A PROJECT REPORT

ON

ONLINE TRADING

With reference to

INDIA INFOLINE LIMITED

In partial fulfillment of the
Requirement for the award of

POST GRADUATE DIPLOMA IN BUSINESS MANAGEMENT

(FINANCE)

by

KRISHAN KUMAR
ROLL.NO – 16

Under the guidance of

I. SUBRAHMANYAM

ICBM – School of Business Excellence

Approved for AICTE for PGDBM,Govt of India,affiliated to osmania university

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CERTIFICATE

This is to certify that **Mr / Ms KRISHAN KUMAR** is a

Bonafide student of this college with Roll No**. 10/16** .He/She worked on

The project titled " **ONLINE TRADING** "

in the organization **INDIA INFOLINE** under the supervision of
Mrs SAI RANI

Associate professor of this college during the year 2010 – 2012.

Project Guide

HOD

(Dept. of business management)

External Examiner

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TO WHOM IT MAY CONCERN

This is to certify that Krishan Kumar (Roll.No.10/016), PGDM student of ICBM-School of Business Excellence has completed project work entitled “ONLINE TRADING” in our organization at Secunderabad , during the period of 6^{th} may 2011 to 22^{nd} June 2011.

During this course his performance was found to be very good and up to our expectation.

Regards,

T. Ashok Kumar
Sale’s Manager
India Infoline Ltd.

ABSTRACT

In the recent past the advancement of information technology and communication devices the global has become a village where in information moves from place to place quickly. Many progressive companies have made best use of the information technology to augment their sales. In all areas where ever speed is a necessity computer related technology is being extensively used. The stock market is one trading segment where in the computer related technology is widely used. In the present study an attempt has been made to analyze the various dimensions of online trading.

Share Market is a clear indicator of the developing trend prevailing in our country. Statistics reveal that the trade volume has been increasing continuously, coupled with the ups & downs which is a nature of share trading. We are living in an interlinked world. With growing volume of trade, it has become a necessity that people are aware of the intricacies of the web world.

ACKNOWLEDGEMENT

I take this opportunity to express my profound sincere gratitude to thank the management of INDIAINFOLINE LIMITED for their kind gesture for allowing me to undertake this project, and their staff who lent their helping hand towards the completion of this project successfully.

I am indebted to SRIDHAR sir (HEAD of the branch) , for allowing me to carryout my project work in the organization and I.SUBRAMANIYAM (Branch Manager), ASHOK sir and KESHAB sir (Sales Manager) & CHIRANJEEV sir (Senior Relationship Manager) for their timely assistance and support throughout the live project work.

I am heartily thankful to staff at India infoline Limited for their valuable guidelines and suggestion for this project work successfully

I would like to express my sincere gratitude, I would like to thanks Prof. S.ZARAR, Director of ICBM - SBE for giving me the opportunity to carry out this project. My sincere thanks to all my lecturers, particularly my project guide and finance lecturer, Mrs. SAI RANI MA'AM for enabling me to complete the project successfully. I am greatly indebted to them for their valuable guidance and constant encouragement in every phase of this project.

Finally my sincere thanks to each and every body, who helped directly and indirectly for the completion of this project.

KRISHAN KUMAR
(10/016)

DECLARATION

I declare that this project report entitled " ONLINE TRADING "
Is original and a bonafide work of my own in the partial fulfillment of the requirements for the award of the degree of
POST GRADUATE DIPLOMA IN MANAGEMENT and submitted to the department of management , ICBM – School of Business Excellence, Hyderabad .

The data that has been collected by me is truly authentic and contains true and Complete information.

KRISHAN KUMAR

(10/ 016)

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CHAPTER - I

INTRODUCTION

INTRODUCTION

In the recent past the advancement of information technology and communication devices the global has become a village where in information moves from place to place quickly. Many progressive companies have made best use of the information technology to augment their sales. In all areas where ever speed is a necessity computer related technology is being extensively used. The stock market is one trading segment where in the computer related technology is widely used. In the present study an attempt has been made to analyze the various dimensions of online trading.

Share Market is a clear indicator of the developing trend prevailing in our country. Statistics reveal that the trade volume has been increasing continuously, coupled with the ups & downs which is a nature of share trading. We are living in an interlinked world. With growing volume of trade, it has become a necessity that people are aware of the intricacies of the web world.

ONLINE TRADING

The sale of goods and/or services over the internet. Customers must enter and submit their credit card details online; the sale will often proceed without the retailer and customer ever having personal contact. Excluded from this definition is the practice of retailing through a central web site operated by another party, either a franchise head office or an external company, such as Interflora. It should be noted that the term 'online trading' does not refer to buying or selling shares over the internet. It also does not refer to accepting credit card details via email.

ONLINE TRADING

- If you trade online, you use a computer and an Internet connection to place your buy and sell orders with an online brokerage firm. While the orders you give online are executed while the markets are open, you have the option of placing orders at your convenience, outside of normal trading hours. While online trading may become even more common in the future, especially if after-hours trading and electronic communications networks gain popularity, there are a number of issues to be resolved.

- Trading over the Internet, without the physical inclusion of a broker. Orders are reports are entered and returned via terminals.
- The increasingly popular activity of buying and selling securities over the Internet, or to a lesser extent, through a broker's proprietary software.

The Internet revolution has been changing the fundamentals of our society. It shapes the way we communicate and the way we do business. It brings us closer and closer to vital sources of information. It provides us with means to directly interact with service-oriented computer systems tailored to our specific needs; therefore, we can serve ourselves better by making our own decisions. This prevailing shift of the business paradigm is reshaping the financial industry and transforming the way people invest.

In the following discussion, we will briefly explain how the Internet has been changing the way people trade stocks, and we will introduce some of the pros and cons of using online brokerage companies. Then we will look at some of the trading styles people practice and introduce an important trading technique that a lot of professional traders have been using with great success. Finally, you will learn how Tradetrek.com can help you apply these trading techniques online with trading tools that make online trading easy, fun, profitable, and understandable!

In the old days, because of the limitations of communications technology, Wall Street was the center for most of the Stock Exchange and Brokerage firms. Today, at this millennial transition, investors can use revolutionary Internet Client-Server technology to trade stocks nearly anywhere, anytime, independent of brokers' fees and service limitations. This new access by the trading public to low-cost transactions and cutting-edge, real-time market information that formerly belonged only to brokers has opened up extraordinary new investment opportunities as well as a crucial need for state-of- the-art information. It is exactly these new-market investment services that Tradetrek.com specializes in satisfying.

Modern technology in hand, you have total control over the money you are investing.
Which really gives you the tools and confidence to beat the S&P Index?

There are a number of brokerage.coms out there, such as Ameritrade, DLJdirect, Sure Trade, Datek, Charles Schwab, E-Trade, just to name a few. As a result of a price war between these companies, the commissions that these companies charge per trade have dropped significantly. For example, Datek charges $9.99 per trade, Ameritrade $8, and Sure Trade only $7.95. But you need to keep in mind that price is not the only factor in choosing a service.

The trading on stock exchanges in India used to take place through open outcry without use of information technology for immediate matching or recording of trades. This was time consuming and inefficient. This imposed limits on trading volumes and efficiency. In order to provide efficiency, liquidity and transparency, NSE introduced a nation-wide on-line fully automated Screen Based Trading System (SBTS) where a member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds a matching sale or buy order from a counter party. SBTS electronically matches on a strict price/time priority and hence cuts down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency. It allows faster incorporation of price sensitive information into prevailing prices, thus increasing the informational efficiency of markets. It enables market participants, irrespective of their geographical locations, to trade with one another simultaneously, improving the depth and liquidity of the market. It provides full anonymity by accepting orders, big or small, from members without revealing their identity, thus providing equal access to everybody. It also provides a perfect audit trail, which helps to resolve disputes by logging in the trade execution process in entirety. This sucked liquidity from other exchanges and in the very first year of its operation, NSE became the leading stock exchange in the country, impacting the fortunes of other exchanges and forcing them to adopt SBTS also. Today India can boast that almost 100% trading take place through electronic order matching.

HOW ONLINE TRADING WORKS

Online trading has given anyone who has a computer, enough money to open an account and a reasonably good financial history the ability to invest in the market. Here we need not have a personal broker or a disposable fortune to do it, and most analysts agree that average people trading stock is no longer a sign of immaturity.

