UNIT – I	Introduction-Concept and types of Securities; Concept of return: Concept. types and measurement, Development of Securities market in India. Primary Market Concept, Functions and Importance; Functions of New Issue Market (IPO, FPO & OFS); Methods of Floatation- fix price method and book building method; Pricing of Issues; Offer Documents; Underwriters, Lead Managers. Syndicate Members, Brokers, Registrars, Bankers, ÁSBA; SME IPOs and Listing of Securities
UNIT – II	Secondary Market Concept: Functions and Importance; Mechanics of Stock Market Trading-Different Types of Orders, Screen Based Trading, Internet-Based Trading and Settlement Procedure, Types of Brokers. Regulatory Framework SEBI (Issue of Capital and Disclosure Réquirements) Regulation 2018: Securities Contract Regulation Act and SEBI (Listing Obligations and Disclosure Requirements) Regulation 2015 .
UNIT- III	Demat Trading- Stock Exchanges and Intermediaries; Concept and Significance of Demat Trading: Role of Depositories and Custodian of Securities in Demat Trading: SEBI Guidelines and other Regulations Relating to Demat Trading; Procedure of Demat Trading Mutual Funds-Concept and background on Mutual Funds: Advantages, Disadvantages of investing in Mutualfunds, Types of Mutual funds: Open ended, close ended, equity, debt, hybrid, money market,and entry load vs. exit load funds. Factors affecting choice of mutual funds. Mutual fundagencies ranking and its usage, calculation and use of Net Asset Value

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Unit -1

Concept and types of securities

Securities are financial instruments that represent ownership or a creditor relationship with a company or government. These instruments are bought and sold in financial markets and play a crucial role in raising capital for businesses and governments. There are various types of securities, each serving different purposes and carrying different risk and return characteristics. Here are some key concepts and types of securities:

1. **Equity Securities:**
   - Common Stock: Represents ownership in a company. Common stockholders have voting rights and may receive dividends, but they are last in line to receive assets in the event of liquidation.
   - Preferred Stock: A hybrid security that combines features of both equity and debt. Preferred stockholders have a higher claim on assets and dividends than common stockholders.
2. **Debt Securities:**
   - Bonds: Debt securities issued by corporations, municipalities, or governments to raise capital. Bonds pay periodic interest and return the principal amount at maturity.
   - Treasury Securities: Issued by the government and considered among the safest investments. They include Treasury bills (T-bills), Treasury notes (T-notes), and Treasury bonds (T-bonds).
3. **Derivative Securities:**
   - Options: Contracts that give the holder the right (but not the obligation) to buy or sell an underlying asset at a specified price before or at expiration.
   - Futures: Contracts obligating the buyer to purchase, or the seller to sell, an asset at a predetermined future date and price.
4. **Hybrid Securities:**
   - Convertible Securities: Securities, typically bonds or preferred stock, that can be converted into common stock at a predetermined conversion ratio.
   - Warrants: Similar to options but are typically issued by the company and give the holder the right to buy the company's stock at a specified price.
5. **Securitized Products:**
   - Mortgage-Backed Securities (MBS): Pools of mortgage loans bundled together and sold to investors. Investors receive interest and principal payments from the underlying mortgages.
   - Asset-Backed Securities (ABS): Securities backed by a pool of assets such as auto loans, credit card receivables, or student loans.

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6. **Equity Derivatives:**
    - Stock Options: Derivative contracts that derive their value from an underlying stock. Investors can buy or sell options to speculate on or hedge against price movements.
7. **Commodity Securities:**
    - Commodities Futures: Derivative contracts based on the future price of commodities like oil, gold, or agricultural products.
8. **Foreign Exchange Securities:**
    - Currency Derivatives: Derivative contracts based on the exchange rates between different currencies.
9. **Rights and Warrants:**
    - Rights: Entitle existing shareholders to buy additional shares of a company's stock at a predetermined price.
    - Warrants: Similar to rights but are typically longer-term and can be traded separately from the underlying security.

Concept of return of securities

The concept of the return on securities refers to the financial gains or losses an investor experiences from holding a particular security over a specific period. Returns are a key metric for evaluating the performance of investments and assessing the profitability of a portfolio. The return on securities can be expressed in various ways, and it takes into account both capital appreciation (or depreciation) and income generated from the investment. Here are some key concepts related to the return on securities:

1. **Total Return:**
    - Total Return is the comprehensive measure of the overall performance of an investment, considering both capital gains or losses and any income generated. It includes dividends, interest, and capital appreciation (or depreciation) over a specific period.
2. **Capital Gain or Loss:**
    - Capital gain is the profit earned when the market value of a security increases from the purchase price. Conversely, a capital loss occurs when the market value decreases. It is calculated as the current market price minus the purchase price.
3. **Income Return:**
    - Income return is the portion of the return on securities derived from periodic interest payments, dividends, or other income generated by the investment. This is separate from capital gains.

4. **Dividend Yield:**
    - Dividend yield is a measure of the income return on an investment, specifically for stocks. It is calculated by dividing the annual dividend per share by the stock's current market price.
5. **Interest Income:**
    - For debt securities, such as bonds, the return is often in the form of interest income. Investors receive regular interest payments until the bond matures, at which point they may also receive the principal amount back.
6. **Coupon Rate:**
    - The coupon rate is the fixed annual interest rate paid on a bond, expressed as a percentage of the bond's face value. It determines the amount of interest income the bondholder receives.
7. **Yield to Maturity (YTM):**
    - YTM is a measure of the total return anticipated on a bond if it is held until it matures. It considers not only the interest income but also any capital gains or losses if the bond is bought at a discount or premium.
8. **Total Return Index:**
    - Some indices, such as the Total Return Index, take into account the reinvestment of dividends and interest income, providing a more accurate representation of the actual return an investor would experience.
9. **Realized vs. Unrealized Returns:**
    - Realized returns are gains or losses that result from selling a security, while unrealized returns are changes in value that have not been actualized through a sale.

Understanding the return on securities is essential for investors to evaluate the performance of their portfolios, make informed investment decisions, and assess the effectiveness of their investment strategies. Investors often consider risk-adjusted returns to account for the level of risk associated with achieving a particular level of return. Various financial metrics, such as the Sharpe ratio or the Jensen's alpha, are used to assess risk-adjusted returns.

Development of securities market in india

The securities market in India has undergone significant development over the years, evolving from a relatively small and restricted market to a dynamic and robust financial ecosystem. The development of the securities market in India can be traced through several key phases:

1. **Pre-Independence Era:**

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- The early years were characterized by limited trading activities, with a few regional stock exchanges operating in major cities like Bombay (now Mumbai), Calcutta (now Kolkata), and Madras (now Chennai).
- The stock exchanges were primarily focused on financing trading companies, and there was little regulatory oversight.

