★ Company → fund → Shares, Debentures, Bonds etc.

⇓

IPO (Primary market.)

⇓

Share market (Stock exchange.) (Secondary market.)

Regulators
- SEBI
- SERA
- RBI
- Co. Act
- IT Act etc.

⇓ In Case of Contravention

⇓ Penalty levied.

★ Every transaction [Buy (&) Sell.] occurs.
- Documentation is done by Depositories
  - NSDL
  - CDSL
- Rolling settlement (T+2) ⇓ is done by clearing system.
- ★ STT lagta hai.
- ① Contract notes.
  ② Order book
  ③ A/Cs (&) various books
  ⇓ Inka audit hota hai.
- ★ Rate fluctuate hone pe SEBI ne. [Circuit Breaker Banaye.]

⇓

★ There are many But Top are.
- ★ NSE → Index → ★ Nifty (Top 50 Stocks.)
- ★ BSE → Index → ★ SENSEX (Top 30 Stocks.)

⇓

★ Now here Comes many many brokers [Sherkhan, AnandRathi Motilaloswal etc.]

⇓

★ Now Comes many Sub brokers. [In every cities]

⇓

★ And Last Clients

⇒ In various Markets
- Normal market
- odd lot Market
- Spot market
- Auction market.

* Sequence

1. Types of market → Normal Market, odd lot market, Spat Market, Auction Market.
2. Depositories (&) Dematerialization [Record, Doc. to be checked.]
3. Rolling Settlement (T+2) (&) Clearing (&) Settlement mechanism.
4. STT.
5. Order Book (&) Types
6. order matching Rules
7. Order Conditions
8. Margins → Mark to market, volatility market, Gross exposure margin.
9. Circuit Breaker
10. market wide Circuit Breaker
11. Contract Note
12. Maintainance of A/Cs by members of stock exchange.
13. Books
14. Audit of Books.
15. Derivatives
16. PE Ratio.
17. Penalty By SEBI.

Types of Market

Normal market

* In normal market
  - Those orders are traded
  - which are of
    - regular lot size
    - (or) multiples thereof
  - now a days
    - for Demat Shares
    - Lot Size is 1 Share.

Spot Market

- have diff^n Settlement Periods
- as compared to Normal market
- Here
  - Pay in
  - (&) Pay out
  - takes place on the Same day.

Odd lot Market

* In odd lot Market
  - Those orders are traded
  - which are not of the regular lot size
* The orders are called as odd lot orders.
  - if the order size is less than the regular lot size
  - But in ODD LOT Market
    - Both
      - price
      - (&) quantity
    - Should tally with each other for order Matching.

Auction Market

- Auctions are initiated by the exchange
  - on behalf of trading members
  - for settlement related reasons.
    - The main reasons are
      - Shortage
      - (&) Bad deliveries
- Exchange initiates auction
  - to purchase from the market
  - the number of shares short deposited by the members

(Loss is recovered from members.)

☆ Depositories and Dematerialization

- NSDL [National Securities Depository Limited]
- And
- CDSL [Central Depository Services India Ltd.]

⇓ Keep record of ownership.

- of Securities electronically
- in book entry form.

Advantages

- → Liquidity of Script
- → Receive → bonus (&) → right ⇒ As direct Credit to A/C.
- → Lower Risk of Bad deliveries
- → No physical ~~Good~~ Certificates. (no risk of getting them misplaced.)
- → Saving of → Stamp duty → Courier charges.

★ Rolling Settlement

★ A Rolling Settlement is one in which
- Trades o/s at the end of the day
- have to be settled within "X" business days
- from the transaction Date

★ Thus
- In a T+2 rolling settlement
- a transaction entered into on Monday for instance
  ⇓
  will be settled on Wednesday when the
  - pay in (or) pay-out
  ⇓
  Takes places

★ In Rolling Settlement
- Trades on each Single day
- are settled Seperately from the
  - Trades done earlier
  - (or) Sub sequent trade days.

★ The netting of trades.
- is done only for the day
- (&) not for multiple days.