A share of stock is basically a tiny piece of a corporation. Shareholders are people who buy stock and are investing in the future of a company for as long as they own their shares. The price of a share varies according to economic conditions, the performance of the company and investors' attitudes. The first time a company offers its stock for public sale is called an initial public offering (IPO), also known as "going public." When a business makes a profit, it can share that money with its stockholders by issuing a dividend. A business can also save its profit or re-invest it by making improvements to the business or hiring new people. Stocks that issue frequent dividends are income stocks. Stocks in companies that re-invest their profits are growth stocks. Brokers buy and sell stocks through an exchange, charging a commission to do so.

A broker is simply a person who is licensed to trade stocks through the exchange.

A broker can be on the trading floor or can make trades by phone or electronically.

An exchange is like a warehouse in which people buy and sell stocks. A person or computer must match each buy order to a sell order, and vice versa. Some exchanges work like auctions on an actual trading floor, and others match buyers to sellers electronically. Some examples of major stock exchanges are:

- The New York Stock Exchange, which trades stocks auction-style on a trading floor
- The NASDAQ, an electronic stock exchange

- The Tokyo Stock Exchange, a Japanese stock exchange

Worldwide Stock Exchanges has a list of major exchanges. Over-the-counter (OTC) Stocks are not listed on a major exchange, and we can look up information on them at the OTC Bulletin Board or Pink Sheets When we buy and sell stocks online, we are using an online broker that largely takes the place of a human broker. We still use real money, but instead of talking to someone about investments, we decide which stocks to buy and sell, and it is better we trade our self.

OTHER ONLINE INVESTMENTS

In addition to buying and selling stocks, we can make a number of other investments online, depending on what our online brokerage offers. Several firms allow investors to participate in IPO'S. Some also allow us to trade in:

OPTIONS - Contracts granting the right to buy or sell stock at a specific price on or before a specific date.

MUTUAL FUNDS- Companies that combine many people's money and invest it in a variety of companies.

BONDS - Loans to companies or businesses that are repaid with interest.

FUTURES - Agreements to buy or sell stock at a future date. Most investment analysts consider options and futures be the territory of experienced investors.

CHOOSING A BROKER AND OPENING AN ACCOUNT

Before we can trade stocks online, we have to select an online broker. Our online broker will execute our trades and store our money and stock in an account. The online trading industry has seen lots of mergers and acquisitions, but there are still many firms to choose from.

E*TRADE, AMERITRADE AND CHARLES SCHWAB ARE THREE OF THE MANY ONLINE BROKERAGES

How much money we plan to invest. Most firms require investors to have a certain amount of money to open an account. This is different from a minimum account balance although most brokerages have those, too.

How frequently we plan to make trades. Are we are going to buy one stock and hold on to it? If so, we need to make sure the brokerage doesn't charge a fee for account inactivity. On the other hand, if we are going to make lots of trades, we want a lower fee per trade. Regardless of how much we plan to use our account, we should evaluate how much using the site will cost us.

Some sites, such as Keynote and Smart money, rate online brokerages based on success rates, customer service response time, trading tools and other factors. They can help us make a decision as we shop around for the best trading site for our needs, but keep in mind that there are no official standards for ranking or evaluating brokerages.

As with any site that requires your personal and financial information, we should make sure our online broker has good security measures, including automatic logouts and transmission encryption. We should also make sure our brokerage is reputable.

INVESTOR PROTECTION ORGANIZATIONS

Several national and governmental organizations educate investors and protect the integrity of the market. These are good sources for reliable information about making investments. They include:

The Securities and Exchange Commission (SEC), part of the United States federal government

The National Association of Securities Dealers (NASD), a private-sector regulator

The North American Securities Administration Association (NASAA), an international investor protection organization, which also created the Investing Online Resource Center (IORC)

OPENING & FUNDING AN ACCOUNT

ONLINE TRADING

When we open an account with a United States online brokerage, we answer questions about our investment and financial history. These questions determine our *suitability* for the account we are requesting the brokerage cannot legally allow us access to investments that we cannot reasonably handle. We will also have to provide our address, telephone number, social security number and other personal information. This helps the brokerage track and reports your investments according to tax regulations and the PATRIOT Act**.**

In addition to providing this information, we must make several choices when we create an account. With most brokerages we can chose between individual and joint accounts, just like at a bank. We can also open custodial accounts for our children or retirement accounts, which are often tax-deferred. Unless we pay a penalty, we can usually retrieve earnings from a retirement account only when we retire.

Next, we must choose between a cash account and a margin account. We can think of a cash account as a straightforward checking account. If we want to buy something using our checking account, we have to have enough money in the account to pay for it. Using a cash account we have to have enough money to pay for the stock we want. A margin account, on the other hand, is more like a loan or a line of credit.

In addition to the actual cash in the account, we can borrow money from the brokerage based on the equity of the stock we already own, using that stock as collateral. Then, we can buy additional stock. Our margin is the equity we build in our account.

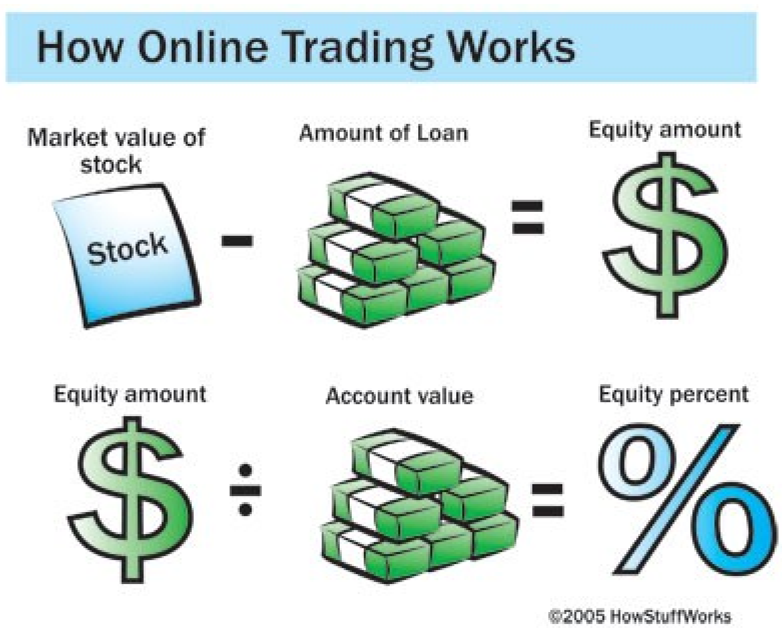
According to the Federal Reserve Board, we must have at least 50 percent of the price of the stock we wish to purchase in our account. In other words, if we want to purchase $5,000 worth of stock, the value of the cash and stock in our account must be at least $2,500. You can borrow the other $2,500 from the brokerage.

Once we have made our purchase, we must keep enough equity in our account, also called your equity percentage, to cover at least 25 percent of the securities we have purchased. Here's how the brokerage determines this number:

ONLINE TRADING

The market value of our stock minus the amount of the loan we took to buy the stock is our equity amount.

Our equity amount divided by our total account value is our equity percentage.



If our equity percentage falls below the minimum, the broker has the right to issue an equity call. Typically, the brokerage will try to contact us, but the firm has the right to sell any and all of our assets to raise our equity percentage to the minimum. The brokerage is not obligated to contact us.

Margin accounts are definitely more complex than cash accounts, and buying on credit presents additional financial risks. If all of that sounds overwhelming, it's a good idea to stick with a cash account. Finally we must decide how the brokerage will store our money between trades. Many brokerages offer interest-bearing accounts, so we continue to earn money even when we are not trading.

Once we have made all these choices, we must fund your account. We can make a deposit by check, make a wire transfer to the brokerage or transfer holdings from another brokerage.

BULL VS BEAR

Market analysts use the words "bull" and "bear" (or "bullish" and "bearish") to describe whether the market is generally rising or falling. If we have trouble remembering which is which, just think of the way the two animals attack. Bulls toss their horns upward, and bears swipe downward with their claws.

Once we have opened and funded our account, we can buy and sell stocks. But before we do that, we want to get a real-time stock quotes to confirm the current price of the stock. Our brokerage may provide real-time quotes as part of our service. Many free financial news sites offer delayed quotes, which are at least twenty minutes behind the market. If the market is moving quickly, a delayed quote can be substantially different from the real trading price.

Once we have gotten our quote and decided we want to make a trade, we can choose to place a market order or a limit order. A market order executes at the current market price of the stock. A limit order, however, executes at or better than a price we specify. If the price doesn't reach the limit we set, our trade will not go through.

Some brokerages offer additional options, often used to prevent high losses when a stock price is falling. These include:

Stop order - A form of market order, this executes after the price falls through a point that you set. The order executes at market price, not at the stop point.