2. **Post-Independence and Formation of SEBI:**
    - In 1988, the Securities and Exchange Board of India (SEBI) was established as the regulatory authority for the securities market. SEBI was given statutory powers in 1992 to regulate and develop the market.
    - The National Stock Exchange (NSE) was established in 1992 to introduce electronic trading, making markets more accessible and efficient.
3. **Liberalization and Economic Reforms (1990s):**
    - Economic reforms in the early 1990s, including liberalization and globalization, played a crucial role in shaping the securities market.
    - Foreign institutional investors (FIIs) were allowed to invest in Indian stocks, leading to increased foreign participation.
4. **Dematerialization and Online Trading:**
    - The introduction of the National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) in the mid-1990s facilitated the dematerialization of securities, eliminating the need for physical share certificates.
    - Online trading platforms emerged, providing investors with electronic access to stock exchanges.
5. **Market Integration and Derivatives Trading:**
    - The integration of stock exchanges through the Interconnected Stock Exchange of India (ISE) and the introduction of derivatives trading in 2000 added depth and liquidity to the market.
    - NSE introduced equity derivatives, including index futures and stock futures, which became popular among investors and hedgers.
6. **Introduction of IPO Reforms:**
    - Reforms in the Initial Public Offering (IPO) process, such as the introduction of book-building, improved disclosure norms, and shorter settlement cycles, enhanced the efficiency and transparency of capital raising through the primary market.
7. **Introduction of Securities Lending and Borrowing:**
    - Securities lending and borrowing were introduced, allowing market participants to lend or borrow securities, providing liquidity and facilitating short-selling.
8. **Introduction of REITs and InvITs:**

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- The introduction of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) provided new investment avenues for investors and facilitated fundraising for the real estate and infrastructure sectors.

9. **Implementation of KYC and Investor Protection Measures:**
   - Measures such as the Know Your Customer (KYC) norms, investor education programs, and enhanced investor protection mechanisms were implemented to safeguard the interests of investors.
10. **Regulatory Reforms and Market Surveillance:**
    - SEBI continued to introduce regulatory reforms, including measures to enhance market surveillance, improve corporate governance, and ensure fair and transparent market practices.

Primary Market

The primary market, also known as the new issue market or IPO (Initial Public Offering) market, is where newly issued securities, such as stocks and bonds, are bought and sold for the first time. It is the market where companies raise capital by issuing new securities to the public or a select group of investors. Here are the key concepts, functions, and importance of the primary market:

Concepts:

1. **Newly Issued Securities:**
   - The primary market deals with the issuance of new securities by companies, governments, or other entities seeking to raise capital.
2. **Initial Public Offering (IPO):**
   - An IPO occurs when a privately held company offers its shares to the public for the first time, allowing it to become a publicly traded company.
3. **Underwriting:**
   - Underwriting involves investment banks or financial institutions guaranteeing the sale of a certain number of shares at a predetermined price before the public offering. They assume the risk of unsold shares.
4. **Prospectus:**
   - Companies planning to issue securities provide a prospectus that includes detailed information about the company, its financials, and the terms of the offering. This document helps investors make informed decisions.

Functions:

1. **Capital Formation:**

- The primary function of the primary market is to facilitate capital formation for companies. By issuing new securities, companies can raise funds to finance business expansion, research and development, or debt repayment.

2. **Facilitating Ownership Transfer:**
   - IPOs allow private companies to become publicly traded entities, facilitating the transfer of ownership from founders, early investors, and employees to a broader base of public shareholders.
3. **Price Discovery:**
   - The process of underwriting and the subsequent public offering helps in determining the fair market value of the securities. Investors' demand and supply dynamics contribute to price discovery.
4. **Providing Liquidity to Existing Shareholders:**
   - Existing shareholders, such as founders and early investors, can sell their shares in the primary market, providing them with liquidity and an opportunity to monetize their investments.
5. **Diversification of Investor Base:**
   - Going public in the primary market allows companies to diversify their investor base, attracting institutional investors, retail investors, and other stakeholders.
6. **Market Expansion:**
   - The primary market contributes to the growth and development of the overall financial market by increasing the number of securities available for trading.

Importance:

1. **Corporate Growth:**
   - Companies use the primary market to raise capital for various purposes, contributing to their growth, expansion, and development of new projects.
2. **Investor Participation:**
   - The primary market provides individual and institutional investors with the opportunity to participate in the early stages of a company's growth and success.
3. **Economic Development:**
   - A vibrant primary market is essential for a country's economic development, as it fosters entrepreneurship, innovation, and job creation.
4. **Market Efficiency:**
   - The primary market plays a crucial role in establishing fair prices for securities, contributing to market efficiency and transparency.
5. **Wealth Creation:**

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- Successful companies in the primary market often experience appreciation in their stock prices, leading to wealth creation for shareholders.

6. **Capital Allocation:**
   - The primary market helps allocate capital to companies with promising growth prospects, supporting the efficient allocation of resources in the economy.

In summary, the primary market is a fundamental component of the financial system, serving as a mechanism for companies to raise capital and for investors to participate in the growth of these companies. It plays a pivotal role in economic development and wealth creation.

Functions of New issue market (IPO ,FPO,OFS)

The New Issue Market, also known as the primary market, is a platform where newly issued securities, such as equities and debt instruments, are offered to the public for the first time. Different types of offerings occur in the new issue market, including Initial Public Offerings (IPOs), Follow-on Public Offerings (FPOs), and Offer for Sale (OFS). Here are the functions of these different types of offerings:

Initial Public Offering (IPO):

1. **Capital Raising:**
   - The primary function of an IPO is to raise capital for a company by offering its shares to the public for the first time. This capital can be used for business expansion, debt reduction, research and development, or other corporate purposes.
2. **Providing Liquidity:**
   - IPOs provide an exit route for existing shareholders, such as founders, early investors, and employees, to sell their shares and realize gains. This enhances liquidity for these stakeholders.
3. **Enhancing Company Profile:**
   - Going public through an IPO increases a company's visibility and credibility in the financial markets, potentially attracting more attention from analysts, institutional investors, and the media.
4. **Employee Benefits:**
   - Employees holding stock options or shares in a private company can benefit from an IPO by having the opportunity to sell their shares in the public market.
5. **Market Valuation:**
   - The IPO process helps in establishing a market valuation for the company. The demand for the shares during the IPO determines the initial market price.

Follow-on Public Offering (FPO):

1. **Additional Capital:**
   - FPOs allow companies that are already publicly traded to raise additional capital by issuing more shares to the public. This capital can be used for various corporate purposes, similar to an IPO.
2. **Debt Reduction:**
   - Companies may use the proceeds from an FPO to retire debt, improving their financial position and reducing interest expenses.
3. **Acquisitions and Expansion:**
   - FPO funds can be utilized for mergers, acquisitions, or expansion initiatives, enabling companies to grow and diversify their operations.
4. **Regulatory Compliance:**
   - Companies might opt for an FPO to comply with regulatory requirements, such as achieving the minimum public shareholding norms set by regulatory bodies.

