

Secondary Stage



In Accordance with
NCF 2023

12
CBSE

A Textbook of **Financial Markets Management**

Skill Education | CODE 805



FULLMARKS

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Full Marks

Progressive Educational Publishers

Published by:

Full Marks

4594A/9, Daryaganj, New Delhi-110002

Phone: 011-43776625

Website: www.fullmarks.org

E-mail: info@fmpl.in

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PREFACE

Financial Skills are indispensable abilities that enable learners to make well-informed judgments and decisions regarding money management. These skills play a crucial role in enhancing quality of life and living standards by promoting practices such as budgeting, disciplined saving, and intelligent use of credit for important life milestones like home purchasing, education planning, marriage, retirement, etc. In the 22nd century, possessing strong financial skills will be essential for navigating the complexities of an increasingly interconnected and dynamic global economy.

This book has been meticulously crafted to provide learners with a clear and comprehensive understanding of various aspects of financial management. It covers topics ranging from the basics of trading to the intricacies of different investment products such as equity, futures, and options. By delving into these concepts, learners will gain the knowledge and confidence to navigate the world of investment and trading practices effectively, ultimately empowering them to make sound financial decisions that contribute to their long-term financial well-being.

Your feedback and suggestions for further improvement of the book are highly valued.

–Publishers

SYLLABUS

	UNITS	NO. OF HOURS for Theory and Practical 260	MAX. MARKS for Theory and Practical 100
PART A	Employability Skills		
	Unit 1: Communication Skills-IV*	13	–
	Unit 2: Self-Management Skills-IV	07	03
	Unit 3: ICT Skills-IV	13	03
	Unit 4: Entrepreneurial Skills-IV	10	04
	Unit 5: Green Skills-IV*	07	–
	Total	50	10
PART B	Subject Specific Skills		
	Unit 1: Introduction to Indian Securities Market and Trading Membership	25	10
	Unit 2: Trading	25	10
	Unit 3: Clearing and Settlement, Legal Framework	25	10
	Unit 4: Financial Statement Analysis	17	08
	Unit 5: Introduction to Derivatives	11	04
	Unit 6: Future Contracts, Mechanism and Pricing	17	08
	Total	120	50
PART C	Practical Work		
	Project / Practical Activities	15	10
	Viva based on Project	05	05
	Practical File/ Report or Portfolio	10	05
	Demonstration of skill competency on NSMART software (NSE Smart Equity and NSE Smart Derivatives)	60	20
	Total	90	40
	Grand Total	260	100

NOTE: * Marked units are to be assessed through Internal Assessment/ Student Activities. They are not to be assessed in Theory Exams

UNIT	SUB-UNIT	SESSION/ ACTIVITY/ PRACTICAL
1. Introduction to Indian Securities Market and Trading Membership	Securities Market segments and products	Session-1
		1.1 Market Segments
		1.1.1 Primary Market 1.1.2 Secondary Market
		1.2 Key Indicators of Securities Market
		1.2.1 Index 1.2.2 Market Capitalisation.
		1.2.3 Market Capitalisation Ratio 1.2.4 Turnover
		1.2.5 Turnover Ratio
		1.3 Products and Participants
		1.3.1 Products 1.3.2 Participants
		1.4 Market Segments and their Products
Activity		
		• Presentation on Primary and secondary market, Role play, presentation on NSE trading products

	<p>Market Reforms</p>	<p>Session -2 1.5 Reforms in Indian Securities Markets</p> <ul style="list-style-type: none"> • Creation of Market Regulator • Reduction of Trading Cycle • Demutualization • Clearing Corporation • Globalization • Direct Market Access • Launch of Securities Lending & Borrowing Scheme • Launch of Currency Futures • ASBA: Application Supported by Blocked Amount (ASBA) • Launch of Interest Rate Futures • Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009 <p>Activity ASBA project through net banking, case on globalization etc.</p>
	<p>Trading Memberships</p>	<p>Session -3 1.6 Stock Brokers 1.7 NSE Membership 1.7.1 New Membership 1.7.2 Eligibility Criteria for Membership at NSE 1.7.3 Admission Procedure for New Membership 1.8 Surrender of Trading membership 1.9 Suspension & Expulsion of Membership 1.9.1 Basis of Suspension of Membership 1.9.2 Suspension of Business 1.9.3 Removal of Suspension 1.9.4 Consequences of Suspension 1.9.5 Consequences of Expulsion 1.10 Declaration of Defaulter 1.11 Authorized Persons 1.12 Sub-Brokers 1.12.1 Eligibility 1.12.2 Registration 1.12.3 Cancellation of Registration 1.13 Broker-Clients Relations 1.13.1 Client Registration Documents 1.13.2 Unique Client Code (UCC) 1.13.3 Margins from the Clients 1.13.4 Execution of Orders 1.13.5 Contract Note 1.13.6 Payments/Delivery of Securities to the Clients 1.13.7 Brokerage 1.13.8 Segregation of Bank Accounts 1.13.9 Segregation of Demat (Beneficiary)Accounts 1.14 Sub-Broker-Clients Relations 1.14.1 Relationship with clients 1.14.2 Contract notes 1.14.3 Securities/Funds 1.15 Investor Service Cell and Arbitration 1.16 Code of Advertisement Activity Visit to Broker house. Role play, Quiz contest and presentation on the operations of Broke House</p>
<p>2. Trading</p>	<p>Overview of Trading network and NEAT Screen</p>	<p>Session -1 2.1 Introduction 2.2 NEAT System 2.3 Market Types 2.4 Trading System Users Hierarchy 2.5 Local Database 2.6 Market Phases 2.7 Logging On 2.8 Log Off / Exit from the Application 2.9 NEAT Screen Activity • Presentation on NEAT Screen, visit to broker house, discussion on market phases and its operations.</p>
	<p>Inquiry Screens</p>	<p>Session -2 2.10 Invoking an Inquiry Screen</p> <ul style="list-style-type: none"> • Market Watch Security Descriptor Previous Trades Outstanding Orders Activity Log • Order Status Snap Quote Market Movement Market Inquiry Auction Inquiry • Security /Portfolio List • Multiple Index Broadcast and Graph Online Backup • Basket Trading Buy Back Trades <p>Activity • NEAT Screen Key Features, NSMART Trading Features, Trading Techniques etc.</p>