Stop limit order - These are like stop orders, but they execute at a price we set rather than market price. In rapidly moving markets, the broker may not be able to execute our order at our set price, meaning that the stock we own may continue to fall in value.

Trailing stop order - Like a stop order, a trailing stop executes when the price falls through a point we set. However, its selling price is moving instead of fixed. We set a parameter in points or as a percentage, and the sale executes when the price falls by that amount. If the price increases, though, the parameter moves upward with it. So, if a stock is trading at $20 per share, and we set a trailing stop order with a three-point parameter, our initial selling price would be $17 per share. But if the price then increases to $25 per share, our new selling price would be $22 per share.

We must also select whether our order stays active until the end of the day, until a specific date or until we cancel it. Some brokerages allow us to place "all or none" or "fill or kill" orders, which prevent a partial rather than complete exchange of the stocks we want to trade.

Contrary to many people's perceptions, making trades online is not instantaneous, even if we are placing a market order. It can take time to find a buyer or seller and to electronically process the trade. Also, even though we can access our account and place buy and sell orders twenty-four hours a day, our trades execute only when the markets are open. An exception is if our firm allows after-hours trading, which is riskier due to the reduced number of trades taking place.

Day Trading

We may remember stories of people becoming millionaires as day traders during the early days of online trading and the tech stock bubble. Some people still use online brokerages to make their living as day traders. But capital gains taxes, commissions and fees for trades can significantly reduce a day trader's profit. In fact, most new day traders lose money for several months before they give up or learn to gauge the market well enough to make a profit. Fraudulent firms known as boiler rooms have also employed brokers to make unsolicited phone calls to investors, selling bogus or overvalued stock. People must evaluate their broker's ethics and judgment, and part of the broker's job is to protect investors from fraudulent stocks. With online trading, though, people must research stocks on their own, deciding what to buy and sell without the help of a broker or an investment planner. Fraudsters have taken advantage of this, leading to several notable methods of defrauding investors. These include:

Pump-and-dump schemes - People spread the word about a "sure thing" stock via online message boards, online stock newsletters, email and other methods. The resulting interest in the stock drives up the price. The organizers of the scheme sell their stocks for a huge profit, and then stop promoting it. The price plummets, and investors lose money.

Fraudulent IPO's - Some investors like IPO's because they provide a chance to "get in on the ground floor" and to make a substantial profit. Some scammers, though, spread the word about an upcoming IPO for companies that never intend to go public or that don't exist. Then, they abscond with investor' money.

Fraudulent OTC stocks - Con artists promote stock in companies that do not exist or start a pump-and-dump scheme for an OTC stock. After investors buy stock in non-existent companies, scammers simply take the money and run.

Fraudulent company information - Publicly traded companies have to release information about financial performance. Overstating or misrepresenting a company's goals and achievements can drive up the stock price.

CHAPTER - II

STUDY DESIGN

Statement of the problem:

Share trading is a way for faster earning and losing money. In the recent years, volatile market could be witnessed. In the desire to earn money in a quick manner, more and more people have ventured out into share trading. Lack of awareness of many investors has made them loose lakhs of money in the Stock Market. Wise play by many others have made them earn in crores.

At such a time, it would be interesting to know the attitude of the players and the conditions in the market. A survey about investors and the share market in such a time would be educative to tomorrow's investors. It could also lead to improvements in the conditions prevailing in Hyderabad City that would facilitate increase in the share trading.

Several website provide information about the stock market. They educate people about share trading and guide them through each step. On-line share trading has become so common. Still, many of them are unaware of the intricacies involved in share trading.

Where the American NASDAQ is in the commanding position, Hongkong, Tokyo etc are some of the asian exchanges being quoted repeatedly when it comes to news about the share market. SENSEX is not far behind. Indian bourses are also often quoted.

Our Finance Minister P. Chidambaram is always optimistic when it comes to the role of the stock markets in the economy. Quite often, we hear that the market share down or they are in an upbeat. Conditions being such, it is necessary to take stock of the market activity and the awareness of the investors in our town.

Objectives of the Study:

1. To understand the attitude of the on-line share traders in Hyderabad.

2. To measure the effectiveness of broking sites in Hyderabad.

3. To conduct an enquiry among the share trading public in Hyderabad about their experience with broking sites.

4. To suggest some improvements in these sites if need be.

5. To understand the depth up to which the on-line share traders are clear and aware of on-line share trading.

Research Methodology:

Research is a systematic search for pertinent information on a specific topic. Research is an art of scientific investigation. According to Clifford Woody, Research comprises defining and re-defining the problem, formulating hypothesis or suggesting solution, collecting, collecting, organizing and evaluating data; making deductions and reaching conclusions; and at last carefully testing the conclusions to determine whether they fit the formulated hypothesis.

Research Design:

A Research design is an arrangement of conduction for collection and analysis of data in a manner that aims to combine relevant to a research purpose with economy in procedure. The research designs adopted for the study are analytical in nature.

Scope of the study:

It would be helpful to take stock of the prevailing trend of the investor public inany city. This study is aimed at collecting information from the share investing public of Hyderabad with respect to Online-share trade.

Limitations of the study:

The objective of this study is to understand the conditions prevailing among the investing public. Considering the cost involved, time factor and lack of awareness of efficient data gathering techniques and tools for analysis, all the online-share trading public may not be covered. It may not be possible to arrive at the exact value of the findings.

Tools used for Analysis:

The tool employed here is Percentage Analysis. The total of the data collected under one factor are summed up and their percentage is calculated. Suppose we consider 10 factors with 5 attributes for each factor. Each attribute is given ranks. The values are added and the percentage for each attribute is calculated. These values are used for analysis. This is Percentage Analysis.

NEED OF REVIEW

It is proposed to study "ONLINE TRADING" as the topic generates lot of interest a lot to learn and invest in the stock market. As previously members had faced a lot of problems from false investment guided by his broker and had faced losses from share business due to improper channel, I did not wanted to encounter the same situation in the future so I decided to learn trading over the Internet, without the physical inclusion of a broker from Hyderabad Stock Exchange (INDIAINFOLINE) practically. The main difference between an amateur and a professional trader is that the latter always tries to understand and control portfolio risks. Before entering into any trade, good traders first think about how much risk to take and how much risk exposure comes with a particular trade selection.

ONLINE TRADING is all about the sale of goods and/or services over the internet. Where, customers must enter and submit their credit card details online; the sale will often proceed without the retailer and customer ever having personal contact. If you trade online, you use a computer and an Internet connection to place your buy and sell orders with an online brokerage firm. While the orders you give online are executed while the markets are open, you have the option of placing orders at your convenience, outside of normal trading hours.

CHAPTER – III

INDUSTRY PROFILE

INDUSTRY PROFILE

Stock exchange:

A stock exchange or bourse is a corporation or mutual organization, which provides the facilities for stockbrokers to trade company stocks and other securities. Stock exchanges instruments and capital events including the payment of income and dividends.

The securities traded on a stock exchange include shares issued by companies, unit trusts and other pooled investment products as well as bonds. To be able to trade a security on a certain stock exchange, it has to be listed there.

Usually there is a central location at lest for record keeping, but trade is less linked to such a physical place, as modern markets are electronic networks, which gives the advantages of speed and cost of transactions. Trade on an exchange is by members only; a stockbroker is said to have a seat on the exchange.

A stock exchange is often the most important component of a stock market. There is usually no compulsion to issue stock via the stock exchange itself, nor must stock be subsequently traded on the exchange. Such trading is said to be off exchange or over-the-counter. This is the usual way that bonds are traded.

The initial offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary market.

Increasingly all stock exchanges are part of a global market for securities, supply and demand in stock markets is driven by various factors which, as in all free markets, affect the price of stocks (see stock valuation).

HISTORY OF THE STOCK EXCHANGE:

In 12th century France the curators de change were concerned with managing and regulating the debts of agricultural communities on behalf of the banks. As these men also traded in debts. They could be called the first brokers.

Some stories suggest that the origins of the term "bourse" come from the Latin bursa meaning a bag because, in 13e. Bruges, the sign of a purse hung on the front of the house where mere chats met.

However, it is more likely that in the late 13th century commodity traders in Bruges gathered inside the house of a man called van deer Burse, and in 1309 they institutionalized this until now informal meeting and became the "Bruges Bourse". The idea spread quickly around Flanders and neighboring counties and "Bourse". Soon opened in Ghent and Amsterdam.