Offer for Sale (OFS):

1. **Exit for Promoters and Institutional Investors:**
   - OFS allows existing shareholders, including promoters and institutional investors, to sell their shares directly to the public through the stock exchange. This provides an exit route for these stakeholders.
2. **Liquidity for Existing Shareholders:**
   - Existing shareholders can monetize their investments by selling shares in the secondary market without the need for the company to issue new shares.
3. **No Fresh Capital Raised:**
   - Unlike an IPO or FPO, an OFS does not result in the issuance of new shares by the company. The shares sold in an OFS are already in circulation.
4. **Market Price Discovery:**
   - OFS provides an opportunity for the market to discover the fair price of the shares based on supply and demand dynamics during the offer period.

In summary, the new issue market, through various offerings like IPOs, FPOs, and OFS, serves as a crucial avenue for companies to raise capital, provides liquidity for existing shareholders, and contributes to market development and efficiency. Each type of offering serves different functions and caters to the unique needs of the issuing company and its stakeholders.

Methods of Floatation –

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Floatation, in the context of financial markets, refers to the process through which a company makes its shares available to the public for the first time, allowing them to be traded on a stock exchange. There are several methods of flotation, and companies can choose the one that best suits their needs. The primary methods of flotation include:

Fixed Price Method:

- In contrast to book building, the fixed price method involves the issuer setting a predetermined price at which the shares will be offered to the public. Investors then apply for shares at this fixed price.

Book Building:

- Book building is a method used in the IPO process to determine the price at which securities will be offered. The issuer and the underwriter assess investor demand for the securities, and the price is set based on the bids received during the book-building period.
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Pricing of issues

The pricing of issues, particularly in the context of financial markets and securities offerings, involves determining the price at which securities will be sold to investors. The goal is to strike a balance between the interests of the issuing company and the expectations of potential investors. Here are some common methods used for pricing issues:

1. **Fixed Price Method:**
    - **Description:** The issuer sets a specific, fixed price at which the securities will be offered to investors.
    - **Advantages:** Simplicity and clarity in terms of pricing. Investors know the exact price they will pay for the securities.
    - **Disadvantages:** The fixed price may not fully reflect market demand, potentially leading to underpricing or overpricing.
2. **Book Building:**
    - **Description:** In book building, the issuer, along with underwriters, collects and assesses investor demand for the securities within a specified price range.
    - **Advantages:** Allows for price discovery based on market demand. More flexibility in determining the final price.
    - **Disadvantages:** The process can be complex. There's a risk of setting the price too high or too low based on investor perceptions.
3. **Dutch Auction:**
    - **Description:** Investors bid on the securities at various prices. The price is then set at the highest price at which all securities can be sold.

- **Advantages:** Efficient price discovery. The final price is the result of competitive bidding.
- **Disadvantages:** Complexity in execution. Investors may bid strategically, and there could be concerns about the final price reflecting true market value.

4. **Rights Issue Pricing:**
    - **Description:** Existing shareholders are given the right to purchase additional shares at a predetermined price, often at a discount to the market price.
    - **Advantages:** Rewards existing shareholders. May attract more participation from loyal shareholders.
    - **Disadvantages:** Dilution of ownership for existing shareholders. Pricing needs to be attractive to encourage participation.
5. **Preferential Allotment:**
    - **Description:** Shares are issued to a select group of investors at a negotiated price.
    - **Advantages:** Flexibility in pricing. Allows for strategic partnerships and capital infusion.
    - **Disadvantages:** Potential for conflicts of interest in the negotiation process.
6. **Employee Stock Ownership Plan (ESOP) Pricing:**
    - **Description:** The company determines the price at which it will offer shares to employees as part of an ESOP.
    - **Advantages:** Aligns employee interests with company performance. Encourages employee retention.
    - **Disadvantages:** The challenge of setting a fair price. Dilution of ownership for existing shareholders.
7. **Offer for Sale (OFS):**
    - **Description:** Existing shareholders, such as promoters or institutional investors, sell their shares directly to the public at market prices.
    - **Advantages:** Simplicity in execution. Reflects prevailing market prices.
    - **Disadvantages:** Limited control over the selling price. May not optimize pricing for the selling shareholders.

The choice of pricing method depends on factors such as market conditions, regulatory requirements, investor sentiment, and the issuer's objectives. Striking the right balance is crucial to ensure a successful issuance and satisfaction for both issuers and investors. Regulatory authorities often oversee the pricing process to maintain fairness and transparency.

Offer Documents

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An offer document is a comprehensive disclosure document provided by a company that is issuing securities to the public. The purpose of an offer document is to provide potential investors with all the necessary information to make an informed investment decision. The contents of an offer document may vary based on the type of securities being offered and the regulatory requirements of the jurisdiction in which the offering takes place. Here are the key components typically found in offer documents:

1. **Cover Page:**
   - Contains the name of the company, logo, and details such as the type of securities being offered and the offering size.
2. **Disclaimer:**
   - Includes a legal disclaimer outlining the risks associated with the investment and the fact that the document is not an offer or solicitation in any jurisdiction where such an offer or solicitation is not authorized.
3. **Table of Contents:**
   - Provides a structured overview of the contents of the offer document for easy reference.
4. **Introduction:**
   - Offers an introduction to the company, its business, and the purpose of the offering.
5. **Risk Factors:**
   - Details the various risks associated with the investment, including market risks, business risks, regulatory risks, and other factors that could affect the company's performance.
6. **Industry Overview:**
   - Provides an overview of the industry in which the company operates, highlighting key trends, competitive landscape, and market dynamics.
7. **Business Overview:**
   - Describes the company's business model, operations, products or services, key markets, and competitive positioning.
8. **Financial Information:**
   - Presents historical financial statements, including income statements, balance sheets, and cash flow statements. Projections for future performance may also be included.
9. **Use of Proceeds:**
   - Outlines how the funds raised from the offering will be utilized by the company. This section provides transparency regarding the company's capital allocation strategy.
10. **Management and Board:**

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- Profiles key executives and members of the board of directors, providing details about their qualifications, experience, and roles within the company.

11. **Legal and Regulatory Information:**
    - Includes details about the legal structure of the company, any pending legal proceedings, and compliance with regulatory requirements.
12. **Offer Details:**
    - Specifies the terms of the offering, including the number of securities offered, the price per security, and any conditions or restrictions associated with the offering.
13. **Subscription Details:**
    - Outlines the process for investors to subscribe to the securities, including information on how to apply, payment methods, and timelines.
14. **Underwriting and Intermediaries:**
    - If applicable, provides details about underwriters and intermediaries involved in the offering, including their roles and compensation.
15. **Material Contracts:**
    - Discloses any material contracts or agreements that may impact the company's financial condition or operations.
16. **Expert Opinions:**
    - Includes any expert opinions, reports, or appraisals that support the offering or valuation of the company.
17. **Other Information:**
    - Contains any additional information deemed relevant to potential investors, such as market trends, competitive advantages, or strategic initiatives.

