sem – BCom CA AB 2023 and 2024

### Gist of Side Headings

#### 1.1 Nature, Scope and Basics of Stock Market

##### **Nature of Stock Market**

Platform where investors buy and sell ownership shares of companies.

Secondary market for already issued securities

Mobilising funds from investors to businesses.

Reflects the overall economic health and investor confidence.

Provides liquidity to investors

Offers opportunities for wealth creation, but with an element of risk

##### **Scope of Stock Market**

- ✓ Facilitates raising of capital
- ✓ Provides investment opportunities
- ✓ Encourages economic growth
- ✓ Acts as a platform for price discovery
- ✓ Offers instruments beyond shares, such as bonds, debentures, derivatives, and ETFs.
- ✓ Supports both primary and secondary market operations.

##### **Basics of Stock Market Operations**

1. Primary Market
2. Secondary Market
3. Stock Exchanges
4. Participants in the Stock Market

##### **Importance of Stock Market**

- ✓ Provides liquidity and easy entry-exit for investors.
- ✓ Encourages savings and investment culture.
- ✓ Supports companies in raising long-term capital.
- ✓ Reflects investor sentiment and economic trends.

#### 1.2 Investment Need

1. Future Financial Security
2. Wealth Creation
3. Beating Inflation
4. Earning Regular Income
5. Meeting Specific Goals
6. Managing Risk and Uncertainty
7. Economic Growth and Development

#### 1.3 Short-Term and Long-Term Investment

##### **Short-Term Investment**

##### **Examples of Short-Term Investments**

- ✓ Fixed deposits with short maturity
- ✓ Treasury bills and commercial papers
- ✓ Money market mutual funds
- ✓ Liquid funds
- ✓ Short-term bonds

##### **Features of Short-Term Investments**

- ✓ High liquidity, easy to convert into cash
- ✓ Lower returns compared to long-term investments
- ✓ Lower risk, suitable for conservative investors
- ✓ Useful for parking surplus funds temporarily

##### **Long-Term Investment**

##### **Examples of Long-Term Investments**

- ✓ Shares and equity mutual funds
- ✓ Real estate and property investments
- ✓ Public Provident Fund (PPF)
- ✓ National Pension Scheme (NPS)
- ✓ Long-term bonds and debentures

## Features of Long-Term Investments

- ✓ Higher returns potential due to longer time horizon
- ✓ May involve higher market volatility
- ✓ Suitable for wealth creation and retirement planning
- ✓ Allows compounding benefits to grow the investment

## 1.4 Money Markets Vs Capital Markets

### Meaning of Money Market

### Meaning of Capital Market

### Features of Money Market

- ✓ Deals with short-term instruments (maturity up to 1 year)
- ✓ High liquidity and low risk
- ✓ Instruments include Treasury Bills, Certificates of Deposit (CD), Commercial Papers (CP), and Call Money
- ✓ Mainly used by banks, financial institutions, and governments
- ✓ Supports day-to-day financial operations and liquidity management

### Features of Capital Market

- ✓ Deals with long-term securities (maturity beyond 1 year)
- ✓ Includes stocks, bonds, debentures, and mutual funds
- ✓ Provides platform for raising long-term funds
- ✓ Helps companies expand, innovate, and invest in new projects
- ✓ Allows investors to earn returns and build wealth over time

### Differences Between Money Market and Capital Market

Basis	Money Market	Capital Market
Duration	Short-term (up to 1 year)	Long-term (more than 1 year)
Instruments	T-Bills, CPs, CDs, Call Money	Shares, Bonds, Debentures, Mutual Funds
Risk and Return	Low risk, lower returns	Moderate to high risk, higher returns
Liquidity	Highly liquid	Less liquid compared to money market

Objective	Managing short-term funds	Raising long-term capital for growth
Participants	Banks, RBI, Corporates, Government	Companies, Investors, Stock Exchanges

## 1.5 Primary Market

### Features of the Primary Market

- ✓ Securities are issued for the first time to the public.
- ✓ Helps companies raise long-term capital.
- ✓ No trading of existing securities — only fresh issuance.
- ✓ Investors become shareholders or creditors by subscribing to new issues.
- ✓ Regulated by SEBI to ensure transparency and investor protection.