	<p>Understanding Interest Rates and index significance</p>	<p>Session -2 5.6 Understanding Interest Rates 5.7 Understanding the Stock Index 5.8 Economic Significance of Index Movements Activity • Calculate interest rates, Discuss and Design Micro and Macro Factors of index movements</p>
	<p>Index Constructions and its Attributes</p>	<p>Session - 3 5.9 Index Construction 5.10 Desirable Attributes of An Index 5.11 Applications of index Activity • Understand that how Indian stock market index calculate, presentation on index and its applications</p>
<p>6. Future Contracts, Mechanism and Pricing</p>	<p>Forward vs Future Contracts and Future terminology</p>	<p>Session - 1 6.1 Forward 6.2 Limitations of Forward Markets 6.3 Introduction to Futures 6.4 Distinction between Futures and Forwards Contracts 6.5 Futures Terminology 6.6 Trading Underlying Vs. Trading Single Stock Futures 6.7 Futures Payoffs 6.8 Pricing Futures 6.8.1 Price equity index future 6.8.2 Price equity index future with dividend amount 6.8.3 Price equity index future with dividend yield 6.8.4 Price stock future 6.8.5 Price stock future with no dividend 6.8.6 Price stock future with dividend expected 6.9 Understanding Beta (β) 6.10 Numerical Illustration of Applications of Stock Futures 6.10.1 Hedging : Long securities , sell future 6.10.2 Speculation : Bullish securities , Buy future 6.10.3 Speculation : Bearish securities , sell future 6.10.4 Arbitrage: Overpriced future , Buy Spot , sell future 6.10.5 Arbitrage : Underpriced future , Buy future , sell spot 6.11 Hedging using Stock Index Futures 6.11.1 Selling index Future Activity • Presentation or panel discussion on Forward vs Future Contracts, Presentation on Payoff Position, Calculations on Future Pricing with Beta</p>
	<p>Option Terminology</p>	<p>Session -2 6.11 Option Terminology 6.12 Difference between Future and Option 6.13 Option Payoff 6.14.1 Payoff profile for buyer 6.14.2 Payoff profile for seller 6.14.3 Payoff profile for buyer of call option 6.14.4 Payoff profile for writer of call option 6.14.5 Payoff profile for buyer of put option 6.14.6 payoff profile for writer of put option 6.15 Application of Option 6.15.1 Hedging : Have underlying buy put 6.15.2 Speculation : Bullish Security , buy call , sell put 6.15.3 Speculation : Bearish security , sell call, buy put 6.15.4 Bull Spread 6.15.5 Bear Spread Activity • Panel discussion on Future vs Option Contracts, Presentation on Option Terminology. Visit broker house to learn Trading techniques of Future and Option. Trade through NSMART and create position in F&O.</p>

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Unit-1: Introduction to Indian Securities Market and Trading Membership

1 Securities Market Segments and Products

Learning Outcomes

1.1 Market Segments

1.3 Products and Participants

1.2 Key Indicators of Securities Market

1.4 Market Segments and their Products



1.1 Market Segments

Securities markets serve as a means for directing savings toward individuals or entities with productive investment needs. These markets consist of two closely connected parts the primary market and the secondary market.

1.1.1 Primary Market

The primary market provides an avenue for issuers, including governments and corporations, to raise funds to fulfill their investment requirements. Securities, whether in the form of equity or debt, can be issued in domestic or international markets at their face value, a discount, or a premium.

The issuance of securities in the primary market can occur through either public offerings or private placements. According to the Companies Act, 1956, an issue is considered public when it results in the allocation of securities to 50 or more investors. However, when the issuer issues securities to a select group of individuals, not exceeding 49, and it's neither a rights issue nor a public offering, it's referred to as a private placement.

1.1.2 Secondary Market

The secondary market pertains to a marketplace where securities are traded subsequent to their initial offering in the primary market or their listing on a stock exchange. The secondary market encompasses equity, derivatives, and debt markets. It operates through two main channels: the Over-the-Counter (OTC) market and the Exchange-Traded market. OTC markets are informal platforms where trade agreements are negotiated.

1.2 Key Indicators of Securities Market

1.2.1 Index

An Index is employed to provide insights into the price fluctuations of items in financial, commodities, or other markets. Stock market indices aim to encapsulate the overall performance of equity markets. The formation of a stock market index involves the selection of a collection of stocks that symbolize either the entire market, a specific sector, or a designated market segment. An example of this is the CNX Nifty, which is the NSE's blue-chip index.

1.2.2 Market Capitalisation

Market capitalisation represents the total value of all shares listed on a country's stock exchanges and is calculated daily. To determine the market capitalization of a specific company on a given day, you multiply the number of outstanding shares by the closing share price. Here, “outstanding shares” refers to the total number of shares available for trading in the stock market.

$$\text{Market Capitalization} = \text{Closing Share Price} * \text{Number of Outstanding Shares}$$

Similarly, when calculating the market capitalisation of all companies listed on an exchange, you sum up the market capitalisations of all the companies traded on that exchange.

1.2.3 Market Capitalisation Ratio

The market capitalisation ratio is the market capitalisation of all stocks divided by the country's Gross Domestic Product (GDP). This ratio serves as an indicator of the size of the stock market relative to the overall economy.

1.2.4 Turnover

Turnover for an individual share is calculated by multiplying the quantity of shares traded by the price at which the trade occurs. Likewise, to compute the turnover of all the companies listed on an exchange, you aggregate the total traded value of all those companies.

1.2.5 Turnover Ratio

The turnover ratio is defined as the total value of shares traded on a country's stock exchange during a specific period divided by the market capitalisation at the end of that period. This ratio is used to gauge the level of trading activity or liquidity in the stock markets.

$$\text{Turnover Ratio} = \text{Turnover at Exchange} / \text{Market Capitalisation at Exchange}$$

1.3 Products and Participants

Products: Financial markets mobilize funds from savers to investors. It acts as a link between savers and investors by a variety of intermediaries through a range of complex financial products called securities.

