Working Of The Stock Exchange, Mumbai.
WORKING ON THE STOCK EXCHANGE

A publication of the Stock Exchange, Mumbai

P. J. Towers, B. S. Marg, Fort, Mumbai - 400 001

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We are glad to publish the revised version of the Working of the Stock Exchange, Mumbai. This publication contains various aspects of functioning of the Stock Exchange, explained in a lucid language and simple manner by Shri S. T. Gerela, Chief Executive Officer, Clearing & Settlement of the Stock Exchange. The useful insights that this publication provides makes it an important source of reference for capital markets professionals.

DR. BANDI RAM PRASAD
General Manager
Economics and Research
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The Stock Exchange, Mumbai, popularly known as “BSE” was established in 1875 as “The Native Share and Stock Brokers Association”, as a voluntary non-profit making association. It has evolved over the years into its present status as the premier Stock Exchange in the country. It may be noted that the Stock Exchanges is the oldest one in Asia, even older than the Tokyo Stock Exchange, which was founded in 1878.

The Exchange, while providing an efficient and transparent market for trading in securities, upholds the interests of the investors and ensures redressal of their grievances, whether against the companies or its own member-brokers. It also strives to educate and enlighten the investors by making available necessary informative inputs and conducting investor education programmes.

A Governing Board comprising of 9 elected directors (one third of them retire every year by rotation), two SEBI nominees, a Reserve Bank of India nominee, six public representatives and an Executive Director is the apex body, which decides the policies and regulates the affairs of the Exchange.

The Executive Director as the Chief Executive Officer is responsible for the day-to-day administration of the Exchange.

The average daily turnover of the Exchange during the year 2000-2001 (April-March), was Rs.3984.19 crores and average number of daily trades was 5.69 lakhs. However, the average daily turnover of the Exchange during the year 2001-2002 has declined to Rs. 1244.10 crores and number of average daily trades during the period to 5.17 lakhs. The ban on all deferral products like BLESS and ALBM in the Indian capital Markets by SEBI w.e.f. July 2, 2001, abolition of account period settlements, introduction of Compulsory Rolling Settlements in all scrips traded on the Exchanges w.e.f. December 31, 2001, etc. have adversely impacted the liquidity and consequently there is a considerable decline in the daily turnover at the Exchange.

Some of the important aspects of the working of the Stock Exchange, Mumbai are discussed in this publication.
IMPORTANT READING ON CAPITAL MARKETS

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Membership of The Exchange

The investors can trade at the Exchange either through the members of the Exchange or through the sub-brokers, who are registered with SEBI through the members. An individual or a company formed in compliance with the provisions of Section 12 or Section 322 of the Companies Act, 1956 can become a member of the Exchange.

**Qualifications for becoming an individual member of the Exchange are:**
- Minimum age of 21 years.
- Citizenship of India: The Governing Board may in suitable case relax this condition.
- Not been adjudged bankrupt or insolvent.
- Not compounded with his creditors.
- Not been convicted of an offence involving fraud or dishonesty.
- Not engaged as principal or employee in any business other than that of securities.
- Not been, at any time, expelled or declared a defaulter by any other stock Exchange.
- Either matriculate or has the 10 plus 2 years qualification. Generally, however, preference is given to professionally qualified persons.

**Experience:** Minimum 2 years’ experience as a partner or authorized clerk or apprentice with a member of the Exchange or in other connected areas in capital market.

A partnership firm as such is not eligible to become member of the Exchange. However, partnership can be formed between two or more members, between a member and his family members, between two or more members and their family members.

A company, seeking membership of the Exchange, should have a minimum paid-up capital of Rs. 30 lakhs. Besides, minimum of its two directors should be appointed as designated directors, fulfilling the criteria for individual members, except the criteria relating to citizenship. The companies, which have become members, are known as corporate members of the Exchange. The corporate members can also hold multiple membership rights in a single company. Such members are called Composite Corporate members. The Composite Corporate members are entitled to various benefits and limits available to individual members in multiple of the membership rights held by them.
The applications for membership submitted by the applicants fulfilling various criteria as discussed above, are scrutinized by the Membership Committee appointed by the Exchange and the Committee recommends the same to the Governing Board. The applicants then get elected by the Governing Board. After paying the requisite fees, the applicant is admitted as the member of the Exchange and application is then forwarded by the Exchange to SEBI for registration. After getting SEBI registration, a member is required to comply with the requirements of net-work connectivity, insurance, maintenance of base minimum capital, opening of accounts with Clearing House and Clearing Bank etc. and thereafter, he is allowed to commence business on the Exchange.

Sub-brokers:

An individual, a partnership firm or a body corporate can become a sub-broker provided he satisfies the criteria relating to educational qualifications, experience, etc. and is affiliated to some member(s) of the Exchange. After scrutinizing the applications submitted by the sub-brokers, the same are forwarded to SEBI for registration. Once a sub-broker obtains certificate of registration from SEBI, he can commence business as a sub-broker. It may be noted that the sub-broker is an agent of the member and is allowed to issue confirmation memos to his clients for their transactions done by him through the main member-broker to whom he is affiliated.

The number of sub-brokers registered with the Exchange as on March 31, 2002 was 4,600(approx.).

Remisiers:

In order to provide an additional service to investors, the Exchange has introduced a concept of Remisier. Remisier is an entity which brings business to the member-broker and gets commission for the same. An individual or a partnership firm is eligible to become a remisier. An application for remisier is required to be approved by the Exchange. The remisier is not allowed to handle the securities and monies belonging to the clients. The clients get the contract notes issued by the member-brokers for their transactions. The monies and securities are directly exchanged by the clients with the member-brokers.

The number of remisiers registered with the Exchange as on March 31, 2002 was 487.

Status of the members of the Cash Segment as on March 31, 2002 was as under:

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Active members</th>
<th>No. of inactive member</th>
<th>Others*</th>
<th>Total no. of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual</td>
<td>127</td>
<td>63</td>
<td>25</td>
<td>215</td>
</tr>
<tr>
<td>Corporates</td>
<td>405</td>
<td>82</td>
<td>09</td>
<td>496</td>
</tr>
<tr>
<td>Total</td>
<td>532</td>
<td>145</td>
<td>34</td>
<td>711</td>
</tr>
</tbody>
</table>

Others*: include deceased, defaulters, insolvent and expelled.

It can be seen from the above that more than 75% of the active members are corporates.
The Exchange has set up a separate Membership Services Department (MSD) with a view to provide integrated one window services to its member-brokers and their associates.

The Membership Services Department has put in place a concept of “Account Manager” whereby an Officer of the Department has been made responsible for providing services to a specific set of members. The Account Managers are in constant touch with the members in their group so that the problems/issues faced by them can be immediately addressed. The Account Managers co-ordinate internally with other departments and provide the members with the possible solutions within the specified time frame. The suggestions from the members are also solicited by the Department so as to improve the working of the Exchange.
ECONOMICS & RESEARCH

- BSE Annual Capital Market Review
- Review of Markets
- Key Statistics of The Stock Exchange, Mumbai
- Capital Market Briefings
- Economics Briefings
- BSE Working Papers

Economics and Research Department
The Stock Exchange, Mumbai
On-Line Trading (BOLT)

BSE's On Line Trading System (BOLT) which commenced on March 14, 1995, was essentially meant to create an automated trading environment with the following objectives:

Objectives:
- Transparent deals.
- Improvement in Liquidity.
- Increase the market depth through continuity of quote and orders.
- Eliminate mismatches and mitigate settlement risks.
- Instantaneous dissemination of information through various data-feed channels.
- Structured MIS reports for analysis.
- Provide a robust and scalable trading system for growing volumes.

Technical Overview
BOLT is supported on the hardware front by the Tandem Non-Stop Himalaya System which is specifically designed to cater to the requirements of the On-Line Transaction Processing (OLTP) environment by providing:
- Continuous availability – for reliability and continuous operations.
- High Performance – for high through put and fast response time
- Scalability – to expand the system modularly with linear increases in performance
- Data Integrity – to ensure that the database is accurate
- Distributed Data – for the ability to place data near its most frequent users, enabling others to access it from anywhere in the network.
- Networking – to support the linking of systems in any geographic location.
- Security – to control access to data, programmes, and other systems resources.
Technology

With the emergence of electronic trading, the entire capital market scenario has changed. Suddenly, the securities market opened out to the end investor through the member-brokers or the sub-brokers situated in far-flung areas in the country. The Exchange, recognizing the opportunities prevalent in the ever-changing scenario, embraced the latest technology and came up with an electronic trading system. The floor used for open-out cry trading was entirely closed down in 50 trading days in March 1995 and the means of conducting business in the capital markets changed forever.

Technology is driving the re-structuring of markets worldwide, shifting focus from a supply-driven approach to customer-centric strategies. This has lead to the emergence of the ‘borderless enterprise’ which thrives on the creation of new business models, new products and new markets. The benefits of Technology include:

- makes trading accessible—anywhere and at anytime.
- pace of communication facilitates a fast response time.
- dissemination of data is done at a faster rate.
- provides the freedom to create-new systems and new products.
- facilitates transparency of information.
- provides global connectivity.
- increases awareness of market participants through availability of information.

Hardware

BOLT system works on the Tandem S74016 platform running on 16 CPUs. This is one of the latest and largest installations of Compaq in India and compares with the major installations in Asia. The Exchange has set-up, a fault tolerant system with scalable architecture which can handle a maximum of 2 million trades a day as against a daily average of 75000 trades a day when BOLT was started. Further, the average time of execution is 100 orders per second with a peaking speed of 200 orders per second. The system comprises of a Tandem Himalaya S74016 machines acting as backend to more than 8000 Trader Work Stations (TWSs) networked on Ethernet, VSAT and MLDN network.

BOLT is architected as a two-tier system. TWSs are connected directly to the back-end server. It acts as a communication server as well as the Central Trading Engine (CTE). In addition to the above, other services like information dissemination, index computation, position monitoring, etc. are also provided for in the system.

In an On-Line Transaction Processing (OLTP) environment, data integrity is of prime importance. The Transaction Monitoring Facility (TMF) in the Tandem ensures data integrity through Non-Stop SQL. The fault tolerance feature is ensured at each level, i.e., Process, Disk, CPU, Networking, etc.. In case of any server failure, the transactions are automatically taken over by the other server without affecting data integrity.
Software

BSE has adopted a client-server architecture to enhance performance of the trading system. The client portion of the software residing in the TWSs is based on Windows-NT/2000. It is extremely user-friendly, with all features of Windows that a user could customize according to his requirements.

Networking

BSE commenced its online trading system by using a DoV (Data Over Voice multiplexer) network. Since the bandwidth was limited to 19.2 kbps and only single BOLT Trader Work Station (TWS) could be connected for every existing DoV Line, BSE embraced the latest technology and replaced the DoV with high-speed 2Mbps/64Kbps MLDN network.

The Exchange uses three stages of network to establish the connectivity between the TWSs installed in about 550 active members’ offices and the BOLT system. The Exchange has installed a three-tier structured high-speed Local Area Network (LAN) within the three BSE buildings – P.J. Towers, Rotunda and Cama Buildings. The Router Network was set up in June 1996. It facilitated expansion of the BOLT system through leased lines and modems to Mumbai suburbs.

In the year 2000, the Exchange had set up its own satellite earth station (11 metres antenna) in P J Towers, Mumbai with DoT allotting one full transponder in extended “C” band on Insat 3B to BSE. BOLT has expanded to cover 316 cities, including Mumbai, by installing a total of 1557 VSATs and 7275 TWSs as on March 31, 2002. Due diligence has been done to ensure that no single point of failure affects the operations allowing members to trade without disruption.

The Exchange with the help of MTNL has set up a fully fault tolerant MLDN Network consisting of 300- 2mbps lines and 1500- 64 kbps lines within Mumbai and connecting all Regional Stock Exchanges. This Network has enabled the Exchange to conduct trading and settlement in Equities, Derivatives and Debt Segments etc., concurrently, without affecting the quality of service.

Information Vendor Interface

Access to market related information through the trader workstations is essential for the market participants to act on real-time basis and take instantaneous decisions. BOLT has been interfaced with various information vendors including Bloomberg, Bridge, Reuters and others. Market information is fed to news agencies in real time. The Exchange plans to enhance the capabilities further to have an integrated two-way information flow.
Annual Report Service

Copies/extracts of the annual report of companies

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TRADING

The Exchange, which had an open outcry trading system, had switched over to a fully automated computerized mode of trading known as BOLT (BSE on Line Trading) System. Through the BOLT system the members now enter orders from Trader Work Stations (TWSs) installed in their offices instead of assembling in the trading ring. This system, which was initially both order and quote driven, was commissioned on March 14, 1995. However, the facility of placing of quotes has been removed w.e.f., August 13, 2001 in view of lack of market interest and to improve system-matching efficiency. The system, which is now only order driven, facilitates more efficient processing, automatic order matching and faster execution of orders in a transparent manner.

Earlier, the members of the Exchange were permitted to open trading terminals only in Mumbai. However, in October 1996, the Exchange obtained permission from SEBI for expansion of its BOLT network to locations outside Mumbai. In terms of the permission granted by SEBI and certain modifications announced later, the members of the Exchange are now free to install their trading terminals at any place in the country. The expansion of BOLT network was inaugurated by Shri P. Chidambaram, the then Finance Minister, Government of India on August 31, 1997.

In order to expand the reach of BOLT network to centers outside Mumbai and support the smaller Regional Stock Exchanges, the Exchange has as on March 31, 2002 admitted subsidiary companies formed by 13 Regional Stock Exchanges as its members. The members of these Regional Stock Exchanges work as sub-brokers of the member-brokers of the Exchange.

The objectives of granting membership to the subsidiary companies formed by the Regional Stock Exchanges were to reach out to investors in these centers via the members of these Regional Exchanges and provide the investors in these areas access to the trading facilities in all scrips listed on the Exchange.

Trading on the BOLT System is conducted from Monday to Friday between 9:55 a.m. and 3:30 p.m. The scrips traded on the Exchange have been classified into 'A', 'B', 'B', 'F' and 'Z'
groups. The number of scrips listed on the Exchange under ‘A’, ‘B’, ‘B1’ and ‘Z’ groups, which represent the equity segment, as on March 31, 2002 was 173, 560, 1930 and 3044 respectively. The ‘F’ group represents the debt market (fixed income securities) segment wherein 748 securities were listed as on March 31, 2002. The ‘Z’ group was introduced by the Exchange in July 1999 and covers the companies which have failed to comply with listing requirements and/or failed to resolve investor complaints or have not made the required arrangements with both the Depositories, viz., Central Depository Services (I) Ltd. (CDSL) and National Security Depository Ltd. (NSDL) for dematerialization of their securities by the specified date, i.e., September 30, 2001. Companies in “Z” group numbered 3044 as on March 31, 2002. Of these, 1429 companies were in “Z” group for not complying with the provisions of the Listing Agreement and/or pending investor complaints and the balance 1615 companies were on account of not making arrangements for dematerialization of their securities with both the Depositories. 1615 companies have been put in “Z” group as a temporary measure till they make arrangements for dematerialization of their securities. Once they finalize the arrangements for dematerialization of their securities, trading and settlement in their scrips would be shifted to their respective erstwhile groups.

The Exchange has also the facility to trade in “C” group which covers the odd lot securities in ‘A’, ‘B1’, ‘B2’ and ‘Z’ groups and Rights renunciations in all the groups of scrips in the equity segment. The Exchange, thus, provides a facility to market participants of online trading in odd lots of securities and Rights renunciations. The facility of trading in odd lots of securities not only offers an exit route to investors to dispose of their odd lots of securities but also provides them an opportunity to consolidate their securities into market lots.

The ‘C’ group can also be used by investors for selling upto 500 shares in physical form in respect of scrips of companies where trades are to be compulsorily settled by all investors in demat mode. This scheme of selling physical shares in compulsory demat scrips is called as Exit Route Scheme.

**With effect from December 31, 2001, trading in all securities listed in equity segment of the Exchange takes place in one market segment, viz., Compulsory Rolling Settlement Segment.**

**Permitted Securities**

The Exchange has since decided to permit trading in the securities of the companies listed on other Stock Exchanges under “Permitted Securities” category which meet the relevant norms specified by the Exchange. Accordingly, to begin the Exchange has permitted trading in scrips of five companies listed on other Stock Exchange with effect from April 22, 2002.

