

★ Company → fund → Shares, Debentures, Bonds etc.
↓
IPO (Primary market.)

Regulators
SEBI SERA RBI Co. Act IT Act etc.

★ Every transaction [Buy (&) Sell.] occurs.

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

In case of Contravention
↓
Penalty levied.

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. hane pe SEBI ne.
[Circuit Breaker Banaye.]

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

★ Now here comes many many brokers [Sherkhan, Anand Rathi, motilal Oswal etc.]

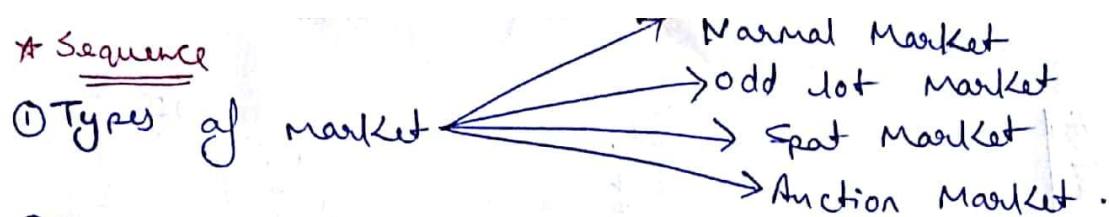
★ Now comes many Sub brokers. [In every city]

★ And Last clients

⇒ In various markets

Normal market odd lot market Spot market Auction market

* Sequence



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 Rule

⑦ Order Conditions

⑧ Margins

```
graph LR; A[Margins] --> B[Mark to market]; A --> C[volatility market]; A --> D[Gross exposure margin];
```

⑨ Circuit Breaker

⑩ Market wide Circuit Breaker

⑪ Contract Note

⑫ Maintenance of AICs by members of stock exchange.

⑬ Books

⑭ Audit of Books.

⑮ Derivatives

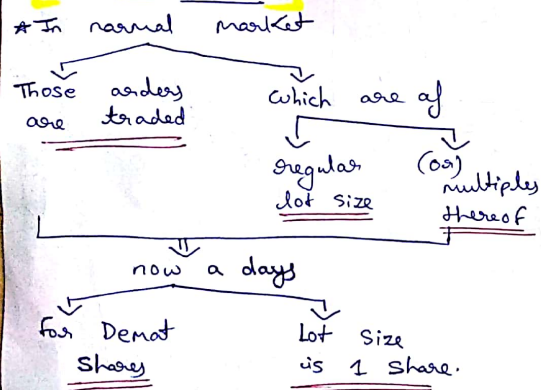
⑯ PE Ratio.

⑰ Penalty By SEBI.