In the middle of the 13th century Venetian bankers began to trade in government securities. In 1351 the Ventetain Government outlawed spreading rumors intended intended to lower the price of government funds. There were people in Pisa. Verona, Genoa and Florence who also began trading in government securities during the 14th century. This was only possible because these were independent city-states not ruled by a duke but a council of influential citizens.

The Dutch later started joint stock companies, which let shareholders invest in business ventures and get a share of their profits – or losses. In 1602, the Dutch East India Company issued the first shares on the Amstedam Stock Exchange. It was the first company to issue stocks and bonds.

Other types of exchange:

ONLINE TRADING

In the 19th century, exchanges were opened to trade forward contracts on commodities. Exchange traded forward contracts are called futures contracts. These commodity exchanges later started offering future contracts on other products on other products. Such as interest rates and shares as well as options contracts. They are now generally known as futures exchanges.

This is a list of stock exchanges. Those futures exchanges that also offer trading in securities besides trading in futures contracts are listed both here and the List of futures exchanges.

LIST OF STOCK EXCHANGES IN WORLD

CONTENTS:

1. North America
2. Europe
3. Asia
4. South America
5. Oceania
6. Africa

USA:

1. Archipelago Exchange, merged with NYSE
2. Arizona Stock Exchange, closed down
3. American Stock Exchange (AMEX)
4. Boston Stock Exchange
5. Chicago Stock Exchange
6. Hedge Steel
7. NASDAQ
8. National Stock Exchange

9. New York Stock Exchange
10. Pacific Exchange (PCX)
11. Philadelphia Stock Exchange (PHLX)

INDIA:

1. Ahmedabad Stock Exchange
2. Bangalore Stock Exchange
3. Bhubaneswar Stock Exchange Association
4. Bombay Stock Exchange (BSE)
5. Calcutta Stock Exchange
6. Hyderabad Stock Exchange
7. Delhi Stock Exchange Association
8. Gauhati Stock Exchange
9. Hyderabad Stock Exchange
10. Inter-connected Stock Exchange of India
11. Jaipur Stock Exchange
12. Ludhiana Stock Exchange Association
13. Madhya Pradesh Stock Exchange
14. Mangalore Stock Exchange
15. Mumbai Stock Exchange
16. National Stock Exchange of India (NSE)
17. OTC Exchange of India
18. Pune Stock Exchange
19. Saurashtra-Kutch Stock Exchange

HISTORY OF BSE:

Indian has a long history of securities markets, which is largely driven by BSE, the Stock Exchange, and Mumbai. An indigenous enterprise set up about 130 year ago amidst the backdrop of British supremacy in international finance: BSE has been the hallmark of India's initiative into high street finance more than a century ago.

As chequered and exciting it's more than a century of existence has been, equally swift and smooth was the transformation of BSE into one of the most modern stock exchanges in the Asian region. It has several firsts to its credit even in the intensely competitive environment.

BSE was first to introduce concepts such as free float indexing, obtain ISO certification for surveillance, establish huge infrastructure to enhance knowledge and know-how, put in place a trading platform that works on a sub second response time and capacity of 4 million trades a day, export of trading platform technology to other stock exchange in Middle east, report highest delivery ratio among the major exchanges, lowest transaction costs, a record of lowest defaults, offer highest compensation for investor in cases of valid and approved claims.

The origin of the Bombay (Mumbai) Stock Exchange dated back to 1875. it was organized under the name of "the Native Stock and Share Brokers Association" as a voluntary and non- profit making association. It as recognized on a permanent basis in 1957. This premier stock exchange is the oldest stock exchange in Asia.

NSE-50 INDEX (NIFTY)

This Index is built by India Services Product Ltd (IISL) and Credit Rating Information Services of India Ltd (CRISIL). NSE-50 Index was introduced on April 22, 1996 to serve as an appropriate index for the new segment of futures and options.

"Nifty" means National Index for Fifty Stocks.

The selection criteria are the market capitalization and liquidity. The market capitalization of the companies should be Rs. 5 billion or more. The company scrip should be traded for 85% of the trading days at an impact cost less than 1.5%.

The base period for the Nifty index is the closing prices on November 3, 1995.

The base period is selected to commensurate the completion of one – year operation of NSE in the stock market. The base value of index at 1000 with the base capital of Rs.2.06 of trillion.

The NSE Madcap Index or the Junior Nifty comprises 50 stocks that represents 21 board industry groups and will provide proper representation of the madcap segment of greater than Rs.200 crores and should have traded 85% of trading days at an impact cost of less than 2.5%.

The base period for the index is Nov 4, 1996. This signifies two years for completion of operations of the capital market segment of the operations. The base value of the index has been set at 1000.

CHAPTER –IV

COMPANY PROFILE

COMPANY PROFILE

India Info line Group

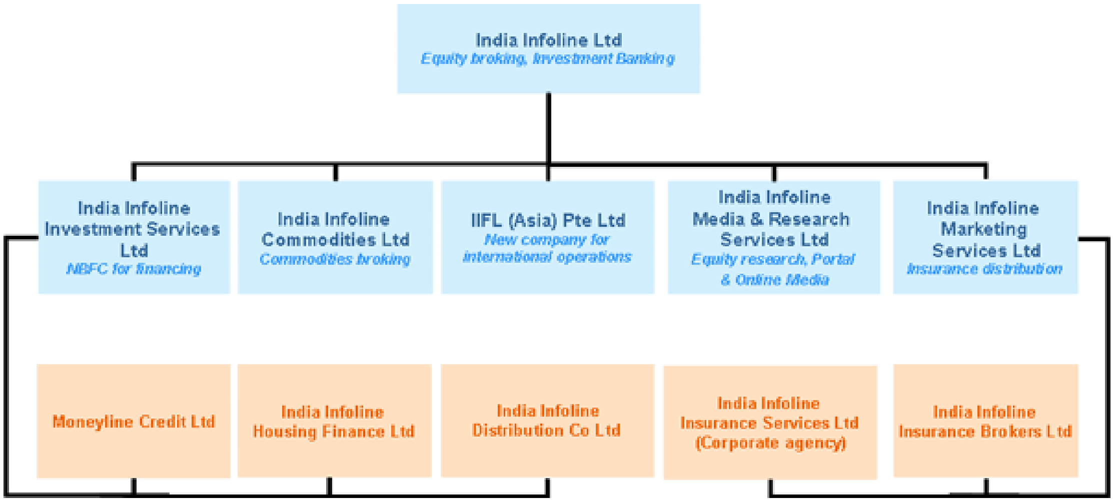
The India Infoline group, comprising the holding company, India Infoline Limited and its wholly-owned subsidiaries, straddle the entire financial services space with offerings ranging from Equity research, Equities and derivatives trading, Commodities trading, Portfolio Management Services, Mutual Funds, Life Insurance, Fixed deposits, Go I bonds and other small savings instruments to loan products and Investment banking. India Infoline also owns and manages the websites www.indiainfoline.com and www.5paisa.com

The company has a network of 2300 branches spread across 450 cities and towns. It has more than 1000,000 customers.

India Info line Ltd

India Infoline Limited is listed on both the leading stock exchanges in India, viz. the Stock Exchange, Mumbai (BSE) and the National Stock Exchange (NSE) and is also a member of both the exchanges. It is engaged in the businesses of Equities broking, Wealth Advisory Services and Portfolio Management Services. It offers broking services in the Cash and Derivatives segments of the NSE as well as the Cash segment of the BSE. It is registered with NSDL as well as CDSL as a depository participant, providing a one-stop solution for clients trading in the equities market.

ONLINE TRADING



A SEBI authorized Portfolio Manager; it offers Portfolio Management Services to clients. These services are offered to clients as different schemes, which are based on differing investment strategies made to reflect the varied risk-return preferences of clients.

India Infoline Media and Research Services Limited.

The content services represent a strong support that drives the broking, commodities, mutual fund and portfolio management services businesses. Revenue generation is through the sale of content to financial and media houses, Indian as well as global.

It undertakes equities research which is acknowledged by none other than Forbes as 'Best of the Web' and '…a must read for investors in Asia'. India Infoline's research is available not just over the internet but also on international wire services like Bloomberg (Code: IILL), Thomson First Call and Internet Securities where India Infoline is amongst the most read Indian brokers.

India Infoline Commodities Pvt Limited is engaged in the business of commodities broking. Our experience in securities broking empowered us with the requisite skills and technologies to allow us offer commodities broking as a contra-cyclical alternative to equities broking. We enjoy memberships with the MCX and NCDEX, two leading Indian commodities exchanges, and recently acquired membership of DGCX. We have a multi-channel delivery model, making it among the select few to offer online as well as offline trading facilities.