Several key entities and terms are involved in the process of bringing securities to the market, particularly in the context of Initial Public Offerings (IPOs) and the listing of securities. Let's explore these terms and entities:

1. **Underwriters:**
    - **Role:** Underwriters are financial institutions or investment banks responsible for guaranteeing the sale of a certain number of securities during an IPO. They assume the risk of any unsold shares.
    - **Function:** Underwriters help price the offering, manage the regulatory process, and work to ensure the successful sale of securities to the public.
2. **Lead Managers:**

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- **Role:** The lead manager is the main underwriting firm responsible for coordinating the IPO process. They work closely with the issuing company, underwriters, and regulatory authorities.
- **Function:** Lead managers assist in pricing the offering, coordinating due diligence, and managing the overall underwriting process.

3. **Syndicate Members:**
   - **Role:** Syndicate members are additional underwriters or financial institutions involved in the distribution of securities during an IPO. They share the responsibility with the lead manager.
   - **Function:** Syndicate members help sell the securities to a broader investor base, leveraging their distribution networks.
4. **Brokers:**
   - **Role:** Brokers act as intermediaries between investors and the stock exchange. They facilitate the buying and selling of securities on behalf of clients.
   - **Function:** Brokers execute trades, provide market information, and assist investors in making investment decisions.
5. **Registrars:**
   - **Role:** Registrars maintain records of shareholders and handle the process of share transfers, including updating the ownership details when securities are bought or sold.
   - **Function:** Registrars play a crucial role in maintaining accurate and up-to-date records of shareholders for the issuing company.
6. **Bankers:**
   - **Role:** Bankers refer to financial institutions that provide banking services to the issuing company, including managing the collection of funds from investors during an IPO.
   - **Function:** Bankers help facilitate the movement of funds between investors and the issuing company, ensuring a smooth process for subscription and allotment.
7. **Application Supported by Blocked Amount (ASBA):**
   - **Role:** ASBA is an investor-friendly method for applying to IPOs. Instead of making full payment at the time of application, investors only authorize the blocking of the application amount in their bank accounts until the allotment is finalized.
   - **Function:** ASBA simplifies the application process and ensures that funds are only debited if shares are allotted.
8. **SME (Small and Medium Enterprises):**
   - **Role:** SME refers to small and medium-sized enterprises that may choose to go public through an IPO on dedicated SME platforms of stock exchanges.

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- **Function:** SME IPOs provide smaller companies with access to capital markets, allowing them to raise funds for growth and expansion.

9. **IPO (Initial Public Offering):**
    - **Role:** An IPO is the process through which a private company becomes a publicly traded company by offering its shares to the public for the first time.
    - **Function:** IPOs enable companies to raise capital, provide liquidity to existing shareholders, and facilitate the trading of their securities on a stock exchange.
10. **Listing of Securities:**
    - **Role:** Listing refers to the process of officially admitting a company's securities for trading on a stock exchange.
    - **Function:** Listing provides liquidity to investors, enhances a company's visibility, and allows the securities to be bought and sold on the open market.

In summary, these entities and terms play vital roles in the process of bringing securities to the market, ensuring regulatory compliance, facilitating trading, and providing investors with the necessary infrastructure to participate in the capital markets.

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Unit -2

Secondary Market

The secondary market, also known as the aftermarket, is where existing or pre-issued securities are bought and sold among investors. Unlike the primary market, where securities are initially issued and sold to the public, the secondary market involves the trading of already issued securities among investors. Here are the key concepts, functions, and importance of the secondary market:

Concepts:

1. **Already Issued Securities:**
   - In the secondary market, investors buy and sell securities that were previously issued in the primary market. These securities include stocks, bonds, mutual fund units, and other financial instruments.
2. **Exchange and Over-the-Counter (OTC) Markets:**
   - Secondary market transactions occur on organized stock exchanges (such as the New York Stock Exchange or NASDAQ) or over-the-counter (OTC) markets where trading is decentralized.
3. **Liquidity:**
   - Liquidity refers to the ease with which securities can be bought or sold in the market without causing a significant impact on their prices. The secondary market provides liquidity to investors, allowing them to convert their investments into cash.
4. **Price Discovery:**
   - Prices of securities in the secondary market are determined by supply and demand dynamics. The continuous trading of securities helps in establishing fair market prices.

Functions:

1. **Facilitating Buying and Selling:**
   - The primary function of the secondary market is to provide a platform for investors to buy and sell previously issued securities.
2. **Price Determination:**
   - The continuous trading activity in the secondary market helps determine the fair market value of securities. The interaction of buyers and sellers contributes to price discovery.

3. **Enhancing Liquidity:**
    - The secondary market enhances liquidity by providing a mechanism for investors to easily buy or sell securities. Investors can exit or enter positions without waiting for the issuer to conduct a new offering.
4. **Risk Management:**
    - Investors use the secondary market to manage their portfolios by adjusting their holdings, reallocating assets, and hedging risks through buying or selling securities based on changing market conditions.
5. **Capital Allocation:**
    - The secondary market facilitates the efficient allocation of capital by allowing investors to reallocate their investments based on changing economic conditions, industry trends, and company performance.
6. **Providing Market Information:**
    - The secondary market is a source of valuable market information. Real-time price quotes, trading volumes, and historical data are available, providing insights into market trends and investor sentiment.

Importance:

1. **Market Efficiency:**
    - The secondary market contributes to market efficiency by ensuring that securities are traded at fair prices. The constant flow of information and trading activity helps prices reflect the latest available information.
2. **Investor Wealth Creation:**
    - Investors can benefit from capital appreciation in the secondary market as the value of their securities may increase over time. Dividends and interest payments received from securities also contribute to wealth creation.
3. **Capital Formation for Companies:**
    - Companies benefit indirectly from the secondary market as a liquid secondary market makes it more attractive for investors to participate in primary offerings. This, in turn, facilitates capital formation for companies in the primary market.
4. **Risk Mitigation:**
    - Investors can use the secondary market to manage risk by adjusting their portfolios based on changing market conditions, economic factors, or individual company performance.
5. **Benchmarking and Valuation:**

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- The secondary market provides benchmarks for the valuation of assets and the overall performance of financial instruments. This information is crucial for investors, analysts, and financial institutions.