### Methods of Raising Funds in the Primary Market

#### 1. Public Issue (IPO and FPO)

- Initial Public Offering (IPO):
- Follow-on Public Offering (FPO):

#### 2. Private Placement

#### 3. Rights Issue

#### 4. Preferential Allotment

### Functions and Importance of the Primary Market

- ✓ Mobilises long-term capital for companies.
- ✓ Encourages industrial and economic growth.
- ✓ Helps new companies enter the capital market.
- ✓ Provides investors opportunities to participate in growth ventures.
- ✓ Ensures fair price discovery through market demand during public issues.

## Participants in the Primary Market

- ✓ Companies (Issuers)
- ✓ Retail and Institutional Investors
- ✓ Underwriters and Merchant Bankers
- ✓ SEBI (Regulator)

## 1.6 Secondary Market

### Features of Secondary Market

- ✓ Trading of already issued securities takes place.
- ✓ Provides liquidity, allowing investors to buy or sell at any time.
- ✓ Facilitates price discovery based on demand and supply.
- ✓ Regulated by SEBI to ensure transparency and fair practices.
- ✓ Involves stock exchanges and over-the-counter (OTC) platforms.

### Types of Secondary Market

1. Stock Exchanges
2. Over-the-Counter (OTC) Market

### Functions and Importance of Secondary Market

- ✓ Provides liquidity and easy exit for investors.
- ✓ Facilitates continuous buying and selling of securities.
- ✓ Helps in fair price determination based on real-time market data.
- ✓ Reflects investor sentiment and economic health.
- ✓ Encourages investment by offering tradability of securities.
- ✓ Enhances capital formation by boosting investor confidence.

### Participants in the Secondary Market

- ✓ Retail and Institutional Investors
- ✓ Stockbrokers and Dealers
- ✓ Market Makers and Traders
- ✓ SEBI and Stock Exchanges (Regulators)

## 1.7 Investors

Investors are individuals or institutions who allocate money into financial assets such as shares, bonds, mutual funds, or physical assets like real estate with the expectation of earning returns or capital appreciation over time.

1. **Individual Investors**
2. **Institutional Investors**

- ✓ Banks and Financial Institutions
- ✓ Insurance Companies
- ✓ Pension Funds
- ✓ Mutual Funds
- ✓ Foreign Institutional Investors (FIIs)

### Types of Investors Based on Risk Profile

1. **Conservative Investors**
2. **Moderate Investors**
3. **Aggressive Investors**

### Other Types of Investors Based on Time Horizon

- ✓ **Short-Term Investors:**
- ✓ **Long-Term Investors:**

## 1.8 Participants in Financial Markets

### 1. Speculators

Speculators are market participants who aim to earn profits from price fluctuations in financial assets like shares, currencies, or commodities.

#### Role of Speculators

- ✓ Provide liquidity for other market participants
- ✓ Assume market risk, which others may avoid
- ✓ Sometimes criticised for adding volatility, but essential for active markets

## 2. Hedgers

Hedgers invest or trade with the primary objective of reducing or eliminating existing risk from adverse price movements.

### Role of Hedgers

- ✓ Enhance market stability by managing risk
- ✓ Support businesses in planning by reducing uncertainty
- ✓ Create demand for derivative products, making markets efficient

## 3. Arbitragers

Arbitragers exploit price differences of the same asset in different markets or forms to earn risk-free profits.

### Role of Arbitragers

- ✓ Eliminate price discrepancies across markets
- ✓ Improve overall market efficiency
- ✓ Contribute to fair price discovery

## 2.1 Capital Market

The Capital Market is a segment of the financial system where long-term funds are raised and invested.