India Infoline Marketing & Services

India Infoline Marketing and Services Limited is the holding company of India Infoline Insurance Services Limited and India Infoline Insurance Brokers Limited.

a) India Infoline Insurance Services Limited is a registered Corporate Agent with the Insurance Regulatory and Development Authority (IRDA). It is the largest Corporate Agent for ICICI Prudential Life Insurance Co Limited, which is India's largest private Life Insurance Company. India Infoline was the first corporate agent to get licensed by IRDA in early 2001.

b) India Infoline Insurance Brokers Limited India Infoline Insurance Brokers Limited is a newly formed subsidiary, which will carry out the business of

c) Insurance broking. We have applied to IRDA for the insurance broking license and the clearance for the same is awaited. Post the grant of license; we propose to also commence the general insurance distribution business.

India Infoline Investment Services Limited

Consolidated shareholdings of all the subsidiary companies engaged in loans and financing activities under one subsidiary. Recently, Orient Global, a Singapore-based investment institution invested USD 76.7 million for a 22.5% stake in India Infoline Investment Services. This will help focused expansion and capital raising in the said subsidiaries for various lending businesses like loans against securities, SME financing, distribution of retail loan products, consumer finance business and housing finance business. India Infoline Investment Services Private Limited consists of the following step-down subsidiaries.

a) India Infoline Distribution Company Limited (distribution of retail loan products)

b) Money line Credit Limited (consumer finance)

c) India Infoline Housing Finance Limited (housing finance)

IIFL (Asia) Private Limited

IIFL (Asia) Private Limited is wholly owned subsidiary which has been incorporated in Singapore to pursue financial sector activities in other Asian markets. Further to obtaining the necessary regulatory approvals, the company has been initially capitalized at 1 million Singapore dollars.

The Management

Mr. Nirmal Jain

Nirmal Jain, MBA (IIM, Ahmedabad) and a Chartered and Cost Accountant, founded India's leading financial services company India Infoline Ltd. in 1995, providing globally acclaimed financial services in equities and commodities broking, life insurance and mutual funds distribution, among others. Mr. Jain began his career in 1989 with Hindustan Lever's commodity export business, contributing tremendously to its growth. He was also associated with Inquire-Indian Equity Research, which he co-founded in 1994 to set new standards in equity research in India.

Mr. R Venkataraman

Mr. R Venkataraman, co-promoter and Executive Director of India Infoline Ltd., is a B. Tech (Electronics and Electrical Communications Engineering, IIT Kharagpur) and an MBA (IIM Bangalore). He joined the India Infoline board in July 1999. He previously held senior managerial positions in ICICI Limited, including ICICI Securities Limited, their investment banking joint venture with J P Morgan of USA and with BZW and Taib

Capital Corporation Limited. He was also Assistant Vice President with G E Capital Services India Limited in their private equity division, possessing a varied experience of more than 16 years in the financial services sector

The Board of Directors

Apart from Nirmal Jain and R Venkataraman, the Board of Directors of India Infoline comprises:

Mr. Sat Pal Khattar (Non Executive Director)

Mr. Sat Pal Khattar, - Board member since April 2001 - Presidential Council of Minority Rights member, Chairman of the Board of Trustee of Singapore Business Federation, is also a life trustee of SINDA, a non-profit body, helping the under-privileged Indians in Singapore. He joined the India Infoline board in April

2001. Mr. Khattar is a Director of public and private companies in Singapore, India and Hong Kong;

Chairman of Guocoland Limited listed in Singapore and its parent Guoco Group Ltd listed in Hong Kong, a leading property company of Singapore, China and of India Infoline Ltd, Gateway Distriparks Ltd — both listed — and a number of other companies he is also the Chairman of the Khattar Holding Group of

Companies with investments in Singapore, India, UK and across the world Malaysia.

Products and Services

We are a one-stop financial services shop, most respected for quality of its advice, personalized service and cutting-edge technology

Equities

Indiainfoline provided the prospect of researched investing to its clients, which was hitherto restricted only to the institutions. Research for the retail investor did not exist prior to Indiainfoline. Indiainfoline leveraged technology to bring the convenience of trading to the investor’s location of preference (residence or office) through computerized access. Indiainfoline made it possible for clients to view transaction costs and ledger updates in real time.

PMS

Our Portfolio Management Service is a product wherein an equity investment portfolio is created to suit the investment objectives of a client. We at Indiainfoline invest your resources into stocks from different sectors, depending on your risk-return profile. This service is particularly advisable for investors who cannot afford to give time or don't have that expertise for day-to-day management of their equity portfolio.

Research

Sound investment decisions depend upon reliable fundamental data and stock selection techniques. Indiainfoline Equity Research is proud of its reputation for, and we want you to find the facts that you need. Equity investment professionals routinely use our research and models as integral tools in their work. They choose Ford Equity Research when they can clear your doubts.

Commodities

Indiainfoline's extension into commodities trading reconciles its strategic intent to emerge as a one-stop solutions financial intermediary. Its experience in securities broking has empowered it with requisite skills and technologies. The Company's commodities business provides a contra-cyclical alternative to equities broking. The Company was among the first to offer the facility of commodities

Trading in India's young commodities market (the MCX commenced operations only in 2003). Average monthly turnover on the commodity exchanges increased from Rs 0.34 bn to Rs 20.02 bn. The commodities market has several products with different and non-correlated cycles. On the whole, the business is fairly insulated against cyclical gyrations in the business.

CURRENT DIVERSIFICATIONS

A) DEPOSITORY PARTICIPANT

The Exchange has also become a Depository Participant with National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). Our own DP is fully operational and the execution time will come down substantially. The depository functions are undertaken by the Exchange by opening the accounts at Hyderabad of investors, members of the Exchange and other Exchanges. The trades of all the Exchanges having On-line trading which get into National depository can also be settled at Hyderabad by this exchange itself. In short all the trades of all the investors and members of any Exchange at Hyderabad in dematerialized securities can be settled by the Exchange itself as a participant of NSDL and CDSL. The exchange has about 15,000 B.O. accounts.

B) FLOATING OF A SUBSIDIARY COMPANY FOR THE MEMBERSHIP OF MAJOR STOCK EXCHANGES OF the COUNTRY

The Exchange had floated a Subsidiary Company in the name and style of M/s INDIAINFOLINE Securities Limited for obtaining the Membership of NSE and BSE.

YEAR	NSECASH Rs.In Lakhs	NSE F&O Rs.IN Lakhs	BSE CASH Rs.IN Lakhs
2001-02	338236.81	--	--
2002-03	426143.50	16657.08	--
2003-04	617808.46	312203.56	17558.59
2004-05	484189.11	354370.71	39519.96
2005-06	581498.42	397634.42	43398.61
2006-07	620321.98	430264.12	48268.52
2007-08	521334.08	360172.29	32020.21

C) FACILITY TO TRADE AT NSE, DERIVATIVES TRADING, NET TRADING

The Exchange has incorporated a Subsidiary "INDIAINFOLINE securities Limited" with a paid up capital of Rs. 2.50 crores initially to take NSE Membership, so that the members of the exchange will have access to the NSE's Trading Screen as Sub-brokers, Derivatives Trading and Net Trading etc. The Members of this exchange will also have equal opportunity of participating in such trading like any other NSE member.

National stock exchange (NSE) LTD

Sponsored by the industrial development bank of India, the NSE has been co-sponsored by other development/public finance institutions, LIC, GIC, banks and other financial institutions such as SBI capital market, Stockholding Corporation, infrastructure leasing and finance and so on. India has had a history of stock exchanges limited in their operating jurisdiction to the cities in which they were setup. Its main objective has been to setup comprehensive facilities for the entire range of securities under a single umbrella namely,

- To set up a nation wide trading facility for equities, debt instruments and hybrids;
- To ensure equal access to investors across the country through an appropriate communication network;
- To provide a fair, efficient and transparent securities market to investors using the electronic trading system;
- To ensure shorter settlement cycles and book entry settlement system;
- To meet the current international standards prevalent in the securities industry/markets.

Constitution

The NSE has two segments for trading in securities: wholesale debt market (WDM) and capital market (CM) segments.

Wholesale debt market (WDM) segment: The WDM segment provides a facility for institutions/body corporate to enter into high value transactions in instruments such as government securities, T-bills, public sector undertakings bonds, units of mutual funds. The players on the WDM segment are trading members (TMs) and participants.