Mechanics of stock market trading –

The mechanics of stock market trading involve the processes and systems through which buying and selling of financial instruments, such as stocks, takes place. It's a complex and interconnected system that ensures fair and efficient trading. Here's a step-by-step breakdown of the mechanics of stock market trading:

1. **Investor Decision:**
   - The process begins with an investor deciding to buy or sell a particular stock. This decision is influenced by various factors such as market analysis, financial goals, and economic conditions.
2. **Placing an Order:**
   - The investor places an order through a brokerage platform. Orders can be market orders or limit orders:
     - **Market Order:** A request to buy or sell a security at the best available price in the market.
     - **Limit Order:** A request to buy or sell a security at a specific price or better.
3. **Transmission to Broker:**
   - The brokerage platform processes the order and transmits it to the broker. Online brokers have electronic trading platforms that allow investors to place orders through a computer or mobile device.
4. **Broker Execution:**
   - The broker executes the order on the stock exchange or through alternative trading systems (ATS). The execution may involve matching the order with existing buy or sell orders in the market.
5. **Matching Engine:**
   - Stock exchanges use matching engines to pair buy and sell orders. The matching engine ensures that trades are executed at the best available prices based on the order book.
6. **Bid and Ask Prices:**
   - The bid price represents the highest price a buyer is willing to pay, while the ask (or offer) price is the lowest price a seller is willing to accept. The difference between the bid and ask prices is known as the spread.

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7. **Trade Confirmation:**
    - Once the order is executed, the investor receives a trade confirmation from the broker, detailing the transaction, including the price, quantity, and time of execution.
8. **Clearing:**
    - The trade goes through the clearing process, where a clearinghouse ensures the financial integrity of the trade. It involves confirming the details, transferring ownership of securities, and handling the transfer of funds.
9. **Settlement:**
    - Settlement is the final stage where securities and funds are exchanged between the buyer and the seller. In the United States, for example, T+2 (Trade Date plus two business days) is the standard settlement cycle.
10. **Record Keeping:**
    - The broker and the clearinghouse maintain records of the trade for regulatory and auditing purposes. This includes details of the trade, client information, and transaction history.
11. **Market Surveillance:**
    - Stock exchanges and regulatory bodies employ surveillance systems to monitor trading activities, detect anomalies, and ensure compliance with trading rules and regulations.
12. **Market Data:**
    - Throughout the trading process, real-time market data is generated and disseminated. This includes stock prices, trading volumes, bid-ask spreads, and other relevant information.
13. **Post-Trade Reporting:**
    - Exchanges and regulators require post-trade reporting to ensure transparency and to track trading activities. This information is used for market analysis and regulatory oversight.
14. **Technology and High-Frequency Trading (HFT):**
    - Advanced technologies, algorithms, and high-frequency trading have become integral to stock market trading. HFT involves executing a large number of orders at extremely high speeds to capitalize on small price discrepancies.

Screen-Based Trading:

Definition: Screen-based trading refers to the method of buying and selling financial instruments electronically through computer screens, rather than using traditional methods like open outcry on a trading floor. This electronic form of trading has become the norm in modern financial markets.

Key Characteristics:

1. **Electronic Platforms:** Traders and investors execute orders through electronic trading platforms provided by stock exchanges or brokerage firms.
2. **Real-Time Information:** Participants have access to real-time market data, including price quotes, trading volumes, and bid-ask spreads.
3. **Global Accessibility:** Screen-based trading allows participants from around the world to engage in trading activities, breaking down geographical barriers.
4. **Automated Order Matching:** Orders are matched electronically through automated systems, reducing the time and potential for human error.
5. **High-Speed Execution:** Trades can be executed swiftly, contributing to market efficiency.

Internet-Based Trading:

Definition: Internet-based trading is a subset of screen-based trading where investors and traders use the internet to access trading platforms and execute transactions. It has democratized access to financial markets, allowing individuals to trade from the comfort of their homes.

Key Characteristics:

1. **Online Brokerage Platforms:** Investors use online brokerage platforms to place orders, manage portfolios, and access market information.
2. **User-Friendly Interfaces:** Online platforms typically offer user-friendly interfaces, making it easier for retail investors to navigate and execute trades.
3. **Research Tools:** Investors can conduct research, access financial news, and use analytical tools provided by online platforms to make informed decisions.
4. **24/7 Accessibility:** Online trading platforms are accessible 24/7, allowing investors to trade at their convenience, even outside regular market hours.
5. **Mobile Trading:** Many platforms offer mobile applications, enabling investors to trade using smartphones and tablets.

Settlement Procedure:

Definition: Settlement is the process of completing a trade, where the buyer pays for the securities, and the seller delivers them. It involves the transfer of ownership and funds between the parties involved in a trade.

Key Steps in Settlement:

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1. **Trade Confirmation:** Once a trade is executed, both parties receive a trade confirmation detailing the transaction.
2. **Clearing:** Clearinghouses ensure the financial integrity of the trade by confirming details, managing risk, and arranging for the exchange of funds and securities.
3. **Settlement Date:** The settlement date is the agreed-upon date for the actual exchange of securities and funds. Common settlement cycles include T+2, where the transaction settles two business days after the trade date.
4. **Delivery vs. Payment (DVP):** DVP is a settlement method where securities are delivered only if payment is made. It reduces counterparty risk.
5. **Central Securities Depositories (CSDs):** CSDs hold and maintain records of securities in electronic form, facilitating the transfer of ownership during settlement.
6. **Depository Participants (DPs):** DPs act as intermediaries between investors and CSDs, helping investors hold and transfer securities.

Types of Brokers:

1. **Full-Service Brokers:**
   - **Services:** Provide a comprehensive range of services, including research, investment advice, and a wide array of financial products.
   - **Client Base:** Often cater to high-net-worth individuals and institutional clients.
   - **Cost:** Tend to have higher brokerage fees.
2. **Discount Brokers:**
   - **Services:** Offer a no-frills approach with lower costs, providing basic execution services without extensive research or advisory services.
   - **Client Base:** Attract a broader range of retail investors.
   - **Cost:** Charge lower brokerage fees.
3. **Online Brokers:**
   - **Platform:** Operate primarily through online platforms, allowing investors to trade electronically.
   - **Accessibility:** Enable clients to trade at their convenience with minimal human intervention.
   - **Cost:** May offer competitive pricing structures.
4. **Direct Market Access (DMA) Brokers:**
   - **Platform:** Provide direct access to financial markets, allowing clients to execute high-frequency trades and algorithmic strategies.
   - **Speed:** Offer high-speed execution capabilities.
   - **Client Base:** Primarily attract institutional clients and professional traders.

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Understanding these aspects of screen-based trading, internet-based trading, settlement procedures, and types of brokers is crucial for individuals and institutions participating in financial markets. It helps them navigate the trading landscape, manage risks, and make informed investment decisions.