### Participants of Capital Market

1. Companies (Issuers)
2. Investors
3. Stock Exchanges
4. Financial Intermediaries
5. Regulators

## 2.2 Participants of Primary Market

The Primary Market is the platform where companies issue new securities to raise capital for the first time.

### Key Participants of Primary Market

1. Issuing Companies (Corporates)
2. Investors
3. Merchant Bankers (Lead Managers)
4. Underwriters
5. Registrars and Transfer Agents (RTAs)
6. Regulatory Authorities (SEBI)

## 2.3 Equity Share Issue

### Types of Equity Share Issue

- ✓ Initial Public Offering (IPO):
- ✓ Follow-on Public Offering (FPO):
- ✓ Rights Issue:
- ✓ Bonus Issue:
- ✓ Private Placement:

### Process of Equity Share Issue

1. Board Approval
2. Appointment of Merchant Bankers and Advisors
3. Drafting and Filing of Prospectus
4. Marketing and Roadshows
5. Opening of Issue
6. Allotment of Shares
7. Listing on Stock Exchange

## **2.4 Preference Share Issue and Debenture issue**

### **Types of Preference Share Issues**

- ✓ Cumulative Preference Shares:
- ✓ Non-Cumulative Preference Shares:
- ✓ Redeemable Preference Shares:
- ✓ Irredeemable Preference Shares:

### **Process of Issuing Preference Shares**

- ✓ Company passes a board resolution to issue preference shares.
- ✓ Appoints merchant bankers and legal advisors.
- ✓ Prepares offer document or prospectus for investors.
- ✓ SEBI approval obtained (if required).
- ✓ Shares offered to public, existing shareholders (rights issue), or select investors (private placement).
- ✓ Allotment of shares completed and funds received.
- ✓ Shares listed on stock exchanges (if applicable).

### **Types of Debenture Issues**

- ✓ Convertible Debentures:
- ✓ Non-Convertible Debentures (NCDs):
- ✓ Secured Debentures:
- ✓ Unsecured Debentures:

### **Process of Issuing Debentures**

- ✓ Board approval obtained for issuing debentures.
- ✓ Drafting and filing of offer document with SEBI (for public issue).
- ✓ Appointment of debenture trustees to protect investor interests.
- ✓ Debentures offered to public, institutional investors, or via private placement.
- ✓ Funds collected and debenture certificates issued to investors.
- ✓ Listed on stock exchanges for trading (if applicable).

## **2.5 Mutual Funds**

Mutual funds are investment schemes where money from many investors is pooled together and invested in a diversified portfolio of securities such as shares, bonds, or money market instruments.

### **Types of Mutual Funds Based on Structure**

1. Open-Ended Mutual Funds
2. Close-Ended Mutual Funds
3. Interval Funds

### **Types of Mutual Funds Based on Investment Objective**

1. Equity Mutual Funds
2. Debt Mutual Funds
3. Hybrid Mutual Funds

### **Other Popular Types of Mutual Funds**

- ✓ Tax Saving Funds (ELSS):
- ✓ Money Market Funds:
- ✓ Index Funds:
- ✓ Sectoral Funds:

## **2.6 Stock Exchange**

A Stock Exchange is an organised marketplace where buying and selling of securities like shares, bonds, and debentures take place.

### **Features of Stock Exchange**

- ✓ Organised and regulated marketplace for trading securities.

- ✓ Facilitates buying and selling of listed securities only.
- ✓ Provides liquidity to investors by enabling easy transfer of ownership.
- ✓ Ensures fair price discovery based on market demand and supply.
- ✓ Regulated by the Securities and Exchange Board of India (SEBI).

### Functions of Stock Exchange

1. Provides Liquidity and Marketability
2. Price Discovery
3. Safety and Transparency
4. Encourages Investment
5. Facilitates Capital Formation

### Major Stock Exchanges

- ✓ National Stock Exchange (NSE) – India’s leading electronic exchange.
- ✓ Bombay Stock Exchange (BSE) – Asia’s oldest stock exchange.
- ✓ Regional stock exchanges (smaller, less active).