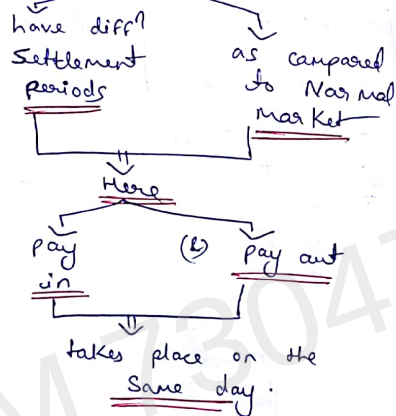
Mausam 7304775099

Types of Market

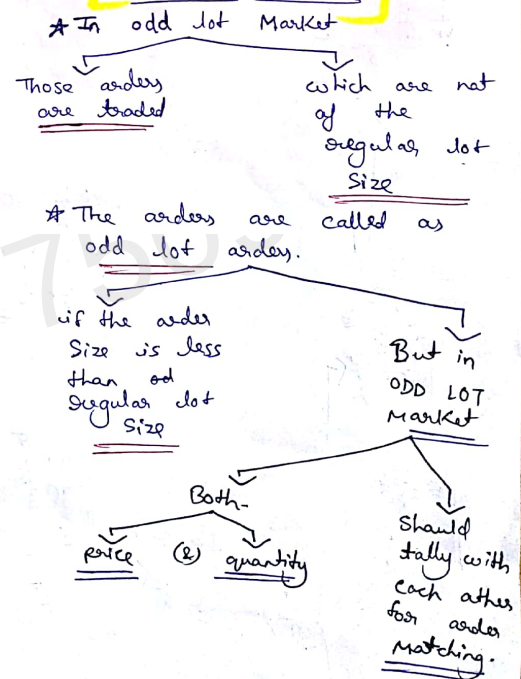
Normal Market



Spot Market

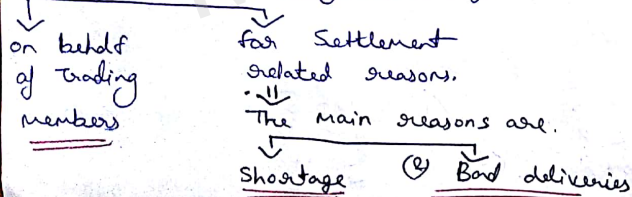


odd lot Market

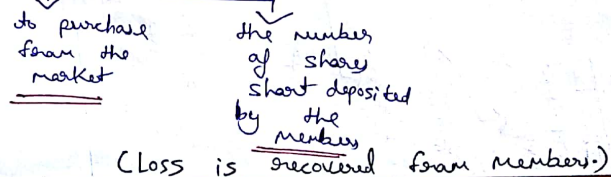


Auction Market

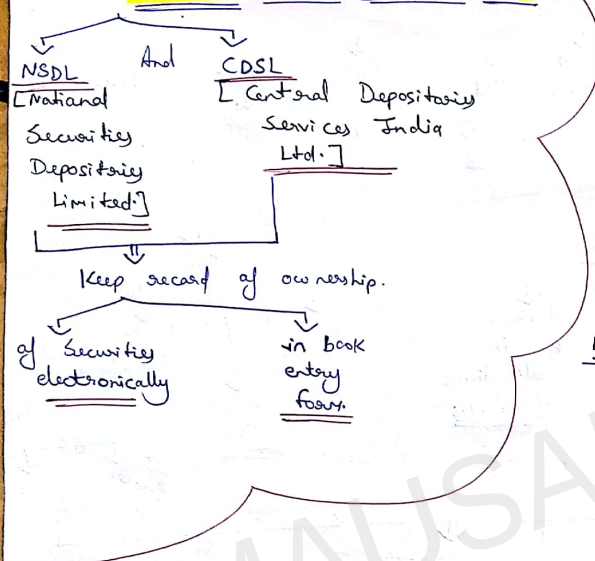
Auctions are initiated by the exchange



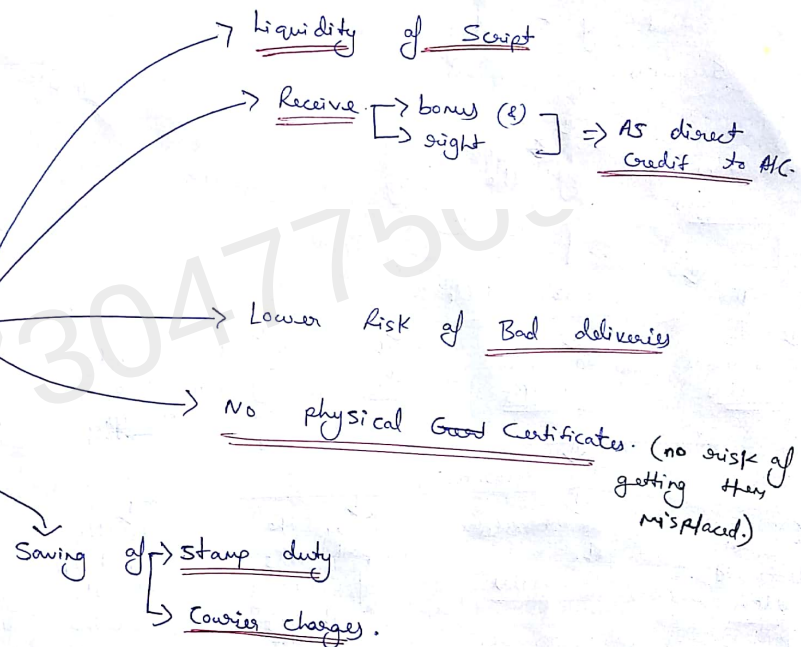
Exchange initiated auction



* Depositories and Dematerialization

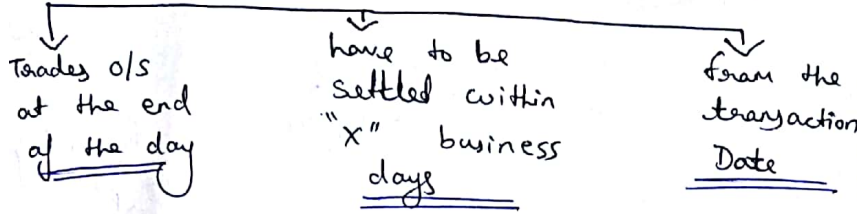


Advantage

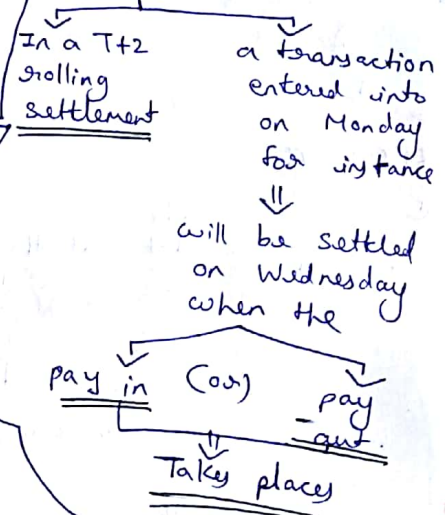


* Rolling Settlement

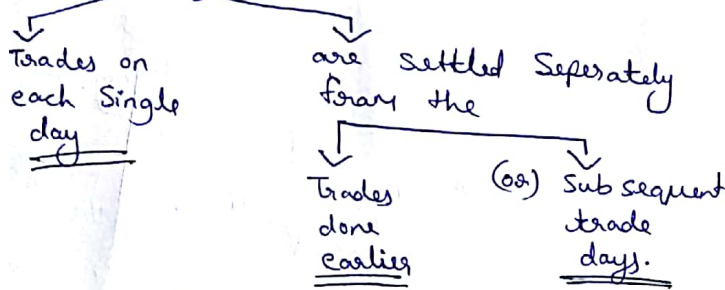
* A Rolling Settlement is one in which



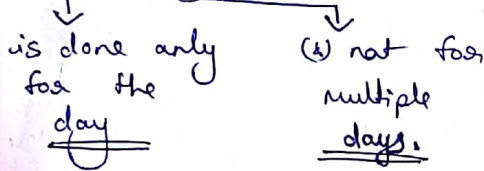
* Thus



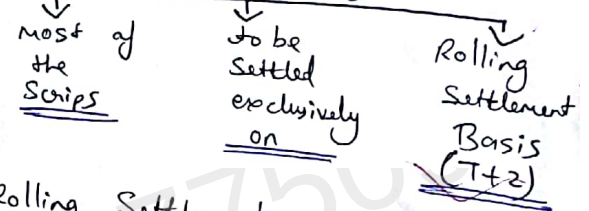
* In Rolling Settlement



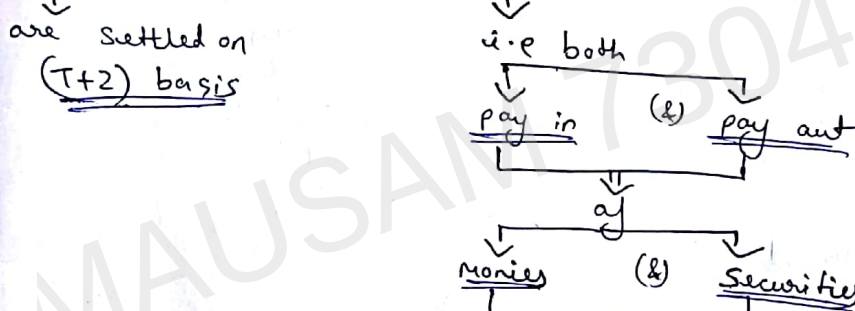
* The netting of trades.



* SEBI has gradually mandated



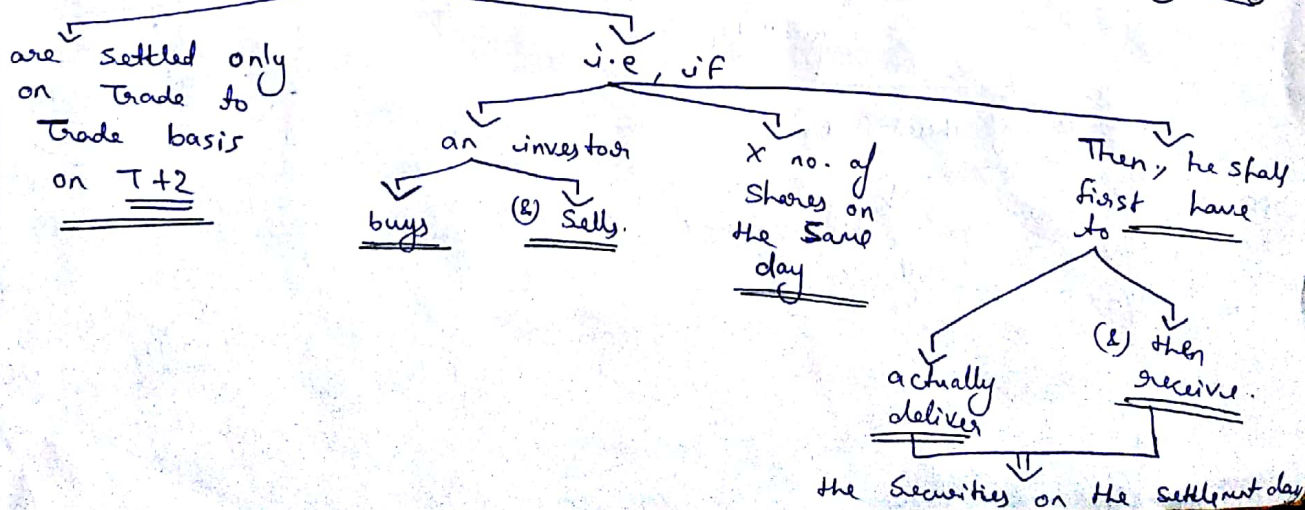
* The transactions in the Compulsory Rolling Settlement

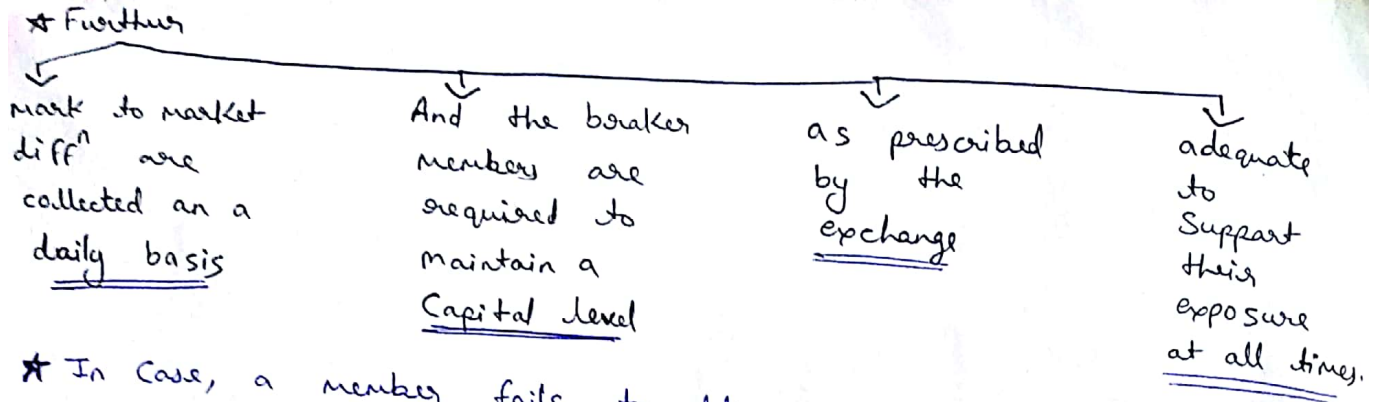


for transactions in scrips on transaction day

would take place on the day after immediately following day.

* However, Transactions in "Z group Securities"





* 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.