Regulatory Framework

Securities and Exchange Board of India (SEBI):

Role: SEBI is the regulatory authority for the securities market in India. It was established in 1988 and was given statutory powers in 1992 under the SEBI Act. SEBI's primary role is to regulate and protect the interests of investors in the securities market.

Functions:

1. Regulating the securities market and ensuring its orderly development.
2. Protecting the interests of investors in securities.
3. Promoting the development and regulation of the securities market.
4. Regulating the business in stock exchanges and any other securities market intermediaries.

Issue of Capital and Disclosure Requirements (ICDR) Regulations 2018:

Purpose: The ICDR Regulations 2018, framed by SEBI, govern the process of issuing and listing of securities on stock exchanges in India. These regulations aim to ensure transparency, protect the interests of investors, and facilitate capital formation by companies.

Key Provisions:

1. **Eligibility Criteria:**
   - Specifies eligibility criteria for entities intending to make public issues.
2. **Disclosure Requirements:**
   - Prescribes detailed disclosure norms to ensure that investors receive all material information to make informed investment decisions.
3. **Pricing of Issues:**
   - Outlines the methods for determining the price of securities issued in public offerings, including book-building processes.
4. **Allotment and Refund:**

- Defines the procedures for allotment of securities and the refund process in case of oversubscription or non-allotment.

5. **Rights Issues:**
   - Specifies regulations for rights issues, including the eligibility criteria and pricing guidelines.
6. **Preferential Issues:**
   - Governs the process of preferential issues, ensuring fairness and transparency.
7. **Promoter Contribution:**
   - Prescribes guidelines regarding the minimum promoter contribution in public issues.
8. **Underwriting:**
   - Provides regulations related to underwriting of public issues.
9. **Listing:**
   - Outlines the listing requirements and procedures for companies making public issues.
10. **Continuous Disclosure Requirements:**
    - Specifies ongoing disclosure requirements for listed entities.

Securities Contracts Regulation Act (SCRA):

Purpose: The SCRA, enacted in 1956, provides the legal framework for the regulation of securities contracts and the establishment of recognized stock exchanges in India.

Key Provisions:

1. **Regulation of Securities Contracts:**
   - Defines and regulates contracts in securities, including derivatives.
2. **Recognition of Stock Exchanges:**
   - Empowers the Central Government to recognize and regulate stock exchanges.
3. **Prohibition of Options in Securities:**
   - Prohibits options trading in securities.
4. **Regulation of Forward Contracts:**
   - Regulates the trading of forward contracts in securities.
5. **Penalties for Contravention:**
   - Specifies penalties for contravention of the provisions of the Act.

It's important to note that regulatory frameworks can undergo amendments, and new regulations may be introduced. For the most up-to-date information, it is

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recommended to refer to the latest versions of the SEBI Act, ICDR Regulations, and SCRA, as well as any subsequent amendments or notifications issued by SEBI.

The Securities and Exchange Board of India (SEBI) introduced the "Listing Obligations and Disclosure Requirements" (LODR) Regulations in 2015 to consolidate and streamline the listing requirements for various securities listed on Indian stock exchanges. The LODR Regulations aim to enhance transparency, protect the interests of investors, and promote good corporate governance practices. Below are key aspects of the SEBI Listing Obligations and Disclosure Requirements Regulations, 2015:

Key Features:

1. **Applicability:**
   - The LODR Regulations apply to all entities whose securities are listed on recognized stock exchanges in India.
2. **Consolidation of Listing Agreements:**
   - The LODR Regulations consolidate the listing requirements that were previously covered under separate listing agreements for equity shares, debentures, and other securities.
3. **Listing Agreement Categories:**
   - The regulations categorize securities into equity shares, non-convertible debt securities, non-convertible redeemable preference shares, and securitized debt instruments.
4. **Continuous Disclosure Requirements:**
   - Issuers are required to make continuous disclosures and comply with specified norms regarding corporate governance, financial disclosures, and other material information.
5. **Corporate Governance:**
   - The regulations lay down detailed requirements for corporate governance, including the composition of the board, committees, and disclosure of related-party transactions.
6. **Audit Committee:**
   - The regulations mandate the establishment of an Audit Committee with specific roles and responsibilities, including oversight of financial reporting.
7. **Shareholder Rights:**
   - Provisions are in place to protect shareholder rights, including voting on material related-party transactions, approval of annual financial statements, and voting by electronic means.
8. **Disclosure of Events and Information:**

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- Listed entities are required to promptly disclose various events and information, including financial results, change in the board of directors, mergers, acquisitions, and any other information that may impact the securities' trading.

9. **Submission of Quarterly Compliance Report:**
   - Issuers need to submit a quarterly compliance report to the stock exchanges, confirming compliance with the LODR Regulations.
10. **Appointment of Compliance Officer:**
    - Listed entities are required to appoint a compliance officer to ensure adherence to the LODR Regulations and act as a point of contact with the stock exchanges.
11. **Submission of Annual Report on Corporate Governance:**
    - An annual report on corporate governance, along with a certificate from the auditors, must be submitted to the stock exchanges.
12. **Minimum Public Shareholding:**
    - The regulations prescribe minimum public shareholding requirements, and issuers are required to maintain a public shareholding of at least 25%.
13. **Training of Independent Directors:**
    - Independent directors are required to undergo training to enhance their understanding of the company, the industry, and their roles and responsibilities.

Amendments and Updates:

Since the introduction of the LODR Regulations in 2015, there have been subsequent amendments and updates by SEBI to enhance and refine the regulatory framework. It's advisable to refer to the latest version of the LODR Regulations and any amendments issued by SEBI for the most current information.

The LODR Regulations play a crucial role in governing the listing obligations and disclosure requirements for entities listed on Indian stock exchanges, contributing to the overall integrity and transparency of the securities market.

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Unit-3

Demat trading-

Concept of Demat Trading:

1. **Dematerialization:**
   - Dematerialization is the process of converting physical share certificates into electronic form. In a Demat account, securities are held electronically, eliminating the need for physical certificates.
2. **Demat Account:**
   - A Demat account is similar to a bank account but holds financial securities instead of cash. It allows investors to hold, view, and transact in securities electronically.
3. **Depository:**
   - A depository is an institution that holds and safeguards the securities in electronic form. In India, two major depositories are NSDL (National Securities Depository Limited) and CDSL (Central Depository Services Limited).
4. **Electronic Trading:**
   - Demat trading enables investors to buy and sell securities through electronic trading platforms. Trades are executed electronically, and ownership changes are reflected in the Demat account.