Under the Securities Contracts (Regulation) Act SC(R) A, 1956, securities include

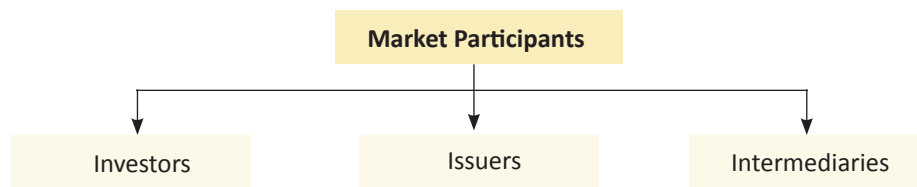
- (i) shares, bonds, scrips, stocks or other marketable securities of like nature in or of any incorporate company or body corporate
- (ii) government securities
- (iii) derivatives of securities
- (iv) units of collective investment scheme, interest and rights in securities, and security receipt or any other instruments so declared by the central government

Broadly, securities can be of three types-equities, debt securities and derivatives.

Participants: The securities market has essentially three categories of participants – the investors – the issuers – and the intermediaries.

Who Regulates Them?

These participants are regulated by the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), Ministry of Corporate Affairs (MCA) and the Department of Economic Affairs (DEA) of the Ministry of Finance.



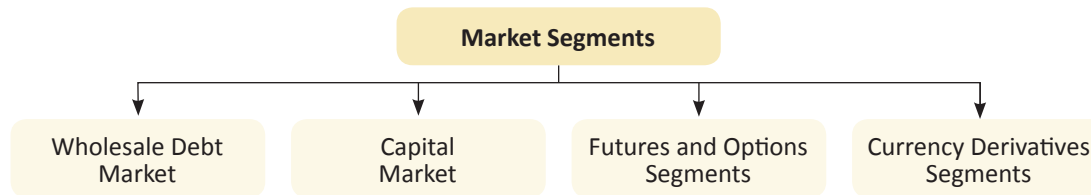
Market Participants
Investors
Individual Investors
Corporate Investors
Foreign Venture Capital Investors
FIIIs
Depositories
Stock Exchanges
With Equities Trading
With Debt Market Trading
With Derivative Trading
With Currency Derivatives
Brokers
Corporate Brokers
Sub-brokers
Portfolio Managers
Custodians
Registrars to an issue & Share Transfer Agents
Primary Dealers
Merchant Bankers
Bankers to an Issue
Debenture Trustees
Underwriters
Venture Capital Funds
Mutual Funds
Collective Investment Schemes

1.4 Market Segments and their Products

National Stock Exchange (NSE) provides trading in four different segments

- (i) Wholesale Debt Market
- (ii) Capital Market
- (iii) Futures and Options
- (iv) Currency Derivatives Segment

It is depicted in the below figure.



- (i) **Wholesale Debt Market (WDM) Segment:** NSE's WDM Segment began operating in June 1994 and serves as a trading platform for a wide variety of debt securities. These include government securities issued by both State and Central Governments, Treasury Bills (T-Bills), bonds from Public Sector Undertakings (PSUs), corporate debentures, Commercial Papers, and Certificate of Deposits, among others.
- (ii) **Capital Market (CM) Segment:** NSE's CM Segment commenced operations in November 1994, featuring a fully automated screen-based trading system known as the National Exchange for Automated Trading (NEAT) system. This system facilitates the trading of various securities such as equity shares, warrants, and debentures.
- (iii) **Futures & Options (F&O) Segment:** NSE's F&O Segment, launched in June 2000, offers trading in derivative instruments including index futures, index options, stock options, and stock futures.
- (iv) **Currency Derivatives Segment (CDS) Segment:** The CDS Segment at NSE began its operations on August 29, 2008, with the introduction of currency futures trading in the US Dollar-Indian Rupee (USD-INR) pair. Subsequently, trading in other currency pairs like Euro-INR, Pound Sterling-INR, and Japanese Yen-INR became available in February 2010. Additionally, 'interest rate futures' became a tradable product on this segment starting from August 31, 2009.

Summary

- Securities markets play a crucial role in the allocation of savings to entities with productive needs, operating through two intertwined segments: the primary market and the secondary market.
- The primary market serves as a platform for government and corporate issuers to raise resources for investments, offering securities in the form of equity or debt at face value, discount, or premium.
- Issuances in the primary market can take the form of public issues, involving 50 or more investors, or private placements to a select group of fewer than 49 investors.
- In contrast, the secondary market is where securities are traded after their initial offering, encompassing equity, derivatives, and debt markets. This market operates through Over-the-Counter (OTC) and Exchange-Traded mediums, with OTC markets facilitating informal negotiations.
- Market indicators such as indices, turnover, and market capitalization play a pivotal role in understanding and assessing the dynamics of securities markets. Indices, exemplified by the NSE's CNX Nifty, provide insights into overall market behaviour by selecting representative stocks.
- Turnover, calculated by multiplying traded quantity with trade price, serves as a measure of trading activity, while market capitalization, computed by multiplying closing prices with outstanding shares, reflects the value of all listed shares on exchanges.

- The NSE operates in various market segments, including the Wholesale Debt Market (WDM), Capital Market (CM), Futures & Options (F&O), and Currency Derivatives Segment (CDS).
- Each segment offers a diverse range of financial instruments, contributing to the growth and complexity of the Indian securities market.

Glossary

- 1. Primary Market** : it provides an avenue for issuers, including governments and corporations, to raise funds to fulfill their investment requirements
- 2. Secondary Market** : it pertains to a marketplace where securities are traded subsequent to their initial offering in the primary market or their listing on a stock exchange

Abbreviations

- **OTC** : Over-the-Counter
- **DPG** : Dominant Promoter Group
- **WDM Segment** : Wholesale Debt Market Segment
- **IFSD** : Interest Free Security Deposit
- **CM** : Capital Market
- **CSD** : Collateral Security Deposit
- **CDS** : Currency Derivatives Segment
- **F&O** : Futures & Options
- **TM** : Trading Membership
- **CDS** : Currency Derivatives Segment

Exercises

CBSE Textbook Questions with Answers

Answer the following questions.