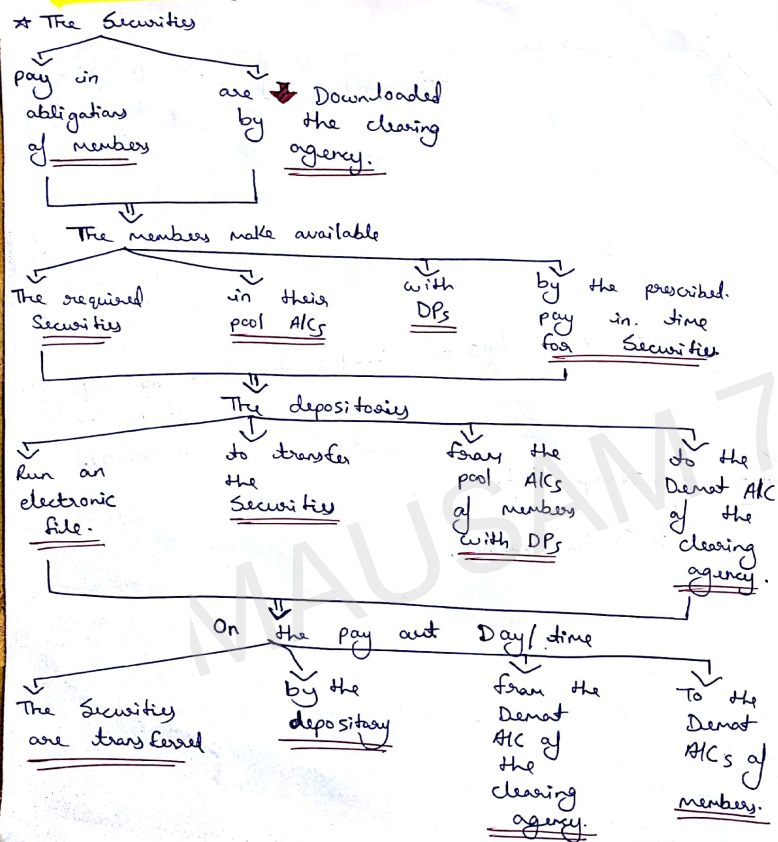
(OR) 20% above

the c/s price

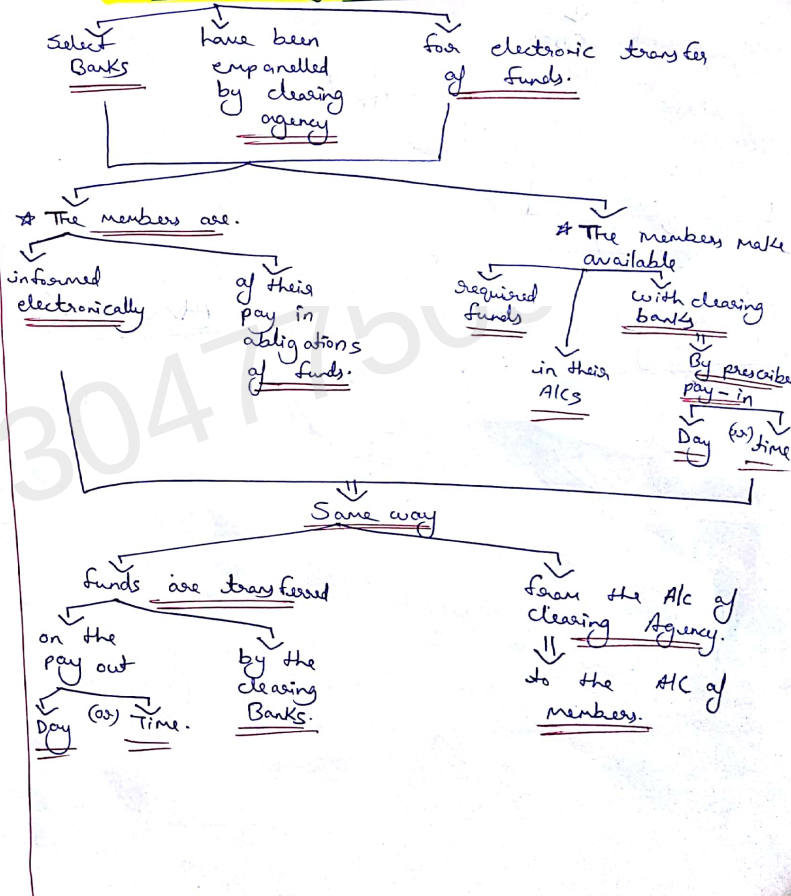
on a day prior to the auction.

★ Clearing and Settlement Mechanism

★ Settlement of Securities



★ Settlement of funds.



* 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 (3) 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 activity

Unless it implements.
↓
necessary Software

(4) procedures for.
↓
Levy Collection. (5) remittance
↓
of STT

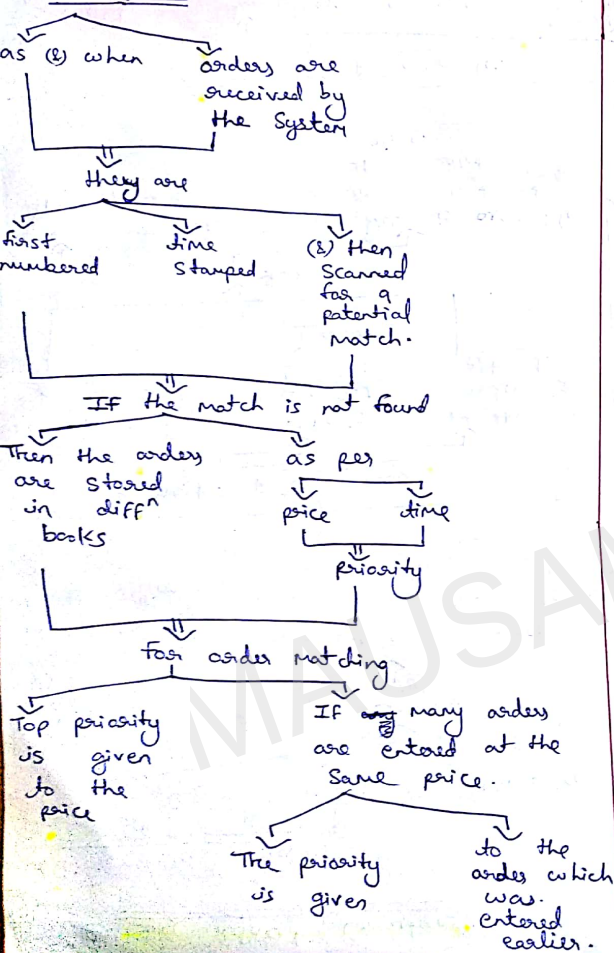
④ * STT is

↓
Deducted at Source

↓
by the broker.

↓
at the time of transactions itself.

Order Book



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 $\Rightarrow$ at any point of time $\Rightarrow$ is matched $\Rightarrow$ 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 at 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

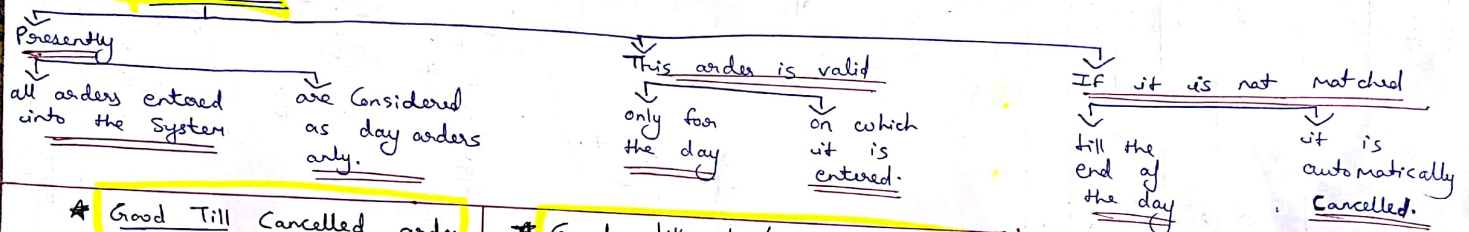
Then the orders are stored in the books

as per price/time priority.

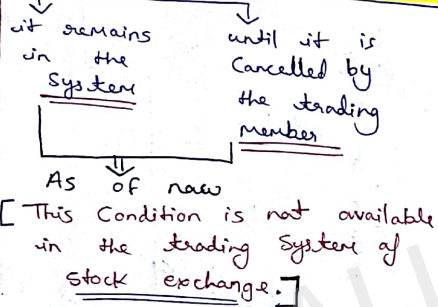
* Order Conditions

* Time Related Conditions

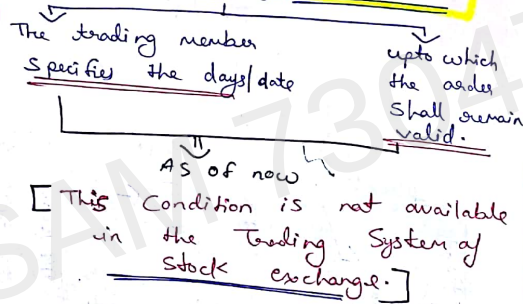
* Day order.



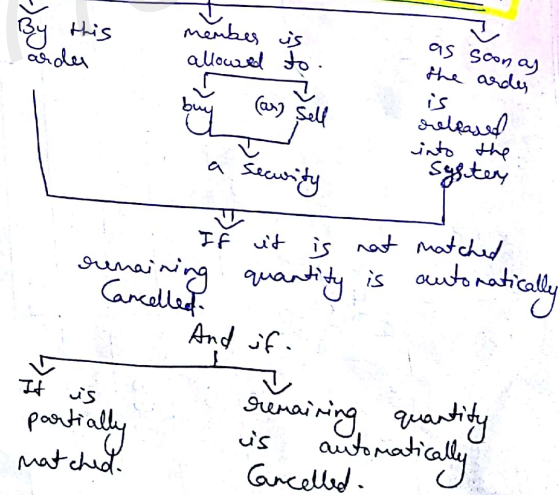
* Good Till Cancelled order.