**Computation of closing price of scrips in the Cash Segment**

The closing prices of scrips are computed on the basis of weighted average price of all trades in the last 15 minutes of the continuous trading session. However, if there is no trade during the last 15 minutes, then the last traded price in the continuous trading session is taken as the official closing price.

**Compulsory Rolling Settlement (CRS) Segment**

With a view to introduce the best international trading practices and to achieve higher settlement efficiency, as mandated by SEBI, trades in all the equity shares listed on the Exchange in CRS Segment were to be settled on T+5 basis w.e.f. December 31, 2001. SEBI has further directed the Stock Exchanges that trades in all scrips w.e.f. April 1, 2002 should be settled on T+3 basis.
Accordingly, all transactions in all groups of securities in the equity segment and Fixed Income securities listed on the Exchange are settled on T+3 basis w.e.f. April 1, 2002.

Under a rolling settlement environment, the trades done on a particular day are settled after a given number of business days rather than settling all trades done during a period at the end of an ‘accounting period’. A T+3 settlement cycle means that the final settlement of transactions done on T or trade day by exchange of monies and securities, occurs on fifth business day after the trade day.

The transactions in securities of companies which have made arrangements for dematerialization of their securities by the stipulated date are settled only in Demat mode on T+3 on net basis i.e., buy and sale positions in the same scrip are netted and the net quantity is to be settled. However, transactions in securities of companies, which have failed to make arrangements for dematerialization of their securities or in “Z” group, are settled only on trade to trade basis on T+3 i.e., the transactions are settled on a gross basis and the facility of netting of buy and sale transactions in a scrip is not available. For example, if one buys and sells 100 shares of a company on the same day which is on trade to trade basis, the two positions will not be netted and he will have to first deliver 100 shares at the time of pay-in of securities and then receive 100 shares at the time of pay-out of securities on the same day. Thus, if one fails to deliver the securities sold at the time of pay-in, it will be treated as a shortage and the position will be auctioned/closed-out.

In other words, the transactions in scrips of companies which are in compulsory demat are settled in demat mode on T+3 on netting basis and the transactions in scrips of companies, which have not made arrangements for dematerialization of their securities by the stipulated date or are in “Z” group for other reasons, are settled on trade to trade basis on T+3 either in demat mode or in physical mode.

The settlement of transactions in ‘F’ group securities representing Fixed Income Securities is also on Rolling Settlement Cycle of T+3 basis.

The following tables summarizes the steps in the trading and settlement cycle for scrips under CRS:

<table>
<thead>
<tr>
<th>DAY</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>T</td>
<td>• Trading on BOLT and daily downloading of statements showing details of transactions and margins at the end of each trading day.</td>
</tr>
<tr>
<td></td>
<td>• 6A/7A entry by the member-brokers.</td>
</tr>
<tr>
<td>T+1</td>
<td>• Confirmation of 6A/7A data by the Custodians. Downloading of securities and funds obligation statement by members.</td>
</tr>
<tr>
<td>T+3</td>
<td>• Pay-in of funds and securities by 11:00 a.m. and pay-out of funds and securities by 2:00 p.m.</td>
</tr>
<tr>
<td>T+4</td>
<td>• Auction on BOLT.</td>
</tr>
<tr>
<td>T+5</td>
<td>• Auction pay-in and pay-out.</td>
</tr>
</tbody>
</table>
* 6A/7A

A mechanism whereby the obligation of settling the transactions done by a member-broker on behalf of a client is passed on to a custodian based on his confirmation.

Thus, the pay-in and pay-out of funds and securities takes place on the 3rd working day of the execution of the trade.

The Information Systems Department of the Exchange generates the following statements, which can be downloaded by the members in their back offices on a daily basis.

a) Statements giving details of the daily transactions entered into by the members.

b) Statements giving details of margins payable by the members in respect of the trades executed by them.

The settlement of the trades (money and securities) done by a member on his own account or on behalf of his individual, corporate or institutional clients may be either through the member himself or through a SEBI registered Custodian appointed by him or the respective client. In case the delivery/payment is to be given or taken by a registered Custodian, he has to confirm the trade done by a member on the BOLT System through 6A-7A entry. For this purpose, the Custodians have been given connectivity to BOLT System and have also been admitted as members of the Clearing House. In case a transaction is not confirmed by a registered Custodian, the liability for pay-in of funds or securities in respect of the same devolves on the concerned member.

The introduction of settlement on T+3 basis has resulted in reduction in settlement risk, provided early receipt of securities and monies to buyers and sellers respectively and brought Indian Capital Markets at the international standard of settlements.

Settlement


As discussed earlier, the trades done by members in all securities in CRS are now settled on T+3 basis. All deliveries of securities are required to be routed through the Clearing House, except for certain off-market transactions which, although are required to be reported to the Exchange, may be settled directly between the members concerned.

The Clearing House is an independent company promoted jointly by Bank of India and Stock Exchange, Mumbai for handling the clearing and settlement operations of funds and securities on behalf of the Exchange. For this purpose, the Clearing & Settlement Dept. of the Exchange liaises with the Clearing House on a day to day basis.

The Information Systems Department (ISD) of the Exchange generates Delivery and Receive Orders for transactions done by the members in A, B1, B2 and F group scrips after netting purchase and sale transactions in each scrip whereas Delivery and Receive Orders for “C” and “Z” group scrips are generated on trade to trade basis, i.e., without netting of purchase and sale transactions in a scrip.

The Delivery Orders provide information like scrip, quantity and the name of the receiving member to whom the securities are to be delivered through the Clearing House. The Money Statement provides scrip wise/item wise details of payments/receipts for the settlement. The Delivery/Receive Orders and money statements can be downloaded by the members in their back offices.
The bank accounts of members maintained with the eight clearing banks, viz., Bank of India, HDFC Bank Ltd., Standard Chartered Bank, Centurion Bank Ltd., UTI Bank Ltd., ICICI Bank Ltd., and Indusind Bank Ltd., are directly debited through computerized posting for their settlement and margin obligations and credited with receivables on accounts of pay-out dues and refund of margins.

The securities, as per the Delivery Orders issued by the Exchange, are required to be delivered by the members in the Clearing House on the day designated for securities pay-in, i.e., on T+3 day. In case of the physical securities, the members have to deliver the securities in special closed pouches (supplied by the Exchange) along with the relevant details (distinctive numbers, scrip code, quantity, and receiving member) on a floppy. The data submitted by the members on floppies is matched against the master file data on the Clearing House computer systems. If there are no discrepancies, then a scroll number is generated by the Clearing House and a scroll slip is issued. The members can then submit the securities at the receiving counter in the Clearing House.

**Auto D.O. facility**

Instead of issuing Delivery Out instructions for their delivery obligations in a settlement/auction, a facility has been made available to the members of automatically generating Delivery-Out (D.O.) instructions on their behalf from their CM Pool A/cs by the Clearing House w.e.f., August 10, 2000. This Auto D.O. facility is available for CRS (Normal & Auction) and for trade to trade settlements. This facility is, however, not available for delivery of non-pari passu shares and shares having multiple ISINs. The members wishing to avail of this facility have to submit an authority letter to the Clearing House. This Auto D.O facility is currently available only for Clearing Member (CM) Pool accounts/Principal accounts maintained by the members with National Securities Depository Ltd. (NSDL) and Central Depository Services (I) Ltd. (CDSL).

**Demat pay-in**

The members can effect demat pay-in either through Central Depository Services (I) Ltd. (CDSL) or National Securities Depository Ltd. (NSDL). In case of NSDL, the members are required to give instructions to their Depository Participant (DP) specifying settlement no., settlement type, effective pay-in date, quantity, etc. The securities are transferred to the Pool Account. The members are required to give delivery-out instructions so that the securities are considered for pay-in.

As regards CDSL, the members give pay-in instructions to their DP. The securities are transferred by the DPs to the Clearing Member (CM) Principal Account. The members are required to give confirmation to their DP, so that securities are processed towards pay-in obligations. Alternatively, the members may also effect pay-in from the clients' beneficiary accounts for which they are required to do break-up on the front end software to generate obligations and settlement IDs.

The Clearing House arranges and tallies the securities received against the receiving memberwise report generated on the Pay-in day. This process is called securities pay-in. Once this reconciliation is complete, the bank accounts of members with eight clearing banks having pay-in obligations are debited on the scheduled pay-in day. This procedure is called Pay-in of Funds. Once the pay-in of securities and funds is complete, the Clearing House arranges for pay-out of securities and funds. As regards pay-out of securities, in case of demat securities, the same are credited in the Pool Account of the members or the Client Accounts as per the client details.
submitted by the members. In case of Physical securities, the Receiving Members are required to collect the same from the Clearing House on the pay-out day. The bank accounts of the members having pay-out of funds are credited by the Clearing House with the Clearing Banks. This process is referred to as Pay-out of Funds. In case of Rolling Settlements, pay-in and pay-out of both funds and securities is completed on the same day.

The settlement schedules are drawn by the Exchange in advance on a quarterly basis and circulated to the market participants. The settlement schedules have been strictly adhered to by the Exchange and there has been generally no case of clubbing of settlements or postponement of pay-in and pay-out during the last six years.

The Exchange is also maintaining a database of fake/forged, stolen, lost and duplicate securities in physical form with the Clearing House so that distinctive numbers submitted by members in case of physical securities on delivery may be matched against the database to weed out bad paper from circulation at the time of introduction of such securities in the market. This database has also been made available to the members so that delivering and receiving members can check the entry of fake, forged and stolen shares in the market.

**BSE Training Institute conducts the following Tests approved by SEBI/University of Mumbai/BSE:**

- BSE Certification for Derivatives Exchange (BCDE)
- BSE Certification on Stock Market (BCSM)
- BSE Certification on Capital Market (BCCM)
- BSE Certification on Debt Market (BCDM)

On-line Testing Facility in Association with ZEE Interactive Learning Systems available in selected ZED CA centers.
Shortages & consequent actions

The members download Delivery/Receive Orders based on their netted positions for transactions entered into by them during a settlement in 'A', 'B1', 'B2', and 'F' group scrips and on trade to trade basis, i.e., without netting buy and sell transactions in scrips in ‘C’ & ‘Z’ groups and scrips in B1 and B2 groups which have put on trade to trade basis as a surveillance measure and the seller members have to deliver the shares in the Clearing House as per the Delivery Orders downloaded. If a seller member is unable to deliver the shares on the Pay-in day for any reason, his bank account is debited at the standard rate (which is equal to the closing price of the scrip on the day of trading) fixed by the Exchange for the quantity of shares short delivered. The Clearing House arrives at the shortages in delivery of various scrips by members on the basis of their delivery obligations and actual delivery.

The members can download the statement of shortages on T+3 in Rolling Settlements. After downloading the shortage details, the members are expected to verify the same and report discrepancy, if any, to the Clearing House by 1:00 p.m. If no discrepancy is reported within the stipulated time, the Clearing House assumes that the shortage of a member is in order and proceeds to auction the same. However, in 'C' group, i.e., Odd Lot segment the members are themselves required to report the shortages to the Clearing House.

An Auction Tender Notice is issued by the Exchange to the members informing them about the names of the scrips, 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+4 for all the scrips under compulsory Rolling Settlements. The auction offers received in batch mode are electronically matched with the auction quantities so as to award the ‘best price’. The members who participate in the auction session can download the Delivery Orders on the same day, if their offers are accepted. The members are required to deliver the shares in the Clearing House on the auction Pay-in day, i.e., T+5. Pay-Out of auction shares and funds is also done on the same day, i.e., T+5. The various auction sessions relating to shortages, and bad deliveries are now conducted during normal trading hours on BOLT. Thus, it is possible to schedule multiple auction sessions on a single trading day.
In auction, the highest offer price is allowed upto the close-out rate and the lowest offer price can be 20% below the closing price on a day prior to day of auction. A member who has failed to deliver the securities of a particular company on the pay-in day is not allowed to offer the same in auction. He can, however, participate in auction of other scrips.

In case no offers are received in auction for a particular scrip, the sale transaction is closed-out at a close-out price, determined by higher of the following:-

- Highest price recorded in the scrip from the settlement in which the transaction took place upto a day prior to the day of the auction.
- OR
- 20% above the closing price on a day prior to the day of auction.

However, in case of the close-out of the shares under objection and shortages in “C” or “Z” group, 10% above the closing prices of the scrips on the pay-out day of the respective settlement are considered instead of 20%.

Further, if the auction price/close-out price of a scrip is higher than the standard price of the scrip in the settlement in which the transaction was done, the difference is recovered from the seller who failed to deliver the scrip. However, in case, auction/close-out price is lower than standard price, the difference is not given to the seller but is credited by the Exchange to the Customers Protection Fund. This is to ensure that the seller does not benefit from his failure to meet his delivery obligation. Further, if the offeror member fails to deliver the shares offered in auction, then the transactions is closed-out as per the normal procedure and the original selling member pays the difference below the standard rate and offer rate and the offeror member pays the difference between the offer rate and close-out rate.

Self- Auction

As has been discussed in the earlier paragraphs, the Delivery and Receive Orders are issued to the members after netting off their purchase and sale transactions in scrips where netting of purchase and sale positions is permitted. It is likely in some circumstances, that a selling client of a member has failed to deliver the shares to him. However, this did not result in a member’s failure to deliver the shares to the Clearing House as there was a purchase transaction of some other buying client of the member in the same scrip and the same was netted off for the purpose of settlement. However, in such a case, the member would require shares so that he can deliver the same to his buying client, which otherwise would have taken place from the delivery of shares by the seller. To provide shares to the members, so that they are in a position to deliver them to their buying clients in case of internal shortages, the members have been given an option to submit floppies for conducting self-auction (i.e., as if they have defaulted in delivery of shares to the Clearing House). Such floppies are to be given to the Clearing House on the pay-in day. The internal shortages reported by the members are clubbed with the normal shortages in a settlement and the auction is conducted by the Clearing House for the combined shortages. A member after getting delivery of shares from the Clearing House in self-auction credits the shares to the Beneficiary account of his client or hand over the same to him in case securities received are in physical form and debits his seller client with the amount of difference, if any, between the auction price and original sale price.
Objections

When receiving members collect the physical securities from the Clearing House on the Pay-Out day, the same are required to be checked by them for good delivery as per the norms prescribed by the SEBI in this regard. If the securities are not considered good delivery by the receiving member, he has to obtain an arbitration award from the arbitrators and submit the securities in the Clearing House on the following day of the Pay-Out (T+4). The Clearing House returns these securities to the delivering members on the same day, i.e., (T+4). If a delivering members feels that arbitration awards obtained against him is incorrect, he is required to obtain arbitration award for invalid objection from the members of the Arbitration Review Committee. The delivering members are required to rectify/replace the objections and return the shares to the Clearing House on next day (T+5) to have the entry against them removed. The rectified securities are delivered by the Clearing House to the buyer members on the same day (T+5). The buyer members, if they are not satisfied with the rectification, are required to obtain arbitration awards for invalid rectification from the Bad Delivery Cell on T+6 day and submit the shares to the Clearing House on the same day.

If a member fails to rectify/replace the objections then the same are closed-out. This is known as “Objection Cycle” and the entire process takes 3 days.

The following table summarizes the activities involved in the Patawat Objection Cycle of CRS.

<table>
<thead>
<tr>
<th>DAY</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>T+3</td>
<td>Pay-out of securities of Rolling Settlement</td>
</tr>
</tbody>
</table>
| T+4  | Patawat Arbitration session:  
  ✓ Arbitration awards to be obtained from officials of the Bad Delivery Cell.  
  ✓ Securities under objection to be submitted in the Clearing House.  
  ✓ The delivering members to collect such securities under objection from the Clearing House  
  ✓ Arbitration awards for invalid objection to be obtained from members of the Arbitration Review Committee |
| T+5  | Members and institutions to submit rectified securities, confirmation forms and invalid objections in the clearing house.  
  ✓ Rectified securities delivered to the receiving members |
| T+6  | Arbitration Awards for invalid rectification to be obtained from officials of the Bad Delivery Cell  
  ✓ Securities to be lodged with the clearing house |

The un-rectified and invalid rectification of securities are directly closed-out by the Clearing House instead of first inviting the auction offers for the same.
The shares in physical form returned under objection to the Clearing House are required to be accompanied by an arbitration award (Chukada) except in certain cases where the receiving members are permitted to submit securities to the Clearing House without “Chukada”.