1. The refers to the market where securities are traded after being offered to the public in the primary market?
(a) Primary Market (b) Secondary Market (c) Both (a) & (b) (d) None of these
2. is used as a measure of trading activity of liquidity in the stock markets?
(a) Market Capitalisation (b) Market Capitalisation Ratio
(c) Turnover (d) Turnover Ratio
3. Which of these is/are a Market Participant(s)?
(a) Investors (b) Issuers (c) Intermediaries (d) All of the above

Answers:

1. (b)
2. (d)
3. (d)

Additional Questions with Answers

I. Objective Type Questions

(1 Mark)

- What is the primary purpose of securities markets?
 - To direct savings toward individuals or entities with productive investment needs.
 - To provide a marketplace for stock trading.
 - To issue securities to multiple investors.
 - To regulate the buying and selling of securities.
- What are the two closely connected parts of securities markets?
 - The domestic market and the international market.
 - The equity market and the debt market.
 - The primary market and the secondary market.
 - The private placement market and the public offering market.
- Which type of market includes trade agreements negotiated on informal platforms?
 - Secondary market
 - Exchange-Traded market
 - Over-the-Counter (OTC) market
 - Primary market
- What is the formula for calculating market capitalization?
 - Number of Outstanding Shares/Closing Share Price
 - Number of Outstanding Shares-Closing Share Price
 - Closing Share Price Number of Outstanding Shares
 - Closing Share Price + Number of Outstanding Shares
- How does a stock market index encapsulate the overall performance of equity markets?
 - By selecting a collection of stocks that symbolize either the entire market, a specific sector, or a designated market segment.
 - By providing a marketplace for subsequent trading of securities.
 - By issuing securities in domestic or international markets at face value, a discount, or a premium.
 - By providing insights into the price fluctuations of items in financial, commodities, or other markets.
- Which segment of the NSE facilitates the trading of various securities such as equity shares, warrants, and debentures?
 - Capital Market (CM) Segment
 - Currency Derivatives Segment (CDS)
 - Wholesale Debt Market (WDM) Segment
 - Futures & Options (F&O) Segment
- When did NSE's F&O Segment launch?
 - November 1994
 - June 1994
 - August 2008
 - June 2000
- In which currency pair did the CDS Segment begin its operations?
 - Japanese Yen-INR
 - Pound Sterling-INR
 - Euro-INR
 - US Dollar-Indian Rupee (USD-INR)
- What are the eligibility criteria for becoming a trading member of NSE according to the text?
 - Individuals, partnership firms, limited liability partnerships registered under the Limited Liability Partnership Act, 2008, institutions including subsidiaries of banks engaged in financial services, and body corporates including companies.
 - Only individuals
 - Only body corporates including companies
 - Only institutions including subsidiaries of banks
- Which module does an applicant need a valid certificate in to be eligible for new membership at NSE?
 - Capital Market (Dealers) Module
 - National Institute of Securities Markets (NISM) Series I-Currency Derivatives Certification Examination

(c) Derivatives Market (Dealers) Module

(d) Securities Market (Basic) Module or Compliance Officers (Brokers) Module or the relevant module related to the specific Exchange membership being sought

Answers:

- | | | | | | |
|--------|--------|--------|---------|--------|--------|
| 1. (a) | 2. (c) | 3. (c) | 4. (c) | 5. (a) | 6. (a) |
| 7. (d) | 8. (d) | 9. (a) | 10. (d) | | |

II. Short Answer Type Questions-I

(2 Marks)

1. When did Wholesale Debt Market (WDM) Segment begin?

Ans. NSE's WDM Segment began operating in June 1994 and serves as a trading platform for a wide variety of debt securities.

2. WDM includes what?

Ans. These include government securities issued by both State and Central Governments, Treasury Bills (T-Bills), bonds from Public Sector Undertakings (PSUs), corporate debentures, Commercial Papers, and Certificate of Deposits, among others.

3. What is Capital Market (CM) Segment

Ans. NSE's CM Segment commenced operations in November 1994, featuring a fully automated screen-based trading system known as the National Exchange for Automated Trading (NEAT) system. This system facilitates the trading of various securities such as equity shares, warrants, and debentures.

4. What is Futures & Options (F&O) Segment?

Ans. NSE's F&O Segment, launched in June 2000, offers trading in derivative instruments including index futures, index options, stock options, and stock futures.

5. When did the CDS Segment at NSE begin its operations?

Ans. August 29, 2008, with the introduction of currency futures trading in the US Dollar-Indian Rupee (USD-INR) pair.

6. What is the main purpose of the securities market?

Ans. To direct savings towards individuals or entities with productive investment needs.

7. What are the two main parts of the securities market?

Ans. The primary market and the secondary market.

8. What is the difference between a public offering and a private placement?

Ans. A public offering results in allocation of securities to 50 or more investors, while a private placement is issued to a select group of individuals not exceeding 49.

9. How is the market capitalization ratio calculated?

Ans. It is calculated by dividing the market capitalization of all stocks by the country's Gross Domestic Product (GDP).

10. What was the purpose behind the establishment of the Securities and Exchange Board of India (SEBI)?

Ans. To safeguard the interests of securities investors, foster the development of the securities market, and regulate the activities within the securities market.

11. What was the main advantage of the online fully automated screen-based trading system introduced by NSE in 1994?

Ans. It brought efficiency, liquidity, and transparency to stock trading.

12. What was the main aim of reducing the trading cycle period from T+5 to T+2 days?

Ans. To streamline and standardize the stock trading process.

13. What led to the introduction of equity derivatives trading in India?

Ans. The lifting of the ban on options in securities through an amendment to the Securities Contracts (Regulation) Act in 1995.

14. What are the benefits of demutualization of stock exchanges?

Ans. Separation of ownership, management, and trading among different entities, which eliminates potential conflicts of interest and enhances exchange integrity.



15. Why were depositories like NSDL and CDSL established?

Ans. To electronically transfer securities and eliminate issues with physical certificates.

16. What was the purpose behind establishing the National Securities Clearing Corporation Ltd. (NSCCL)?

Ans. To address credit risk concerns associated with the introduction of the anonymous electronic order book by NSE.