* Good Till day/date order.



* Immediate (or) Cancel order



② Price Related Conditions

* Limit Price order

Here, the Trader Specifies his offer price

Buyer

Seller

Maximum price upto which he is willing to pay.

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 user to disclose.

only a portion of the order quantity to the market.

For example

If the order qty is 10,000

(i) 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 share

However, it is risky

as he has to square up the transaction

within the same day.

★ Margin.

NEED ⇒

- ★ Due to wide fluctuations
- in price 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

★ This mechanism is adapted, in order to

Restrain excessive Speculation

(1) Safeguard the int of investors

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

* Types of margin

① Volatility margin

is imposed to curb

excessive volatility in the market

(b) to act as a deterrent

to build up of excessive O/S positions.

* Price variations on AIC of

Calls bourses sights mergers Amalgamation
(b) Scheme of arrangements.

Are adjusted for determining volatile Securities

(b) Adj. in price is made for the purpose of computation of volatility (when securities are traded ex-benefits.)

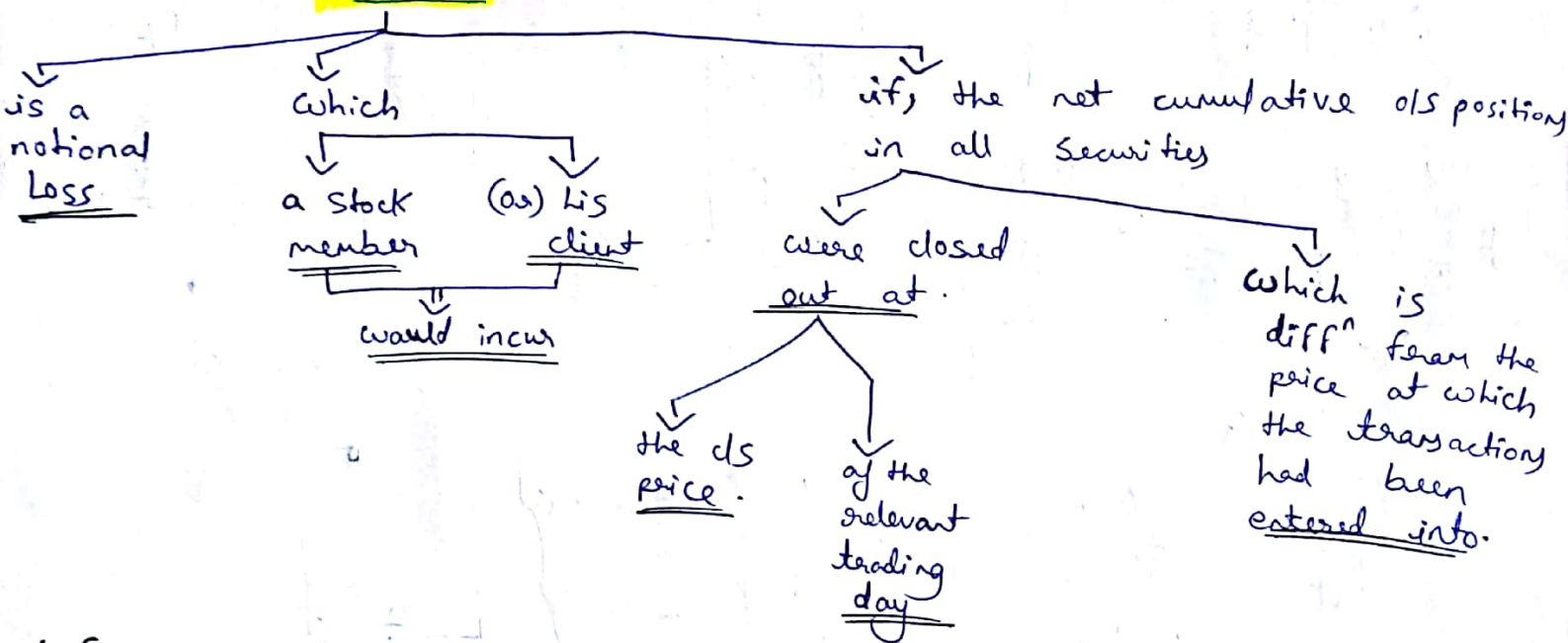
* Volatility margin is levied on

net O/S position of the member

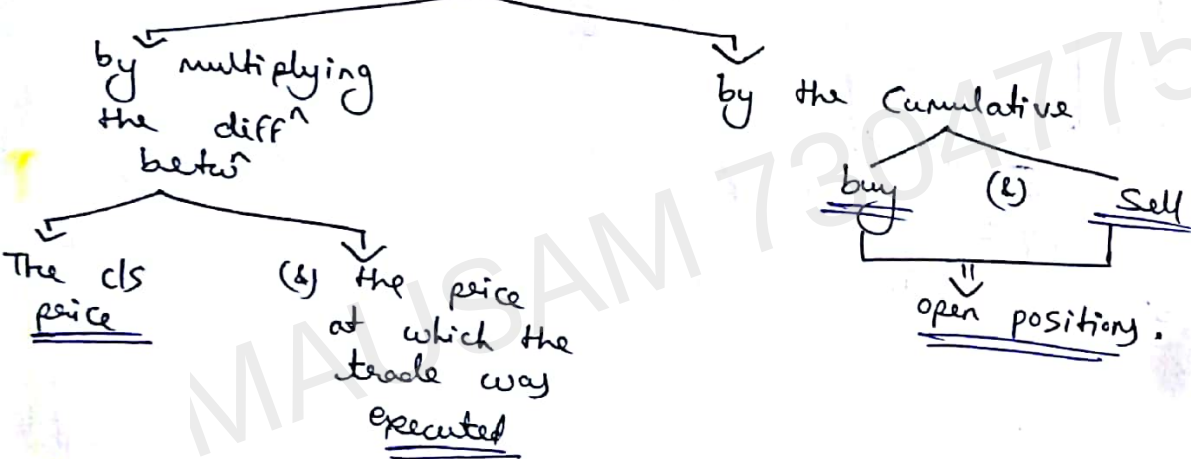
in each Security

Based on the respective margin rates.