★ SEBI has gradually mandated
- Most of the Scrips
- to be Settled exclusively on
- Rolling Settlement Basis (T+2)

★ The transactions in the Campulsary Rolling Settlement
- are Settled on (T+2) basis
- i.e both
  - pay in (&) pay out
  ⇓
  of
  - Monies (&) Securities
  - for transactions in Scrips on transaction day
  - would take place on the day after immediately following day.

★ However, Transactions in "Z group Securities"
- are settled only on Trade to Trade basis on T+2
- i.e, if
  - an investor
    - buys (&) Sells.
  - X no. of Shares on the Same day
  - Then, he shall first have to
    - actually deliver
    - (&) then receive.
    ⇓
    the Securities on the settlement day

★ Further

- mark to market diffⁿ are collected on a daily basis
- And the broker members are required to maintain a Capital level
- as prescribed by the exchange
- adequate to Support their exposure at all times.

★ In Case, a member fails to deliver the shares sold in Rolling Settlement

- The exchange conducts an auction Session on T+2
- to meet the Shortfall Created by non delivery of Shares

★ In this Auction Session

- offers are invited
- from the other members
- to deliver the Shares Sold by originally Selling member
- Since delivery has to be made to the buying member

★ In Case

- no shares are received in auction.
- The sale transaction is closed out at a close - out price

By higher of the following

★ Highest price recorder

- from the Settlement in which
- The transaction took place
  - upto a day
  - prior to the auction.

(OR) 20% above

- the c/s price
- on a day prior to the auction.

★ Clearing and Settlement Mechanism

★ Settlement of Securities

★ The Securities

- pay in obligations of members
- are ⇓ Downloaded by the clearing agency.

⇓ The members make available

- The required Securities
- in their pool A/Cs
- with DPs
- by the prescribed pay in time for Securities

⇓ The depositories

- Run an electronic file.
- to transfer the Securities
- from the pool A/Cs of members with DPs
- to the Demat A/C of the clearing agency.

⇓ On the pay out Day / time

- The Securities are transferred
- by the depository
- from the Demat A/C of the clearing agency.
- To the Demat A/Cs of members.

★ Settlement of funds.

- Select Banks
- have been empanelled by clearing agency
- for electronic transfer of funds.

★ The members are.

- informed electronically
- of their pay in obligations of funds.

★ The members make available

- required funds
- in their A/Cs
- with clearing banks
  - ⇓ By prescribed pay – in
    - Day (or) time

⇓ Same way

- funds are transferred
  - on the pay out
    - Day (or) Time.
  - by the clearing Banks.
- from the A/c of clearing Agency.
  - ⇓ to the A/C of members.

★ Securities Transactions Tax. (STT)

① ★ In Union Budget

- government has introduced STT.
- to be levied on all transactions done on stock exchange
- ★ This would include
  - Shares
  - Derivatives
  - (or) equity oriented Mutual fund Units

② ★ As per the provisions of the finance Bill

- The stock exchanges have been entrusted with the responsibility of
  - Levy
  - Collection
  - (&) Remittance
  - of STT.
- ★ on all transactions.
- from the date of notification by the govt. of India.

③ ★ SEBI Directed that

- no stock exchange shall permit trading activities
- Unless it implements.
  - necessary Software
  - (&) procedures for.
    - Levy
    - Collection.
    - (&) remittance
    - of STT

④ ★ STT is

- Deducted at Source
- by the broker.
- at the time of transactions itself.

★ Order Book.

as (&) when orders are received by the System

⇓

they are
- first numbered
- time stamped
- (&) then scanned for a potential match.

⇓

If the match is not found
- Then the orders are stored in diff^n books
- as per
  - price
  - time

  ⇓ priority

⇓

For order matching
- Top priority is given to the price
- If many orders are entered at the same price.
  - The priority is given
  - to the order which was entered earlier.

Types

① **Regular Lot Book**

★ This book contains only regular lot orders.

② **odd lot Book**

★ This book contains all orders in odd lot market.