III. Short Answer Type Questions-II

(3 Marks)

1. What is the primary function of the primary market in the securities market?
2. According to the Companies Act, when is an issue considered public?
3. What does the secondary market encompass, and how does it operate?
4. How is market capitalization calculated for an individual company?
5. What is the market capitalization ratio, and what does it indicate?
6. List the three broad types of securities.
7. What are the three categories of market participants in the securities market?
8. When did NSE introduce the Wholesale Debt Market (WDM) Segment?
9. What does the Capital Market (CM) Segment of NSE facilitate the trading of?
10. When did NSE launch the Futures & Options (F&O) Segment?

IV. Long Answer Type Questions

(4 Marks)

1. Explain the role of the primary market in the securities market, detailing the methods of issuing securities and distinguishing between public and private placements.
2. Discuss the significance of the secondary market, elaborating on its channels of operation and the types of securities traded.
3. Explore the key indicators of the securities market, including indices, market capitalization, turnover, and their respective roles in assessing market dynamics.
4. Provide an in-depth analysis of the different market segments operated by NSE, such as Wholesale Debt Market, Capital Market, Futures & Options, and Currency Derivatives Segment.
5. Summarize the key points about the Indian securities market, including its evolution, primary and secondary market functions, and the role of various market participants and regulators.

Previous Years' Board Questions

I. Objective Type Questions

(1 Mark)

1. Name the informal market where the trades are negotiated. (CBSE SP 2021-22)
(a) Primary Market (b) Exchange Traded Market
(c) Over-the-Market (d) Over-the-Counter Market
2. Which Market segment was initially introduced in National Stock Exchange? (CBSE SP 2021-22)
(a) Retail Debt Market (b) Wholesale Debt Market
(c) Currency Derivatives Market (d) Over-the-Counter Market
3. Which entity cannot apply for the membership in National Stock Exchange? (CBSE SP 2021-22)
(a) Social Welfare societies (b) Individuals
(c) Partnership Firms (d) Body Corporate
4. Is there any lock in period of deposits of the trading member applicable in case of surrender of trading membership? (CBSE SP 2021-22)
(a) Yes, if the member SEBI registered but not enabled
(b) No, if the member SEBI registered but not enabled
(c) Yes, if the member not get defaulter (d) No, there is no lock-in at all

4. Which of the following the trading member is not deemed guilty of misconduct? (CBSE SP 2021-22)
(a) Improper conduct. (b) Failure to submit to or abide by arbitration.
(c) Failure to carry out transactions with constituents.
(d) Failure to submit audited accounts.
5. Which of the following conditions the relevant authority may require a trading member to suspend its business in part or in whole. (CBSE SP 2021-22)
(a) Unsatisfactory Financial Condition (b) Satisfactory Financial Condition
(c) Unsatisfactory Social Condition (d) Unsatisfactory Market Condition
6. Which of the following is true about the Authorized Person? (CBSE SP 2021-22)
(a) Member of Stock Exchange (b) Member of Regulatory
(c) Issue Contract Notes
(d) Provides access to trading platform of a stock exchange as an agent of the stock broker.
7. Find the process of delivering securities to the clearing corporation to effect settlement of a sale transaction. (CBSE SP 2021-22)
(a) Securities Pay out (b) Securities Pay in (c) Funds Pay out (d) Funds pay in
8. The securities market has essentially three categories of participants (i) the investors, (ii) the issuers and (CBSE SP 2023-24)
(a) Foreigners (b) the Intermediaries (c) Government (d) Regulators
9. are users at the lowest level of the hierarchy. (CBSE SP 2023-24)
(a) Corporate Manager (b) Branch Manager (c) City Manager (d) Dealer

II. Very Short Answer Type Questions

(1 Mark)

1. What is Rolling settlement? (CBSE SP 2019-20)
2. What are the two independent and inseparable segments of the securities market? (CBSE SP 2020-21)
3. Define Primary market? (CBSE SP 2020-21)
4. How does Member's Net Worth calculate? (CBSE SP 2020-21)
5. Define 'T' Day? (CBSE SP 2020-21)
6. Name the process of delivering securities to the clearing corporation to effect settlement of a sale transaction? (CBSE SP 2021-22)
7. What is meant by Primary Market? (CBSE SP 2023-24)
8. What is meant by Demutualisation? (CBSE SP 2023-24)

III. Short Answer Type Questions-I

(2 Marks)

1. Describe Internet Trading? (CBSE SP 2019-20)

IV. Short Answer Type Questions-II

(3 Marks)

1. What is Contract Note? Write the information detail mentioned on the contract Note? (CBSE SP 2019-20)



Suggested Learning Activities

- A. Imagine you are a financial consultant tasked with educating a group of potential investors about the primary and secondary markets. Develop a brief presentation that highlights the key differences between the primary and secondary markets. **Critical Thinking**
- B. You and your classmates are assigned roles to participate in a mock presentation about NSE trading products. Each participant will represent a different trading product, such as equities, derivatives or bonds. Your task is to conduct a role-play presentation where each participant explains the key features, advantages and risks associated with their assigned trading product. **Creativity**



Unit-1: Introduction to Indian Securities Market and Trading Membership

2

Market Reforms

Learning Outcome

2.1 Reforms in Indian Securities Markets



2.1 Reforms in Indian Securities Markets

Over time, the Indian securities market has experienced significant transformations and substantial growth, particularly in terms of raising funds, the emergence of intermediaries, the increase in the number of listed stocks, market capitalization, trading activity, and the number of investors. Here are the key reform measures implemented since 1992.

2.1.1 Creation of Market Regulator

The Securities and Exchange Board of India (SEBI), India's securities market regulatory authority, was established under the SEBI Act of 1992. Its primary objectives are to:

- safeguard the interests of securities investors
- foster the development of the securities market
- regulate the activities within the securities market

2.1.2 Screen Based Trading

Prior to the establishment of the National Stock Exchange (NSE), stock trading in India relied on an open outcry system, which was inefficient and time-consuming due to its inability to instantly match or record trades. In November 1994, NSE introduced a nationwide online fully automated screen-based trading system (SBTS) in the Capital Market (CM) segment, bringing efficiency, liquidity, and transparency to stock trading.

2.1.3 Reduction of Trading Cycle

Previously, the trading cycle for stocks varied from 14 to 30 days, with settlement taking an additional fortnight. To streamline this process and ensure uniformity, all exchanges were mandated to adopt a consistent weekly trading cycle. In December 2001, all stocks were moved to a rolling settlement system, gradually reducing the settlement period from T+5 to T+3 days. Since April 2003, a T+2 days settlement cycle has been in effect.