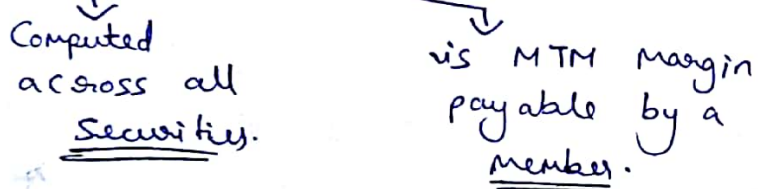
★ Mark to Margin (MTM) Market



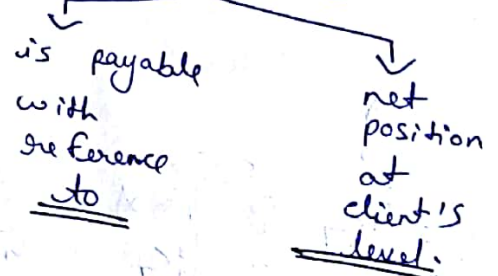
★ for each security, this is worked out



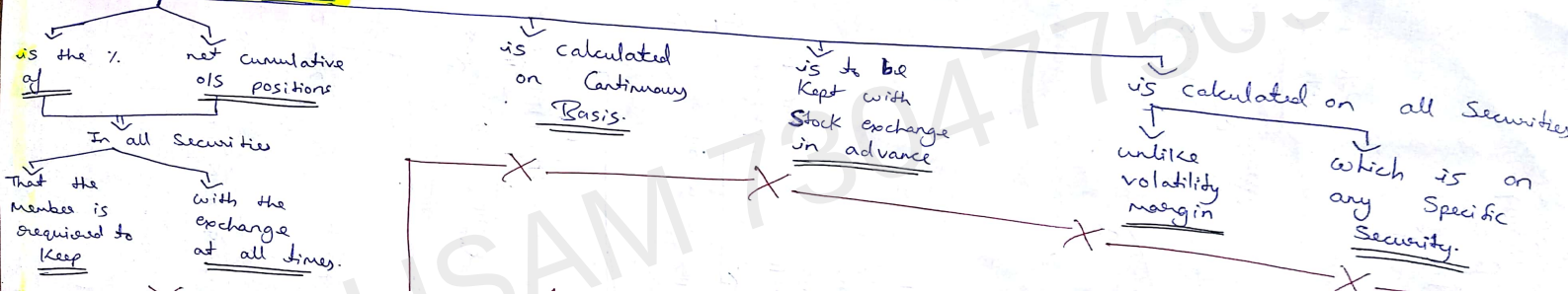
★ The aggregate amount



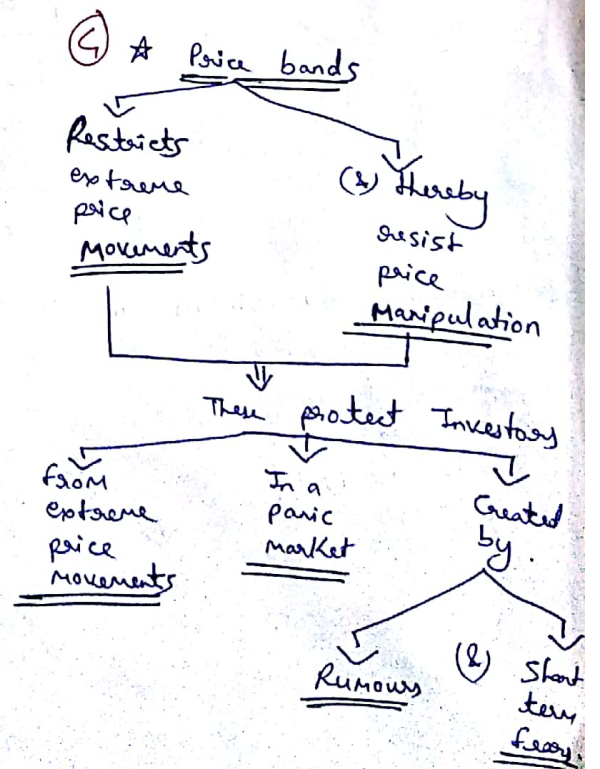
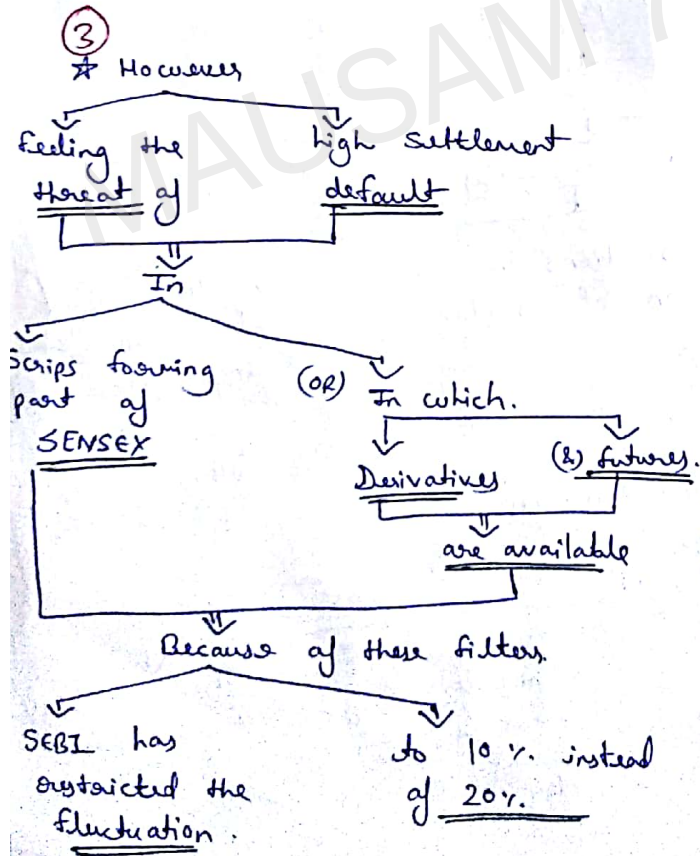
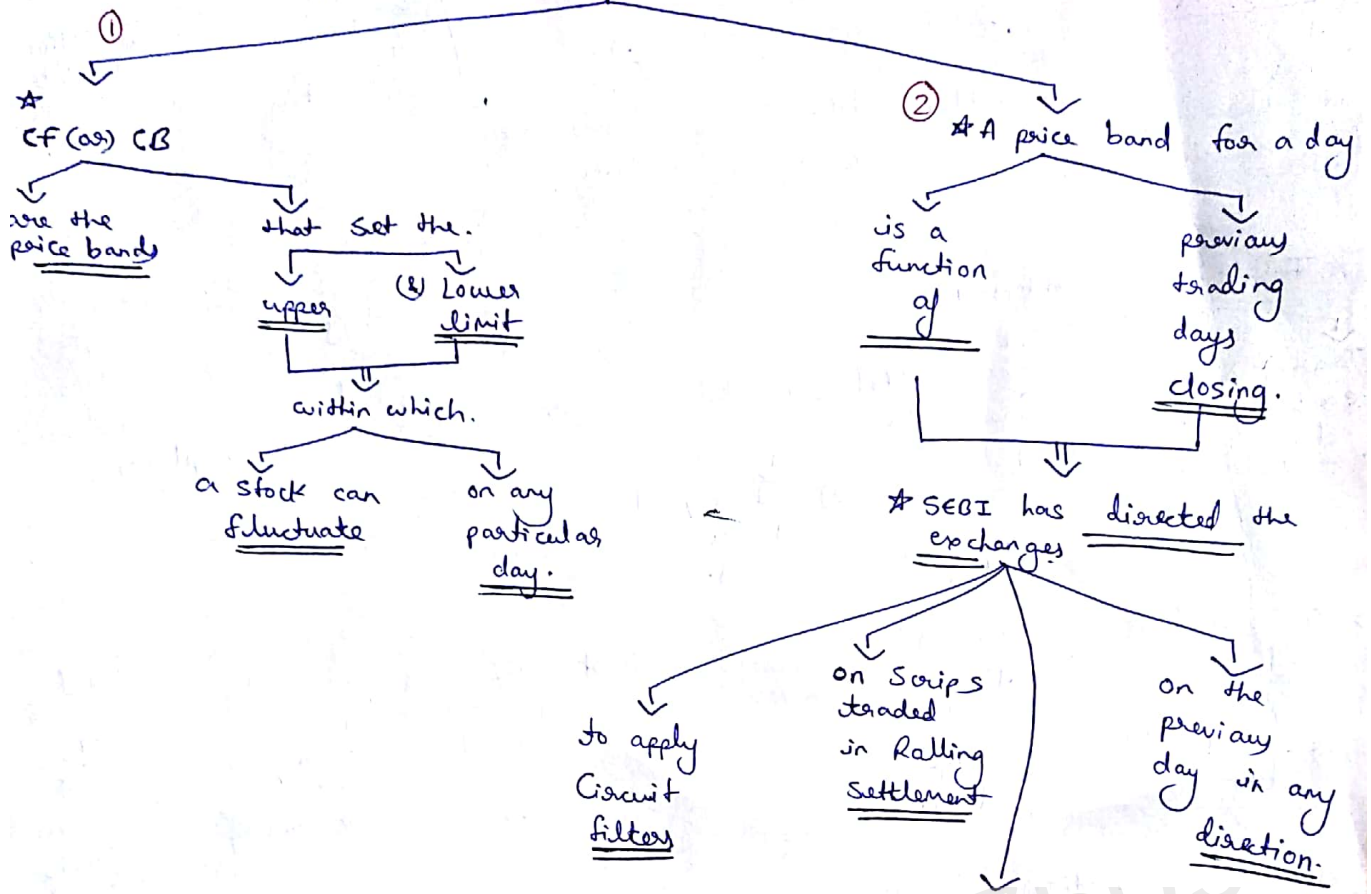
★ The MTM margin.



* Gross exposure Margin.



Circuit Filter / Circuit Breakers (CF/CB)



* Market Wide Circuit Breaker (MWCB)

* Do the same job for the entire market
 what Circuit breakers 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 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

Between

a member

(or) a client

issued by

members

to client

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 separately from time to time.

required to be signed either:
① by member.
(or)
② Constituted attorney.

* Auditors should apply appropriate audit procedure to satisfy himself that

* Contract notes.

* have been serially numbered

(or) no serial number has been left blank

* Should be duly signed by authorised person

* format is prescribed by Regulation of the exchange.

* is giving details of brokerage charged.

within prescribed limits

(or) indicated including Tax.

* is prescribing Part of member client if required.

* Contains clauses specified by the exchange on Back side.