## 2.7 NSE

The National Stock Exchange (NSE) is one of the largest and most advanced stock exchanges in the country. Established in 1992, NSE revolutionised the Indian capital market by introducing fully automated, screen-based trading, making transactions faster and more reliable.

### Key Features of NSE

- ✓ Fully electronic, screen-based trading system.
- ✓ Nationwide access, providing equal opportunity to investors.
- ✓ Trades executed quickly with minimal human intervention.
- ✓ High transparency and efficiency in trading.
- ✓ Regulated by the Securities and Exchange Board of India (SEBI).

### Functions of NSE

1. Facilitates Trading of Securities
2. Price Discovery
3. Promotes Liquidity

## 4. Investor Protection and Fair Practices

### Segments of NSE

- ✓ **Equity Segment:** Shares and equity-related instruments.
- ✓ **Debt Segment:** Bonds, debentures, and other fixed-income securities.
- ✓ **Derivatives Segment:** Futures and options trading on stocks and indices.
- ✓ **Currency Derivatives Segment:** Trading in currency pairs.

### Importance of NSE

- ✓ Boosts investor confidence with technology-driven systems.
- ✓ Encourages more people to participate in financial markets.
- ✓ Supports economic growth by facilitating capital mobilisation.
- ✓ Enhances accessibility with nationwide network.

## 3.1 Depositories

A Depository is an institution that holds financial securities like shares, bonds, debentures, and mutual fund units in electronic or dematerialised (Demat) form.

### Functions of Depositories

- ✓ Safekeeping of securities in electronic form.
- ✓ Facilitates easy transfer (buying and selling) of securities.
- ✓ Eliminates the need for physical share certificates.
- ✓ Reduces paperwork, delays, and fraud risks.
- ✓ Ensures accurate and quick settlement of trades.

### Depository System Participants

1. Depository
2. Depository Participants (DPs)
3. Beneficial Owners (Investors)

## Major Depositories

✓ **National Securities Depository Limited (NSDL):** First depository, established in 1996.

✓ **Central Depository Services (India) Limited (CDSL):** Another major depository, established in 1999.

## Benefits of Depositories

- ✓ Eliminates risks of theft, loss, or forgery of physical certificates.
- ✓ Speeds up settlement and reduces transaction costs.
- ✓ Enhances transparency and safety in securities trading.
- ✓ Makes the investment process simple, paperless, and efficient.

## 3.2 Buy Back of Shares

Buy Back of Shares refers to a process where a company repurchases its own shares from the existing shareholders. The bought-back shares are usually cancelled, reducing the total number of outstanding shares in the market.

### Reasons for Buy Back of Shares

- ✓ Utilisation of surplus cash or reserves.
- ✓ To increase Earnings Per Share (EPS) by reducing the number of shares.
- ✓ To improve Return on Equity (ROE).
- ✓ To support the share price in case of undervaluation.
- ✓ To prevent hostile takeovers by reducing available shares.

### Methods of Buy Back

1. **Tender Offer**
2. **Open Market Purchase**
3. **Buy Back from Odd Lot Holders**

### Advantages of Buy Back

- ✓ Enhances shareholder value by increasing EPS and ROE.
- ✓ Provides an exit option for shareholders.

- ✓ Indicates company's confidence in its financial strength.
- ✓ Utilises idle cash reserves effectively.
- ✓ Helps stabilise or boost the market price of shares.

### Regulation of Buy Back

- ✓ Governed by the Companies Act and SEBI Buy Back Regulations.
- ✓ Limits on the percentage of capital that can be bought back.
- ✓ Ensures fair treatment and transparency for all shareholders.

## 3.4 Forward contracts and Future contracts

### Meaning of Forward Contract

A Forward Contract is a private agreement between two parties to buy or sell an asset at a specific price on a future date. The terms are customised based on the needs of the buyer and seller, and settlement happens at the end of the contract period.

