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Trading Mechanism on Exchanges; Security Market Indices

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Abstract: ***The stock market in India has been growing day by day and more and more companies are putting their stocks on either NSE or BSE. To prevent malpractices there has been introduction of screen - based trading. There are six steps of the trading process which helps to process the transactions properly and without any malpractices. Also, there are stock market indices of each respective stock market which is a barometer of the market.***

Keywords: Stock market, trading, order, investor, broker

1. Introduction

The idea of investing in the stock market has been appealing to people since the last decade in India and many companies have benefitted from this since they can raise their funds very easily. The BSE (Bombay stock exchange) and the NSE (National stock exchange) are the two leading stock exchanges in India which have tons of investors and brokers taking part in the stocks (called securities) exchanging process. The process of buying and selling of stocks is called trading. All of this is governed by SEBI (SECURITIES AND EXCHANGE BOARD OF INDIA). In the recent years there have been man scams in the stock market which had turned the whole share market upside down. To ensure that there is total transparency and efficiency in the trading system the NSE and the BSE have initiateda trading system called "screen - based trading system" which is available nationwide and is fully online. Both BSE and NSE are using their respective trading platforms based on this.

The BSE is using BOLT - Bombay OnlineTrading while the NSE is using NEAT - National Exchange for Automated Trading.

1.1 National Stock Exchange (NSE)

It was incorporated in 1992 and trading started in 1994. The first exchange to provide automated electronic trading. The index of NSE is NIFTY.1641 companies are listed on NSE.

1.2 Bombay Stock Exchange (BSE)

It is the first securities market in India incorporated in 1875. It is also Asia's first stock exchange and also has trading platforms for small and medium enterprises. The index of BSE is SENSEX. It has close to 6000 companies listed on it.

2. Screen Based Trading

Another name for the screen - based trading is online trading. This is only available option for the people wanting to trade in securities in the respective stock exchanges. There is a computer terminal to which every broker has access. This terminal is connected to the main stock exchange. The software is designed in such a way that when the member logs in he gets the information of the shares he wishes to acquire and can easily trade. The member can hold the shares in electric or physical form, like in whatever way he desires. When shares are held in electronic form then the shares are said to me in dematerialized form.

2.1 Impact of Screen Based Trading System in India

This system has been a very big success for the Indian stock exchanges and has increased the number of securities traded at a time. This system has been a big plus for the distant traders as they can easily trade with each other which helps in improving the liquidity of the markets. Since now participants in huge numbers can take part in trading and they can trade simultaneously which helps in price sensitive information get incorporated into dominant prices. This also helps in boosting customer confidence as there is complete transparency which enables them to have a look at the full market in a very organized way. This system was initiated by the NSE which forced other exchanges to switch to this system as they were losing business

3. Trading Procedure

Trading is a very systematic and technical process which has to be performed in a very professional way.
There are 6 steps to perform trading:

3.1 The initial step is to a broker who will keep the investor updated with the stock market trends and will also allow the investor to seek better opportunities for investment. The broker is a person who has been given a license by the stock exchange. The broker also helps in providing the prospectus and financial periodicals of the companies which he may think would appeal to the respective investor.

3.2 After finding the broker the investor has to open an account with the broker and it is only opened if the investor's credit worthiness satisfies the broker, if the broker is not satisfied then the process ceases at that point only. Then it is mandatory to fill broker - client agreement and client registration form by the investor to proceed further as after filling of the above mentioned forms the process of trading kicks off.

There are some minimum requirements to open a trading account are that the investor should have a PAN card, a depository account and a bank account, in the absence of these requirements the account cannot be opened.

3.3 Thirdly the process of placing the order of the securities comes into consideration which can be done through fax, on phone or in person whichever suits the investor. Then lucid instructions and details have to be given about the number of shares to be acquired or sold and at what price.

3.4 Next step is when the broker executes the order placed by the investor. In this the environment in which trading is carried out is anonymous and then its matched with a computer system.

When the share price matches the investor's criteria and after verification of all the details electronic execution of order takes place.

3.5 After the execution of the order a contract note is issued by the broker within 24 hours of the successful transaction.

3.6 Then when the shares are delivered or payment in cash is made for the shares bought then the settlement takes place. There is pay - in day which refers that the investor has to deliver the shares sold before the day when the payment or delivery of shares to exchange is done by the broker. Once the cash or securities have been exchanged on the pay - in day then the deal is settled and finalised on the T+2 day. Then the exchange delivers the shares or will make the payment to the other broker. The day when exchange performs it's duties is called pay out day.

