

# Investors Awareness

## Regulatory Framework

The Indian Capital Market is governed by various Acts, Rules and Regulations (main on being mentioned herewith) and primarily supervised by the Securities and Exchange Board of India (SEBI) which came into being in 1988. SEBI supervises the role of the stock exchanges (like BSE, NSE, etc.) and the depositories (CDSL & NSDL) for the overall development of capital market environment in India and also monitors and regulate their activities. SEBI is responsible to the Government of India and comes under the direct preview and supervision of the Ministry of Finance.

- Indian Contract Act, 1872
- The Companies Act, 1956
- Securities Contracts (Regulation) Act, 1956
- Securities Contracts (Regulation) Rules, 1957
- Securities and Exchange Board of India Act, 1992
- SEBI (Stock Brokers & Sub-Brokers) Rules, 1992
- SEBI (Stock Brokers & Sub-Brokers) Regulations, 1992
- SEBI (Insider Trading) Regulations, 1992
- SEBI (Prohibition of Fraudulent And Unfair Trade Practices Relating to Securities Markets Regulations, 1995
- The Depositories Act, 1996

## Trading Account Code

A client is required to sign the client registration requirement with the broker with whom he agrees to trade. Each Client is provided with a Unique Client Code wherein all his transactions of buy and sell of securities will be executed.

## Right to trade

To trade in any segment, a client must have the right to trade in that particular segment. This right is received from the Exchange after signing the requisite documents along with the supporting documents as required by the regulatory authorities.

## Derivatives Market

Derivative is a product whose value is derived from the value of one or more basic variables called bases in a contractual manner. The Futures & Options market being a highly leveraged market, it is of utmost importance that rules governing Margins and MTM collections are not violated.

Towards this end NSE Risk Management System has a real time system for calculation of margins and exposure on positions taken by clients and Clearing Member.

Product Offer in Derivatives:

1. Futures on Individual Securities
2. Options on Individual Securities
3. Futures on NIFTY Index
4. Options on NIFTY Index

Important Terminology in Derivatives Market:-

1. Futures:- Future contract is an agreement between two parties to buy or sell an assets at a certain time in the future at a certain price.

2. Option: - Option are of two Type: - Call And Put. Calls give buyer the right but not the obligation to buy a given quantity of the underlying assets, at a given future date. PUTS give the buyer the right but not an obligation to sell a given quantity of the underlying assets at a given price on or before a given date.

3. Hedging (Calendar Spread) :- A Calendar spread is a position in an underlying with one maturity which is hedged by an offsetting position in the same underlying with a different maturity. For Example a short position in a Nov future contract on Reliance and a long position in the Oct future contract on Reliance is a Calendar Spread. Calendar Spread attract lower margins because they are not exposed to market risk of the underlying. Calendar Spread effect is remove during the last 5 days of the Expiry of the contract.

4. Contract Cycle :- The Period which a contract trades. The Contracts on the NSE Have 3 Months cycles which expires on the last Thursday of the month.

5. Expiry Date:- It is the date specified in the future contract. This the last day on which the contract will be traded, at the end of which it will be cease to exist.

6. Initial Margin : - This is the amount that must be deposited in the margin account at the time a future Contract is first entered into is known as Initial Margin.

7. Exposure Margin : - This is some what lower then the initial Margin . This margin is charge in case if the client carried forward its open position for the next

trading day. This is set to ensure the adequate balance in the margin account. If the balance in the margin account falls below the exposure margin the investor receive the margin call.

8. Mark- To- Market : - In the future market at the end of the day, the margin account is adjusted to reflect the investor's gain or loss depending upon the future Closing Price. This is Called Marking-to Market.

9. Future Price : - The Price at which the future contract trades in the future market.

10. Spot Price: - The Price prevailing in the Spot market

11. Exercise of Option Contract : - Investor Can exercise its option from the exchange only in case of In -the Option. In- the- Money option is an option that lead to positive cash flow to the holder if it exercised immediately. In short Only the buyer of the option who is in Profit can exercised its option upto the 4.15 P.M during the working days.

12.Premium :- In case of Option Buy, the buyer of the option is require to pay the option premium to the seller of the option and in case if some one sold the option then that client is charge with the future margin and side by side also receive the premium from the buyer of the option.