These cases are as follows:

a) Transfer Deed is out of date.
b) Cheques for the dividend adjustment for new shares where distinctive numbers are given in the Exchange Notice is not enclosed.
c) Stamp of the Registrar of Companies is missing.
d) Details like Distinctive Numbers, Transferors’ Names, etc. are not filled, in the Transfer Deeds.
e) Delivering broker’s stamp on the reverse of the Transfer Deed is missing.
f) Witness stamp or signature on Transfer Deed is missing.
g) Signature of the transferor is missing.
h) Death Certificate (in cases where one or more of the transferors are deceased) is missing.

A penalty at the rate of Rs.100/- per Delivery Order is levied on the delivering member for delivering shares, which are not in order. In the event a receiving member misuses the facility of submitting shares under objection without “Chukada”, a penalty of Rs.500/- per case is charged and the penalty of Rs.100/- per Delivery Order levied on the delivering member is refunded to him by debiting the receiving member’s account.
Rectification of Bad Delivery

One of the biggest problems faced by investors in the secondary market, when the securities are delivered to them in physical form, is that of bad delivery. The bad delivery arises out of rejection of shares sent in physical form to companies by the transferees (buyers) for registration in their names. In order to tackle this problem, the Exchange has set up a separate Bad Delivery Cell (BDC), in December, 1996. The Cell handles Intra-Exchange as also Inter-Exchange cases of bad delivery. The processing of Intra-Exchange and Inter-Exchange Bad Deliveries is fully computerised.

As per SEBI directives, even Custodians have been allowed to participate in the BDC of the Exchange with effect from April 1997. This is highly beneficial to the clients of custodians who get direct access to speedy and expeditious resolution of bad deliveries.

As per the Guidelines and Procedures issued by SEBI, the receiving members of the securities are required to lodge claims for Bad deliveries through the BDC on the introducing members which the latter are required to rectify/replace within a period of 21 days from the date of receipt of the documents under objection. If a claim has been wrongly reported against an introducing member, he is required to return the documents to the receiving member within the stipulated period after obtaining an award for invalid objection from BDC officials. If a member fails to obtain the Award and return back the documents to the buyer within stipulated period, it is presumed he has accepted the claim.

Similarly, on receipt of the rectified/replaced securities from the introducing member, if the receiving member finds that securities are not proper, he has to obtain an award for invalid rectification from the BDC officials within the stipulated period and return back the documents to the introducing member.

All the unrectified bad delivery claims as well as invalid rectifications of bad deliveries go for auction/close out as the case may be as per the Rules of the Exchange and the receiving members receive either the securities in auction or an amount representing close out of bad delivery. The receipt and delivery of the securities relating to bad deliveries is handled through the Clearing House.
The shares which have been returned under objection by a company for the second time, can be reported in the BDC as Second Time Objection. The seller in this case is not given a chance to rectify the objections and the claim is closed out on the 10th day of reporting of the objection to the BDC.

The BDC also settles the claims for Corporate Benefits through the Corporate Benefit (CB) Cycle which is a fortnightly cycle.

In case of objection reported with the BDC as Fake/Forged and Missing/Lost/Stolen shares, the rectification is allowed only in Demat mode.

The BDC in order to prevent circulation of bad securities in the market maintains database of missing/lost/stolen/fake/forged shares on the basis of information received from the companies pursuant to the clause 47-(d) of the Listing Agreement. It also maintains the client caution database whereby it publishes the names of the clients/sub-brokers who are involved in introduction of fake/forged/missing/lost/stolen shares above a certain value through the members.

SEBI has gradually mandated that the trading of the securities of the companies should be settled in dematerialized form. In view of the progressive increase in dematerialisation of securities, the problem of bad delivery faced by the investors has considerably reduced.

Forthcoming


Price and Volume Data on Listed Stocks

Contact: BSE Books
BSE Wholesale Debt Segment

The Reserve Bank of India vide its Circular dated October 25, 2000, has permitted the banks and Financial Institutions in India to undertake transactions in debt instruments among themselves or with non-bank clients through the members of The Stock Exchange, Mumbai (BSE). This has paved the way for the Exchange to commence trading in Government Securities and other fixed income instruments.

GILT System

The GILT System of the BSE Wholesale Debt Segment is an automatic on-line trading system, which provides an efficient and reliable trading system for all the debt instruments of different types and maturities.

GILT permits trading through the following three avenues:

- **Order Grabbing System** - which provides for active interaction between the market participants in keeping with the negotiated deal structure of the market.
- **Negotiated Deal Module** - which permits the reporting of trades undertaken by the market participants through the members of the Exchange.
- **Cross Deal Module** - permitting reporting of trades undertaken by two different market participants through a single member of the Exchange.

GILT facilitates faster and efficient price dissemination through the Touchline of the Trading System. All relevant information which is of crucial importance in trading process like accrued interest and delivery value is readily available in the system. A Yield Calculator has also been made available both separately and as part of the various order entry and trade reporting screens.

Membership

The membership of the Debt Market Segment is granted only to the existing members of the Exchange in the Cash Segment. The members need to have a minimum net worth of Rs.1.5 crores for admission to Debt Market Segment and for undertaking dealings on the Debt Segment.
There is no separate membership security deposit or deposit of additional capital for the membership of the Debt Segment. The annual fee payable by the members of this segment is Rs. 25,000/-

Trading on the Wholesale GILT System

There are two types of entities envisaged in the system, i.e., the Trading Members and Participants. The members who fulfill the admission criteria for Trading Membership of the Debt Segment, can place orders and execute trades on the “GILT” system for the Central and State Government Securities.

The Participants can be any of the following categories of investors who can transact in Government Securities through the members of the Exchange who have been permitted to undertake dealings in Debt Segment.

- Banks
- Financial Institutions
- Corporate Bodies
- Other Legal entities and
- Individual investors

Settlement of trades in GILT

The Settlement of the securities traded in the Debt Segment is on a Trade by Trade on Delivery versus Payment (DVP) basis. The primary responsibility of settling trades in this segment rests with the participants who have to settle the trades through the Subsidiary General Ledger Account of the RBI. Each transaction is settled individually and netting of the buy and sell transactions is not permitted. The Exchange monitors the clearing & settlement process for all the trades executed or reported through the “GILT” system. The members need to report the settlement details to the Exchange for all the trades undertaken by them on the GILT system.

The settlement for all the trades executed on the GILT system is on a rolling basis. Each order has a unique settlement date specified upfront at the time of order entry and used as a matching parameter. The settlement periods range from the same day (T+0) to a maximum of T+5.
Basket Trading System

The Exchange has commenced trading in the Derivatives Segment with effect from June 9, 2000 to enable the investors to, inter-alia, hedge their risks. Initially, the facility of trading in the Derivatives Segment was confined to Index Futures. Subsequently, the Exchange has introduced the Index Options and Options & Futures in select individual stocks. The investors in cash market had felt a need to limit their risk exposure in the market to movement in Sensex.

With a view to provide investors the facility of creating Sensex linked portfolios and also to create a linkage of market prices of the underlying securities of Sensex in the Cash Segment and Futures on Sensex, the Exchange has provided the facility of Basket Trading System on BOLT. In Basket Trading System, the investors are able to buy/ sell all 30 scrips of Sensex in one go in the proportion of their respective weights in the Sensex. The investors need not calculate the quantity of Sensex scrips to be bought or sold for creating Sensex linked portfolios and this function is performed by the system. The investors are also allowed to create their own baskets by deleting certain scrips from the basket of 30 scrips in the Sensex. Further, the investors can alter the weights of securities in the basket and enter their own weights. The investors can also select less than 100% weightage to reduce the value of the basket as per their own requirements.

To participate in this system, the members indicate number of Sensex basket(s) to be bought or sold, where the value of one Sensex basket is arrived at by the system by multiplying Rs.50 to prevailing Sensex. For e.g., if the Sensex is 4000, then value of one basket of Sensex would be 4000 x 50= i.e., Rs. 2,00,000/-

Further, the Basket Trading System provides the arbitrageurs an opportunity to take advantage of price differences in the underlying securities of Sensex and Futures on the Sensex by simultaneous buying and selling of baskets covering the Sensex scrips and Sensex Futures. This is expected to have balancing impact on the prices in both cash and futures markets.

The Basket Trading System, thus, meets the need of investors and also improves the depth in cash and futures markets.

The facility of Basket Trading has been introduced by the Exchange w.e.f., August 14, 2000. The trades executed under the Basket Trading System are subject to intra-day trading and gross exposure limits and daily margins as are applicable to normal trades.
Directory of BSE Members

Profile of BSE Members along with useful information and contacts in the Indian Capital Market

For subscription/marketing and advertising details please contact

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Tel.: 9122 2721233 / 1234 (Ext. 8051)
Fax: 9122 2721334 • Email: publication@bseindia.com
Risk Management and Margin System

The expansion of BOLT to cities all over India has led to a significant increase in liquidity and volumes at the Exchange and consequent increase in the risk. As a result, the risk management function at the Exchange has assumed greater importance. The Exchange has taken various risk management measures as explained hereunder in order to maintain the market safety and to avert payment defaults by the members.

a) Base Minimum Capital (BMC) and Additional Capital (AC)

All active members of the Exchange are required to maintain a Base Minimum Capital of Rs.10 lakhs with the Exchange in the prescribed manner at all times. The Base Minimum Capital, as prescribed by SEBI, is to be kept in the form of cash (minimum 12.5%), Fixed Deposit Receipt(s) of bank(s) (minimum 12.5%) and balance in the form of approved securities or Bank Guarantee(s). The valuation of approved securities deposited by the members with the Exchange is done on a weekly basis, and a hair-cut of 15% is applied, i.e., only 85% of the value of securities tendered is considered for valuation purpose. A weekly valuation of securities is done so that any depreciation in the value of securities due to fall in market prices can be collected from the members within the shortest possible time and the Base Minimum Capital deposited by the members with the Exchange is kept intact.

The cash towards the capital can be deposited by the members by issuing cheques/pay-orders in favour of the Exchange or they can issue instructions to the Exchange to debit their bank accounts with the Clearing Banks. As regards, the Fixed Deposit Receipts (FDRs) of banks, the duly discharged FDRs are to be submitted to the Exchange in the name of “The Stock Exchange, Mumbai a/c trade name of the member” issued by any Mumbai based branch or payable at any Mumbai based branch of any scheduled commercial or co-operative bank.

The bank guarantees submitted by the member towards the capital should be in the approved format and issued in favour of the Exchange by any Mumbai based branch of a scheduled commercial bank only. However, in case FDRs/ bank guarantees are issued by the outstation branches of banks, the payment of the proceeds on encashment of FDRs and invocation of bank guarantees by the Exchange, has to be assured by a Mumbai based branch of the concerned issuing bank.
Each member is also required to deposit with the Exchange a bank guarantee of Rs. 10 lakhs towards his contribution to the Trade Guarantee Fund (TGF).

The members are also allowed to deposit additional capital with the Exchange for availing of the higher intra-day trading limit (i.e., gross purchases + gross sales) and gross exposure limit (i.e., scripwise cumulative net outstanding purchases + cumulative net outstanding sales). The members are allowed to deposit additional capital either in cash, FDR(s), bank guarantee(s) or approved securities in any form and proportion subject, however, to the requirement that they have to maintain 30% of the composite capital (i.e., additional capital + margins) in the form of cash or cash equivalent (i.e., cash + FDR(s)). The system dynamically checks this ratio to ensure that the requirement is fulfilled at all times.

Further, while accepting shares in the Base Minimum Capital + Additional Capital, only the scrips which form part of BSE Sensex, BSE 100, BSE 200, S&P CNX Nifty, CNX Nifty Junior and CNX Midcap 200 and are listed at BSE, are accepted. The eligible scrips deposited by the members towards the base minimum and additional capital are accepted in demat form only.

Non-adjustable capital

The additional capital deposited by the members, in the manner discussed above, can be utilized for availing of the Intra-day trading and Gross Exposure limit and the surplus, if any, after utilizing the same against Gross Exposure limit, is available for adjustment against payment of daily margin. However, the base minimum capital of Rs. 10 lakhs deposited by the members in the manner discussed above, and the bank guarantee of Rs. 10 lakhs provided by them towards the TGF are available only for the Intra-day trading and Gross Exposure limits but the same are not available for adjustment against daily margin liability of the members. Similarly, shares deposited by the members towards BMC & AC are not available for adjustment against margins. These components of the BMC and AC are, therefore, called non-adjustable capital.

Adjustable Capital

The additional capital deposited by the members, in the form of cash, FDRs and bank guarantees only is called adjustable capital. The additional capital after utilizing the same against Gross Exposure limits, is available for adjustments against payment of daily margin. It may, however, be pertinent to mention that value of shares deposited by the members (after the hair cut of 15%) is available for the Intra-day trading or Gross Exposure limits but the same is not available for adjustment against margin liability of the members. Further, while considering the surplus of additional capital for adjustment against margins, it is verified that at least 30% of the additional capital + margin is in the form of Cash/FDRs. The amount of additional capital deposited by the members by way of bank guarantees in excess of 70% of the composite capital, i.e., additional capital + margins is not considered for adjustment against the daily margins.

In order to provide flexibility to the members who are members of both Cash and Derivative Segments, in management of their assets, they are allowed to transfer surplus Cash/ FDRs and Bank Guarantees (subject to obtaining no objection certificate from the issuing bank), at the end of the day, from the Cash segment to the Derivatives Segment and vice-versa by giving a letter to this effect to the Exchange.

The total Base Minimum Capital + Additional Capital deposited by the members with the Exchange as on March 31, 2002 (after applying 15% hair cut on value of securities) aggregated to Rs. 804.43 crores.
b) **Intra-day Trading Limits (IDTL):**

As per the directions from SEBI, the Exchange has prescribed an intra-day trading limit (i.e., gross purchases + gross sales) of 33.33 times of the base minimum capital + additional capital deposited by the members with the Exchange. The institutional business, i.e., transactions done on behalf of scheduled commercial banks, Indian Financial Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI are not included in the daily turnover while watching the compliance of the members with the intra-day trading limit.

The Exchange as a precautionary measure, provides on-line warning to the members when they reach 70%, 80% and 90% of their respective intra-day trading limit. However, when a member crosses 100% of the intra-day trading limit, a message is flashed on his BOLT TWs which says "CAPITAL ADEQUACY LIMIT VIOLATED" and immediately all his BOLT TWs get de-activated. The BOLT TWs of the members, in such cases, are re-activated only after they deposit additional capital to cover their turnover in excess of the intra-day trading limit. A fine of Rs.5,000/- is also recovered if a member does not deposit the additional capital to cover his turnover in excess of the intra-day trading limit on the day of the violation.

c) **Gross Exposure Limit (GEL):**

The Exchange, in accordance with the directives issued by SEBI, has prescribed a ceiling on the gross exposure (i.e., scripwise cumulative net outstanding purchases + cumulative net outstanding sales) of members at 15 times of the base minimum capital + additional capital deposited by them with the Exchange. The gross exposure of the members across the Rolling Settlements, i.e., trading day plus previous unsettled settlements, can not exceed 15 times of their base minimum capital + additional capital deposited with the Exchange. Institutional business, i.e., transactions done on behalf of scheduled commercial banks, Indian Financial Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI is, however, excluded from the computation of gross exposure of the members. Sales transactions in respect of which securities have been delivered by the members in the demat mode to the Clearing House are also excluded from the Gross Exposure limits.

The members are also flashed warnings on their BOLT TWs as soon as they reach 50%, 70% and 90% of their gross exposure limits and when a member crosses 100% of the gross exposure limit, a message is flashed on the BOLT TWs stating "GROSS EXPOSURE LIMIT EXCEEDED" and the same are automatically de-activated. The BOLT TWs of members, in such cases, are re-activated only after they deposit additional capital to cover their exposure in excess of the Gross Exposure limit.

d) **Margins**

In order to contain the risk arising out of the transactions entered into by the members in various scrips either on their own account or on behalf of their clients, the Exchange has, inter alia, a well designed risk management tool by way of Margins. The Exchange accordingly imposes various kinds of margins on the members based on their outstanding exposures in the market. The margining system followed by the Exchange is discussed below:

**Compulsory Rolling Settlements (CRS):**

W.e.f., April 1, 2002, all scrips listed on the Exchange in equity segment and "F" group scrips representing Fixed Income Securities are traded and settled in CRS on T+3 basis. The following margining system is being applied on the outstanding positions in various scrips in CRS.
A. Equity Segment

1. VAR Margins:

As mandated by SEBI all scrips are traded and settled under CRS, i.e., trades in these scrips are settled on T+3 basis in Rolling Settlements. The Value at Risk (VaR) marging system which is internationally accepted as the best marging system, is applicable on the outstanding positions of members in all these scrips.