2.1.4 Equity Derivatives Trading

To facilitate risk management through hedging, speculation, and arbitrage, the Securities Contracts (Regulation) Act (SC(R) A) was amended in 1995, lifting the ban on options in securities. Actual

trading in derivatives, including index futures, began in 2000 after a suitable legal and regulatory framework was established. The market now offers index futures, index options, single stock futures, and single stock options.

2.1.5 Demutualization

Traditionally, stock exchanges were owned and managed by brokers, which led to potential conflicts of interest and compromised exchange integrity. NSE adopted a demutualized governance structure, separating ownership, management, and trading among different entities. Currently, all stock exchanges in India follow a demutualized model.

2.1.6 Dematerialization

The old settlement system faced inefficiencies due to delays in settlement and the physical movement of paper-based securities. To address these issues, the Depositories Act of 1996 was enacted, leading to the establishment of depositories such as NSDL and CDSL. These depositories enable electronic transfers of securities, eliminating issues with physical certificates. Newly issued securities with an IPO of ₹ 10 crore or more must be compulsorily traded in dematerialized form.

2.1.7 Clearing Corporation

NSE established the National Securities Clearing Corporation Ltd. (NSCCL) in April 1996 to address credit risk concerns associated with the anonymous electronic order book introduced by NSE.

2.1.8 Investor Protection

To safeguard investor interests and promote awareness, the Investor Education and Protection Fund (IEPF) was established by the Central Government in October 2001. Exchanges and SEBI also maintain investor protection funds. Additionally, SEBI and stock exchanges have set up investor grievance/service cells and organize investor education programs.

2.1.9 Globalization

Indian companies have been permitted to raise resources overseas through issue of ADRs, GDRs, FCCBs and ECBs. Further, FIIs have been permitted to invest in all types of securities, including government securities and tap the domestic market. The investments by FIIs enjoy full capital account convertibility. They can invest in a company under portfolio investment route upto 24% of the paid up capital of the company. This can be increased up to the sectoral cap/statutory ceiling, as applicable to the Indian companies concerned, by passing a resolution of its Board of Directors followed by a special resolution to that effect by its general body. The Indian stock exchanges have been permitted to set up trading terminals abroad. The trading platform of Indian exchanges is now accessible through the Internet from anywhere in the world. RBI permitted two-way fungibility for ADRs/GDRs, which means that the investors (foreign institutional or domestic) who hold ADRs/GDRs can cancel them with the depository and sell the underlying shares in the market.

2.1.10 Launch of India VIX

Volatility index is a measure of market's expectation of volatility over the near term. It measures the amount by which an underlying Index is expected to fluctuate in the near term, based on the order

book of the underlying index options. India's first volatility index, India VIX (based on the Nifty 50 Index Option prices) was launched by NSE in April 2008.

2.1.11 Direct Market Access

In April 2008, SEBI allowed the direct market access (DMA) facility to the institutional investors. DMA allows brokers to offer their respective clients, direct access to the Exchange trading system through the broker's infrastructure without manual intervention by the broker.

2.1.12 Launch of Securities Lending & Borrowing Scheme

In April 2008, the Securities Lending & Borrowing mechanism was allowed. It allows market participants to take short positions effectively with less cost.

2.1.13 Launch of Currency Futures

On August 29, 2008, NSE launched trading in currency future contracts in the USD-INR pair for the first time in India. Trading in other currency pairs like Euro-INR, Pound Sterling-INR and Japanese Yen was further made available for trading in March 2010.

2.1.14 ASBA: Application Supported by Blocked Amount (ASBA)

Application Supported by Blocked Amount (ASBA) is a major primary market reform. It enables investors to apply for IPOs/FPOs and rights issues without making a payment. Instead, the amount is blocked in investors' own account and only an amount proportionate to the shares allotted goes out when allotment is finalized.

2.1.15 Launch of Interest Rate Futures

On August 31, 2009, futures on interest rate was launched on the National Stock Exchange.

2.1.16 Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009

In August 2009, the SEBI issued Issue of Capital and Disclosure Requirements (ICDR) Regulations 2009, replacing the Disclosure and Investor Protection (DIP) Guidelines 2000. ICDR Regulations 2009 would govern all disclosure norms regarding issue of securities.

Summary

- The Indian securities market has witnessed substantial growth and transformation since 1992, marked by reforms aimed at enhancing resource mobilization, intermediaries' role, the number of listed stocks, market capitalization, turnover, and the investor population.
- Key reforms include the establishment of the Securities and Exchange Board of India (SEBI) as the market regulator, the introduction of screen-based trading for efficiency and transparency, and the reduction of trading cycles.
- Equity derivatives trading was initiated in 2000, contributing to risk management and market speculation.
- The demutualization of stock exchanges separated ownership, management, and trading functions, reducing conflicts of interest.
- Membership in the NSE involves a two-stage admission process, with eligibility criteria based on corporate structure, capital adequacy, net worth, and other factors.

- Risk containment mechanisms, such as the concept of a Dominant Promoter/Shareholder Group, aim to identify and take action against key individuals in case of default. The net worth of members is calculated by summing up capital and free reserves, excluding non-allowable assets.
- Risk containment tools include Interest-Free Security Deposit (IFSD) and Collateral Security Deposit (CSD). IFSD must be in liquid cash, while CSD can be in cash or non-cash form, including bank guarantees and fixed deposit receipts.
- The admission process involves an examination and an interview with the Membership Recommendation Committee, ensuring that applicants meet the necessary educational and experience requirements.
- The trading members' role is crucial, and SEBI's regulations mandate the use of unique client codes and the collection of Permanent Account Numbers (PAN) for all clients.
- Investor complaints are handled by the Investor Service Cell (ISC), and trading members must comply with the Code of Advertisement when issuing advertisements in the media.
- It also touches on sub-brokers' role as intermediaries between stock brokers and clients in the capital market segment, highlighting the necessity for SEBI registration.
- In summary, the securities market in India is multifaceted, encompassing primary and secondary markets, diverse market segments, and a multitude of participants. Reforms and regulatory frameworks have played a pivotal role in shaping the market's growth, ensuring transparency, and protecting the interests of investors.