13. Scrip in Ban Period: - Penalty as prescribed by the exchange is imposed on the client in case market-wide exposure in a particular scrip reaches or cross 95%. The client has to compulsorily reduce the position till the market-wide position come below 80%. The client can take the fresh position only after the market-wide position in scrip closes below 80% on a particular day. No fresh position will be allowed to the client once the market-wide exposure in a particular scrip crosses 95% till it comes down to 80%. Minimum Penalty Rs.5000/- per lot per expiry.

14. Basket Trading : - Basket trading is not allowed in F&O segment.

## Equity Market

The equity trading is offered on both BSE and NSE segment, on T+2 settlement cycles.

Certain Term in Equity Market:-

1. Gross Exposure: - Gross Exposure is the combination of Buying Exposure as well as the Selling Exposure.

2. Buying Exposure: - Buying Exposure is the amount upto which the client can buy the shares and keep its open position.

3. Turnover Exposure:-Turnover limits restricts sum of buy and sell value of the client. Turnover is the total trading that takes place through out the day. It is always calculated in such a way that the transactions entered by the client is added up to come to the actual position

4. Transaction for delivery: - It means the client intends to give full (fund) consideration for his purchases or give full delivery for his sales for settling the trade. In case of delivery sale transactions, the shares available in his demat account of CDSL will only be considered. In case of delivery purchase, clear funds available in his ledger will only be considered. Transactions for delivery are also referred to as Investment Transactions.

5. Transaction for trading (Intraday) :- It means the client will square off his purchase or sale position before the cut off time and will not take or give delivery of the shares transacted. Transactions for trading are also referred to as Trading Transactions.

## Surveillance Check of the Orders Placed by the Client

In case of Cash Market:-

- Exposure
- M2M
- Maximum Single order Quantity
- Maximum Single order value
- Minimum Single order Quantity.
- Minimum Single Order value.

If the Client Orders pass through all the Surveillance Check then the client gets order confirmed and the same is Executed if the price and time match with the opposite counter Party.

In Case Of F&O market:-

- Margin Available
- M2M

If the Client Orders pass through all the Surveillance Check then the client gets order Confirmed and the same is Executed if the price and time match with the opposite Counter Party.

## Type of Risk

All investments involve some form of risk. Consider these common types of risk and evaluate them against potential rewards when you select an investment.

Industry/sector risk: - Industry risk relates to uncertainties caused by particular features of the industry sector in which a company operates.

Exchange risk: - A number of companies generate revenues in foreign currencies and may have investments or expenses also denominated in foreign currencies. Changes in exchange rates may, therefore, have a positive or negative impact on companies which in turn would have an effect on the investment of the fund.

Credit Risk: - In short, how stable is the company or entity to which you lend your money when you invest? How certain are you that it will be able to pay the interest you are promised, or repay your principal when the investment matures?

Market Risk: - At times the prices or yields of all the securities in a particular market rise or fall due to broad outside influences. When this happens, the stock prices of both an outstanding, highly profitable company and a fledgling corporation may be affected. This change in price is due to "market risk". Also known as systematic risk.

Inflation Risk: - Sometimes referred to as "loss of purchasing power." Whenever inflation rises forward faster than the earnings on your investment, you run the risk that you'll actually be able to buy less, not more. Inflation risk also occurs when prices rise faster than your returns.

## Settlement

Settlement No. :-

Each trading day have a unique settlement no. and the trade on that can be identified with the help of that settlement date.

Settlement Process:-

1. In case of Cash Market: - Transaction in cash market is settled on T+2 Basis. After that every client is required to make the payment of its debit for purchase or can take out the payout of its credit in case of sell.

2. In case Of FO Segment: - All Future and options contract are cash settled on T bases.

Power Of Attorney:-

If the Investor sign the POA (Power of Attorney) in that case whatever share which the investors sold are directly place by the broker itself if the shares are lying in client DP or the Broker Beneficiary account

Auction:-

Whenever any client sold there shares it the obligation of that client to make the arrangement of delivery of that shares to its respective broker so that it can place the shares to the exchange. But in case if the shares which are sold by the client are delivered short by the clients and which have to go to the exchange are auctioned by the exchange. Final Bill for the auction is entering on T+5 Bases.