1.1 Scrips traded on the Exchange have been divided into following two groups for calculation of VaR margins. VaR margins are to be calculated depending on the group to which the scrip belongs:

Group I: 246 highly liquid scrips, which were decided by SEBI to be included in the CRS list w.e.f. July 2, 2001 plus 15 scrips earlier placed in CRS from B1 group having the facility of BLESS (Rolling):

Group II. remaining scrips

The VaR margin calculation is based on volatility of either the BSE Sensex or S&P CNX Nifty. At BSE the calculations are done based on the volatility of Sensex, and as per the SEBI decision, the same margin rates can be applied by other Exchanges or they can carry out their own calculations based on any of the above two indices.

1.2 The VaR margin for scrips in Group I is calculated as the higher of Scrip VaR and Index VaR multiplied with a suitable multiplier as discussed in 1.2.1 & 1.2.2 below:

1.2.1 Scrip wise VaR: The scrip-wise daily volatility is calculated using Exponential Moving Weighted Average methodology for the last 6 months. This methodology is also applied for calculation of volatilities for Index Futures trades:

The volatility at the end of day t, \( s_t \), is estimated using the previous volatility estimate \( s_{t-1} \) (as the end of day t-1) and the return \( r_t \) observed in the market during day t as per the following formula:

\[
\hat{\sigma}(s_t)^2 = \lambda ((s_{t-1})^2 + (1 - \lambda) (r_t)^2)
\]

\( \lambda \) is a parameter, which determines how rapidly volatility estimates change. 0.94, which is specified in JR Varma Report is used as the value of \( \lambda \).

Further, as per the SEBI decision, the volatility as computed above is multiplied by a factor of 3.5 to satisfy the condition of 99% confidence. However, the multiplication factor for VaR in Index Futures is 3, as per the JR Varma Report.

The margin % is calculated as \( 100 \times [\exp(3.5 \times \text{volatility}) - 1] \)

1.2.2 Index VaR and multiplier: The volatility for calculation of Index VaR is estimated in the same manner as indicated above. However, a multiplication factor of 3.5 is applied to index volatility to calculate Index VaR in cash markets. It is also ensured that the minimum Index VaR at all times is maintained at 5. At this Exchange for calculation of VaR margins, the reference Index, as stated earlier, is Sensex.
For the purpose of VaR margining in the cash markets, Index VaR is multiplied with a multiplier. The multiplier used for a month is calculated on the first day of every month by comparing average volatility of the scrip with the average volatility of the index. The average period of the last 6 months is considered for the purpose. The minimum multiplier for any scrip is 1.75.

1.3 The VaR margin for scrips in Group II is calculated at 3 times of the daily Index VaR.

1.4 The above calculations address volatility risk arising in 99% of the cases. However, to address the 1% of the cases, SEBI has decided to levy 12% additional margin. The market participants are required to pay the daily margin at the rates as calculated above plus 12%, making the total VaR margin. The margin rates disseminated on the BSE website for individual scrips on a daily basis include this 12% margin.

1.5 The VaR margin rates disseminated at the end of a day are applied on the positions at the end of the next trading day. This ensures that the markets have prior information of the margin rates going to be applied for the trading positions held by them on the next trading day. The market participants can take a download of this information from BSE Website www.bseindia.com from Markets Live Summary section.

1.6 The scrip-wise VaR margins is charged on the basis of net position of a client across all the settlements for which the pay-in has not been effected. Taking an example of two clients “A” & “B” of the same member and their position in one scrip.

<table>
<thead>
<tr>
<th></th>
<th>Sett.</th>
<th>Client A</th>
<th>Client B</th>
</tr>
</thead>
<tbody>
<tr>
<td>a)</td>
<td>T-3</td>
<td>400</td>
<td>-200</td>
</tr>
<tr>
<td>b)</td>
<td>T-2</td>
<td>-100</td>
<td>+400</td>
</tr>
<tr>
<td>c)</td>
<td>T-1</td>
<td>300</td>
<td>-300</td>
</tr>
<tr>
<td>d)</td>
<td>T</td>
<td>-200</td>
<td>-100</td>
</tr>
<tr>
<td>e) (a+b+c+d)</td>
<td>Marginable Qty</td>
<td>400</td>
<td>-200</td>
</tr>
</tbody>
</table>

The member has to pay VaR margin on value of 600 shares, i.e., total of each client’s net position across all unsettled settlements, including T day, wherein the total quantity is considered after ignoring the sign, i.e., purchase or sale.

B. ‘F’ Group or Fixed Income Securities

The exposure of members in ‘F’ group scrips attracts margin at a flat rate of 10% on their scripwise net outstanding position taken at T day’s closing prices. The margin is computed on the total unsettled position of the members at the scrip level across unsettled settlements including T day. Since there is a little volatility in prices of ‘F’ group scrips, no VaR, or MTM margins are charged.
2. **Additional Volatility margin (AVM):**

   At present, the members/custodians, as per SEBI directive, are required to pay AVM on the net outstanding sale position of their institutional clients. In view of the introduction of VaR Margining system in CRS, SEBI has directed that the members/custodians would be required to pay a volatility margin which is equal to the positive differential between the scrip VaR calculated and the minimum VaR (1.75 times of Index VaR). This differential percentage is applied on the value of the net outstanding sale position of institutions in the additional 246 scrips which have gone in CRS w.e.f., July 2, 2001 and 15 scrips which were earlier in CRS and had the facility of BLESS(R).

   The AVM is required to be computed by the members themselves on the net institutional sale positions and paid directly to the Clearing House. The AVM payable, however, can be adjusted against the unutilized adjustable additional capital of members deposited with the Exchange. The AVM paid by the members in cash to the Clearing House on the sale position of institutions is refunded to them in the pay-in of the concerned settlement.

3. **Mark to Market (MTM) Margin:**

   At the end of each trading day, the system nets off the outstanding values and quantity of transactions for each scrip across all unsettled settlements including the T day’s transactions. The net value arrived at in a scrip is then divided by the net quantity to arrive at a weighted average cost per unit. This per unit weighted average cost of a scrip is then compared with its T day’s closing rate to arrive at the per unit profit/loss. The difference is then multiplied with the net outstanding quantity to arrive at the MTM profit/loss. The notional losses on the outstanding position of the members in scrips where there are losses are recovered as MTM margin while profits are ignored. Thus, the profits and losses across scrips are not allowed to be netted off. MTM margin is recovered by the Exchange in addition to the applicable VaR margins.

4. **Special Adhoc Margin (SAM):**

   As a risk management measure, the Exchange has prescribed exposure limits in individual scrips traded in B1 and B2 group in CRS as per the details given below:

<table>
<thead>
<tr>
<th>Amount</th>
<th>Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto Rs.100 lakhs</td>
<td>VaR margin</td>
</tr>
<tr>
<td>From Rs.100 to Rs.200 lakhs</td>
<td>VaR Margin +25% Special Adhoc margin</td>
</tr>
</tbody>
</table>

   The members are not allowed to have net outstanding purchase or sale position in single B1 and B2 group scrip beyond Rs. 200 lakhs in a day, i.e., in single Rolling Settlement.

   As for Z group scrips, the members are not allowed to have net outstanding purchase or sale position in a single “Z” group scrip beyond Rs. 25 lakhs and all Z group scrips beyond Rs. 100 lakhs in a day, i.e., single Rolling Settlement.
The institutional transactions and sales transaction in respect of which shares have been delivered to the Clearing House are, however, exempt from the above limits and payment of margins. Further, the Composite Corporate Members are allowed to have the above limits in multiple of the number of membership rights held by them.

The members wishing to take positions in excess of the above prescribed limits are required to obtain prior permission of the Exchange subject to payment of additional margin as may be prescribed.

5. Special Margin:

Special margin is imposed by the Exchange from time to time on various scrips in CRS, as a surveillance measure. Special margin is charged on the net purchase and/or sale position of members to the extent of traded position per settlement. Further, Special margin is required to be paid in addition to the other applicable margins like VaR, MTM etc. and is first adjusted against the available unutilised adjustable additional capital of the members like other margins. The rates of Special margin on individual scrips (either on the sale and/or purchase) are announced by the Exchange through notices issued from time to time.

As a risk management measure, the Exchange has prescribed that all the outstanding positions of the members in the scrips which are in no delivery would also attract Special margin (generally at the rate of 25%) till the same are in “no delivery”.

6. Adhoc margin

As a risk management measure, this member-specific margin is imposed in cases where it is felt that the margin cover vis-a-vis the exposure of a member is inadequate or a member has a concentrated position in some scrip(s) or has common client(s) along with other members. This margin is over and above the normal margins paid by members and is payable in cash only. Once called, a member is given about two days time to make the payment and in case the outstanding exposure in question is either squared off or reduced, the margin may be waived/reduced after due authorisation.

Exemptions from payment of margins:

Institutional business (i.e., purchases and sales on behalf of scheduled commercial banks, Indian Financial Institutions, Foreign Institutional Investors and Mutual Funds registered with SEBI) and sales transactions in respect of which delivery in demat mode has been given to the Clearing House are exempt from payment of margins. However, as stated earlier, the institutional sale transactions attract AVM at the rates announced by the Exchange. Further, as regards exemption from payment of margin in respect of sale transactions, it needs to be clarified that in case a member subsequently squares up his sale position after availing of exemption from payment of margin by depositing the shares sold, then the purchase position is treated as a fresh position and is included in gross exposure of a member and also margined accordingly.

Computation and payment of margins in Rolling Settlements.

All daily margins, viz., VaR, MTM margin, Special margin, Special Adhoc margin, etc. computed by the Exchange on the outstanding positions of the members are available for downloading by them in their back-offices.
The daily VaR margins, MTM margin, Special margin and Special Adhoc Margins are first adjusted against the unutilised additional capital of the members and the amount over and above the unutilised additional capital is directly debited to their respective bank accounts maintained with eight designated clearing banks. However, ad-hoc margins imposed by the Exchange on the concentrated exposure in a few scrips or in case of inadequate margin cover etc. are required to be paid in cash only.

With effect from October 25, 1999, the unutilised additional capital deposited by the members in the form of cash, FDR(s) and bank guarantee(s) only, after meeting the requirements of gross exposure, is adjusted against the margin liability of the members on T+1 basis and consequently the gross exposure and intra-day trading limits of members on the subsequent trading day stand reduced to the extent of such adjustment. In case the unutilized additional capital of members is not sufficient to meet their margin liability, the balance amount is directly debited in the bank accounts of the members maintained with the designated clearing banks at 6:00 p.m. The margin payable in cash for transactions done on T day, which are directly debited to the bank accounts of members on T+1 (after adjustment against their unutilized additional capital), are credited back to their bank accounts on T+2 and the margins payable in cash on transactions on T+1 are debited to their bank accounts on T+2.

The cases, where there are insufficient balance in the bank accounts of the members at the time of debit of the margin amounts payable in Cash on the relevant day, are treated as late payment of margin. The bank accounts of members, in such cases, are swept first with the available balance leaving a minimum amount and the balance unpaid amount is treated as bounced. The members concerned in such cases are required to make separate payment for the balance amount by a pay-order on the next working day. The BOLT TWSSs of the members in such cases are immediately de-activated and the same are re-activated only after the pay orders are received. The amount paid late by way of pay order is retained by the Clearing House and refunded to the members after two working days and late fee on the margin amount paid late is also recovered from the members concerned.

For late payment of margin |settlement dues/shortages etc., the late fees etc., are recovered from the members as indicated below:

<table>
<thead>
<tr>
<th>Instance</th>
<th>Late fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st instance in the financial year</td>
<td>1% of the amount involved or Rs.5,000/-, whichever is higher.</td>
</tr>
<tr>
<td>2nd instance in the financial year</td>
<td>1.5% of the amount involved or Rs.10,000/-, whichever is higher.</td>
</tr>
<tr>
<td>3rd instance in the financial year</td>
<td>1.5% of the amount involved or Rs.25,000/-, whichever is higher + De-activation of BOLT TWSSs for one day.</td>
</tr>
<tr>
<td>4th instance in the financial year</td>
<td>2% of the amount involved or Rs.50,000/-, whichever is higher + De-activation of BOLT TWSSs for three days.</td>
</tr>
<tr>
<td>5th instance in the financial year</td>
<td>2% of the amount involved or Rs.1,00,000/-, whichever is higher + De-activation of BOLT TWSSs for five trading days.</td>
</tr>
<tr>
<td>6th instance in the financial year</td>
<td>2.5% of the amount involved or Rs.2,00,000/-, whichever is higher + De-activation of BOLT TWSSs for 20 trading days + Reference to DAC.</td>
</tr>
</tbody>
</table>
After 6th instance, the BOLT TWSs of the members are de-activated and the fine and period of de-activation are decided by Disciplinary Action Committee (DAC).

The above late fees are applicable from April 1, 2001, i.e., commencement of first Settlement of financial year 2001-2002. The bouncing of cheques given towards adhoc margin are also treated as late payment of margin. A late fee is charged to the member whose cheque towards adhoc margin bounces and he has to deposit the amount by pay order immediately which is retained by the Exchange till pay-in of the relevant settlement or till the outstanding positions are reduced or squared up.

e) Monitoring Business of Brokers
The Exchange closely monitors outstanding position of top 100 buying members and top 100 selling members on a daily basis. For this purpose, it has developed various monitoring reports based on certain pre-set parameters. These reports are scrutinized by officials of the Surveillance Dept. to ascertain whether a member has built up excessive purchase or sale position compared to his normal level of business. Further, it is examined whether purchases or sales are concentrated in one or more scrips, whether the margin cover is adequate, whether transactions have been entered into on behalf of institutional clients and even the quality of scrips, i.e., liquid or illiquid is looked into in order to assess the quality of exposure. Based on an analysis of these factors, the margins already paid and the capital deposited by the members with the Exchange, ad-hoc margins are called from the members concerned to improve safety of the market.

f) Trading Restrictions
The Exchange also places restrictions on the gross exposure of certain members as a risk containment measure. The gross exposure limit of such members is reduced to a lower multiple of base minimum plus additional capital compared to the normal gross exposure limit of 15 times of base minimum plus additional capital. Some members are not allowed to take exposure in B2 or Z group scrips. These restrictions are placed on members who frequently delay the payment of margins or pay-in dues, have done excessive trading beyond their means or their financial position shows signs of weakness, the Exchange has received complaints from the clients etc. The trading restrictions are closely monitored and the members are required to strictly adhere to the restrictions imposed on them.

g) BOLT Deactivation
The BOLT TWSs of the members are de-activated for non-payment/late payment of margins or settlement dues or on apprehension of financial difficulties or detection of serious irregularities or for frequent violations of trading restrictions placed on them. These decisions are taken on a case-to-case basis. The overall objective in resorting to this ultimate step invariably is to ensure that a member’s questionable trading behaviour does not compromise market safety or jeopardise the market’s integrity. This measure is, therefore, very sparingly taken, only as a last resort when all other measures have failed to produce the desired results.

h) Other measures
The Exchange has obtained an integrated comprehensive insurance policy from the New India Assurance Company Ltd. to cover the various insurable perils faced by the members as well as the Clearing House. The policy which was initially taken in July 1996 has been periodically renewed. The policy provides protection to the members against the losses arising out of loss of securities in
transit and introduction of stolen, fake, forged shares by their clients. It also has an errors and omission cover. The policy also covers final receiving members where recovery of loss is not possible by members/Exchange from the defaulter members. The direct financial loss to the members on account of the loss of securities or damage to securities is also covered under the policy. It covers employee infidelity and computer crimes besides loss of shares by fire, earthquake, flood, and heist. The policy is subject to an overall limit of Rs.100 crores for any one loss or all losses in a year.

Under this policy each member is covered for an amount of Rs.50 lakhs. However, in case members who have lower volume of business, there is a provision for them to opt for a lower limit of Rs.25 lakhs. Over and above Rs.50 lakhs, the members also have an option for additional cover upto a maximum of Rs.24 crores for which the members are required to pay additional premium.

The Exchange has appointed an insurance consultant to advise the Exchange on an on going basis about the likely risks, which will be useful at the time of renewal of the policy.

The Exchange, as mentioned earlier, maintains a database on fake/forged, lost, stolen and duplicate shares, which is made available to the members. The members before delivering the shares to the Clearing House are required to check whether they have received any fake/forged, lost, stolen or duplicate shares from their clients. Similarly, a check is exercised at the Clearing House as well as at the receiving members’ end. By this method, the entry of fake/forged, lost, stolen and duplicate shares in the system has been minimized.