### Features of Forward Contract

- ✓ Customised agreement between two parties.
- ✓ Traded over-the-counter (OTC), not on exchanges.
- ✓ No standardisation of contract size, price, or settlement date.
- ✓ Subject to counterparty risk (risk of default).
- ✓ Generally used for hedging against price fluctuations.

### Meaning of Future Contract

A Future Contract is a standardised agreement traded on organised exchanges to buy or sell an asset at a predetermined price on a specified future date. These contracts are legally binding and regulated by exchanges like NSE.

### Features of Future Contract

- ✓ Standardised in terms of size, price, and expiry date.
- ✓ Traded on regulated exchanges (like NSE, MCX).

- ✓ Clearing houses guarantee settlement, reducing default risk.
- ✓ Requires daily margin payments to cover potential losses.
- ✓ Used by both hedgers and speculators.

### 3.5 Differences Between Forward and Futures Contracts

Basis	Forward Contract	Futures Contract
<b>Trading Platform</b>	Over-the-counter (OTC), private agreements	Traded on organised exchanges like NSE or MCX
<b>Standardisation</b>	Customised in terms of size, price, and delivery	Fully standardised in terms of contract size and expiry
<b>Counterparty Risk</b>	High, as it depends on the trustworthiness of parties	Low, as clearing house guarantees the trade
<b>Liquidity</b>	Low, since contracts are private and non-transferable	High, easily tradable on exchanges
<b>Regulation</b>	Not regulated by formal authorities	Regulated by SEBI and exchanges
<b>Margin Requirement</b>	No daily margin requirement	Requires daily margin payments to manage risk
<b>Settlement</b>	Settled only on the agreed future date	Marked-to-market daily; profits/losses settled daily
<b>Usage</b>	Mostly used for hedging specific risks	Used by both hedgers and speculators
<b>Flexibility</b>	Highly flexible in terms of contract terms	Less flexible, terms fixed by exchanges
<b>Transparency</b>	Low transparency due to private nature	High transparency due to exchange trading

### 3.6 Participants in Futures contracts

#### 1. Hedgers

- ✓ Hedgers enter futures contracts to protect themselves from price fluctuations.
- ✓ Example: A farmer uses futures to lock in crop prices in advance.

#### 2. Speculators

- ✓ Speculators aim to earn profits from price movements without owning the actual asset.
- ✓ Example: A trader buys futures contracts expecting market prices to rise.

#### 3. Arbitragers

- ✓ Arbitragers exploit price differences of the same asset in different markets.
- ✓ Example: Buying futures in one exchange and selling in another if price difference exists.

#### 4. Margin Traders

- ✓ Participants who trade in futures by depositing a margin amount with the exchange.

#### Role of Clearing House

- ✓ Ensures smooth functioning of futures markets.
- ✓ Acts as a guarantor to prevent default by any party.
- ✓ Manages daily settlement, margin collection, and contract enforcement.

### **3.7 Clearing Mechanism**

Clearing in stock markets refers to the process of confirming, matching, and settling trade transactions after they are executed. It ensures that the buyer receives the securities and the seller receives the payment, making stock market transactions complete and reliable.

1. Trade Execution
2. Trade Confirmation
3. Obligation Calculation
4. Settlement Process
5. Risk Management

#### **Importance of Clearing Mechanism**

- ✓ Ensures smooth transfer of funds and securities.
- ✓ Reduces counterparty risk.
- ✓ Maintains trust and efficiency in stock markets.
- ✓ Helps in timely settlement, preventing disputes.

### **4.1 Index and types**

A stock market index is a statistical measure that reflects the overall performance of a selected group of securities listed on a stock exchange.

#### **Features of Stock Market Index**

- ✓ Represents the performance of selected stocks or segments.
- ✓ Acts as a barometer for market trends.
- ✓ Used to compare individual stock performance with market averages.
- ✓ Helps investors track economic or sectoral growth.
- ✓ Forms the basis for index-based investment products like ETFs.