Payout Shortage:-

Sometime it happens that shares are short delivered by the exchange to the client in such case on T+3 exchange give opportunity to take participate in the auction market and then on T+4 (in case of BSE) and T+5( in case of NSE) shares are delivered to the client by exchange.

## Margin/Payment Collection

1. In case of Cash Market: - As per Exchange all the Investors are suppose to make the payment of its buying on T+2

2. In case Of FO Segment: - All the investors are required to make the payment of there MTM, Margin shortfall on T+ 1 Bases.

## Useful Websites:-

The following are the useful sites for getting the required information about the Securities market as well as legal procedure for resolution of grievances.

[www.nseindia.com](http://www.nseindia.com)

[www.bseindia.com](http://www.bseindia.com)

[www.sebi.com](http://www.sebi.com)

[www.rbi.com](http://www.rbi.com)

# Dos & Don'ts in Commodity Futures Market

## A. Dealing in Commodity Futures

Do's	Don'ts
<ul style="list-style-type: none"> <li><input type="checkbox"/> Read, understand and be updated about the guidelines and circulars of the Exchange and of the Forward Markets Commission.</li> <li><input type="checkbox"/> Refer and understand all the provisions of Forward Contracts (Regulations) Act, 1952 dealing with futures trading in commodities and amendments thereof from time to time, including provisions and rates relating to the sales tax, value added tax, APMC Tax, Mandi Cess and Tax, octroi, excise duty, stamp duty, etc., applicable on the underlying commodity of any contracts offered for trading by NCDEX.</li> <li><input type="checkbox"/> Read the commodity contracts circulars issued by NCDEX and carefully note the contract specifications of the commodity in which you wish to trade. The contract specifications are subject to change from time to time.</li> <li><input type="checkbox"/> Before entering into buy and sell transactions please be aware of all the factors that go into the mechanism of pricing, trading and clearing.</li> <li><input type="checkbox"/> Read the product note of the commodity in which you wish to deal to understand the commodity and parameters that impact on the trading and settlement of the commodity.</li> <li><input type="checkbox"/> Understand the Delivery &amp; Settlement Procedures of the commodity that you wish to deal in the futures market .</li> <li><input type="checkbox"/> Study historical and seasonal price movements of the commodity that you wish to deal in the futures market .</li> <li><input type="checkbox"/></li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Do not fall prey to market rumours.</li> <li><input type="checkbox"/> Do not go by any explicit/implicit promise made by analysts/advisors/experts/market intermediary until convinced.</li> <li><input type="checkbox"/> Do not deal based on Bull/Bear run of commodity markets sentiments.</li> <li><input type="checkbox"/> Do not go by the reports/predictions made in various print and electronic forms without verification.</li> <li><input type="checkbox"/> Do not trade on any product without knowing the risk and rewards associated with it.</li> </ul>

- Keep track of Governments' Policy announcements from time to time of the commodity that you wish to deal in the futures market .
- Apply your own prudent judgment for investments in commodity futures and take informed decisions.
- Comply with Taxation and other Central Government/State Governments regulatory issues.
- Go through all Rules, Bye Laws, Regulations Circulars and directives issued by NCDEX.
- Since the investment is based on various types of margins, be aware of the risks associated with your positions in the market and margin calls made from time to time.
- Collect/Pay Mark-to-Market margins on your futures positions on a daily basis from/to your member.
- Be aware of your risk taking ability and fix stop-loss limits. Liquidate your positions at such levels to reduce further losses, if any.
- In case of any doubt/problems, contact Exchange's Help Desk or email at [askus@ncdex.com](mailto:askus@ncdex.com)