Glossary

- 1. Equity** : the value of an investor's stake in a company
- 2. Demutualization** : it is a process by which a private, member-owned company, such as a co-op, or a mutual life insurance company, legally changes its structure, in order to become a public-traded company owned by shareholders
- 3. Dematerialization** : it is the process of converting your physical shares and securities into digital or electronic form
- 4. Globalization** : it is a term used to describe how trade and technology have made the world into a more connected and interdependent place

Abbreviations

- **SEBI** : Securities and Exchange Board of India
- **NSE** : National Stock Exchange
- **SBTS** : Screen-based Trading System
- **NSCCL** : National Securities Clearing Corporation Ltd
- **IEPF** : Investor Education and Protection Fund
- **ASBA** : Application Supported by Blocked Amount
- **DIP** : Disclosure and Investor Protection



Exercises

CBSE Textbook Questions with Answers

Answer the following questions.

- SEBI grants a certificate to a stock broker subject to the conditions that the stock broker
 - Should pay the amount of fees for registration in the prescribed manner
 - Hold the membership of any stock exchange
 - Both (a) & (b)
 - None of these
- While considering the application of an entity for the grant of registration as a stock broker, SEBI checks out if the applicant?
 - Has any past experience in the business of buying, selling or dealing in securities.
 - Is eligible to be admitted as a member of a stock exchange:
 - Has the necessary infrastructure like adequate office space, equipment and manpower to effectively discharge his activities.
 - All of the above

Answers:

- (c)
- (d)

Additional Questions with Answers

I. Objective Type Questions

(1 Mark)

- What was the primary objective behind the establishment of the Securities and Exchange Board of India (SEBI) in 1992?
 - Facilitate stock trading
 - Increase market capitalization
 - Safeguard interests of securities investors
 - Introduce screen-based trading
- Which reform brought efficiency, liquidity, and transparency to stock trading in India in 1994?
 - Investor Protection
 - Reduction of Trading Cycle
 - Creation of Market Regulator
 - Screen-Based Trading
- In December 2001, the trading cycle for stocks was standardized by reducing the settlement period to how many days?
 - T + 14 days
 - T + 7 days
 - T + 5 days
 - T + 3 days
- What significant change occurred in 1995 regarding equity derivatives trading in India?
 - Introduction of single stock options
 - Amendment to allow options in securities
 - Dematerialization of securities
 - Establishment of clearing corporations
- What governance structure did the National Stock Exchange (NSE) adopt to eliminate potential conflicts of interest among brokers?
 - Mutualized
 - Demutualized
 - Centralized
 - Federated
- The Depositories Act of 1996 led to the establishment of depositories such as NSDL and CDSL, promoting:
 - Electronic transfers of securities
 - Paper-based settlements
 - Physical movement of securities
 - Stock exchange mergers
- Why was the National Securities Clearing Corporation Ltd. (NSCCL) established in April 1996 by NSE?
 - To regulate IPOs
 - To promote direct market access
 - To address credit risk concerns
 - To facilitate currency futures trading



8. What initiative was taken in October 2001 to safeguard investor interests and promote awareness?
(a) Introduction of screen-based trading (b) Launch of Interest Rate Futures
(c) Investor Education and Protection Fund (IEPF) (d) Globalization of Indian securities markets
9. When did NSE launch India's first volatility index, India VIX, based on the Nifty 50 Index Option prices?
(a) April 1996 (b) August 2008 (c) April 2008 (d) March 2010
10. What does Direct Market Access (DMA) allow institutional investors to do since its introduction in April 2008?
(a) Invest in global markets
(b) Access the exchange trading system without manual intervention
(c) Trade in currency futures (d) Participate in dematerialized trading
11. What is the purpose of the Investor Service Cell (ISC)?
(a) To issue SEBI registration certificates to sub-brokers
(b) To supervise advertising compliance by trading members
(c) To handle arbitration proceedings between trading members and investors
(d) To manage investor complaints and follow up with trading members for resolution

Answers:

1. (b) 2. (d) 3. (d) 4. (c) 5. (b) 6. (a)
7. (b) 8. (c) 9. (c) 10. (b) 11. (b)

II. Short Answer Type Questions-I**(2 Marks)**

1. What is the primary objective of SEBI?

Ans. SEBI's primary objectives are to safeguard the interests of securities investors, foster the development of the securities market, and regulate activities within the securities market.

2. When did NSE introduce a nationwide online fully automated screen-based trading system?

Ans. NSE introduced the screen-based trading system in November 1994.

3. What was the previous trading cycle for stocks before the adoption of a rolling settlement system?

Ans. The trading cycle for stocks varied from 14 to 30 days, with settlement taking an additional fortnight.

4. When did equity derivatives trading, including index futures and options, commence in India?

Ans. Equity derivatives trading began in 2000.

5. What does demutualization in stock exchanges involve?

Ans. Demutualization involves separating ownership, management, and trading among different entities.

6. What issue did the Depositories Act of 1996 address?

Ans. The Depositories Act of 1996 addressed inefficiencies in the settlement system due to delays and the physical movement of paper-based securities.

7. When was the National Securities Clearing Corporation Ltd. (NSCCL) established?

Ans. NSCCL was established in April 1996.

8. What major initiative was taken in October 2001 to safeguard investor interests?

Ans. The Investor Education and Protection Fund (IEPF) was established by the Central Government.

9. What did the globalization measures permit Indian companies to do in the securities market?

Ans. Globalization measures permitted Indian companies to raise resources overseas through ADRs, GDRs, FCCBs, and ECBs.

10. When was India's first volatility index, India VIX, launched?

Ans. India VIX was launched by NSE in April 2008

III. Short Answer Type Questions-II**(3 Marks)**

1. What were the major reform measures implemented in the Indian securities market since 1992?
2. What significant change did the globalization measures bring to Indian securities markets?
3. When did equity derivatives trading, including index futures and options, commence in India?
4. What is the primary objective of the Securities and Exchange Board of India (SEBI)?
5. How did the introduction of Screen-Based Trading in 1994 impact stock trading in India?
6. What was the motive behind reducing the trading cycle from T + 5 to T + 3 days and eventually to T + 2 days?