### **Types of Index Based on Market Coverage**

1. Broad Market Indices
2. Benchmark Indices
3. Sectoral Indices
4. Thematic Indices
5. Strategy or Smart Beta Indices

#### **Importance of Index**

- ✓ Helps investors track market movement.
- ✓ Used for benchmarking portfolio performance.
- ✓ Supports passive investment strategies like index funds or ETFs.
- ✓ Reflects economic growth and investor sentiment.

### **4.2 SENSEX**

SENSEX, short for the Sensitive Index, is the benchmark stock market index of the Bombay Stock Exchange (BSE). It represents the performance of the top 30 financially sound and actively traded companies listed on the BSE.

#### **Features of SENSEX**

- ✓ Represents 30 large, well-established companies.
- ✓ Covers various major sectors like banking, IT, FMCG, and energy.
- ✓ Reflects the performance of the Indian economy through stock market movement.
- ✓ First introduced in 1986, making it one of the oldest indices.
- ✓ Calculated using the Free Float Market Capitalisation method.

#### **Calculation of SENSEX**

- ✓ Based on Free Float Market Capitalisation of the 30 companies.
- ✓ Formula considers only shares available for public trading, excluding promoter holdings.
- ✓ SENSEX value shows the combined performance of these companies compared to a base year (1978-79 with base value 100).

## Importance of SENSEX

- ✓ Acts as a barometer for market trends and investor sentiment.
- ✓ Helps investors track stock market performance.
- ✓ Used by fund managers, economists, and policymakers for market analysis.
- ✓ Basis for investment products like index funds and derivatives.

## Uses of SENSEX

- ✓ Helps investors compare their portfolio returns with market averages.
- ✓ Indicates economic health and corporate performance.
- ✓ Assists in passive investment through SENSEX-linked funds.
- ✓ Reflects global investor confidence in Indian markets.

## 4.3 Index Calculation

Stock market indices like SENSEX and NIFTY reflect the performance of selected companies. To maintain fairness and accuracy, specific calculation methods are used to determine index values. The most widely accepted method is the **Free Float Market Capitalisation** approach.

Market Capitalisation Concept  
Free Float Market Capitalisation Method

### Step-by-Step Calculation Process

1. Identify Index Constituents
2. Determine Free Float Market Capitalisation
3. Aggregate Free Float Market Cap of All Companies
4. Apply the Base Year Value

### Importance of Free Float Method

- ✓ Reflects market movements based on publicly traded shares.
- ✓ Provides accurate representation of investor sentiment.
- ✓ Reduces the influence of promoter-held shares.
- ✓ Globally accepted and transparent method.

## 4.4 Clearing Members

Clearing Members are authorised intermediaries responsible for clearing and settlement of trades in stock and derivatives markets. They ensure that the buyer receives the securities and the seller gets the payment after trade execution.

### Types of Clearing Members

#### 1. Trading Cum Clearing Member (TCM)

- ✓ A member who can both trade on the stock exchange and clear and settle their own trades.

#### 2. Professional Clearing Member (PCM)

- ✓ Specialised member who only provides clearing and settlement services.

#### 3. Self Clearing Member (SCM)

- ✓ Member who clears and settles only their own trades.

### Role of Clearing Members

- ✓ Ensure timely settlement of securities and funds.
- ✓ Collect and maintain margins from traders to manage risks.
- ✓ Provide clearing and settlement infrastructure.
- ✓ Act as a link between traders, clearing corporations, and depositories.
- ✓ Help maintain confidence, safety, and efficiency in markets.

### Importance of Different Types

- ✓ Allows flexibility based on the size and needs of market participants.
- ✓ Supports smaller brokers through professional clearing members.
- ✓ Enhances risk management and ensures smooth operations in the financial markets.

## **5.1 SEBI and its powers**

The Securities and Exchange Board of India (SEBI) is the regulatory authority responsible for supervising and regulating the securities market. Established in 1992, SEBI ensures investor protection, market fairness, and orderly functioning of stock markets.

SEBI is empowered by the SEBI Act, 1992 to regulate, develop, and monitor the securities market.