Trading members: They are recognized members of the NSE. The person eligible to become TMs is body corporates, subsidiaries of banks and financial institutions. They are selected on the basis of a comprehensive selection criterion.

Participants: They are the organizations directly responsible for the settlement of trade. They are large players the market and as such take direct settlement responsibility of their own trades executed through TMs.

Capital market (CM) segment: it covers trading in equities and retail trade in debt instruments like non-convertible debentures and hybrid instruments. In reflection of the need to upgrade professional standards of market intermediaries the admission standards laid down by the NSE are very rigorous, with stress on factors such as capital adequacy, track record, education/experience and soon. The NSE market is a fully automated; screen based trading system which adopts the principle of an order-driven market. It provides complete flexibility to members in the kinds of orders that can be placed by them.

Trade type: WDM trading system provides for trading in debt and other instruments either as out right purchase and sale as non-repo trades or as repo. While entering the order the trading member has to indicate the trade type and the desired settlement term, if their order is to result into a trade.

Order matching rules: orders are matched on the basis of price-time priority. For non-report trades, the best buy order is the one with the highest buy price and the best sell order is the one with the lowest price. Orders are matched automatically by the trading system based on passive order price.

Security descriptor: security descriptor refers to the unique identification of the subject matter of the trade and is divided into six parts. All orders are matched on the basis of the descriptors. It consists of following components: security type, security, issue, settlement, and trade type and repo term.

Basis of trading: order matching is essentially on the basis of security descriptor, price/ rate, volume, order type and conditions. The value of the order /trade is indicated in Rs lakh in the trading system. All orders are required to comply with the minimum order size and multiple sizes as specified by the NSE.

Exposure limits: every participant can set up counter-party exposure limits to ensure that all his trades are within the exposure limits set up for the respective counterpart.

Cp exposure screen: this facility is available only to the privileged trading members and participants. The user can setup exposure limits against other trading members or participants with respect to buy, sell, buy+sell or buy-sell transactions. The user can set limits for a certain amount or has an option to trade without restrictions.

Clearing and settlement system of the NSE

Settlement features of capital market segment: trading in the capital market segment has grown rapidly. A key factor in this growth has been the short and tight settlement cycles which the NSE operates as per a well defined schedule so that the investors are assured of settlement. The key features of the clearing settlement process operated by the NSE.

The cycles are short and announced well in advance by the NSE. All scrip's are handled by the clearing house unlike in other exchanges where only a part of scrip's traded are processed by a clearing house and the rest are settled among the brokers. The gap between pay-in and pay-out is only one day. The NSE takes the responsibility for rectifying shirt deliveries, bad deliveries and objections by initiating auction buy-in. in effect; it assures legal guarantee of transactions and settlement of the NSE.

The NSE operates on account period for a periodic settlement cycle. The trading period starts on Wednesday and ends on Tuesday of the end of a trading period of the next week. All trades concluded during a particular trading period are settled during the next week.

At the end of a trading period of the NSE, it multilaterally nets obligations and generates delivery statements for members. The securities are paid-in on the Monday following the trading period. Funds are paid-in on Tuesday.

The pat-out day for both funds and securities takes place on Wednesday. Thus settlement is completed eight days from the end of the last day of the trading cycle.

The clearing process, that is, the process of identifying confirmed obligations of all concerned entities is automated. Settlement is on a physical basis requiring the delivery and receipt of documents. The NSE has setup a clearing house, namely, national securities clearing corporation ltd (NSCCL) for managing the settlement of securities. There are no subgroups or sections and all securities are handled by the NSCCL.

On the pay-in day, delivering members are required to bring in securities to the clearing house. On the pay-out day, the securities are distributed to the respective receiving members. As trading has extended beyond Mumbai, clearing and settlement is extended beyond Mumbai by setting up regional clearing houses.

The NSE has appointed Canara bank as the clearing bank. All clearing members are required to open accounts with a designated branch of the clearing bank exclusively for settlement purpose. The bank is electronically connected to the NSE and the electronic funds transfer is affected for pay-in and pay-out at the instructions of the NSE.

The trading system has a facility to specify turnover limits for members. The maximum turn over is set in relation to their net worth. The NSE also marks to market member positions on a daily basis. Members are required to maintain significant deposits with it. Mark-to- market positions are monitored Vis a Vis their deposits. Margins are collected from members if their positions reach a threshold limit. The NSE also monitors unusual positions in securities by individual members to preempt settlement problems. All of the above measures are taken with a view to minimize systemic risks. Most importantly, the laid down procedures are strictly enforced. In effect, the NSE assures cash settlement. The NSE has provided special facilities for institutional investors and custodians. Trades done on behalf of the institutions who are settling through custodians are treated separately. When the NSE generates the delivery statements for members, it uses an allocation process which tries to minimize paper movements. Deliveries are allocated against the receipts on the following principles.

- For each custodian intra custodial deliveries and receipts are set off
- Excess custodian deliveries are matched against custodial receipts
- Remaining deliveries and receipts are matched against the trading member receipts and deliveries.
- Finally, trading member deliveries are matched against the trading member receipts.

The advantage of this for institution is that to the extent of intracustodian and intercustodian deliveries, they are assured of settlement. The clients of all custodians who are clearing members have been assigned codes by the NSE. In order to identify custodial trades, the trading system requires the trading members to enter the custodial client code along with the order entry. The identity of the client is not known to the market. The data is used by the clearing system to identify a trade as a custodial trade. It is possible for a client to use more than one custodian in which event the codes will be distinct and separate. Custodians are connected to the NSE. At the end of each day, they receive a report of all trades done on behalf of their clients. The custodians are required to confirm such trades. The last date for the confirmation of trades is one day after the closing of trading period, that is, Wednesday. Any trades which are not confirmed by the custodians are reverted back to the trading member. The confirmation of trades is an important part of the settlement process.

Custodial clients are required to indicate to the trading members the appropriate code, so that the trading member can enter it during order entry. Almost the leading custodians have now joined as clearing members and the process of confirmation and custodial settlement has began operations. This is of many benefits to institutions as well as trading members.

Institutional market segment: two additional markets segments have also been set up exclusively for institution- institutional lot segment and trade for trade segment. The objective behind the IL segment is to initiate an institutional market where large volume trades take lace in institutional board lots.

The trade for trade segment, likewise, is meant to cater to institutions that prefer trade for trade settlement as a means of minimizing exposure risks. Trades in the IL market segment are allowed in multiples of 1000 shares irrespective of the face value of securities. The trading system allows members to enter orders separately for this segment. As with the regular segment, trading period on the IL market is from Wednesday to Tuesday.

A trading member can enter and monitor any security in this market segment just as in the normal market. The NSE generates obligations, as in the normal market, by multilaterally netting positions. The settlement is different pay-in and pay-out of funds and securities are affected on the same day that is the subsequent Tuesday at the clearing house premises. All parties to the settlement of trades on this segment are required to come to the clearing house and exchange securities amongst themselves. Funds are paid into the NSE clearing account at the clearing bank on the settlement day and paid out by the clearing bank on the same day. There are two important conditions to be observed in the settlement of securities on this segment. Securities may be delivered in market lots or in institutional board lots (1000 shares) and the receiving member has to accept such delivery as good delivery. The securities delivered should be registered in the name of the delivering member; blank transfer forms are not allowed to be delivered. Custodians are required to report to the clearing house authorities of the successful exchange of funds and securities.

The TT segment is significantly different in settlement. Trades on this segment are settled for trade on a rolling basis.

Trades as of a day are required to be confirmed by T+3 and settled on T+5.

There is no concept of a market lot in this segment and hence, the delivery of shares of any lot is required to be accepted by the receiving member.

The settlement is effected between institutions/custodians directly and is required to be reported to the NSE. Both these segments are expected to become active as custodians gain familiarity with the settlement cycles. As of the present, the normal market is the most popular accounting for more than 90 percent of trade volumes.

Settlement system in WDM: the primary responsibility of settling trades concluded in the WDM segment rests directly with the participants and the exchange monitors the settlements. These trades are settled in Mumbai as per the procedure laid down.

- Traders are settled directly between the constituents/participants to the trade and not through any clearing house mechanism. Thus, each transaction is settled individually and netting of transactions is not allowed.
- Settlement is on a rolling basis that is no account period settlement. Each order has a unique settlement date specified upfront at the time of order entry and used as a matching parameter. It is mandatory for trades to be settled on the predefined settlement date. The NSE currently allows settlement periods ranging from same day (T+0) to a maximum of six working days (T+5). On the scheduled settlement date, it provides data/information to the respective member/participant regarding trades to be settled on that day with details like security, counterparty and consideration.
- Government securities including treasury (SGL) account with the RBI or through exchange of physical certificates. The required settlement details, that is, certificate number, SGL form number, cheque number, constituent, and so on are reported by the member/participant to the NSE. The other instruments are settled through delivery of physical securities. In case of repo trades, the settlement details of the forward leg are also reported.