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Trade Guarantee Fund (TGF)

While approving the proposal of the Exchange for expansion of BOLT terminals to cities other than Mumbai, SEBI had, inter-alia, stipulated that the Exchange should introduce a system of guaranteeing settlement of trades or set up a Clearing Corporation to ensure that market equilibrium is not disturbed in case of payment default by any member.

The Exchange has accordingly formulated a scheme to guarantee settlement of bonafide transactions of members, which form part of the settlement system.

The Exchange has constituted a Trade Guarantee Fund with the following objectives:

a) To guarantee settlement of bonafide transactions of members of the Exchange inter-se which form part of the Stock Exchange settlement system, so as to ensure timely completion of settlements of contracts and thereby protect the interest of investors and the members of the Exchange.

b) To inculcate confidence in the minds of secondary market participants generally and global investors particularly, to attract larger number of domestic and international players in the capital market.

c) To protect the interest of investors and to promote the development of and regulation of the secondary market.

The Scheme has come into force with effect from May 12, 1997.

The Scheme is managed by the Defaulters' Committee, which is a Standing Committee constituted by the Exchange, the constitution of which is approved by SEBI. The temporary refundable advances for a stipulated period are given by the Defaulters Committee from the Trade Guarantee Fund to the members to meet their settlement obligations subject to certain conditions. During the period of advance, the BOLT TWs of the members are kept de-activated. If a member fails to repay the advance within the stipulated period, he is declared a defaulter by the Governing Board on the basis of the recommendations of the Defaulters Committee.
All active members are required to make an initial contribution of Rs.10,000/- in cash to the Fund and also contribute Re.0.225 for every Rs.1 lakh of gross turnover in all the groups of scrips by way of continuous contribution which is debited to their settlement account.

The active members are required to maintain a base minimum capital of Rs.10 lakhs each with the Exchange. This contribution has also been transferred to the Fund and has been treated as refundable contribution of members. Each member is also required to provide to the Fund a bank guarantee of Rs.10 lakhs from a scheduled commercial bank as an additional contribution to the Fund.

Thus, the initial contribution to the TGF of about Rs.170 crores has been contributed by the Exchange as well as members in the manner discussed above. The total corpus of the Fund as on March 31, 2002 was Rs. 977.12 crores.

The creation of TGF has eliminated counter party risk so that if a member is declared a defaulter, other members who had dealing with him during the settlement(s), do not suffer as was the case in the past. The creation of TGF has, thus, ensured smooth completion of settlements at the Exchange.

BSE Teck Index
India’s First Free Float Index
Brokers' Contingency Fund (BCF)

The Exchange has set up a Brokers' Contingency Fund (BCF) with a view:

(i) to make temporary refundable advance(s) to the members facing temporary financial mis-match as a result of which they may not be in a position to meet their financial obligations to the Exchange in time;

(ii) to protect the interest of the investors dealing through members of the Exchange by ensuring timely completion of settlement; and

(iii) to inculcate confidence in the minds of investors regarding safety of bonafide transactions entered into on the Exchange.

The scheme has come into force with effect from July 21, 1997.

The Fund is managed by a Committee appointed by the Governing Board.

The Exchange has contributed a sum of Rs.9.51 crores to the corpus of the Fund. All the active members are required to make an initial non-refundable contribution of Rs.1,000/- to the Fund and also contribute Re. 0.075 for every one lakh rupees of gross turnover by way of continuous contribution which is debited to their settlement account. Further, 5% of the surplus remaining in the account of the defaulters after meeting all their liabilities in the Exchange is credited to this Fund before handing over the surplus to them.

The members are eligible to get advance(s) from the Fund upto a maximum of Rs.25 lakhs.

The corpus of the fund as on March 31, 2002 was Rs 31 crores.

Thus, by creation of the BCF, an effort has been made that the settlement cycles at the Exchange are not affected due to the temporary financial problems faced by the members. This, it is presumed, would help in increasing the credibility of the stock exchange settlement system.
The Stock Exchange Review

A monthly journal on capital markets published by The Stock Exchange, Mumbai

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One of the objectives of the Exchange is to promote and inculcate honourable and just practices of trade in securities transactions and to discourage malpractices.

The surveillance function at the Exchange has assumed greater importance in the last over six years. SEBI had directed the Stock Exchanges in August 1995 to set up a separate the Surveillance Department with staff exclusively assigned to surveillance functions. The Exchange has accordingly set up a separate Surveillance Department to keep a close watch on price movement of scrips, detect market manipulations like price rigging, etc., monitor abnormal prices and volumes which are not consistent with normal trading pattern and keep a watch on the exposure of the members.

The Position Monitoring section of the Surveillance Dept. monitors exposure of the members on a daily basis as described in para 10(e) above.

The functions of price monitoring and investigations have been entrusted to the Surveillance Department where large variation in the prices as well as volumes of scrips are scrutinized and appropriate actions are taken. The scrips which reach new high or new low and companies which have high turnover are watched. Also the prices and volumes in the newly listed scrips are monitored. In case certain abnormalities are noticed, then circuit filters are reduced to make it difficult for the price manipulators to increase or push down the prices of a scrip within a short period of time. The Exchange imposes special margin in the scrips where it is suspected that there is an attempt to ramp up the prices by creating artificial volumes. In cases, where there is excessive volatility or sudden spurt in volume or where the net deliverable quantity is insignificant, the settlement of the trades in the scrip, as a surveillance measure, may be shifted on a trade to trade basis. In cases where the abnormal movements continue despite the aforesaid measures, trading in the scrip is suspended.

Detailed investigations are conducted in cases where price manipulation is suspected and disciplinary action is taken against the members concerned, if warranted. Where any scrip has been suspended for more than three days, a detailed investigation report is prepared and sent to SEBI for further investigation/action, if any.
The Exchange has developed an On-line Real Time (OLRT) Surveillance System known as BSE On-line Surveillance System (BOSS) which was commissioned from July 15, 1999 with the main objectives of detecting potential market abuses at nascent stage to reduce the ability of the market participants to influence the price and volumes of the scrips traded at the Exchange, improve the risk management system and to strengthen the self regulatory mechanism at the Exchange. Under this system, alerts are generated by the system on-line, in real time, based on certain pre-set parameters like the price and volume variation in scrips, members taking unduly large positions not commensurate with their financial position or having concentrated position(s) in one or a few scrips, etc. The system also generates on-line and off-line exception reports for settlement related information.

This system includes databases such as company profile, members' profile and historical database of turnover and price movement in scrips, members' turnover, their pay-in obligations, etc. The alerts generated by the system during the trading hours are analyzed and corrective action based on further investigations is taken in such cases.

The Surveillance Department also liaises with the Compliance Officers of the companies to obtain the comments of the companies on various price sensitive corporate news pertaining to them which appear daily in the leading financial newspapers. The comments received from the companies on such newspaper reports are immediately disseminated to the market to enable the investors to take informed decisions.

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Over 3 million hits per day making it one of the largest financial portals in India.
The Exchanges as per the directions from SEBI, are required to apply Circuit Filters on all scrips traded in Rolling Settlements at 20% of the closing price of the scrips on the previous day. However, in the Rolling Settlement Scenario, since the trading horizon is only one day, the application of these Circuit Filters may pose high settlement default risk, when a market participant is not able to square off his speculative trading position, as the scrip may have hit the Circuit Filter. Therefore, in all 54 scrips, which form part of the Sensex and Nifty or in which derivative products like stock options and Futures are available, no circuit filters are applicable w.e.f. July 2, 2001. In other words, the prices of these scrips can have free fall or increase within a day. However, in view of the market developments that took place in September, 2001, SEBI has directed the Exchanges to impose daily circuit filter of 10% on these 54 scrips. Accordingly, these 54 scrips have daily circuit filter of 10% and the remaining scrips in CRS have a daily circuit filter of 20%.
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Market Wide Circuit Breakers

It may be noted that Circuit Filters at individual scrip level help to restrict the excessive movements of indices as well. In the revised scenario, where there are supposed to be no Circuit Filters on the scrips forming part of popular indices or in which Derivative products are available, there is a need to contain such excessive market movements in indices like Sensex and Nifty. Therefore, in order to contain large market movements, SEBI has mandated that the Market Wide Circuit Breakers (MWCB) which at 10-15-20% of the movements in either BSE Sensex or NSE Nifty, whichever is breached earlier, would be applicable. This would provide cooling period to the market participants and enable them to re-act to the market movements. The trading halt on all stock exchanges would take place as under :-

In case of a 10% movement of either index, there would be a 1-hour market halt if the movement takes place before 1:00 p.m. In case the movement takes place at or after 1 p.m. but before 2:30 p.m., there will be a trading halt for 1/2 hour. In case the movement takes place at or after 2:30 p.m., there will be no trading halt at the 10% level and the market will continue trading.

In case of a 15% movement of either index, there will be a 2-hour market halt if the movement takes place before 1:00 p.m. If the 15% trigger is reached on or after 1:00 p.m. but before 2 p.m., there will be 1-hour halt. If the 15% trigger is reached on or after 2:00 p.m., the trading will halt for the remainder of the day.

In case of a 20% movement of the either index, the trading will halt for the remainder of the day.

The above percentages are required to be translated by the Exchanges into absolute points of the Index variation on a quarterly basis, i.e., based on the closing index on the last trading day of the quarter and advised to the market participants in advance. Based on these absolute points, market wide circuit breakers are applied for the next quarter.

The Market Wide Circuit Breakers at a national level have been introduced in the Indian markets for the first time. This is on the lines of the system prevailing in the US markets.
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The investors dealing in the primary and secondary markets may have grievances against various intermediaries like issuers, member-brokers etc. The Exchange has set up a separate Cell to redress the grievances of investors against the companies as well as its own members. The Exchange also assists in arbitration process both between investors and members inter-se.

(a) **Investors’ grievances against companies**

The Investor Services Cell forwards the complaints of investors to the concerned companies and directs them to resolve the same within 15 days. A copy of the letter sent to a company is also forwarded to the complainant. If a company fails to resolve the investors complaints and the total number of pending complaints against it exceed 25 and if the complaints are pending for more than 45 days, a show cause notice is issued to the company. After issue of show-cause notice if there is no response from a company for 7 days, the scrip of the company is suspended from trading till grievances are resolved.

Further, the Registrars and Transfer Agents and officials of some of the companies visit the Exchange to interact with investors as well as members on a regular basis.

Inspite of these efforts, if a company fails to resolve complaints, then the scrip is shifted to “Z” group. A “Z” category company means that it has not complied with various provisions of the Listing Agreement including non-resolution of investors’ complaints or has not made requisite arrangements with both the Depositories for dematerialization of their securities.

By transferring companies to the “Z” group, the Exchange tries to caution the potential investors to be more careful in their investments in scrips of such companies. In order to prevent price manipulation, the trades in “Z” group scrips, as stated earlier, are settled on trade to trade basis w.e.f. February 5, 2001.

Thus, by transferring companies to “Z” group, Exchange attempts to put a pressure on the companies to ensure compliance with various requirements of the Listing Agreement, redress investors grievances and arrange for dematerialization of their securities.

(b) **Investors’ grievances against member-brokers of the Exchange.**

The Exchange handles complaints of investors against members and SEBI registered sub-brokers affiliated to members of the Exchange. The complaints of investors are forwarded
by the Exchange to the concerned members to settle/clarify the matter within 3/7 days from the receipt of the letter. If no reply is received from a member within the specified period, a reminder is sent to him. In case a member fails to submit a clarification/settle the complaint, penalties as prescribed by the Exchange from time to time are levied on the members and the members may also render themselves liable for further action as provided under the Rules, Bye-laws and Regulations of the Exchange. In order to resolve the complaints expeditiously, the Exchange has set up a Investors Grievance Redressal Committee (IGRC) consisting of six members which includes two retired High Court Judges as its members. Both the investors and members present their case before the Committee and the Committee after hearing both the parties, tries to settle the matter through the process of conciliation. In case a member fails to implement the decision of the IGRC, then the matter is considered for taking further action against the member including referring the matter to the Disciplinary Action Committee.

(c) Complaints of members inter-se.

In case of the complaints of members against other members of the Exchange they are required to lodge complaints against other members in the prescribed format, in duplicate, along with the necessary proof in support of the same. In order to resolve the complaints of members inter-se, a Brokers’ Consultative Committee has been appointed by the Governing Board. This Committee consists of two members of the Exchange. Whenever the complaints are received, the same are immediately put before the Committee. The Committee hearing both the members gives an award and if a member against whom award has been given fails to implement the same then a show cause notice is issued to him. In spite of this, if a member does not implement the award, then the Investors’ Service Cell directly debits the settlement account of the member in the Clearing House and credits the other member’s account with the amount of the arbitration award.

(d) Resolution of complaints through arbitration.

With a view to ensuring speedy and effective resolution of claims, differences and disputes between non-members and members and members inter-se, the Exchange has laid down a set of procedures for arbitration thereof. These procedures are duly embodied in the Rules, Bye-laws and Regulations of the Exchange, which have been duly approved by the Government of India/SEBI, under the Securities Contracts (Regulation) Act, 1956.

Under the Rules, Bye-laws and Regulations of the Exchange, an in-house arbitration machinery has been provided to decide on:

- dispute between members inter-se; and
- dispute between non-members (clients/investors) and members of the Exchange.

All contracts of sale and purchase of securities entered into by the members are subject to Mumbai jurisdiction and any dispute arising in respect of such contracts are necessarily required to be submitted for arbitration. However, complaints from non-members (clients/investors) against members and complaints of members inter-se are in the first case generally scrutinized by the Exchange. For the purpose of scrutiny, documentary proof like contract notes, bills, statement of accounts and relevant documentary proof are called for from the parties. If required, personal meetings of the parties are also arranged in cases where issues to be resolved are of a complicated nature. As a last resort, where there are claims and counter-claims and the matter cannot be easily resolved by the intervention of the Exchange officials, the parties are advised to file an arbitration reference.
i) Arbitration between members inter-se.

**Arbitration Committee:**

The provisions relating to Arbitration Committee which deals with arbitration between members inter-se are laid down in the Bye-laws Nos.282 to 315 of the Rules, Bye-laws and Regulations of the Exchange.

Three-tier arbitration machinery has been provided in the Exchange to decide on disputes between members. All claims, complaints, differences and disputes between members arising out of or in relation to any bargains, dealings, transactions or contracts are subject to arbitration and are referred to the Arbitration Committee. The Arbitration Committee is appointed by the Governing Board every year. For the year 2001-2002, the Governing Board has appointed 23 members of the Exchange as members of the Arbitration Committee.

**Lower Bench Arbitration:**

A Committee of three arbitrators from the Arbitration Committee is constituted by the Secretary of the Arbitration Committee to look into such disputes if the value of the claim exceeds Rs. 25,000, while only one arbitrator will hear the dispute if the value is upto Rs. 25,000. A member filing an arbitration reference is required to attach a coupon of Rs.100/- along with his arbitration application. Both the applicant and the respondent or their authorized representatives are required to be present in the arbitration meetings. After hearing the parties, the arbitrators give the award.

**Full Bench Arbitration:**

An aggrieved member, who is not satisfied with the award of the Lower Bench Arbitration Committee, may file an appeal before the Full Bench of the Arbitration Committee within seven days from the date of receipt of the award by him provided the sum involved in the award is not less than Rs.50,000/-. (It is proposed to increase this amount to Rs. 1,00,000/- ). A member, who desires to file an appeal before the full bench of the Arbitration Committee, is also required to deposit the amount of the award or shares as stated in the Lower Bench award with the Exchange along with a fee of Rs.500/-. The deposit amount are retained with the Exchange until the case is decided by the Full Bench/Governing Board. In the Full Bench Arbitration meetings, all the members of the Arbitration Committee hear the appeal except those arbitrators who gave the award in the lower bench. Quorum of the full bench consists of one-third of its members.