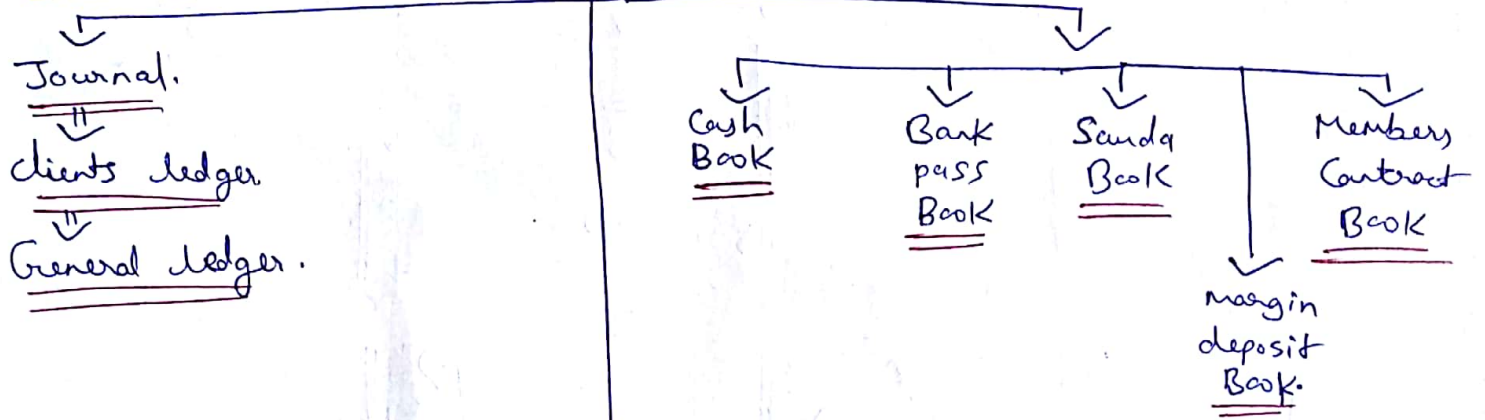
* Duplicates are maintained

* 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.



Duplicate of
Contract
note issued
to clients

written Consent
of client for
Contracts entered
into as
principals.

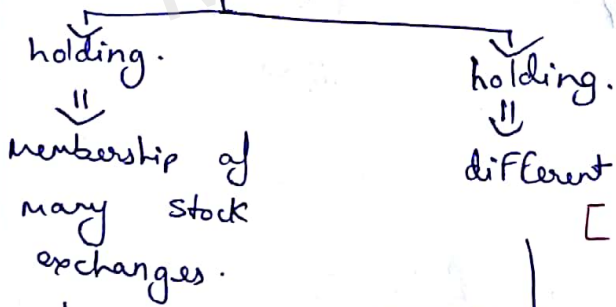
Documents
register

A/Cs of
Sub-brokers

Copies of
agreement
with
Sub-brokers.

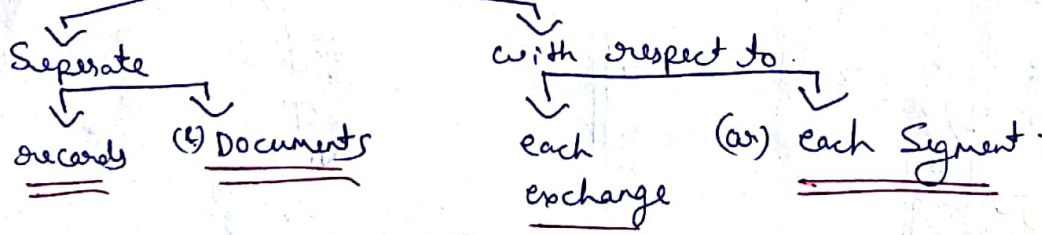
* Separate Books

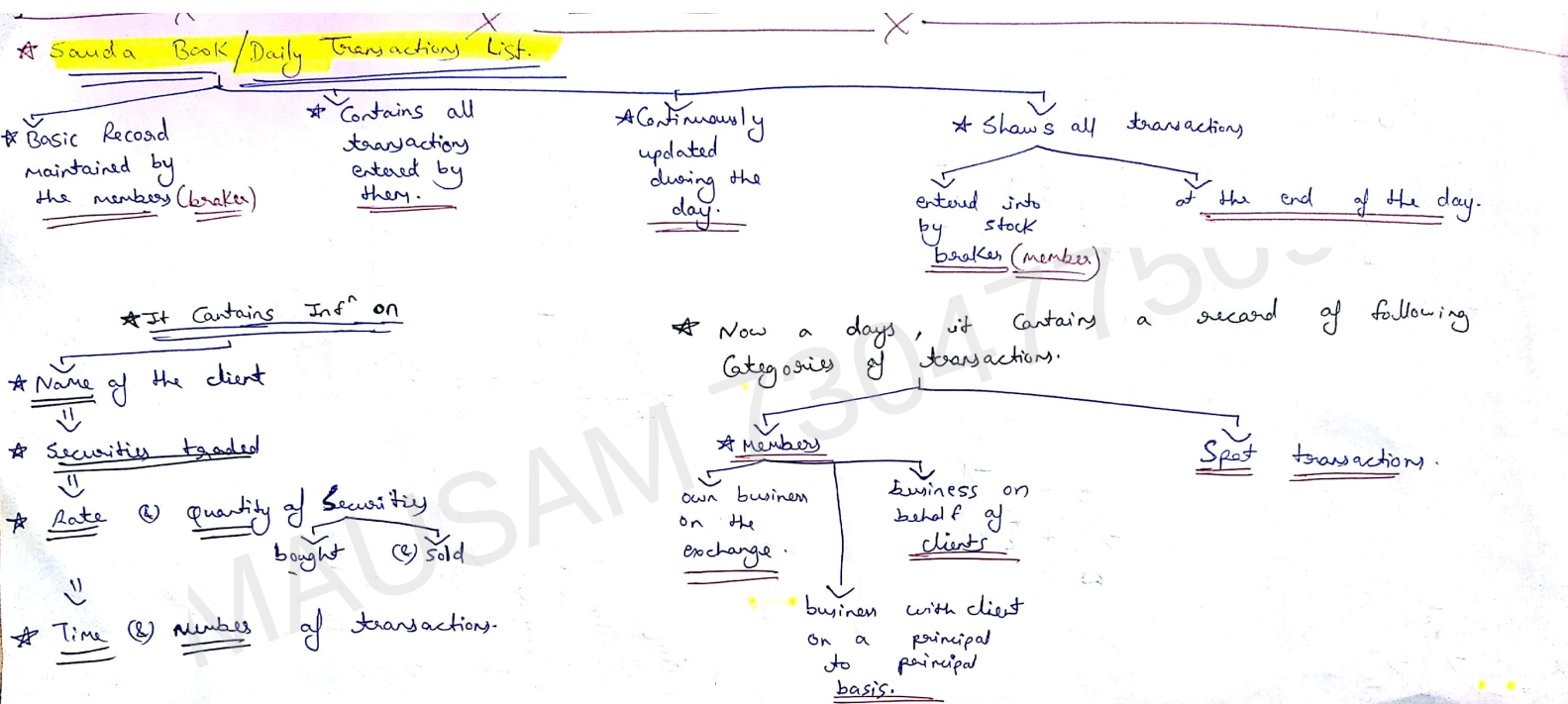
* A member.



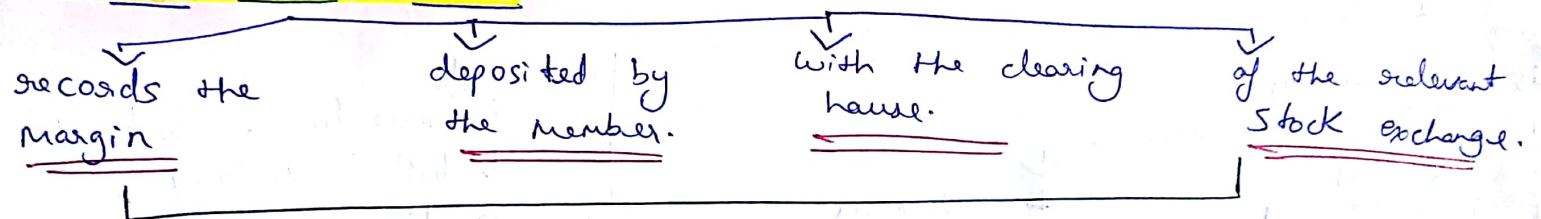
[Derivatives / Capital Market Segment]

has to maintain.