③ **Spot Book**

★ This book contains all orders of spot market.

④ **Auction Book**

★ This book contains all orders which are entered during auction market.

⑤ **Stop loss Book**

★ As stated above
- Stop loss order allows the user
- to release an order into the system
- after the market price crosses a trigger price

★ Stop loss buy order

⇓

Gets triggered
- when the last traded price
- Reaches (or) exceeds

  ⇓ the trigger price of the order.

★ Stop loss sell order.

⇓

Gets triggered.
- when the last traded price
- Reaches (or) falls

  ⇓ below the trigger price of the order.

★ Order matching Rules

★ As and when orders are received by the System → They are
- first numbered
- Time stamped
- (&) Then Scanned

⇓ for potential match.

★ In stock market
⇓
The best buy order ⇒ at any point of time ⇒ is matched with ⇒ the best sell order at that time.

★ A seller wants to sell at highest available
⇓
Thus
- The best buy order is
- The order with the highest price

★ Same way a buyer would like to buy a the lowest available price
⇓
Thus
- The best sell order is
- The order with the lowest price.

★ Thus, the Trading System tries to find for
- The seller ⇓ The best possible buying prices
- The buyer ⇓ The best possible selling price.

★ Order Matching Rule.

Buy		Sell.	
Qty.	Price	Qty.	Price.
500	38	1000	39
200.	36	500	40
100	34	200.	41

★ orders.
- That match with other orders are called. "Active orders."
- That do not match with the other are called. "Passive orders."

★ If a match is not found
- Then the orders are stored in the books
- as per price/time priority.

★ Order Conditions

① ★ Time Related Conditions

★ Day order.

- Presently
  - all orders entered into the system
  - are considered as day orders only.
- This order is valid
  - only for the day
  - on which it is entered.
- If it is not matched
  - till the end of the day
  - it is automatically cancelled.

★ Good Till Cancelled order.

- it remains in the system
- until it is cancelled by the trading member

As of now
[This condition is not available in the trading system of stock exchange.]

★ Good till day/ date order.

- The trading member specifies the days/date
- upto which the order shall remain valid.

As of now
[This condition is not available in the Trading System of Stock exchange.]

★ Immediate (or) Cancel order

- By this order
- member is allowed to
  - buy (or) sell
  - a security
- as soon as the order is released into the system

If it is not matched remaining quantity is automatically cancelled.

And if.

- It is partially matched.
- remaining quantity is automatically cancelled.

② Price Related Conditions

★ Limit Price order

Here, the Trader Specifies his offer price

- Buyer — Maximum price upto which he is willing to pay.
- Seller — Minimum price till which he is ready to sell.

★ Market price orders

are the orders for which price is specified by the market at the time order is entered.

For such orders System determines the price which is available in market at that point of time.

★ Stop loss price order

This facility allows the user to release an order into the system after the market price crosses a trigger price.

③ Quantity Related Conditions

★ Disclosed Quantity order

an order of the disclosed quantity allows the users to disclose only a portion of the order quantity to the market.

For example

- If the order qty is 10,000
- (&) the disclosed qty is 2000
- Then only 2000 is revealed to the market
- After this quantity is fully matched — A subsequent quantity of 2000 is disclosed

★ Short Sell

[The seller sells the shares even if he doesn't own them]

- These are Speculative orders
- Here the orders anticipate a decline in the price of the shares
- However, it is risky as he has to squareup the transaction within the same day.

☆ Margin.

NEED ⇒

☆ Due to wide fluctuations in prices of Securities over a period of time

⇓

The exchange levies Margin on its members.

☆ This Certain deposit is to be kept with exchange by its members

⇓

Members collect margins from their client

(2) Deposit it with clearing house of the exchange.

☆ This mechanism is adapted, in order to

Restrict excessive Speculation

(1) Safeguard the int[erest] of investors

☆ Types of margin

① Volatility margin

- is imposed to curb
- excessive volatility in the market
- (&) to act as a ~~dette~~ deterrent
- to build up of excessive o/s positions.