The NSE closely monitors the settlement of transactions through the reporting of settlement details by members and participants. In case of deferment of settlement or cancellation of trade, participants are required to seek its prior approval. For

any dispute arising in respect of the trades or settlement, the NSE has established arbitration mechanism for resolving the same

NSE SGL A/C Facility for constituents: the NSE has an approval from the operate a second SGL facility for constituents. Banks had originally been provided with this facility in order to give an impetus to the process of widening the government securities market but this had not taken off to the desired extent. It is in this context that the SGL facility has been provided to NSCC of NSE to give a fillip to trading in government securities. The NSE uses this facility to open constituent SGL accounts for all non-SGL participants who are currently unable to get the benefit of a DVP settlement. The constituents would include trading members, PFs, trusts, corporate, and so on. With the cash credit facility being phased out, corporate treasury management through trading in debt securities is likely to pick up and the SGL facility of NSE will greatly facilitate corporate in this respect.

DERIVATIVES TRADING: A long over due reform of the Indian stock markets is the proposed introduction of derivative trading within the regulatory framework recommended by the L.C.Gupta committee. With the proposed amendment of the securities contracts act, permitting options and trading, the emergence of derivative trading is round the corner.

PURPOSE AND MEANING: Derivatives are risk management tools. As the name suggests, they have no independent value and their value is entirely derived from the value of a cash asset defined as assets bought and sold in the cash market on normal delivery terms. They mean forward, future or option contract of predetermined fixed duration linked for the purpose of contract fulfillment to the value of specified real or financial asset or to index of securities.

Forward contract: A forward contract is an agreement to exchange an asset for cash at a predetermined future date specified today. At the end of the contract, the party can enter into an offsetting transaction by paying the difference in the price. Forward contracts are private bilateral contracts to settle them at some future date. They are exposed to a default risk by counterparty. Each forward contract is unique in terms of contract size, expiration date and the asset type/quality. The contract price is not transparent as it is not publicly disclosed. Since the forward contract is not typically trade able, it has to be settled by delivery of the asset on the expiration date.

Futures/ future contracts: They are transferable specific delivery forward contracts. They are agreements between two counterparties that fix terms of an exchange or a lock in the price today of an exchange which will take place between them at some fixed future date. As highly standardized contracts between sellers and buyers, they obligate the former to deliver and the latter to receive the given assets in specified quantities of specified grades at a fixed time in future at the contracted prices. The period of contract may vary between 3-21 months. Depending on the underlying assets, there could be commodity/financial future, stock index futures. While stock index futures are traded on the basis of different share price indices rather than on any individual share, the interest rates futures are written on the basis of interest rate/price indices of fixed interest securities such as T-bills/bonds/debentures.

Future contracts are transferable legal agreements and their terms cannot be changed during the life of the contract. Although futures provides for the delivery of the contracted assets, in practice, only a small portion, not offset by corresponding opposite contracts, is settled by the actual delivery. In fact, there is simply no deliverable asset in the case of bond, the value of the contract.

Such cases are some multiple of the value of the index and the settlement of such contracts has to be in cash. In contrast to forward contracts, the future contracts are standardized trade able contracts. They are standardized in terms of size, expiration date and all other features. They are liquid and transparent. Their market prices and trading volumes are regularly reported.

The forward contracts are being used in India on a fairly large scale in the foreign exchange market for covering currency but there are neither currency futures nor any other financial future at present.

OPTIONS: Options are contracts giving the holder the right to buy or sell securities at a predetermined price with in the end of a specified period. For the call option holder, exercise of the right would be worth while only if the price of the underlying securities rises/falls above/below the exercise price respectively. There can be options on commodities, currencies, securities, stock index, individual stocks, and even on futures. In order to acquire the right of option, the option buyer's pays to the option seller an option premium which is the price paid for the right. The buyer of an option can lose no more than the option premium paid, but his possible gain is unlimited. The option writers' possible loss is unlimited but his maximum gain is restricted to the option premium charged by him to the holder. The most critical aspect of the option contracts is the evaluation of the fairness of option premium, that is, option pricing. The availability of both financial futures and options would provide to the users a wider choice of hedging instrument than any one of them alone. At the issue time, to make hedging possible, the market should also have speculators who are prepared to be counter parties to hedgers.

<u>TYPES OF FINANCIAL DERIVATIVES:</u> Financial transactions and asset liability positions are exposed to three broad types of price risks, resulting in three types of financial derivatives. First, equity market risk or systematic risk which cannot be diversified away as the stock market as a whole may go up/down from time to time. Equity futures provide the hedging mechanism to meet this type of risk. Interest rates futures emerge from interest rate risk in case of fixed income.

Securities whose market price could fall heavily if interest rates shot up. The focus of the L.C. Gupta committee is on equity derivatives. While the type of equity derivative contracts to be introduced in the Indian stock markets would be determined by market forces under the general oversight of the SEBI and both futures and options would be needed, a beginning should be made with stock index futures which are treated on the basis of different share price indicates rather than any individual share.

<u>Regulatory framework: principles:</u>

While from the purely regulatory angle, a separate exchange for futures trading would be a better arrangement, considering the constraints in infrastructure facilities the existing stock exchanges may also be permitted to trade derivatives subject to the following eligibility conditions.

ONLINE TRADING

- Trading should take place through an online screen based trading system which also has a disaster recovery site. The per-half hour capacity of the computer/network should be at least four to five times of the anticipated peak load in any half hour or the actual peak load seen in any half hour during the preceding six months.
- The clearing of the derivative market should be done by an independent clearing corporation.
- The exchange must have an online surveillance capability which monitors positions, prices and volumes in real time so as to deter market manipulation.
- Information about trades, quantities, and quotes should be disseminated by the exchange in real time over at least two information vending networks which are accessible to investors in the country
- The exchanges should have at least 50 members to start derivatives trading.
- The derivatives market should have a separate governing council which should not have representation of trading/clearing members beyond whatever percentage SEBI may prescribe after reviewing the working of the present governance system of exchanges.

Division of regulatory responsibility:

To secure the triple advantage of (a) permitting desirable flexibility

(b) Maximizing regulatory effectiveness

(c) Minimizing regulatory cost, the committee has suggested the division of responsibility of regulation.

Two levels of regulation: the regulatory framework should comprise two distinct levels: (1) exchange level. (2) SEBI-level.

The focus should be on exchange level regulation by ensuring that the derivative exchanges operate as effective self-regulatory organizations under the over all supervision of the SEBI. Since the regulations contained in securities contracts act, SEBI act and various riles and regulations regarding stock exchanges are of general and over riding nature, they could be reviewed, if necessary, and designed to be equally applicable to derivative exchanges also. However, emphasis should be on exchange level regulation so that a derivative exchange is designed from the very beginning as a competent and effective regulatory organization in every possible way.

Exchange level regulation: the exchange level regulations have to necessarily be very detailed and highly technical. They should cover entry requirements for derivative traders/members; design of derivative contracts; broker client relationship including sales procedures and risk disclosures to clients; trading and reporting procedures; internal risk control system; margining; clearing; settlement and dispute resolution.

SEBI's regulatory responsibility: the SEBI should approve the rules, bye-laws and regulations of the derivative exchange as also the proposed derivative contracts before the commencement of trading. Any subsequent change in these would need the prior approval of SEBI. How ever, SEBI should not be involved in framing exchange level rules but it should evaluate them, identify deficiencies and suggest improvements.

Before starting trading in a new derivative product, the derivative exchange should submit the proposal for SEBI's approval giving

(a) Full details of the contract to be traded,

(b) Economic purpose it is intended to serve,

(c) Its likely contribution to the market development, and

(d) Safeguard to ensure protection of the investors/clients and fair trading.

<u>Special entry rules for derivatives brokers/dealers:</u>

The derivative market should be subjected to more stringent requirements than the present cash markets. The members of the existing exchanges cannot become members of the derivative exchange automatically. Only those satisfying strict eligibility conditions should be admitted as brokers/dealers.