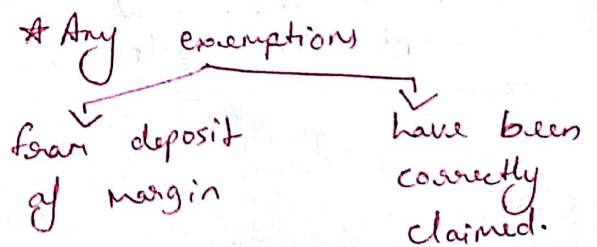
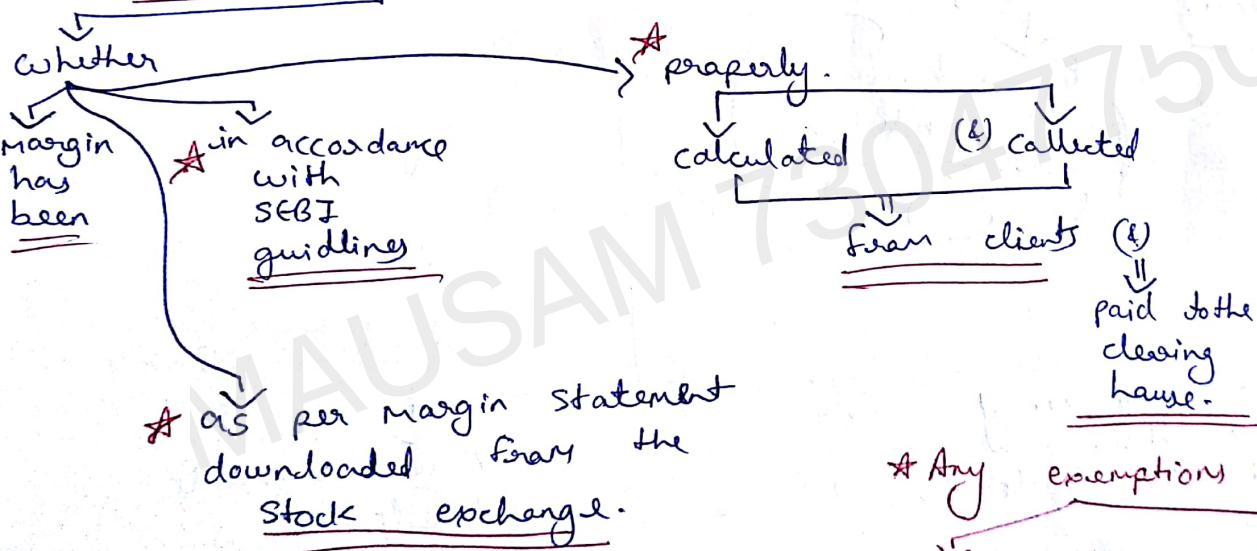




* Margin Deposit Book



* The auditor should check.



* 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 AICs

with the Depository participants (DP)

for handling the Receipt (&) Delivery

of Securities in Demat

1st "Beneficiary AIC."

"Used to hold its own Securities"

2nd "Pool AIC"

"Used for Trades executed on behalf of clients"

* The Securities to be sold

are transferred to Pool AIC

from where there are given to clearing house (on the relevant pay in day.)

* In case of purchase of Secur. Securities by the client

→ The clearing house transfers the Securities to the pool AICs of the members.

→ The members then transfer the same to the AICs of individual clients.

* Members are required to maintain a proper record of

All Shares.

Received (&) delivered

from their pool AICs

as well as preserve

* Acknowledged Copy of the delivery instruction given to their DP's

For transferring the Securities.

from the pool AIC

to the clients AIC 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 debt
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 member.

to meet his
own pay
in obligations.

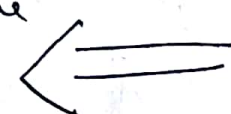
(or) used
for
meeting
auction
obligations

X X

* As an statutory Auditor, how would you deal with following?
* If Broker did not write any amount for the membership amount paid to stock exchange which is showing in assets side.

Ans ⇒ As per prescribed Sectionary

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

If this not done Auditor should  qualify the reports.

* It is written that

All stock broking activity Companies

are required to comply with.