Significance of Demat Trading:

1. **Elimination of Physical Certificates:**
   - Demat trading eliminates the need for physical share certificates, reducing the risk of loss, theft, or damage associated with paper documents.
2. **Convenience:**
   - Investors can manage their securities portfolio conveniently through online access to the Demat account. It provides a centralized platform for tracking investments.
3. **Faster Settlement:**
   - Demat trading facilitates faster settlement of trades. The transfer of securities and funds occurs electronically, reducing the settlement cycle.
4. **Reduction of Paperwork:**

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- Traditional share trading involved extensive paperwork. With Demat trading, the need for physical paperwork is significantly reduced, streamlining the entire trading process.

5. **Increased Liquidity:**
   - Dematerialized securities are more liquid than physical certificates. This enhances market liquidity as electronic transfers are quicker and more efficient.
6. **Easy Portfolio Management:**
   - Investors can easily monitor and manage their investment portfolio through the Demat account. Real-time access to holdings and transactions allows for better portfolio management.
7. **Accessibility:**
   - Demat accounts can be accessed online, providing investors with 24/7 access to their holdings and the ability to place buy/sell orders at their convenience.
8. **Electronic Settlement of IPOs:**
   - Investors can apply for initial public offerings (IPOs) through their Demat accounts. Allotment of shares and refunds are credited directly to the Demat account.
9. **Corporate Actions:**
   - Demat accounts facilitate the seamless handling of corporate actions such as dividends, bonus issues, and rights issues. Shares allotted through these actions are automatically credited to the Demat account.
10. **Reduction of Frauds and Forgeries:**
    - Demat trading reduces the risk of frauds and forgeries associated with physical securities. Electronic transactions are more secure and traceable.
11. **Margin Trading and Collateral Management:**
    - Demat accounts are used for margin trading, where investors can use securities in their Demat account as collateral for obtaining margin loans.

Demat trading has revolutionized the securities market, offering a more efficient, secure, and convenient way for investors to participate in the capital markets. The shift from physical certificates to electronic holdings has brought about significant improvements in transparency, accessibility, and speed in the trading and settlement process.

Stock Exchange:

1. **Definition:**

- A stock exchange is a regulated marketplace where financial instruments such as stocks, bonds, commodities, and derivatives are bought and sold. It provides a platform for companies to raise capital by issuing securities and for investors to buy and sell these securities.

2. **Key Functions:**
   - **Facilitates Trading:** The primary function is to facilitate the buying and selling of financial instruments in a transparent and efficient manner.
   - **Price Discovery:** Stock exchanges help in determining the fair market prices of securities through continuous trading and matching of buy and sell orders.
   - **Liquidity:** By providing a marketplace for trading, stock exchanges enhance liquidity, allowing investors to easily buy or sell securities.
3. **Examples of Stock Exchanges:**
   - New York Stock Exchange (NYSE)
   - NASDAQ
   - London Stock Exchange (LSE)
   - Bombay Stock Exchange (BSE)
   - National Stock Exchange (NSE)
4. **Regulation:**
   - Stock exchanges are subject to regulatory oversight by relevant authorities to ensure fair and transparent trading practices.

Intermediaries in the Securities Market:

1. **Brokers:**
   - Brokers act as intermediaries between buyers and sellers. They facilitate the execution of trades on behalf of clients and may provide additional services such as research and investment advice.
2. **Depositories:**
   - Depositories hold securities in electronic form and facilitate the electronic transfer of securities between buyers and sellers. In India, the major depositories are NSDL (National Securities Depository Limited) and CDSL (Central Depository Services Limited).
3. **Registrars and Transfer Agents (RTAs):**
   - RTAs maintain records of shareholders, process share transfers, and handle other administrative tasks related to securities issued by companies.
4. **Merchant Bankers:**
   - Merchant bankers are involved in the underwriting and management of public offerings (IPOs), helping companies raise capital by issuing new securities.
5. **Investment Banks:**

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- Investment banks provide a range of financial services, including underwriting, advisory services, and facilitating mergers and acquisitions.

6. **Mutual Funds:**
   - Mutual funds pool funds from multiple investors to invest in a diversified portfolio of stocks, bonds, or other securities. Asset Management Companies (AMCs) manage mutual funds.
7. **Stock Brokers:**
   - Stock brokers execute buy and sell orders on behalf of clients in the stock market. They may operate on the floor of the exchange or through online trading platforms.
8. **Clearing Houses and Clearing Members:**
   - Clearing houses ensure the settlement of trades by matching and clearing transactions. Clearing members are entities that clear trades and guarantee settlement.
9. **Custodians:**
   - Custodians safeguard and hold financial assets on behalf of institutional clients, such as mutual funds, pension funds, and foreign institutional investors.
10. **Underwriters:**
    - Underwriters guarantee the sale of a certain number of securities during an initial public offering (IPO) and assume the risk of any unsold shares.
11. **Credit Rating Agencies:**
    - Credit rating agencies assess the creditworthiness of issuers of debt securities and provide credit ratings to help investors make informed decisions.

These intermediaries collectively form the backbone of the securities market, facilitating the smooth functioning of capital markets and providing essential services to investors and issuers. Their roles contribute to market efficiency, liquidity, and investor protection.

Role of Depositories in Demat Trading:

1. **Dematerialization:**
   - **Role:** Depositories facilitate the dematerialization of physical securities, converting them into electronic form. Investors submit physical certificates to their Depository Participants (DPs) for dematerialization.
   - **Significance:** This eliminates the need for physical certificates, reducing the risk of loss, theft, and forgery.
2. **Electronic Holding:**

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- **Role:** Depositories maintain electronic records of securities holdings in Demat accounts for investors.
- **Significance:** Investors can access their holdings electronically, making it convenient to monitor and manage their portfolios.

3. **Transfer of Securities:**
   - **Role:** Depositories facilitate the transfer of securities between Demat accounts through electronic book-entry transfers.
   - **Significance:** This enables seamless and efficient transfer of ownership without the need for physical movement of securities.
4. **Corporate Actions:**
   - **Role:** Depositories play a crucial role in managing corporate actions such as bonus issues, stock splits, and dividend payments.
   - **Significance:** Investors receive corporate benefits directly into their Demat accounts, ensuring accurate and timely processing.
5. **Initial Public Offerings (IPOs):**
   - **Role:** Depositories facilitate the electronic process of applying for and receiving shares allotted in IPOs directly in investors' Demat accounts.
   - **Significance:** This streamlines the IPO application process and ensures efficient allotment and crediting of shares.

Role of Custodians in Demat Trading:

1. **Safekeeping of Securities:**
   - **Role:** Custodians, especially in the institutional context, safeguard and hold securities on behalf of clients, ensuring their safekeeping.
   - **Significance:** This protects assets from loss, theft, or damage.
2. **Settlement of Trades:**
   - **Role:** Custodians may facilitate the settlement of trades on behalf of institutional clients, ensuring timely and accurate settlement of securities transactions.
   - **Significance:** This contributes to the smooth functioning of the securities market and reduces operational risk.
3. **Collateral Management:**
   - **Role:** Custodians may provide collateral management services, allowing clients to use securities held in their custody as collateral for various financial transactions.
   - **Significance:** This enhances liquidity and provides flexibility in financial operations.
4. **Corporate Actions Processing:**

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- **Role:** Custodians may assist clients in processing corporate actions and ensure that clients receive the benefits associated with such actions.
- **Significance:** This helps clients optimize their portfolios and capitalize on corporate opportunities.