7. How did NSE address potential conflicts of interest in stock exchanges through demutualization?
8. When was India's first volatility index, India VIX, launched, and what does it measure?
9. What issue did the Depositories Act of 1996 address, and what were its outcomes?
10. Why was the National Securities Clearing Corporation Ltd. (NSCCL) established in April 1996?
11. What major initiative was taken in October 2001 to safeguard investor interests?

IV. Long Answer Type Questions

(4 Marks)

1. Discuss the evolution of the Indian securities market since 1992, highlighting key reforms and transformations.
2. Examine the impact of the creation of the Securities and Exchange Board of India (SEBI) in 1992 on the regulation and development of the securities market.
3. Discuss the significance of the launch of currency futures trading on August 29, 2008, by NSE, emphasizing its impact on the trading landscape in India.
4. Examine the major primary market reform introduced with the Application Supported by Blocked Amount (ASBA) mechanism, highlighting how it enables investors to apply for IPOs/FPOs without immediate payments.
5. Explain the amendments made in 1995 to the Securities Contracts (Regulation) Act (SC(R) A) and their impact on the commencement of equity derivatives trading, including index futures and options, in India in 2000.
6. Evaluate the implications of demutualization in Indian stock exchanges, emphasizing how it addressed conflicts of interest and contributed to the integrity of the exchange system.
7. Discuss the role and outcomes of the Depositories Act of 1996 in addressing inefficiencies in the settlement system through the establishment of depositories like NSDL and CDSL.
8. Examine the reasons behind the establishment of the National Securities Clearing Corporation Ltd. (NSCCL) in 1996, highlighting its role in addressing credit risk concerns associated with electronic order books.
9. Explore the initiatives taken in October 2001 to protect investor interests, specifically focusing on the establishment of the Investor Education and Protection Fund (IEPF) and its significance.
10. Analyze the Securities Lending & Borrowing Scheme introduced in April 2008, exploring how it allows market participants to take short positions effectively with lower costs.

Previous Years' Board Questions

I. Objective Type Questions

(1 Mark)

1. Who is called PCM (Professional Clearing Member)? (CBSE SP 2020-21)
 - (a) Professional Clearing Member who clear the trades of other but does not trade.
 - (b) Professional Clearing Member who clear the trades of other and own.
 - (c) Professional Clearing Member who clear own trades only.
 - (d) None of the Above
2. What does T+2 Rolling settlement Mean? (CBSE SP 2021-22)
 - (a) Weekly settlement
 - (b) Trade will get settled on the same day
 - (c) Trade will get settled in two working days
 - (d) It is non-settlement Period
3. Which category of membership entitles a member to execute trades and to clear and settle the trades executed on his own account as well as on account of his clients? (CBSE SP 2021-22)
 - (a) Trading Member
 - (b) Trading cum Clearing Member
 - (c) Self-Clearing Member
 - (d) Professional Clearing Member
4. Which Preliminary document require from where the Trading Member able to seek information such as investor's risk profile and financial profile?? (CBSE SP 2021-22)
 - (a) Uniform Requirement
 - (b) Know Your Client (KYC) requirements
 - (c) Member Constituent Agreement (MCA)
 - (d) Unique Client Code

4. This category of membership entitles a member to clear and settle trades of such members of the Exchange who choose to clear and settle their trades through this member. (CBSE SP 2023-24)
- (a) Trading Member (b) Trading cum self-clearing member
(c) Trading cum clearing member (d) Professional Clearing member
5. note is a confirmation of trade(s) done on a particular day for and on behalf of a client. (CBSE SP 2023-24)
- (a) Primary Market Note (b) Secondary Market Note
(c) Contract Note (d) Trading Member Note
6. The roles of several entities involved in the process of clearing and settling the trades executed on Exchanges except (CBSE SP 2023-24)
- (a) Clearing Corporation (b) Clearing Member
(c) Clearing Bank (d) Clearing Regulator

II. Very Short Answer Type Questions

(1 Mark)

1. Define Open Book? (CBSE SP 2019-20)
2. Who is Sub - Broker? (CBSE SP 2020-21)
3. What is SBTS? (CBSE SP 2020-21)
4. Define NEAT of NSE (CBSE SP 2020-21)
5. Define Pay-in Day? (CBSE SP 2020-21)
6. What is meant by Securities Pay-In? (CBSE SP 2023-24)

III. Short Answer Type Questions-I

(2 Marks)

1. "A trading member is deemed guilty of Misconduct acts". Name these acts. (CBSE SP 2020-21)
2. What is accounting period settlement? (CBSE SP 2020-21)

IV. Short Answer Type Questions-II

(3 Marks)

1. Under What condition the relevant authority suspend the business of trading member? (CBSE SP 2019-20)
2. Explain the conditions under which the relevant authority may require a trading member to suspend its business in part or in whole? (CBSE SP 2023-24)

V. Long Answer Type Questions

(4 Marks)

1. Write the detail of Client Broker registration documents. (CBSE SP 2020-21)
2. Mention the Norms in order to become DPG for various categories:
(a) Unlisted corporate trading member (b) foreign entities (CBSE SP 2020-21)
3. Explain Market Watch window? (CBSE SP 2020-21)



Suggested Learning Activities

- A. Assign case studies related to historical events or significant changes in the Indian securities market. Have students analyse and present their findings, emphasizing the impact of these events on the market and trading membership. **Critical Thinking**
- B. Identify and analyse the challenges posed by globalization in the context of the ASBA project. Discuss potential risks, such as currency exchange fluctuations and regulatory disparities. Highlight opportunities that arise from a global perspective, such as increased market access, diversified investment options, and collaboration with international financial institutions. **Experiential Learning**

About the Book

Financial Skills are indispensable abilities that enable learners to make will-informed judgments and decisions regarding money management. This book has been meticulously crafted to provide learners with a clear and comprehensive understanding of various aspects of financial management. It covers topics ranging from the basics of trading to the intricacies of different investment products such as equity, futures, and options. By delving into these concepts, learners will gain the knowledge and confidence to navigate the world of investment and trading practices effectively, ultimately empowering them to make sound financial decisions that contribute to their long-term financial well-being.

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E-mail: info@fmpl.in Website: www.fullmarks.org

MRP: ₹ 540.00



Inclusive of all taxes