Statutory guidelines

(2) procedures prescribed by SEBI

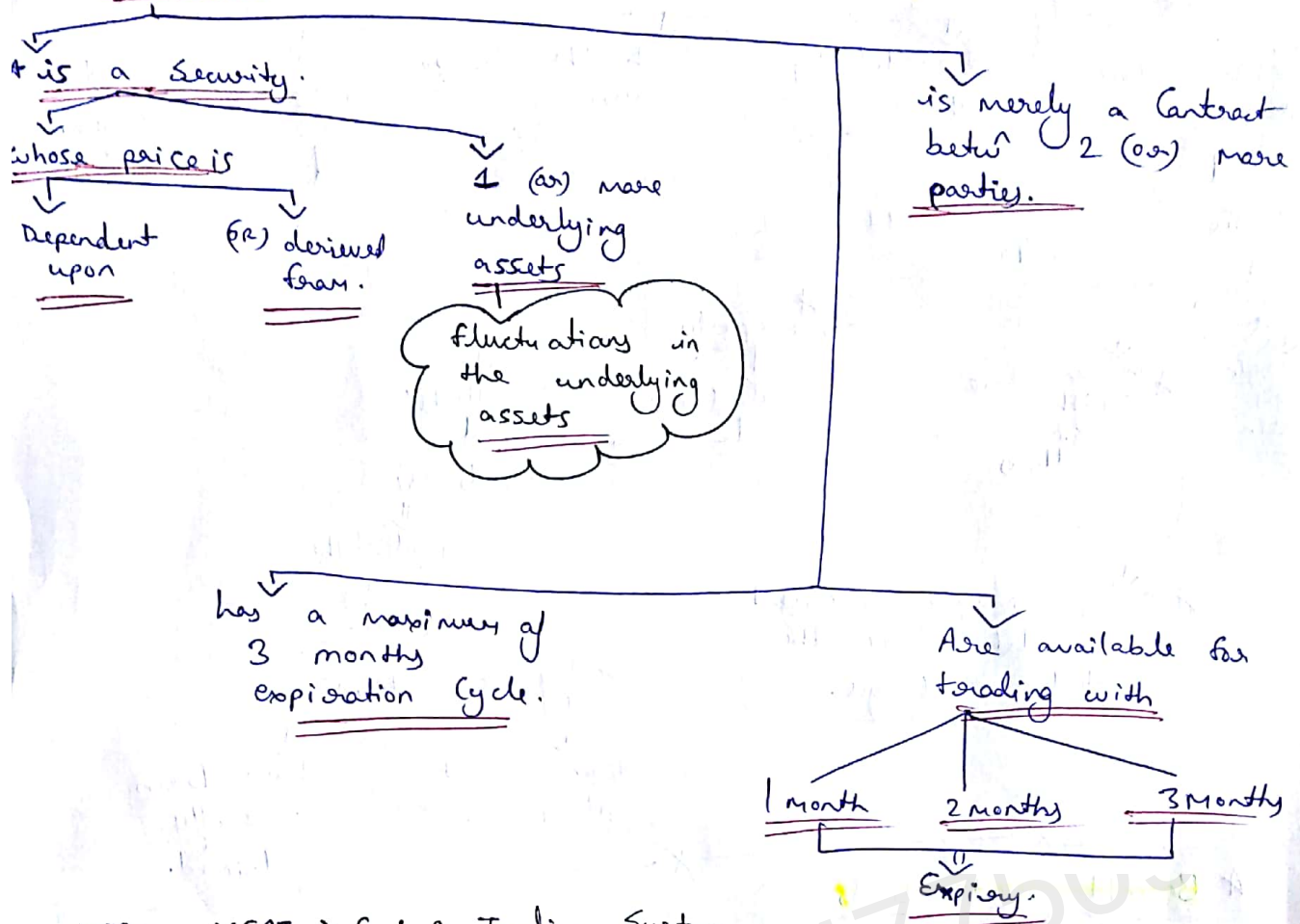
||
* As per SEBI guideline

All stock broking Companies

are required to write off every year

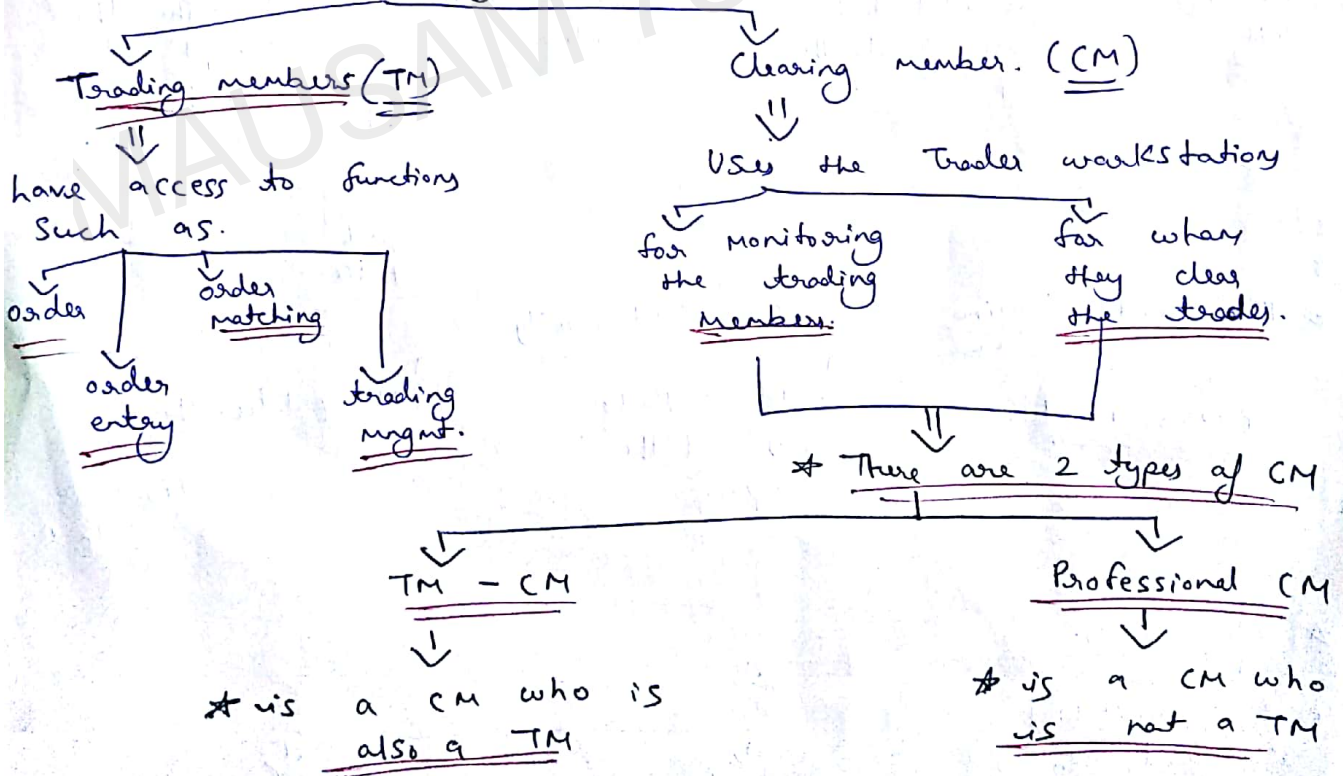
Some amt. of stock. Exchange membership rights shown under fixed Assets.

* Derivatives

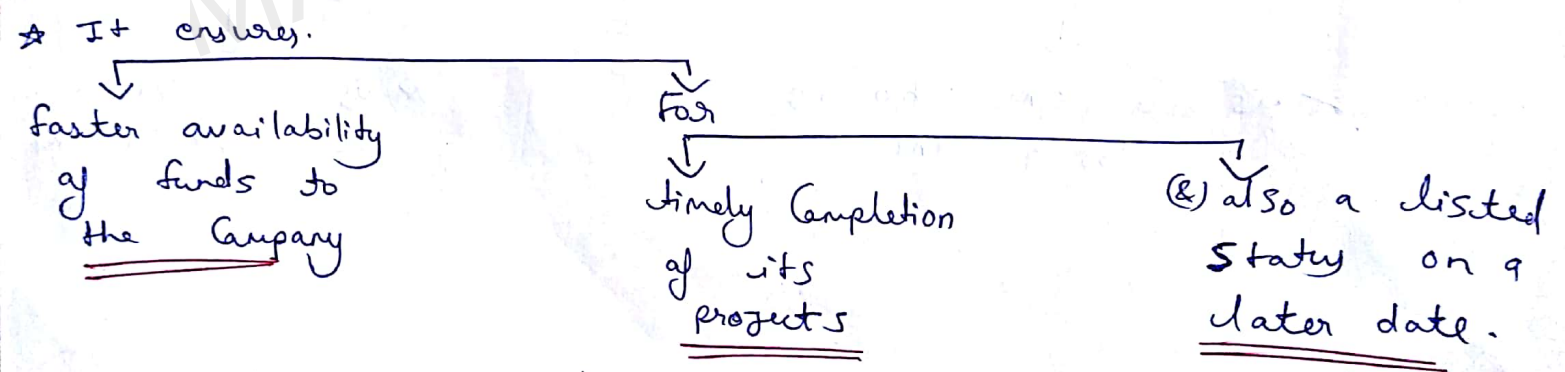
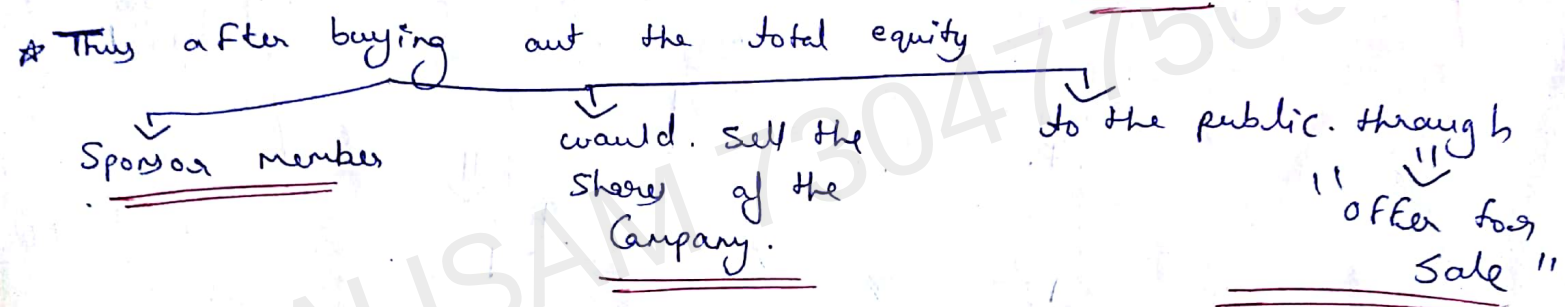
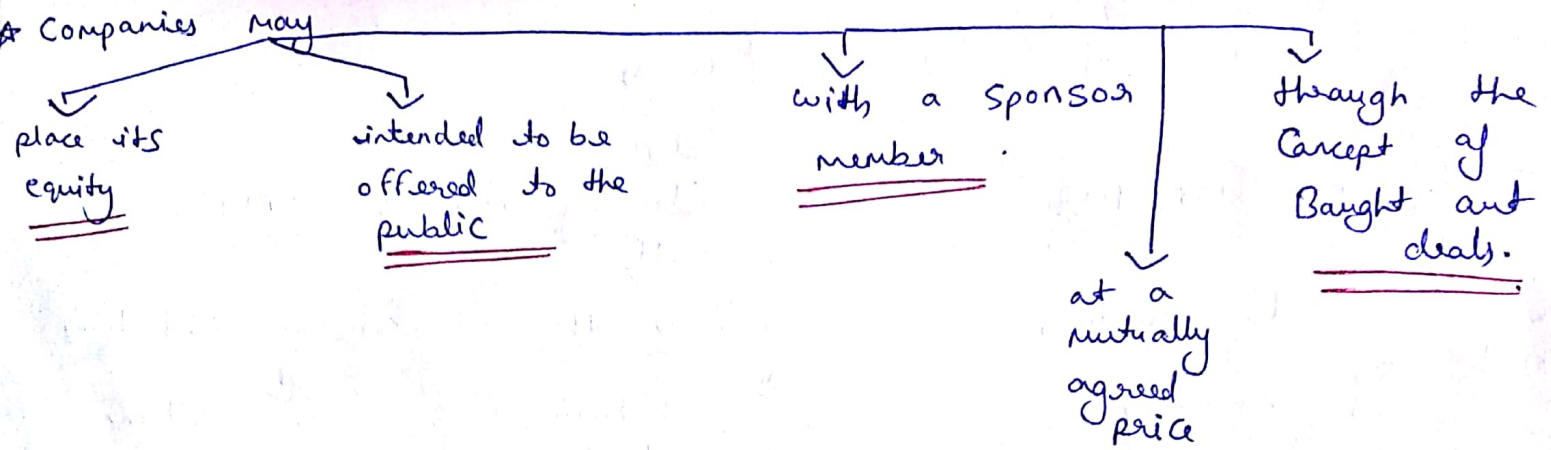


* The NEAT → F & O Trading System.

is accessed by 2 types of users.



* Bought Out Deals.



* 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 rat.
The market price per share

which is normally used for computation of the P/E Ratio.

However

PE ratio 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 Auditors Report (or) close thereto

★ SEBI may Levy

monetary fine (s) Penalties

on any person in the following cases,

★ Failure to

★ Furnish Document
Infⁿ.

★ Maintain
Books of A/c
(s) Return

issue Contract notes
in form required

Deliver
Security.

enter into
agreement
with
client

make payment
to client.

for charging
excess
brokerage.

★ Failure by Sponsor

of any collective
Investment Scheme

including
mutual fund

to obtain
registration
Certificate

to comply
with terms
of
Certificate

to dispatch
unit
Certificate.

to invest
money in
desired names.

to use fund
application
money

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