**Appeal before the Governing Board:**

An aggrieved member, who is not satisfied with the award of the Full Bench Arbitration Committee, may prefer an appeal before the Governing Board provided the claim amount/ award of the Full Bench Arbitration Committee is not less than Rs.1,00,000/-. (It is proposed to increase this amount to Rs. 5,00,000/-). An appeal should be filed within seven days from the date of the award of the Full Bench Arbitration Committee by paying a fee of Rs.700/- and also by depositing the award amount/shares as stated in the award with the Stock Exchange. The Governing Board is the final appellate authority in the case of arbitration between members. Beyond this level, there is normally no appeal provision but in exceptional situations the Governing Board may permit a member to make a further appeal to a Court of Law.
Patawat/ Review Arbitration:

In addition to the three tier arbitration machinery as stated above, “Patawat Arbitration”, i.e., disputes among members arising out of physical delivery of securities, is held after every settlement (Patawat). In this arbitration, officials of Bad Delivery Cell participate and award “Chukadas” (awards) on the objection memos indicating whether documents delivered are “in order” or “not in order”. The members/their representatives obtain the “Chukadas” in the Patawat Arbitration sessions. The member is required to affix a coupon of Rs.50/- on the objection memo, stating the nature of the objection as per the “Guidelines for Good or Bad delivery of documents” issued by SEBI, while obtaining the award. The senior members of the Arbitration Committee review the awards given by the BDC officials.

ii) Arbitration between non-members and members and vice-versa.

Bye-laws Nos. 248 to 281 of the Rules, Bye-laws and Regulations of the Exchange deal with the procedure regarding arbitration between non-members (clients/investors) and members of the Exchange. At present members of the Exchange as well as outsiders act as arbitrators in the disputes and claims filed by the non-members against members of the Exchange and vice-versa. The Exchange has since appointed a panel of 37 outside arbitrators consisting of retired Judges, Chartered Accountants and other persons from the financial field in addition to 14 members of the Exchange. This is pursuant to the directions from SEBI to constitute the Arbitration Committee comprising of 60% outsiders, i.e., those who are not members of the Exchange and 40% of the members of the Exchange.

The Exchange has amended Bye-laws relating to Client v/s. Member arbitration in conjunction with Arbitration and Conciliation Act, 1996, passed by the Government of India. This has become effective from August 29, 1998. Under the amended Bye-laws, in case the value of the disputed claim is less than Rs. 10 lakhs, then only one arbitrator is appointed and if the claim value is Rs. 10 lakh or more, then there are three arbitrators for the case one appointed by the applicant, one by the respondent and third by the Exchange. Under the amended Bye-laws after getting the arbitration award, the aggrieved party may request for rectification to the arbitration tribunal for any typographical/computational/arithmetic or any other error of a similar nature, if any, occurred in the award within fifteen days from the receipt of the award. Similarly, the aggrieved party may within fifteen days of the receipt of the award file an appeal to an appeal bench challenging the Award of the Arbitral Tribunal. Appeal against the award of the Arbitral Tribunal is heard and decided by an Appeal Bench constituted by the Exchange consisting of five arbitrators out of which three are non-member arbitrators. The judgment of the appeal bench is by a majority and is binding on both the parties.

An arbitration award passed by the Arbitral Tribunal/Appeal Bench becomes a decree after expiry of 90 days from the date of receipt of the award by the concerned parties, if the same is not challenged under section 34 of the Arbitration & Conciliation Act, 1996 and the same can be executed under Civil Procedure Code, 1908 as if it were a decree of a Court. The cases of non-implementation of arbitration awards by the active members are placed before the Disciplinary Action Committee of the Exchange for action against the members concerned after issuing a show cause notice to them.

An award against a defaulter is forwarded by Investors Service Cell to the Defaulters Committee (DC). If the case has been filed within six months of a member having been declared a defaulter, the Defaulters’ Committee after satisfying itself about genuineness of the claim, recommends to the Trustees of the Customers’ Protection Fund to release the award amount or Rs. 10 lakhs, whichever is lower. After the approval of the Trustees, the amount is disbursed to the clients, who have obtained the award against the defaulters.
Investor Protection Fund (IPF)

In accordance with the guidelines issued by the Ministry of Finance, Government of India, the Exchange has set up an Investor Protection Fund (IPF) on July 10, 1987 to meet the claims of investors against defaulter members.

The Fund is managed by the trustees appointed by the Exchange.

The members at present contribute to this Fund Re.0.15 per Rs.1 lakh of gross turnover, which is debited to their general charges account. The Stock Exchange contributes on a quarterly basis 2.5% of the listing fees collected by it. Also the entire interest earned by the Exchange on 1% security deposit kept with it by the companies making public/rights issues is credited to the Fund. As per the SEBI directive, auction proceeds in certain cases, where price manipulation/rigging was suspected, have been impounded and transferred to the Fund. Also, the surplus lying in the account of the defaulters after meeting their liabilities on the Exchange is released to them after transferring 5% of the surplus amount to this Fund.

As at the end of March 31, 2002, the corpus of the Fund was Rs 156.84 crores.

The maximum amount presently payable to an investor from this Fund in the event of default by a member is Rs.10.00 lakhs. This has been progressively raised by the Exchange from Rs.5,000/- in 1988 to the present level and is the highest among the Stock Exchanges in the country.

The arbitration award obtained by investors against defaulters are scrutinized by the Defaulters Committee, a Standing Committee constituted by the Exchange, to ascertain their genuineness, etc. Once the Defaulters Committee is satisfied about genuineness of the claim, it recommends to the Trustees of the Fund for release of the award amount or Rs.10.00 lacs, whichever is lower. After the approval of the Trustees of the Fund, the amount is disbursed to the clients of the defaulters from the Investor Protection Fund.
Addresses of companies listed in
The Stock Exchange, Mumbai

Price: Rs. 130 (Postage Rs. 20)

For subscription/marketing and advertising details please contact

BSE BOOKS
2nd Floor, Rotunda Bldg., B.S. Marg, Fort, Mumbai - 400 001.
Tel.: 9122 2721233/1234 (Ext. 8051),
Fax: 9122 2721334,
Email: publication@bseindia.com
Listing Of Securities

Listing means admission of the securities to dealings on a recognized stock exchange. The securities may be of any public limited company, Central or State Government, quasi governmental and other financial institutions/corporations, municipalities, etc.

The objectives of listing are mainly to:

- provide liquidity to securities;
- mobilize savings for economic development;
- protect interest of investors by ensuring full disclosures.

The Listing Department of the Exchange grants approval for listing of securities of companies in accordance with the provisions of the Securities Contracts (Regulation) Act, 1956, Securities Contracts (Regulation) Rules, 1957, Companies Act 1956, guidelines issued by SEBI and Rules, Bye-laws and Regulations of the Exchange.

A Company intending to have its securities listed on the Exchange has to comply with the listing requirements prescribed by the Exchange, which are as under:

[I] New Companies

a) Category I (for companies with post-issue equity capital of Rs.10 crores and above)

(i) Post issue capital of Rs. 10 crores and
(ii) Post issue networth of Rs. 20 crores
(iii) The project/activity of the applicant company must have been appraised by a financial institution as described in Section 4(a) of the Companies Act, 1956 or Sate Finance Corporation or Scheduled Commercial Bank with a paid-up capital of Rs. 50 crores or Category I Merchant with a networth of Rs. 10 crores.

All the above conditions are expected to be complied with by the companies seeking listing at the Exchange. However, the Listing Committee has the discretion to waive the requirement at serial (iii) above after considering the merits of the case.
b) Category II (for companies with post issue equity capital of Rs.5 crores and above, but less than Rs. 10 crores)

(i) Post issue capital of Rs. 5 crores and
(ii) Post issue networth of Rs. 20 crores
(iii) The minimum market capitalization should be of Rs. 50 crores. (The capitalization will be calculated by multiplying the post issue subscribed number of Equity Shares with the Issue Price)
(iv) The project/activity of the applicant must have been appraised by a financial institution as described in Section 4(a) of the companies Act, 1956 or Sate Finance Corporation or Scheduled Commercial Bank with a paid-up capital of Rs. 50 crores or Category I Merchant with a networth of Rs. 10 crores.

All the above conditions are expected to be complied with by the companies seeking listing at the Exchange. However, the Listing Committee has the discretion to waive the requirement at serial (iv) above after considering the merits of the case.

Minimum Public Offer

As per Rule 19(2) (b) of the Securities Contracts (Regulation) Rules, 1957, securities of a company can be listed on a Stock Exchange only when at least 10% of each class or kind of securities is offered to the public for subscription subject to the following conditions.

i) Minimum twenty lakh securities are offered to the public (excluding reservation, firm allotment and promoters' contribution).
ii) The size of the offer to the public, i.e., the offer price multiplied by the number of securities offered to the public at (i) above is minimum Rs. 100 crores and
iii) The issue was made only through book building method with allocation of 60% of the issue size to the qualified institutional buyers as specified by SEBI.

If a company does not fulfill the aforesaid conditions, it shall offer atleast 25% of each class or kind of securities to the public.

For this purpose, the term “offered to the public” means only the portion offered to the public and does not include reservations of securities on firm or competitive basis.

SEBI may, however, relax this condition on the basis of recommendations of stock exchange(s), only in respect of a Government company defined under Section 617 of the Companies Act, 1956.

[II] Companies listed on other stock exchanges

For companies listed on other Stock Exchanges and seeking listing on this Exchange, the threshold limit is Rs. 3 crores of minimum issued equity capital. Further, the following conditions have to be fulfilled:

➢ Profit track record for the last three years;
➢ The Company should have minimum networth of Rs. 20 crores (networth includes equity capital + free reserves, excluding revaluation reserves)
➢ Minimum Market Capitalization of Rs.20 crores, based on average price of last six months;
Trading for a minimum 50% of the total trading days during the same six months on any stock exchange;
> Minimum average volume traded per day during the last three complete months should be 1000 shares and minimum 5 trades per day;
> 25% of the issued capital should be with public (including body corporate) and minimum 15 shareholders per Rs. 1 lakh of capital in the public category.
> The company should be agreeable to sign an agreement with CDSL and NSDL for demat trading.

[III] **Companies delisted by this Exchange seeking relisting on this Exchange**

The companies once delisted by this Exchange can seek relisting only after they make public offer and comply with all the guidelines issued by SEBI and the Exchange in this regard.

**Minimum Number of Shareholders**

The public offer should result in a wide distribution of shares among the general public and there should be minimum 25%/10% (as applicable) of a company's issued capital with the public (inclusive of corporate bodies).

**Permission to use the name of the Exchange in an Issuer Company’s prospectus**

The Exchange has started a procedure in terms of which the companies fulfilling the requirements as discussed above and desiring to list their securities offered through public issues are required to obtain its prior permission to use the name of the Exchange in their prospectus or 'offer for sale' documents before filing the same with the concerned office of the Registrar of Companies. The Exchange has formed a “Listing Committee” (formerly known as “Prospectus Scrutiny Committee”) to analyze draft prospectus/offer documents of the companies in respect of their forthcoming public issues of securities and decide upon the matter of granting them permission to use the name of “The Stock Exchange, Mumbai” in their prospectus/offer documents. The Committee evaluates the promoters, company, project and several other factors before taking decision in this regard.

**Submission of Letter of Application**

As per Section 73 of the Companies Act, 1956, a company seeking listing of its securities on the Exchanges is required to submit a Letter of Application to all the Stock Exchanges where it proposes to have its securities listed before filing the prospectus with the Registrar of Companies.

**Allotment of Securities**

As per the listing agreement, a company is required to complete allotment of securities offered to the public within 30 days of the date of closure of the subscription list and approach the Regional Stock Exchange, i.e., Stock Exchange nearest to its Registered Office for approval of the basis of allotment.

The companies, as per the requirements of listing agreement, are required to send allotment advices/refund orders within 30 days from the date of closure of the issue. If the same are not despatched to the investors within 30 days from the date of closure of the subscription list, the company is required to pay interest at the rate of 15% per annum on the delayed refund orders from the 31st day.
Allotment Letters/Certificates and Trading Permission

Now new companies have to issue shares in demat only. The Companies seeking listing of their securities on the Exchange are required to ensure and take all steps for completion of the normal formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed within 7 working days of finalisation of basis of allotment.

The companies are required to scrupulously adhere to the time limit of 10 weeks from the date of closure of the subscription list for allotment of all securities and despatch of Allotment Letters/Share Certificates as required under Section 73 of the Companies Act, 1956 and for obtaining the listing permissions of all the Exchanges whose names are stated in its prospectus or offer documents. In the event of listing permission to a company being denied by any Stock Exchange where it had applied for listing of its securities, it cannot proceed with the allotment of shares. However, the company may file an appeal before the Securities and Exchange Board of India under Section 22 of the Securities Contracts (Regulation) Act, 1956.

1% Security Deposit.

The companies making public/rights issues are required to deposit 1% of issue amount with the Regional Stock Exchange before the issue opens. This amount is liable to be forfeited by the Exchange in the event a company fails to resolve the complaints of investors regarding delay in sending refund orders/share certificates, non-payment of commission to underwriters, brokers, etc.

Listing Fees

All companies listed on the Exchange have to pay annual listing fees by the 30th April of every financial year to the Exchange as per the Schedule of Listing Fees prescribed from time to time.

The schedule of listing fees for the year 2002-2003 approved by the Governing Board of the Exchange is given hereunder:

<table>
<thead>
<tr>
<th>Sr.</th>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Initial Listing Fees</td>
<td>20,000</td>
</tr>
<tr>
<td>2</td>
<td>Annual Listing Fees</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>i. Companies with paid-up capital* upto Rs. 5 crores</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td>ii. Above Rs. 5 crores and upto Rs. 10 crores</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td>iii. Above Rs. 10 crores and upto Rs. 20 crores</td>
<td>30,000</td>
</tr>
<tr>
<td></td>
<td>Companies having a paid-up capital of more than Rs. 20 crores are required to pay additional fee of Rs. 750/- for every increase of Rs. 1 crore or part thereof.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>For debenture capital of companies (not convertible into equity shares), the fees will be charged @25% of the fees payable as per the above mentioned scales.</td>
<td></td>
</tr>
</tbody>
</table>

* includes equity, preference, fully convertible debenture, party convertible debenture capitals and any other security convertible into equity shares.

Note: The above schedule of listing fee is uniformly applicable for all the companies irrespective of whether the Exchange is regional or non-regional.
Compliance with Listing Agreement

The companies desirous of getting their securities listed are required to enter into an agreement with the Exchange called the Listing Agreement and they are required to make certain disclosures and perform certain acts. As such, the agreement is of great importance and is executed under the common seal of a company. Under the Listing Agreement, a company undertakes, amongst other things, to provide facilities for prompt transfer, registration, sub-division and consolidation of securities; to give proper notice of closure of transfer books and record dates; to forward copies of unabridged Annual Reports and Balance Sheets to the shareholders, to file Distribution Schedule with the Exchange every quarter; to furnish financial results on a quarterly basis; intimate promptly to the Exchange the happenings which are likely to materially affect the financial performance of the Company and its stock prices; etc.

The Listing Department of the Exchange monitors the compliance of the companies with the provisions of the Listing Agreement, especially with regard to timely payment of annual listing fees, submission of quarterly results, etc. and takes penal action against the defaulting companies.

"Z" Group

The Exchange has introduced a new category called "Z Group" from July 1999 for companies which have not complied with and are in breach of provisions of the Listing Agreement and/or have failed to resolve investor complaints. The Governing Board in its meeting held on January 16, 2002, has approved amendments to guidelines for shifting/retaining companies to/in 'Z' Group. As per the revised guidelines, the Exchange considers any three out of the following seven criteria of non-compliance for shifting a company to the 'Z' Group.

<table>
<thead>
<tr>
<th>Listing Agreement Clause</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clause 15 &amp; 16</td>
<td>Required notice of Book Closure &amp; Record Dates.</td>
</tr>
<tr>
<td>Clause 31(1)(a)</td>
<td>Yearly submission of Annual Reports.</td>
</tr>
<tr>
<td>Clause 35</td>
<td>Quarterly submission of shareholding pattern.</td>
</tr>
<tr>
<td>Clause 38</td>
<td>Payment of Annual Listing Fees.</td>
</tr>
<tr>
<td>Clause 41</td>
<td>Publication of Audited / Unaudited results on a quarterly basis.</td>
</tr>
<tr>
<td>Clause 3, 12, 21</td>
<td>Redressal of Investors' Complaints (regarding share transfers etc.)</td>
</tr>
<tr>
<td>Clause 49</td>
<td>Implementation of corporate governance, if applicable.</td>
</tr>
</tbody>
</table>
It has also been decided that:

1. The Governing Board/Listing Committee has the discretion to shift any company to and from the ‘Z’ Group.

2. The Surveillance Department has the discretionary powers to add or remove companies from this group based on their investigation/complaint/trading behaviour, etc.