### **Statutory Powers of SEBI**

- ✓ Derived from the SEBI Act, 1992.
- ✓ Authority to regulate intermediaries, stock exchanges, and market participants.
- ✓ Power to draft rules, guidelines, and regulations for securities markets.
- ✓ Ability to inspect, investigate, and enforce compliance.

### **Key Powers of SEBI**

#### **1. Regulatory Powers**

- ✓ Regulates stock exchanges, depositories, brokers, mutual funds, and other intermediaries.

#### **2. Investigative Powers**

- ✓ Can investigate suspected fraud, market manipulation, or insider trading.

#### **3. Enforcement Powers**

- ✓ Can impose penalties for violations of securities laws.

#### **4. Developmental Powers**

- ✓ Promotes investor education and awareness.

#### **5. Protective Powers**

- ✓ Safeguards investor interests.

## **Importance of SEBI's Powers**

- ✓ Maintains trust and stability in financial markets.
- ✓ Protects investors from fraud and malpractice.
- ✓ Encourages fair competition and efficient functioning.
- ✓ Ensures transparency, accountability, and market integrity.

## **5.2 SEBI and its functions**

The Securities and Exchange Board of India (SEBI) is the regulatory authority that supervises and controls the securities market. It was established in 1992 to protect investor interests and promote the orderly development of stock markets.

### **Primary Functions of SEBI**

#### **1. Regulatory Functions**

- ✓ Regulates stock exchanges, brokers, sub-brokers, and other intermediaries.

#### **2. Developmental Functions**

- ✓ Promotes investor education and awareness programs.
- ✓ Works to develop efficient, transparent, and competitive financial markets.

#### **3. Protective Functions**

- ✓ Protects investors from unfair trade practices like price manipulation and insider trading.
- ✓ Implements strict disclosure norms for listed companies.

### **Other Important Functions of SEBI**

- ✓ Inspects intermediaries like brokers and mutual funds to ensure compliance.
- ✓ Regulates public issues like IPOs, FPOs, and rights issues.

## Importance of SEBI's Functions

- ✓ Builds investor confidence in capital markets.
- ✓ Enhances market efficiency, transparency, and safety.
- ✓ Supports economic growth by mobilising savings for productive investments.
- ✓ Creates a fair, competitive, and regulated market environment.

## **5.3 Over the Counter Exchange of India (OTCEI) and its functions**

The Over the Counter Exchange of India (OTCEI) is a stock exchange designed to help small and medium-sized companies raise capital by listing their securities. Established in 1990, OTCEI provides a nationwide, electronic platform for transparent trading of securities, mainly for companies that may not meet the listing requirements of major stock exchange.

### Features of OTCEI

- ✓ First screen-based, electronic exchange for smaller companies.
- ✓ Provides liquidity to investors in unlisted or less-known companies.
- ✓ Promotes transparent and efficient trading.
- ✓ Encourages small businesses to access public funds easily.
- ✓ Regulated by the Securities and Exchange Board of India (SEBI).

### Functions of OTCEI

1. Facilitates Capital Raising for Small Companies
2. Provides Trading Platform for Investors
3. Encourages Nationwide Participation
4. Enhances Transparency and Efficiency
5. Supports Economic Growth

## **5.4 OTCEI Mechanism**

The Over the Counter Exchange of India (OTCEI) provides an electronic, screen-based platform for buying and selling securities of small and medium- sized companies. Unlike traditional stock exchanges, OTCEI works through a decentralised network of counters (terminals) located across the country.

### **Step-by-Step Mechanism of OTCEI**

- 1. Listing of Companies**
- 2. Appointed Dealers/Counter System**
- 3. Screen-Based Trading**
- 4. Market Making System**
- 5. Trade Execution and Settlement**

### **Advantages of OTCEI Mechanism**

- ✓ Easy access for small investors across the country.
- ✓ Encourages participation from smaller businesses.
- ✓ Promotes transparent, screen-based trading.
- ✓ Reduces transaction costs and paperwork.
- ✓ Ensures fair price discovery through electronic system.