SEBI Guidelines and Regulations Relating to Demat Trading:

1. **SEBI (Depositories and Participants) Regulations, 2018:**
    - **Objective:** These regulations govern the functioning of depositories and their participants, ensuring the integrity and efficiency of the depository system.
    - **Significance:** They outline the rights and responsibilities of depositories, participants, and investors.
2. **SEBI (Custodian of Securities) Regulations, 1996:**
    - **Objective:** These regulations regulate the activities of custodians and set standards for their conduct.
    - **Significance:** They aim to protect the interests of investors and maintain the integrity of the securities market.
3. **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:**
    - **Objective:** These regulations lay down disclosure requirements for listed entities, including compliance with Demat trading norms.
    - **Significance:** They enhance transparency and provide investors with timely and accurate information.

Procedure of Demat Trading:

1. **Opening a Demat Account:**
    - Investors need to open a Demat account with a registered Depository Participant (DP).
2. **Dematerialization:**
    - Physical securities can be dematerialized by submitting them to the DP, along with a dematerialization request.
3. **Trading:**
    - Investors can place buy/sell orders through their brokers using the electronic trading platform.
4. **Settlement:**
    - Upon trade execution, the settlement takes place electronically, transferring securities and funds between buyer and seller accounts.
5. **Corporate Actions:**

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- Investors receive corporate benefits such as dividends and bonus shares directly in their Demat accounts.

6. **IPO Application:**
    - Investors can apply for IPOs electronically through their Demat accounts.
7. **Portfolio Monitoring:**
    - Investors can monitor and manage their portfolios through online access to their Demat accounts.
8. **Transfer of Securities:**
    - Transfers between Demat accounts can be initiated electronically.
9. **Closing a Demat Account:**
    - In case an investor wants to close a Demat account, they can submit a closure request to the DP.

Demat trading has streamlined the entire process of buying and selling securities, making it more efficient, transparent, and accessible to investors. The involvement of depositories, custodians, and adherence to SEBI regulations contribute to the overall integrity and reliability of the Demat trading system.

Mutual Funds-

Concept and Background on Mutual Funds:

Definition: A mutual fund is a pooled investment vehicle that collects funds from multiple investors and invests in a diversified portfolio of stocks, bonds, or other securities. Mutual funds are managed by professional fund managers, and investors own shares in the fund, representing a portion of the holdings.

Background:

- The concept of mutual funds dates back to the 18th century, but the modern mutual fund industry emerged in the early 20th century.
- The first mutual fund in the United States, the Massachusetts Investors Trust, was launched in 1924.
- Mutual funds provide an avenue for small investors to benefit from professional fund management and diversification.

Advantages of Investing in Mutual Funds:

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1. **Diversification:**
   - Mutual funds invest in a variety of securities, reducing the impact of poor performance in any single investment on the overall portfolio.
2. **Professional Management:**
   - Skilled fund managers make investment decisions based on research and analysis, aiming to maximize returns for investors.
3. **Liquidity:**
   - Investors can easily buy or sell mutual fund shares on any business day at the Net Asset Value (NAV) price.
4. **Affordability:**
   - Mutual funds allow investors to participate in diversified portfolios with relatively low initial investments.
5. **Regulation and Transparency:**
   - Mutual funds are regulated by financial authorities, providing a level of transparency and protection for investors.
6. **Convenience:**
   - Professional management eliminates the need for individual investors to actively monitor and manage their investments.

Disadvantages of Investing in Mutual Funds:

1. **Fees and Expenses:**
   - Mutual funds may charge management fees, sales loads, and other expenses, impacting overall returns.
2. **Market Risk:**
   - The performance of mutual funds is subject to market fluctuations, and there is no guarantee of returns.
3. **Lack of Control:**
   - Investors delegate investment decisions to fund managers, relinquishing control over specific securities in the portfolio.
4. **Tax Implications:**
   - Capital gains distributions in mutual funds may lead to tax implications for investors.
5. **Over-diversification:**
   - Some funds may become too diversified, diluting the potential impact of high-performing investments.

Types of Mutual Funds:

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1. **Open-Ended Funds:**
    - Investors can buy or sell shares at any time, and the fund continually issues new shares.
2. **Closed-Ended Funds:**
    - A fixed number of shares are issued during the initial offering, and these shares trade on exchanges like stocks.
3. **Equity Funds:**
    - Invest primarily in stocks, providing potential for capital appreciation.
4. **Debt Funds:**
    - Invest in fixed-income securities like bonds and provide regular income through interest payments.
5. **Hybrid Funds:**
    - Combine both equity and debt securities to provide a balanced approach.
6. **Money Market Funds:**
    - Invest in short-term, low-risk instruments like Treasury bills and commercial paper, offering liquidity.

Entry Load vs. Exit Load Funds:

1. **Entry Load:**
    - Charged when investors purchase mutual fund units.
    - The practice of charging entry loads has been largely discontinued in many jurisdictions.
2. **Exit Load:**
    - Charged when investors redeem or sell their mutual fund units.
    - Intended to discourage short-term trading and encourage long-term investment.

Factors Affecting Choice of Mutual Funds:

1. **Investment Goals:**
    - Matching the fund's objectives with the investor's financial goals.
2. **Risk Tolerance:**
    - Selecting funds that align with the investor's risk tolerance.
3. **Time Horizon:**
    - Choosing funds based on the length of time the investor plans to hold the investment.
4. **Expense Ratio:**
    - Evaluating the cost of managing the fund.
5. **Past Performance:**

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- Analyzing historical performance, although past performance does not guarantee future results.

Mutual Fund Agencies Ranking and Usage:

1. **Morningstar, Lipper, CRISIL, etc.:**
    - These agencies provide mutual fund ratings based on performance, risk, and other factors.
    - Investors use these rankings to make informed investment decisions.

Calculation and Use of Net Asset Value (NAV):

1. **Net Asset Value (NAV):**
    - NAV represents the per-share market value of a mutual fund's assets minus its liabilities.
    - Calculated as (Assets - Liabilities) / Number of Outstanding Shares.
2. **Use of NAV:**
    - Investors buy or sell mutual fund units at the NAV price.
    - NAV reflects the fund's overall value and is used to calculate returns.

Understanding these concepts is essential for investors to make informed decisions when choosing and managing mutual fund investments. It's advisable for investors to conduct thorough research, consider their financial goals, and consult with financial professionals before making investment decisions.

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