3. The Investors’ Service Cell has the discretion to add or remove companies from “Z” Group.

4. Companies who fail to make demat arrangement with both the depositories, would be in ‘Z’ Group.

5. The Exchange would also take into account punitive action, if any, taken by any regulatory authority against a company for shifting to “Z” Group.

Notwithstanding what is stated above, the Exchange may suspend trading in any security of a company for non-compliance of any one or more clauses as it may consider necessary.

Once a company is shifted to ‘Z’ Group, its compliance with aforesaid clauses of the Listing Agreement would be monitored by the Exchange on a quarterly basis and only upon satisfactory compliance record for one quarter, the company would be shifted back to its erstwhile group. This would be applicable even for companies trading in whose scrips has been suspended by the Exchange. The quarterly review would be done in the month of February, May, August and November.

The number of companies placed under 'Z' group as on March 31, 2002 was 3044.

The number of companies listed at the Exchange as on March 31, 2002 was 5782. This is the highest number of companies listed on a Exchange among the Stock Exchanges in the country and perhaps in the world.
In terms of the instructions issued by the Ministry of Finance, Government of India/SEBI, the Stock Exchanges are required to inspect the books of accounts of at least 10% of their active members in the Cash segment and 100% of the members in the Derivative Segment in a financial year. The Exchange has set up a separate Inspection Department which has been entrusted with this responsibility.

The purpose of the inspection of the books of accounts and other documents of members is to verify whether member has maintained the required books of accounts as per the Securities Contracts (Regulation) Rules, 1957, whether the member has adhered to the Rules, Bye-laws and Regulations of the Exchange and abided by the guidelines etc. issued by SEBI and the Exchange from time to time.

The Exchange has also constituted panels of Chartered Accountants to conduct inspection of the books of accounts of the members in the Cash and Derivative segments. The purpose of involving independent Chartered Accountants in this work is to enlarge the scope and coverage of inspection and to inspect the books of accounts of every active member in the Cash Segment atleast once in every three years.

The Exchange has also prepared a separate detailed Guidance Manuals for inspection of the books of accounts of the members in the Cash and Derivative segments. These manuals provide assistance to the Chartered Accountants as well as staff in the Inspection Dept. of the Exchange, in the inspection of the books of accounts of the members. This also assists the members in ensuring compliance with various requirements stipulated by the Exchange and SEBI.

The irregularities detected during inspection of the books of the accounts of the members are conveyed to them and follow-up action including imposition of fines, etc. is taken based on the responses/clarifications provided by the members. Action is taken against members for various irregularities observed during the inspection as per the norms laid down by the Disciplinary Action Committee from time to time. If the violations are of serious nature, the matter is referred to the Disciplinary Action Committee of the Exchange for taking disciplinary action against the members.
It may be relevant to mention that the number of inspections of books of accounts of the members carried out by the Exchange in the Cash segment, has generally exceeded the level prescribed in this regard by the Ministry of Finance/ SEBI.

The members are also required to get their annual accounts audited from a Chartered Accountant and submit an Audit Certificate as well as the Profit & Loss Account and Balance Sheet to the Exchange. The members of the Cash Segment are also required to submit networth certificates as at the end of March and September every year and the members of the Derivative Segment are required to submit net-worth certificate at the end of each quarter. Filing of these documents by the members of the Cash and Derivative Segment with the Exchange is also monitored by the Inspection Department.
It may be relevant to mention that the number of inspections of books of accounts of the members carried out by the Exchange in the Cash segment, has generally exceeded the level prescribed in this regard by the Ministry of Finance/SEBI.

The members are also required to get their annual accounts audited from a Chartered Accountant and submit an Audit Certificate as well as the Profit & Loss Account and Balance Sheet to the Exchange. The members of the Cash Segment are also required to submit networth certificates as at the end of March and September every year and the members of the Derivative Segment are required to submit net-worth certificate at the end of each quarter. Filing of these documents by the members of the Cash and Derivative Segment with the Exchange is also monitored by the Inspection Department.
The members of the Cash segment of the Exchange are required to maintain certain Net Worth as prescribed by the Exchange. The new individual and corporate members admitted in the Cash Segment on the Exchange from March 1, 2000, are required to maintain a minimum networth of Rs. 50 lakhs at all times. Further, the existing corporate members, are required to maintain net-worth of Rs. 40 lakhs and increase it to Rs. 50 lakhs by September 30, 2002 and individual members are required to maintain networth of Rs. 20 lakhs and increase it to Rs. 30 lakhs by September 30, 2002. In case of composite corporate members, the minimum networth for each additional component of membership is 50% of the networth requirement for original membership. For example a composite corporate member with 4 component membership rights is required to maintain a minimum net worth of Rs. 50 lakhs for the first membership, and Rs. 25 lakhs for each subsequent membership totalling to Rs. 1.25 crores as the minimum networth.

Minimum Networth requirement for the members of Derivatives Segment is as under:

<table>
<thead>
<tr>
<th>Category</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearing Member</td>
<td>Rs. 3 crores</td>
</tr>
<tr>
<td>Self Clearing Member</td>
<td>Rs. 1 crore</td>
</tr>
<tr>
<td>Trading/ Limited Trading Member</td>
<td>Rs. 25 lacs</td>
</tr>
</tbody>
</table>

Limited Trading Member (for members of other stock exchange whose Clearing Member is a subsidiary company of a Regional Stock Exchange) = Rs. 10 lakhs

The compliance by the existing members with the minimum networth requirements by the members is also monitored by the Inspection Department.
BSE Training

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- Certificate Programme on Capital Markets *
- Basic Programme on Derivatives
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- Workshop on Options
- Technical Analysis
- Fundamental Analysis
- Debt Market
- Certificate Course on Stock Market
- Mergers & Acquisitions
- Corporate Governance
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BSE Training Institute
21st Floor, P J Towers, Dalal Street, Mumbai - 400 001.
India has a vibrant securities market with strong retail participation that has evolved over the years. It was until recently basically a Cash Market with a facility to carry forward positions in actively traded 'A' group scrips from one settlement to another by paying the required margins and borrowing money & securities in a separate carry forward session held for this purpose. However, a need was felt to introduce financial products like in other financial markets world over which would allow the participants to hedge their portfolios and minimize the risks associated with the financial markets, which are characterized with high degree of volatility. This led to the introduction of derivatives product in India.

Derivatives are risk management instruments, which derive their value from an underlying asset. The underlying asset can be bullion, index, shares, bonds, interest, currency, energy etc. and for that matter any item worth of trade. Derivative products allow the user to transfer this price risk by locking in the asset price thereby minimizing the impact of fluctuations in the asset price on his balance sheet and have assured cash flows.

**Derivatives Trading in India:**

The Derivative products available in the Indian Capital Market comprise Futures & Options on Index and individual stocks. On June 9, 2000, BSE became the first exchange in India to introduce trading in exchange traded derivative product with the launch of Index Futures on Sensex, considered to be the barometer of the Indian capital market. Index Futures was followed by launch of Index Options in June 2001, Stock Options in July 2001 and Stock Futures in November 2001. Presently Stock futures and options are available on 31 well-capitalized and actively traded scrips mandated by SEBI.

**Futures:**

A futures contract is an exchange traded legally binding agreement between two parties to buy or sell the underlying asset at a certain time in future at an agreed price. One can get into the market either by buying a contract or by selling a contract and the position can be offset at any time during its life by executing an equal opposite futures transaction. All the outstanding open positions at the end of maturity will be either Cash /Delivery settled based on the final Settlement procedure laid down by the Exchange.
Presently, the following future products are available:

- **Sensex Future**: It is a future contract with Sensex as the underlying.
- **Stock Future**: It is a future contract on the stock with respective stock as the underlying.

**Options**

An option is a contract, which gives its holder the right and no obligation, to buy or sell the underlying asset on or before a stated date and at a stated price. Options are of two types - Call and Put. A call option gives its holder/buyer the right to buy and a put option gives its holder the right to sell. Conversely, the writer/seller of call option is under obligation to sell and that of put option is under obligation to buy, if the option is exercised.

Presently, the following Option products are available:

- **Sensex Option**: It is an Option contract with Sensex as the underlying.
- **Stock Option**: It is an Option contract on the stock with respective stock as the underlying.

There are two styles of options - European Style and American Style. The European Style options can be exercised only on the specified date, which is generally the expiration date. The American Style option can be exercised at any time on or before its expiration.

In India, all the Futures and Option Contracts whether on indices or individual stocks are available for one, two and three month series and they expire on the last Thursday of the concerned month.

While the index options are European in style, stock options are American in style. Presently both options and futures on individual stocks and index are cash settled, in accordance with SEBI guidelines. While the interim settlement is at the closing price of the respective contract, the final settlement is at the closing price of the respective underlying in the cash market. As per the SEBI guidelines, with effect from April 1, 2002, Options and Futures on individual stocks would be settled by physical delivery of the underlying stock.

Unlike stocks which are issued by a corporate entity, there are no issuers of a Futures / Options contracts. The Exchange where these instruments are traded decides the contract specifications such as market lot, minimum price movement (called a tick), the expiration date etc., lays down the rules of trading and provides trading platform for buyers and sellers to come and trade in its contracts. A contract gets created when a buy order gets matched with a sell order. Thus, the buyers and sellers determine the quantity to be traded. As a risk management measure, the Exchange collects upfront initial margin, mark to market margin and may prescribe a member-wise and/or market-wide exposure limit in addition to the limit prescribed by SEBI in this regard.

**Derivatives Membership**:

The Derivatives Segment membership is open to the existing members of the Cash Segment as well as non-members provided they fulfill the membership requirement as laid down from time to time. The following are the different types of membership presently available for the Derivatives Segment:
1. **Professional Clearing Member (PCM)**: PCM means a Clearing Member, who is permitted to clear and settle trades on his own account, on account of his clients and/or on account of trading members and their clients.

2. **Custodian Clearing Member (CCM)**: CCM means Custodian registered as Clearing Member, who may clear and settle trades on his own account, on account of his clients and/or on account of trading members and their clients.

3. **Trading Cum Clearing Member (TCM)**: A TCM means a Trading Member who is also a Clearing Member and can clear and settle trades on his own account, on account of his clients and on account of associated Trading Members and their clients.

4. **Self Clearing Member (SCM)**: SCM means a Trading Member who is also Clearing Member and can clear and settle trades on his own account and on account of his clients.

5. **Trading Member (TM)**: A TM is a member of the Exchange who has only trading rights and whose trades are cleared and settled by the Clearing Member with whom he is associated.

6. **Limited Trading Member (LTM)**: LTM is a member, who is not the members of the Cash Segment of the Exchange, and would like to be a Trading Member in the Derivatives Segment at BSE. An LTM has only the trading rights and his trades are cleared and settled by the Clearing Member with whom he is associated.

As on January 31, 2002, there are 1 Professional Clearing Member, 3 Custodian Clearing Members, 75 Trading cum Clearing Members, 93 Trading Members and 17 Limited Trading Members in the Derivative Segment of the Exchange.

**Financial Requirement for Derivatives Membership:**

The most basic means of controlling counterparty credit and liquidity risks is to deal only with creditworthy counterparties. The Exchange seek to ensure that their members are creditworthy by laying down a set of financial requirements for membership. The members are required to meet, both initially and on an ongoing basis, minimum networth requirement. Unlike Cash Segment membership where all the trading members are also the clearing members, in the Derivatives Segment the trading and clearing rights are segregated. In other words, a member may opt to have both clearing and trading rights or he may opt for trading rights only in which case his trades are cleared and settled by his associated Clearing Member. Accordingly, the networth requirement is based on the type of membership and is as under:

<table>
<thead>
<tr>
<th>Type of Membership</th>
<th>Networth Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Clearing Member, Custodian Clearing Member and Trading cum Clearing Member</td>
<td>300 lakhs</td>
</tr>
<tr>
<td>Self Clearing Member</td>
<td>100 lakhs</td>
</tr>
<tr>
<td>Trading Member</td>
<td>25 lakhs</td>
</tr>
<tr>
<td>Limited Trading Member</td>
<td>25 lakhs</td>
</tr>
<tr>
<td>Limited Trading Member (for members of other stock exchange whose Clearing Member is a subsidiary company of a Regional Stock Exchange)</td>
<td>10 lakhs</td>
</tr>
</tbody>
</table>
Capital Adequacy Requirement:

Every Clearing Member of the Derivatives Segment is required to maintain a minimum capital deposit of Rs. 50 lakhs with the Exchange, of which, the 25% is to be deposited in cash, 25% by way of cash/ fixed deposit receipts of bank(s) and the balance by way of bank guarantee(s) or eligible securities. In addition to above, a Clearing Member is required to deposit Rs. 7.5 lakhs with the Exchange in the specified form for every TM/LTM associated with him. Amount deposited by a Clearing Member in addition to Rs. 50 lakhs is treated as his additional capital deposit or initial margin deposit. 50% of the additional capital deposit should be in the form of cash or cash equivalents, viz., Cash, FDRs, bank guarantees. At all points of time, a Clearing Member’s liquid networth, i.e., total capital deposited less capital used towards margin should be greater than or equal to Rs. 50 lakhs.

Margining System:

The Exchange has adopted Standard Portfolio Analysis of Risk (SPAN) system, developed by Chicago Mercantile Exchange, for the computation of margins on outstanding positions of the members in the Derivative Segment. SPAN adopts a portfolio based margining methodology approach and margins are calculated up to the client level. The objective of SPAN is to identify the overall risk inherent in a portfolio of futures and options derivative contracts. SPAN determines the largest loss that a portfolio might reasonably be expected to suffer from one day to the next.

a) Scan Risk:

The SPAN method constructs a series of scenarios of changing underlying market prices and volatilities for all the derivative contracts in a portfolio. It then calculates the value of the portfolio under each scenario to determine the largest loss that the portfolio of derivative positions might reasonably be expected to suffer from the current point in time to a specific point in time in the future. The time duration is typically one trading day as SPAN is primarily concerned with assessing the worst probable loss which may occur from one trading day to another. The worst probable loss so calculated is the Scanning Risk Charge for the portfolio.

b) Inter-Month (Calendar) Spread:

While calculating SPAN assumes that price moves co-relate perfectly across contract months. However, since price moves across contract months rarely exhibit perfect co-relation, SPAN adds an Inter-Month Spread Charge to the Scanning Risk Charge associated with each underlying instrument. Effectively, the inter-month spread charge covers the calendar/inter-month basis risk that may exist for portfolios containing futures and options with different expiration.

A Calendar Spread (time spread) consists of position at one maturity which is hedged by an off-setting position at a different maturity. A calendar spread position is not exposed to market risk in the underlying at all and is essentially exposed to interest rate risk. Thus, the overall risk in a Calendar Spread position is very low and is, therefore, subject to low margins.

The margin on Calendar Spread is calculated on the basis of delta of the portfolio consisting of futures and options positions for a contract month. The margin on calendar spread position is levied at a flat rate of 0.5% per month of the spread for the difference between the two legs of the spread subject to a minimum of 1% and maximum of 3% as specified by J R Varma Committee Report. For the purpose of calculating exposure limit, a Calendar Spread is treated as an open position of one-third of the far month contract taken at the last available closing price and is treated as a naked position in the far month contract three trading days prior to the expiry of the near month contract.
c) **Short Options Minimum Charge:**

Short option positions in extremely deep-out-of-the-money strikes may appear to have little or no risk across the entire scanning range. However, in the event that the underlying market conditions change sufficiently, these options may move into-the-money and may generate large losses for holders of short positions in these options. To cover the risks associated with deep-out-of-the-money short positions, SPAN allocates a minimum requirement for each short option contained in a portfolio.

For Index Options, the short option minimum charge is 3% of the notional value of all short index option positions. For Stock Options, short option minimum charge is 7.5% of the notional value of all the short option positions on individual stocks.

d) **Net Option Value:**

Net option value is the mark to market value of the options contained in a portfolio in the event of their liquidation. It is calculated as the difference between the current market value of long option positions and the short option positions in the portfolio in contracts with the same underlying asset. As the options are premium style, mark to market gains and losses are not settled in cash but adjusted from the Liquid Net Worth of the members. Where the net option value is positive, it is deducted from the initial margin requirement to arrive at the final margin requirement and where the net option value is negative, it is added to the initial margin requirement.