☆ Price variations on A/C of

- Calls
- bonuses
- rights
- mergers
- Amalgamation (&) Scheme of arrangements.

- Are adjusted for determining volatile Securities
- (&) Adj. in price is made for the purpose of Computation of volatility (when Securities are traded ex. benefits.)

☆ Volatility margin is levied on

- net o/s positions of the member
- in each Security
- Based on the respective margin rates.

★ Mark to ~~Margin~~ Market (MTM)

- is a notional Loss
- which
  - a stock member
  - (or) his client
  - ⇓ would incur
- if, the net cumulative o/s position in all Securities
  - were closed out at
    - the c/s price
    - of the relevant trading day
  - which is diffⁿ from the price at which the transaction had been entered into.

★ for each Security, this is worked out

- by multiplying the diffⁿ betwⁿ
  - The c/s price
  - (&) the price at which the trade was executed
- by the cumulative
  - buy
  - (&)
  - Sell
  - ⇓ open position.

★ The aggregate amount

- Computed across all Securities.
- is MTM margin payable by a member.

★ The MTM margin.

- is payable with reference to
- net position at client's level.

★ Gross exposure Margin.

is the % of net cumulative o/s positions

In all Securities

That the Member is required to Keep with the exchange at all times.

is calculated on Continuous Basis.

is to be Kept with Stock exchange in advance

is calculated on all Securities

unlike volatility Margin

which is on any Specific Security.

MAUSAM 7304775099

*Circuit filters / Circuit Breakers (CF/CB)

① * CF (or) CB
- are the price bands
- that set the
  - upper
  - (&) Lower limit
  - within which
    - a stock can fluctuate
    - on any particular day.

② * A price band for a day
- is a function of
- previous trading days closing.

* SEBI has directed the exchanges
- to apply Circuit filters
- on Scrips traded in Rolling Settlement
- on the previous day in any direction.
- If their price fluctuates more than 20% of the c/s price of scrips

③ * However
- feeling the threat of
- high settlement default
- In
  - Scrips forming part of SENSEX
  - (OR) In which
    - Derivatives
    - (&) futures.
    - are available
- Because of these filters
  - SEBI has restricted the fluctuation.
  - to 10% instead of 20%.

④ * Price bands
- Restricts extreme price Movements
- (&) thereby resist price Manipulation
- Thus protect Investors
  - from extreme price movements
  - In a panic market
  - Created by
    - Rumours
    - (&) Short term fears.

★ Market Wide Circuit breaker (MWCB)

★ Do the Same Job for the entire market

what Circuit filters do for the Individual Scrips

And has been introduced to Control

- excessive market movements
- in BSE SENSEX (Indices) (&) NSE NIFTY (Indices)

★ SEBI

- has introduced MWCB
- at 10-15-20 % of the movements in these indices.

The stock exchange on a daily basis shall

- Translate the 10 %, 15 %, 20 % Circuit breaker limits
- of market wide Index variation
- Based on the previous days closing level of the Index.

★ These breakers

- provide the time to participants
- to react to the movement
- by way of the trading halt.

★ These % (Percentages)

- are not calculated on daily basis
- Rather they are fixed for a quarter.

★ The Trigger Limits (&) Respective Halt Duration is given below:

Trigger Limit	Trigger Time	Trading halt duration	Pre-opening session duration post each halt.
10 %	Before 1.PM	45 minutes	15 minutes
	On (or) after 1.PM to 2.30PM	15 minutes.	15 minutes
	On (or) after 2.30PM	No Trading halt	—
15 %	Before 1.PM	1 hour 45 minutes	15 minutes
	On (or) after 1.PM before 2.PM	45 minutes.	15 minutes
	On (or) after 2.PM	★ Trading halt for the remaining period of the day	—
20 %	Any time of the day.	★ —‖— Trading halt for the remaining period of the day	—

☆ Contract Note

is a document through which

- a Contractual obligation is established
- Betn
  - a member
  - (&) a client

- issued by
  - members
  - to client
  - within 24 Hrs of execution of the trades
- for the trades executed on their behalf

☆ Members are also required to preserve

1. duplicate Copies of Contract notes issued to the clients.
2. And also required to maintain
   - written Consent of clients
   - for the Contracts entered into as principal.