## B . Dealing with Members

Do's	Don'ts
<ul style="list-style-type: none"> <li><input type="checkbox"/> Trade only through registered members of the Exchange. Check with the Exchange to see whether the member is registered with the Exchange.</li> <li><input type="checkbox"/> Insist on filling up a standard 'Know Your Client (KYC)' form and on getting a Client - Id.</li> <li><input type="checkbox"/> Insist on reading and signing standard 'Risk Disclosure Agreement'.</li> <li><input type="checkbox"/> Cross check the genuineness of trades carried out at NCDEX through the trade verification facility available on NCDEX website. The trades can be verified online at <a href="http://www.ncdex.com/marketdata/hist trade verification.aspx">www.ncdex.com/marketdata/hist trade verification.aspx</a> where trade information is available up to 3 working days from the trade date.</li> <li><input type="checkbox"/> While trading through an authorized person ensure that a duly signed contract note has been issued by the member or its authorized persons for every executed trade, highlighting the details of the trade along with your unique Client -Id.</li> <li><input type="checkbox"/> Obtain receipt for collaterals deposited with the member towards margins.</li> <li><input type="checkbox"/> Go through the Rules, Bye-laws, Regulations, Circulars, directives, notifications of the Exchange as well as of the Regulators, Governments and other authorities and details of Client -Trading Member Agreement to know your rights and duties vis -à-vis those of the member.</li> <li><input type="checkbox"/> State clearly who will be placing orders on your behalf. Give precise and clear instructions while placing, modifying or canceling orders.</li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Do not start trading before reading and understanding the Risk Disclosure Agreement and entering into the prescribed agreement with the Member.</li> <li><input type="checkbox"/> Do not deal with unregistered intermediaries even if their charges are lower and/or margins are lesser.</li> <li><input type="checkbox"/> Do not undertake off-market transactions in commodities with a member of the Exchange, unless such member records in the agreement for sale, note or memorandum that he is selling/purchasing the goods as the case may be, for his own account and obtains a consent from you in respect thereof as required u/s 15 (4) of the Forward Contracts (Regulation) Act, 1952.</li> <li><input type="checkbox"/> Do not neglect to set out in writing, orders for higher value given over phone.</li> <li><input type="checkbox"/> Do not accept unsigned/duplicate contract note/confirmation memo.</li> <li><input type="checkbox"/> Do not accept contract note/confirmation memo signed by any unauthorized person.</li> <li><input type="checkbox"/> Do not delay payment/deliveries of commodities to member.</li> <li><input type="checkbox"/> Do not get carried away by luring advertisements, rumours, hot tips, promise of unrealistic returns, etc.</li> <li><input type="checkbox"/> Do not forget to take note of risks involved in the investments.</li> <li><input type="checkbox"/> Do not sign blank Delivery Instruction Slips (DIS) while furnishing securities deposits and/or keep them with Depository Participants (DP) or broker to save time.</li> </ul>

- Ask all relevant questions and clear your doubts with your member before transacting.
- Ensure that the Contract Note contains all the relevant information such as Member Registration Number, Order No., Order Date, Order time, Trade No., Trade rate, Quantity, Arbitration Clause.
- Insist on receiving the bills for every settlement.
- Insist on periodical statements of your ledger account.
- Scrutinize minutely both the transaction as well as the holding statements that you receive from your Depository Participant.
- Keep Delivery Instruction Slips (DIS) book issued by DPs in safe possession.
- Ensure that the DIS numbers are pre - printed and your account number (Client - Id) is mentioned in the DIS book.
- Freeze your Demat account in case of your absence for longer duration or in case of not using the account frequently.
- Pay required margins in time and only by Cheque and ask for receipt thereof from the member.
- Deliver the commodities in case of sale or pay the money in case of purchase within the time prescribed.

### C. Rights of a Client:

- In case of any disputes with the Member regarding the trades done on the Exchange platform, the client could contact the Exchange for suitable redressal as per Bye laws of the Exchange including use of mediation/arbitration mechanisms of the Exchange. The clients would be required to produce copies of the agreements entered into by them with their member, for obtaining relief through the process of arbitration. Hence, clients are advised to obtain copies of signed agreement from members and keep such copies with them. Further, all copies of all correspondence to and from members may be preserved for producing them to the arbitrators, if required.
- All rights as per the Rules, Bye Laws and Regulations of the Exchange are available to a client in respect of all transactions traded on the Exchange and for which the clients have a contract note duly issued by the member.
- In case of any disputes in respect of the trades on the Exchange or in the contract notes or any complaint against the member, take up the issue with member directly. In case of non-resolution, file written complaint against the member with the Exchange within 6 months from the date of cause of action. (Details and Format are available in Regulation 21.4.2 of the Regulations and Chapter 11, Clause 4, Part A, Bye Laws of the Exchange. The details are available respectively on NCDEX's web site -

<http://www.ncdex.com/Aboutus/regulation.aspx>

<http://www.ncdex.com/Aboutus/byelaws.aspx#>