**Overall Portfolio Risk Requirement:**

SPAN puts all the above pieces together to calculate initial margin requirement for a customer. For each underlying instrument in which a portfolio has positions, SPAN adds up the Scanning Risk Charges and the Inter-month spread. Span then compares this figure to the Short Option Minimum Charge and selects the higher of these two figures to which Net Option Value is added to arrive at the initial margin requirement for that particular portfolio. This can be represented by:

**Initial Margin = ( Scan Risk + Inter-Month Charge) or Short Option Minimum charge, whichever is higher +/- Net Option Value .**

The initial margin is computed on all open positions of the Clearing Members, up to the client level, at any point of time and is required to be paid upfront, i.e., before the execution of trade. The positions are netted only at the individual client level and the obligations across all the clients are grossed to arrive at the Trading/Clearing Member level obligation. No set-off is allowed between clients. The initial margin requirement for the proprietary position of Trading/Clearing Member is, however, calculated on net basis. The additional capital deposited by the members is nothing but refundable initial margin deposit.

e) **Mark-to-Market Margin:**

**Futures**

Every day all the open positions in Futures contracts are marked to the closing price and the variation, if any, is collected/paid to the members by debiting/crediting their settlement bank accounts with the respective clearing banks on T+1 morning. Also, where the positions are closed, profit/loss on such positions is also credited/debited to the members’ bank accounts.
**Methodology for calculating closing price for daily mark to market:**

The daily closing price of the futures contract for calculating mark-to-market margin is arrived at using following algorithm:

- Weighted average price of all the trades in last half an hour of the continuous trading session.
- If there are no trades during last half an hour, then the theoretical price would be taken as the official closing price. The theoretical price is arrived at by using the following algorithm:
  
  \[
  \text{Theoretical price} = \text{Closing value of underlying} + (\text{closing value of underlying} \times \text{No. of days to expiry} \times \text{risk free interest rate} \\
  \text{(at present 7.5%)} / 365)
  \]

**Methodology for calculating closing price for final settlement (at the time of expiry):**

On the expiry of futures contracts, the same are settled in cash at the final settlement price. The closing price of the underlying Stock/ Index in the Cash Segment is the final settlement price of the expiring futures contract.

**Options**

For option contracts, the daily settlement price is the closing price of the respective underlying in the Cash Segment.

**Premium:**

Premium amount payable/ receivable is settled in cash by debiting/ crediting the settlement bank accounts of the members on T+1 day (morning), where T is the trading day. Until the buyer pays in the premium, the premium due is deducted from the available Liquid Net Worth of the member on a real time basis.

**Exposure Limit:**

The notional value of gross open positions at any point in time for Index Futures and all Short Index Option Contracts shall not exceed 33 1/3 (thirty three one by three) times the liquid networth of a member. In case of Single Stock Futures and all Short Stock Option Contracts, the notional value of gross open positions at any point in time shall not exceed 20 times the liquid networth of a member. This is ensured by collecting/ adjusting 3% of the notional value of gross open position in Index Futures & Short Index Option Contracts, and 5% of the notional value of gross open position in Single Stock Futures and short Stock Option contracts...

**Position Limit:**

Position limit refers to the maximum number of derivative contracts on the same underlying security that one can hold or control. Position limits are imposed with a view to deter and detect concentration of position and market manipulation. The position limits are applicable on the cumulative combined position in all the derivative contracts on the same underlying at an exchange. Position limits are imposed at the customer level, trading member level, clearing member level and market level. These limits presently applicable are discussed below:
A. Index Futures and Options:

1. Client Level:
   At client level, no position limits have been imposed. Instead a self-disclosure requirement similar to that in the take-over regulations has been prescribed:
   - Any person or persons acting in concert who together own 15% or more of the open interest are required to report this fact to the Exchange. Failure to do so attracts penalty.
   - This is only a disclosure requirement and should not be construed as a ban on large positions.

2. Trading Member Level:
   At the trading member level, position limit is imposed only on the near month contract. The limits is higher of the two:
   - 15% of the open interest; or
   - Rs. 100 crores.
   The position limit at the trading member level is computed on a gross basis across all clients of the trading member.

3. Clearing Member Level:
   No separate limit has been prescribed at the Clearing Member level. However, the clearing members have to ensure that their own trading position and the position of each trading member clearing through him is within the limits prescribed in (1) and (2) above.

4. Market Level:
   No limit has been prescribed on the total market wide open interest.

B. Stock Futures and Options:

1. Client Level:
   The gross open position across all the derivative contracts on a particular underlying stock for a customer/client should not exceed the higher of:
   - 1% of the free float market capitalisation (in terms of number of shares); or
   - 5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts).

2. Trading Member Level:
   At the trading member level the position limit in the derivative contracts on a particular stock is the higher of:
   - 7.5% of the open interest at an exchange; or
   - Rs.50 crores (Notional Value)
Once a member reaches the prescribed position limit in derivatives contracts on a particular underlying or where the position limit is breached due to the reduction in the overall open interest in the market, the member will be permitted to take only off-setting position, resulting in lower open position of the member in derivatives contracts on that underlying. No fresh position is permitted.

The position limit at the trading member level is computed on a gross basis across all clients of the Trading Member.

3. Market wide Limits:

The market wide limit on open positions (in terms of the number of underlying stock) on an option and futures contracts on a particular underlying stock is the lower of:

- 30 times the average number of shares traded daily, during the previous calendar month, in the cash segment of the Exchange; or
- 10% of the number of shares held by non-promoters, i.e., 10% of the free float in terms of number of shares of a company.

All the open positions in all the futures and option contracts on a particular underlying should not exceed the aforementioned market wide position limits.

When the total open interest in a contract reaches 80% of the market wide limit in that contract, the exchange is required to double the price scan range and the volatility scan range specified.

The Clearing and Settlement Dept. of the Exchange functions as a Clearing House for settling the trades done by the members in the Derivative Segment and arranges to debit/credit the designated bank accounts of the members in the Derivative Segment with the initial and Mark to Market margin etc. on a daily basis. The working relating to deposit and withdrawal of collateral by the members in the Derivative Segment is also handled in the Clearing & Settlement Dept.

The Clearing Members in the Cash and Derivative segment are allowed to freely transfer surplus Cash, FDRs and Bank Guarantees from one segment to another by giving a letter to the Clearing and Settlement Dept. of the Exchange. Such transfer of surplus collateral from one segment to another is, however, allowed only at the end of the day.

Mutual Funds:

Mutual funds are allowed to trade in derivatives. However, their trading activity is restricted to hedging and portfolio balancing and they are required to fully cover their positions in the derivatives market by holding underlying securities/ cash or cash equivalents/ option and/or obligations for acquiring underlying assets to honour the obligations contracted in the derivatives market.

Foreign Institutional Investors (FIIs):

Registered FIIs are allowed to participate in both index based and stock specific derivative contracts provided their positions are within the laid down limits, which are discussed below:
Position Limits

At the level of the a single FII.

- In the Case of Index related derivative products, there is a position limit at the level of FII at 15% of the Open Interest of all derivative contracts on a particular underlying index or Rs.100 crores, whichever is higher, per exchange.

- The FII position limit in derivative contracts on a particular underlying stock is at 7.5% of the open interest of all derivative contracts on a particular underlying stock or Rs.50 crores, whichever is higher, at an exchange.

At the level of the Sub-account:

- A disclosure requirement for any person or persons acting in concert, who together own 15% or more of the open interest of all derivative contracts on a particular underlying index.

- The gross open positions across all derivative contracts on a particular underlying stock of a sub-account of a FII should not exceed the higher of:
  - 1% of the free float market capitalisation (in terms of number of shares) or
  - 5% of the open interest in the derivative contracts on a particular underlying stock (in terms of number of contracts).

The Exchange acts as a counter-party to all the trades upto the client level executed by the members of the Derivative Segment.
2nd Floor, Rotunda Building, Dalal Street, Mumbai

- The Stock Exchange Bye-Laws, Rules & Regulations
- Addresses of Companies
- A Quick Reference Guide for Investors
- The Securities Contracts (Regulation) Act, 1956 and the Securities Contracts (Regulation) Rules, 1957
- BSE Index Numbers
- Good or Bad Delivery of Documents
- SEBI - Stock Brokers & Sub-Brokers Rules - 1992
- Price Earnings Ratios, Price Book Value Ratios and Yield % of BSE Sensex, BSE-100 and BSE 200-Based Companies
- Rights & Bonus Issues

- List of Active Members of BSE
- Welcome to The Stock Exchange, Mumbai
- Basic Guidelines for Corporate Membership
- Basics of the IT Industry
- Guide to Mutual Fund Investing
- Investor Awareness
- A Key to Technical Analysis
- Basics of Derivatives
- List of Foreign Institutional Investors
- CD on Index Futures
- Fundamental Analysis
- Inspection Manual for Derivatives (Futures) Segment
- Futures & Options
- The Stock Exchange Review
- Daily Official List
- Fortnightly Official List
- Working of The Stock Exchange
- Technical Analysis
In order to enable the market participants, analysts etc. to track the various ups and downs in the Indian stock market, the Exchange has introduced in 1986 an Equity Stock Index called BSE-Sensex that subsequently became the barometer of the movements of the share prices in the Indian Stock Market. It is a “Market Capitalization-Weighted” index of 30 component stocks representing a sample of large, well-established and leading companies. The base year of SENSEX is 1978-79. The Sensex is widely reported in both domestic and international markets through print as well as electronic media.

SENSEX is calculated using a market capitalization-weighted method. As per this methodology, the level of the Index reflects the total market value of all 30 component stocks from different industries related to a particular base period. The total market value of a company is determined by multiplying the price of its stock by the number of shares outstanding. Statisticians call an index of a set of combined variables (such as price and number of shares) a composite index. An indexed number is used to represent the results of this calculation in order to make the value easier to work with and track over a time. It is much easier to graph a chart based on indexed values than one based on actual values. World over majority of the well-known indices are constructed using market capitalisation-weighted method.

In practice, the daily calculation of SENSEX is done by dividing the aggregate market value of the 30 companies in the Index by a number called the Index Divisor. The Divisor is the only link to the original base period value of the SENSEX. The Divisor keeps the Index comparable over a period of time and is the reference point for all the Index maintenance adjustments.

Given its long history and its wide acceptance, no other index in the country matches the BSE SENSEX in popularity and in reflecting market movements in a better and scientific way. SENSEX is widely used to describe the mood in the Indian Stock Markets.
OTHER BSE INDICES:

As stated earlier, The Exchange pioneered the concept of stock market indices in the country by launching “SENSEX” in 1986. Since then, BSE has come a long way in attuning itself to the varied needs of investors and market participants. In order to fulfill the need of the market participants for broader, segment-specific and sector-specific indices, the Exchange has continuously been adding to its family of indices which presently consist of the following 13 indices.

SENSEX
BSE-100
BSE-200
BSE-500
DOLLEX -30
DOLLEX-200
BSE -TECK
BSE -PSU
BSE -IT
BSE -HEALTHCARE
BSEFMCG
BSE CAPITAL GOODS
BSE CONSUMER DURABLES

The Index Cell at the Exchange continuously studies the global practices in Index design, calculation and maintenance. Consequently, it has been streamlined the management of its present indices and is working on the development of new indices and the index based products.
BSE has launched Internet Trading System, viz., BSEwebx.com in February, 2001 with a view to provide an additional facility to the investors to put their orders for purchase or sale of securities using Internet. This is the only Exchange enabled Internet Trading system in the World. The Exchange has created a central additional infrastructure to enable member-brokers, their branches and sub-brokers to offer the facility of real time trading and settlement to their ultimate customers using the medium of Internet.

Investors can visit BSEwebx.com, search for their member-broker or sub-broker and register with them on-line for trading. Once the registration formalities are completed, the member-broker or sub-broker assigns a username, password and the risk profile for transacting through the system. The investors use a secure connection to trade thereafter. The investors can put in their own orders through the internet and also get realtime confirmation of their trades. They can view status of their orders, modify or cancel them, if not executed and also view their order and trade history for the day. Investors can view permissions and limits assigned by the member-broker or sub-broker for their trading account through the system. Investors can select their own stock views and tickers. They can also create investment portfolio that is marked to market every minute. The system provides realtime stock prices, detailed company information like Book closure, "no delivery" information, corporate benefits, corporate announcements, quarterly results, shareholding pattern of companies, etc. The Exchange, thus, provides authentic and timely information to the investors thereby promoting transparency.

For the member-broker and their sub-brokers, there is ready availability of state-of-the-art technology infrastructure so as to manage and invite new business. The members can operate though the existing BSE private network. BSEwebx members have Broker Administration Terminals (BAT) which enables them to:

- Register Branches, sub-brokers
- Register Investors
- Assign and update risk management profiles for each entity, i.e., branch, sub-broker and investor
Monitor, query orders for each of their entities
- Review and release investor orders fulfilling risk profile parameters
- Place order and receive confirmation (back-up when internet connectivity of investors gets affected)
- Download Reports

Thus, BSEWebx is available not only to the member-brokers of the Exchange but also their sub-brokers and branches. The system enables member-brokers to set risk profiles for each branch, sub-broker and investor. It also allows creation of standard risk profiles for easy and quick assignment to different investor categories. The incoming orders of investors are first checked with their respective risk profile set in the system and then passed on for execution by the system. Since, this risk profile validation is centralized, the order is passed on instantly for execution. If the order exceeds the exposure limits set by the member-broker for that investor, intimation of the same is sent to the investor as also the entity, which has registered the investor.

**Potential of BSEWebx**

BSEWebx has been created as a “Convergence Infrastructure” for all-financial products and services. This highly scalable system is extensible so as to:

- Provide an integrated system capable of offering **Multiple Products** - like Equities, Derivatives, IPOs, Mutual Funds, Government Debt (retail) and any other financial instruments like Margin Trading and Securities Lending/Borrowing etc.
- All products, i.e., Equities, Derivatives, Debt, IPOs, Mutual Funds etc. through one single system.
- Connect market participants providing **Multiple Services** such as Banks and Depositories through this system to facilitate online funds and securities transfer.
- Provide **Multiple Delivery Mechanisms** such that every entity can enjoy the product and service offerings through Internet, Wireless and Voice Devices. With the introduction of Broadband services, the response time for the product will improve considerably.
- Promote transparency though dissemination of market related and other information real-time to the members, sub-brokers of the members and investors in a dynamic and interactive manner.

This Application Service Provider model of BSEWebx has been designed to be a “neutral aggregator” of all services and products offered to market participants, thereby providing end-to-end capital market service on a single interactive platform.
The Exchange believes that the Investors are backbone of the Capital Market. It has, therefore, recognized investor protection, awareness and empowerment as its strategic objectives.

The Exchange sincerely believes that investors as well various intermediaries, associated with the Capital Market must learn about the available financial products, system of trading and settlements of financial products traded on the Exchange, managing risks arising therefrom, details of procedures and documentation, etc. so as to equip themselves to deal in the Primary and Secondary Markets. With these objectives in mind, the Exchange has established BSE Training Institute (BTI) on January 3, 1989.

BTI has emerged as India’s premier training institute, conducting quality programmes for investors, various capital market intermediaries, members of stock exchanges & their staff and commerce & management students. So far, over 16,000 investors and working professionals have been trained at the BTI.

BTI regularly conducts programmes such as Comprehensive Programme on Capital Markets, Investor Awareness, Stock Trading Operations, Basic Programme on Derivatives, Index & Stock Futures, Workshop on Options, Fundamental & Technical Analysis, Debt Market, Mergers & Acquisitions, Certification Course on Stock Markets etc.

The faculty drawn members from the officials of the Exchange, its members as well as external professionals from the respective fields, conducts sessions at BTI. Apart from classroom sessions & hands on training, comprehensive study material is supplied to the participants.

Bringing an international perspective to its programmes, in November 2000, BTI collaborated with the highly reputed New York Institute of Finance (NYIF) and conducted three training programmes on the emerging and crucial topics of Corporate Governance, Exchange Traded Derivatives and Risk Management.

BTI has also recently affiliated with Jamnalal Bajaj Institute of Management Studies for conducting the Comprehensive Programme on Capital Markets where the programme would be conducted by BTI and the certificate to the passing candidates after test would be issued by the Unvisertiy of Bombay.
Capital Market Briefings

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THE STRATEGIC OBJECTIVES OF BSE

1. To Promote, develop and maintain a well regulated market for dealing in securities.

2. To safeguard the interest of members and the investing public having dealings on the exchange.

3. To promote industrial development in the country through efficient resource mobilization by way of investment in corporate securities.

4. To establish and promote honourable and just practices in securities transactions.

The Stock Exchange, Mumbai
www.bseindia.com