☆ Contract notes issued to client

- should show brokerage seperately from time to time.
- required to be signed either
  1. by member.
  (or)
  2. Constituted attorney.

☆ Auditor should apply appropriate audit procedures to satisfy himself that

☆ Contract notes.

- ☆ have been serially numbered
- ☆ (&) no serial number has been left blank
- ☆ should be duly signed by authorised person
- ☆ format is prescribed by Regulations of the exchange.
- ☆ is giving details of brokerage charged, which is
  - within prescribed limits
  - (&) indicated including Tax.
- ☆ is prescribing Pan of
  - member
  - client
  - If required.
- ☆ Contains clauses specified by the exchange on Back side.
- ☆ Duplicates are maintained
- ☆ SEBI registration number
- ☆ stating settlement dates.

☆ Maintenance of A/Cs by members of stock exchange.

☆ Following books of A/Cs are to be maintained by them.

- Journal.
  - ⇓ Clients ledger
  - ⇓ General ledger.
- Cash Book
- Bank pass Book
- Sauda Book
- Members Contract Book
- Margin deposit Book.
- Duplicate of Contract notes issued to clients
- Written Consent of client for Contracts entered into as principals.
- Documents register
- A/Cs of Sub-brokers
- Copies of agreement with Sub-brokers.

☆ Seperate Books

☆ A member.

- holding. ⇓ membership of many stock exchanges.
- holding. ⇓ different Segments of same exchange. [Derivatives / Capital Market Segment]

⇓ has to maintain.

- Seperate
  - records
  - (&) Documents
- with respect to.
  - each exchange
  - (or) each Segment.

☆ Sauda Book / Daily Transactions List.

- ☆ Basic Record maintained by the members (broker)
- ☆ Contains all transactions entered by them.
- ☆ Continuously updated during the day.
- ☆ Shows all transactions
  - entered into by stock broker (member)
  - at the end of the day.

☆ It Contains Infⁿ on

- ☆ Name of the client
- ☆ Securities traded
- ☆ Rate & Quantity of Security
  - bought
  - & sold
- ☆ Time & Number of transactions.

☆ Now a days, it Contains a record of following Categories of transactions.

- ☆ Members
  - own business on the exchange.
  - business with client on a principal to principal basis.
  - Business on behalf of clients
- Spot transactions.

☆ Margin Deposit Book

records the margin deposited by the member with the clearing house of the relevant stock exchange.

☆ The auditor should check whether

- margin has been ☆ properly calculated & collected from clients & paid to the clearing house.
- ☆ in accordance with SEBI guidlines
- ☆ as per margin statement downloaded from the stock exchange.

☆ Any exemptions from deposit of margin have been correctly claimed.

* Audit of A/Cs [of members of stock exchange.]

⇓

* Requirement of Audit for whom

⇓

[All Active members of Stock exchange.]

* Who is an active member.

⇓

[Any member who has Conducted business in stock exchange even for a Single day in the year.]

⇓

* Audit by whom

⇓

[CA in practice.]

* Records (or) Documents to be checked for transactions of Dematerialized Securities

* on account of Compulsory Dematerialization of most of the Securities Listed on the exchange
   * All stock brokers
     - are required to maintain 2 A/Cs
     - with the Depository participants (DP)
     - for handling the Receipt (&) Delivery of Securities in Demat

1st "Beneficiary A/C."
- "Used to hold its own Securities"

2nd "Pool A/C"
- "Used for Trades executed on behalf of clients"

* The Securities to be Sold
  - are transferred to Pool A/C
  - from where these are given to clearing house (on the relevant pay in day.)

* In Case of purchase of ~~Sec~~ Securities by the client
  - ⇒ The clearing house transfers the Securities to the pool A/Cs of the members.
  - ⇒ The members then transfers the Same to the A/Cs of Individual clients.