3.3.1 Types of Orders

There are various types of orders under the trading mechanism on exchanges; security market indices and that are as followed:

First are BUY ORDERS, they are laid down when the security prices are awaited to jump up in price and the investor has the power to determine how much amount has to be bought at a stipulated rate. Second are SELL ORDERS, these types of orders are placed when one wants to get rid of the security they own at a certain estimated price or when the prices are expected to decrease. PRICE BASED ORDERS are further bifurcated into price limit orders and stop loss orders. Former is the order for the acquiring or selling of securities at a predetermined price drawn up by the client and without the guarantee that the restriction will be executed, whereas the latter is the order to sell as soon as the prices are descended to a certain level or purchase when the prices rise up to a particular level.

These types of orders are primarily for safeguarding the clients against a massive fall or rise in price and wouldn't suffer more than the stated unit. Stop loss orders are of two types, stop loss sell order which means that a sell order in the stop loss book is triggered when the last traded price in the normal market touches or falls below the triggered price of the order and the other one is stop loss buy order, in this a buy order in the stop traded price in the normal market touches or exceeds the triggered price of the order stop loss book gets triggered when the last Another type is BEST PRICE/ MARKET ORDERS, these orders are executed at the ongoing market price and would be presented at the prevailing price on the exchange. DISCRETIONARY ORDERS are the orders to purchase or vend securities at the price the broker thinks is rational and that would be feasible only when the client has a complete credence on the broker. LIMITED DISCRETIONARY ORDER is the order to buy or sell securities within a stipulated price range and time period as per the judgement of the broker. In TIME BASED ORDERS there are day orders which means that the orders are valid for the day in which they were put into the system and if they aren't executed by the close of the trading on that day they would automatically get cancelled. In good till day orders the trader places an order specifying the number of days for which it can remain open and if the price doesn't reach the ordered level it's automatically cancelled and the last order under this is immediate/ cancel order, where the trader releases this type of order into the market for immediate execution and if the prices aren't matched the order is cancelled and a fresh order is placed. Lastly is the VOLUME CONDITION, where in the (Un) disclosed value order enables an investor to release part of the order value to the market without revealing the entire value, in minimum fill order the trader is asked to specify the minimum number of orders that are filled by fixing upper and lower limits and when a trading member has the power to stipulate conditions where a full order should be matched. The orders received are processed immediately to check matching and unmatched orders are stored in different books in the sequence of best prices and time priority are known as all or none orders.

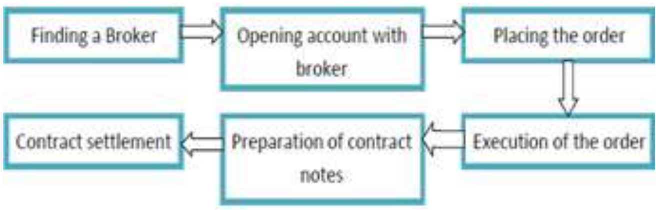

Figure 1: Trading Procedure.

4. Dematerialisation and Depositories

Since all the systems are computerised, buying and selling of securities are settled through an electronic book entry form to eradicate the problems like theft, fake/ forged transfers, transfer delays and paperwork associated with share certificates or debentures held in the physical form. Dematerialisation is the process where securities held by the investor in the physical form are cancelled and the investor is given an electronic number/ entry to hold it as the electronic balance in the account and for this the investor has to open a Demat account with an organisation called a depository. Dematerialisation gives access to transfer shares to the other account just like cash and ensures settlement of all trades through a single account in shares. Whereas in a depository a securities account can be opened, withdrawn, sold and instructions can be given to deliver or receive shares on behalf of the investor. It's a technology driven electronic storage system. There are two depositories in India, first and therefore the largest one is that the National Securities Depositories Limited (NSDL) and the other one is that the Central Depository Services limited (CDSL) for commerce operations. Both these national level depositories operate through intermediaries that are electronically connected to the depository and function the contact points with the investors referred to as depository participants.

5. Stock Market Indices

The barometer of the market behaviour is the stock market index. The overall market sentiment is measured by a set of stocks which are representatives of the market. The market direction and indication of day to day fluctuations in stock prices is reflected by it. Whichever index can perform the above functions is known as an ideal index as it helps in better market representation. Most market indices are market - cap weighted which suggests that the load of every index constituent is proportional to its market capitalisation.

Figure 2: In Indian markets the index of BSE is SENSEX and the index of NSE is NIFTY.

Some important global stock market indices are:

The oldest quoted stock market index in the US is Dow Jones.

NASDAQ stock market has its own index by the name of NASDAQ Composite Index.

FTSE consists of the largest 100 companies by full market value listed on the London Stock Exchange. The benchmark of the European market is FTSE 100

S and P 500 Index is formed from 500 biggest publicly traded companies within the US. The S and P 500 is often treated as a proxy for the US stock market.

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