* Members are required to maintain a proper record of
  - All Shares.
    - Received (&) delivered from their pool A/Cs
  - as well as preserve
    - * Acknowledged Copy of the delivery instructions given to their DP's
    - for transferring the Securities
      - from the pool A/C
      - to the clients A/C after the pay out

* The Auditor should

verify whether the securities received by the member in the pool A/C are regularly transferred to the buying clients demat A/C within 24 hours of the declaration of pay out of the relevant settlement of the exchange

Check that the shares lying in the pool A/C have not been utilized by the members to meet his own pay in obligations (OR) used for meeting auction obligations

★ As an statutory Auditor, how would you deal with following?

★ If Broker did not write any amount from the membership amount paid to stock exchange which is showing in assets side.

Ans ⇒ As per prescribed Sections

Auditor is required to give opinion of correctness of FST of stock broking Co. also.

★ It is written that

All stock broking activities companies are required to comply with

- Statutory guidelines
- (&) procedures prescribed by SEBI.

⇓

★ As per SEBI guidelines

All stock broking companies are required to write off every year some amt. of stock exchange membership rights shown under fixed assets.

⇐ If this not done Auditor should qualify the reports.

✩ Derivatives

* is a Security.
  * whose price is
    * Dependent upon
    * (OR) derived from.
  * 1 (or) more underlying assets
    * fluctuations in the underlying assets
* is merely a Contract betw^n 2 (or) more parties.
* has a maximum of 3 monthly expiration cycle.
* Are available for trading with
  * 1 month
  * 2 months
  * 3 months

  ⇓ Expiry.

✩ The NEAT → F & O Trading System.

⇓

is accessed by 2 types of users.

* Trading members (TM)

  ⇓

  have access to functions such as.
  * order
  * order entry
  * order matching
  * trading mngmt.
* Clearing member. (CM)

  ⇓

  Uses the Trader workstations
  * for monitoring the trading members.
  * for whom they clear the trades.

  ⇓

  ✩ There are 2 types of CM
  * TM - CM

    ⇓

    ✩ is a CM who is also a TM
  * Professional CM

    ⇓

    ✩ is a CM who is not a TM

★ Bought Out Deals.

★ Companies may
- place its equity
- intended to be offered to the public
- with a sponsor member.
- at a mutually agreed price
- through the Concept of Bought out deals.

★ Thus after buying out the total equity
- Sponsor member.
- would sell the shares of the Company.
- to the public through "offer for sale"

★ It ensures.
- faster availability of funds to the Company
- For
  - timely Completion of its projects
  - (&) also a listed status on a later date.

* P/E Ratio

P/E Ratio

⇒ The Pre- issue [price/ earning ratio] should be Calculated by using the formula →

$$\frac{\text{Issue price per Share}}{\text{Earning per Share}} \times 100$$

- * The issue price per share ~~which~~ is to be used for Computing this ratio.
- And not.
  - The market price per share
  - which is normally used for Computation of the P/E Ratio.

However

- PE ratio ~~b~~ of the Co. based on the issue price
- is to be Compared to the industry PE Ratio based on MP
- for the purpose of Industry PE ratio, Auditor should check that
  - The MP should be the MP for the Industry
  - Prevailing within 1 Month
  - prior to the date of Auditor Report (or) close thereto

★ SEBI may Levy on any person in the following Cases.

- Monetary fine
- (&) Penalties.

★ Failure to

- ★ furnish Document Infⁿ.
- ★ maintain. Books of A/Cs (&) Returns
- issue Contract notes. in form required
- Deliver Security.
  - make payment to client.
  - for charging excess brokerage.
- enter into agreement with client

★ Failure by Sponsor

- of any collective Investment Scheme
- including mutual fund
  - to obtain registration Certificate
  - to invest money in desired names.
  - to Comply with terms of such Certificate
  - to refund application money
  - to dispatch unit Certificate.

★ Person dealing (or) Carrⁿ on the basis of price sensitive Infⁿ