<u>Capital adequacy:</u>

The absolute amount of minimum capital adequacy requirement has to be much higher than for cash market. If a broker/dealer is involved both in cash and future segment/in several exchanges, the requirements should be satisfied for each segment/exchange separately.

In order to ease the constraint on participation in the derivative market due to high capital adequacy requirements consideration may be given to a two-level system of members: clearing members and non-clearing, the requirement being higher for the former than the latter. The non-clearing members would have to depend on the clearing members for the settlement of trades. The clearing member would have to take responsibility for the non-clearing member's position so far as the clearing corporation is concerned, that is, become the guarantor.

Net worth and initial margin:

The minimum net worth of a clearing member should be Rs 3 crore. He should deposit Rs 50 lakh with the exchange/clearing corporation in the form of liquid assets such as cash/fixed deposits/pledged in the name of the exchange/other securities/bank guarantee. The requirement of minimum net worth and deposit in case of option writers would need to be higher.

Certification requirement:

The broker-member sales persons/dealers must have passed a certification programmer considered adequate by the SEBI. The brokers should be registered with the SEBI in addition to their registration of any other exchange. The SEBI may also require registration of sales persons working at derivative brokerage firms.

Clearing Corporation:

The clearing mechanism of the derivative trading should be organized as a separate entity preferably as a clearing corporation which would become a legal counterparty to all trades and be responsible for guaranteeing settlement for all open positions. If any clearing member defaults, settlement for other CMs would not be affected; this would protect the reputation of the exchange and minimize default risk of trading. The creditability of the CC would have to be assured.

Mark-to-markets margin:

The aim should be collect the mark to markets margin before the start of the next day's trading. All derivates dealers should be required to be connected to electronic funds transfer facility. The capital adequacy should be finally decided after taking into account both the extent of volatility and the time taken for funds transfer from dealers to the exchange.

Margin collection from clients: the collection of initial and mark to market margins by brokers from their clients should not be left to their discretion but should be insisted upon. The SEBI should require the exchanges, through systems of inspection and reporting, to ensure that margins are actually collected from all clients including financial institutions.

Safeguarding clients' money:

The CC should segregate the upfront margins deposited by CMs for trade on their own account from those on client account. It should not utilize the clients' margin deposits for fulfilling the dues which a CM may owe to it in respect of trades on
CM's own account. There should be an independent investor protection fund to compensate clients in case of CM's default.

SEBI's approval for clearing corporation: The CC must have the SEBI's approval for which it should satisfy the following conditions.

- The CC would perform full notation, that is it should interpose itself between both legs of every trade as the legal counterparty to both or alternatively provide an unconditional guarantee for the settlement of all trades.
- It would have the capacity to monitor the overall position of members across both cash and derivative markets for members who are participating in both.
- The level of initial margin required on a position should be related to the risk of loss on position. The value at risk concept should be used in calculating the required levels of initial margin, which should large enough to cover the one-day loss that can be encountered on the position on 99 percent of the days. The capital adequacy norms should apply intra-day so that at no time the initial margin and the mark to market margin available with the CC are smaller than the value at risk of the position at that point of time.

- The clearing mechanism is the centerpiece of a derivatives market, both for implementing the margin system and for providing trade guarantee. Therefore the arrangement must require the SEBI's approval. The policy should be to nudge the system towards a single national CC for all the stock exchanges.

Regulation of sales practice and disclosures for derivatives:

The sales practices for derivatives and broker-client relationship needs regulatory focus. There is a real danger of unethical sales practices in the pricing of complex derivative contracts. Clients may be induced to buy unsuitable derivative contracts at unfair prices and without properly underwriting the risk involved. A standard practice aboard is to require a risk disclosure document to be provided by the broker to every client in respect of a particular type of derivative product being slog.

Moreover brokers are expected to know their clients and to exercise care to ensure that the derivative product is suitable to the understanding and financial capability of a client. The risk and complexity vary among the derivative products.

While some derivatives are relatively simple many others specially options could be highly complex and require additional safeguards from the investors' point of view. Attention should be given to the proper supervision of sales practices for derivatives from the very beginning. It should be the responsibility of the derivative exchange as a self regulatory organization, to take the necessary steps in this regard under the general oversight of SEBI.

Sales to corporate clients:

Corporate clients/banks should be allowed to trade in derivative only if and, to the extent, authorized by their board, specifying the scope/purpose/objective-hedging

Mutual funds as clients: Mutual funds need hedging facility. The regulatory prohibition on the use of derivatives for hedging by them should be withdrawn immediately. They should be allowed to use financial derivatives for hedging purpose and portfolio balancing within a policy framework and rules laid down by their board of trustees who should specify what derivatives are allowed to be used, within what limits, for what purposes, for which schemes, and also the authorization procedures.

CHAPTER - V

DATA ANALYSIS & INTERPRETATION

DATA ANALYSIS

In this chapter it is proposed to discuss the Satisfaction of investors toward online trading.

TABLE SHOWING AGE GROUP OF RESPONDENTS

TABLE No-1

Particulars	No. Of respondents	Percentage of respondents
Below 30 years	29	48
30-40 years	16	27
Above 50 years	15	25

TOTAL	**70**	**100**

*Source: Primary data

The above table indicates that out of the total number of respondents,41% of the respondents were below 30 years of age, 27% of the respondents were between 30 years and 50 years and 25% of the respondents were above50 years of age.

It shows that majority of the respondents were below 30 years.

CHART-1

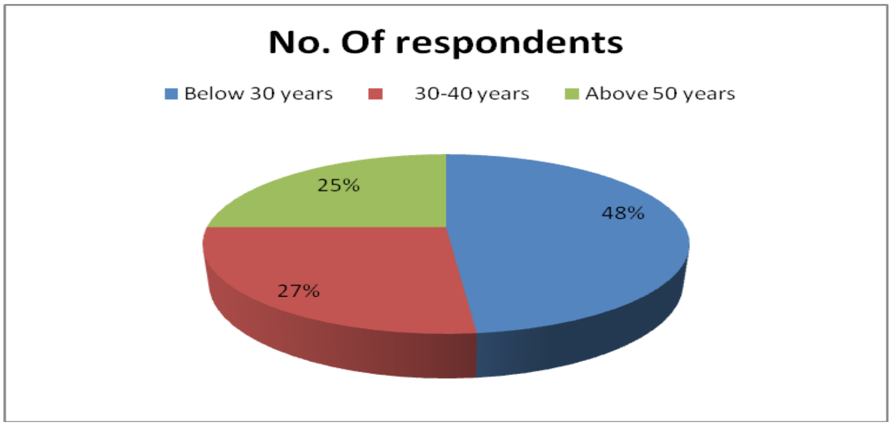


TABLE SHOWING THE GENDER RATIO OF THE RESPONDENTS

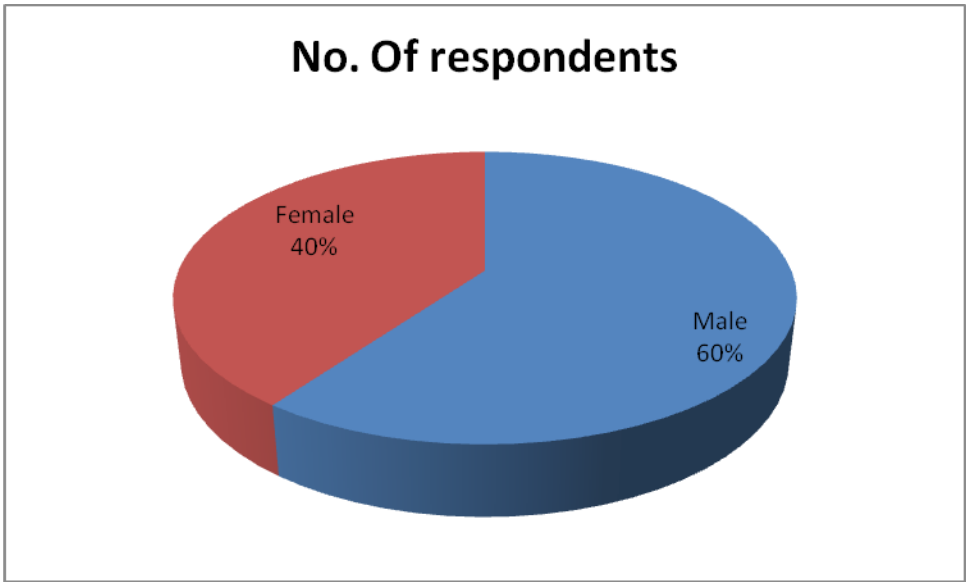
TABLE No-2

Particulars	No. Of respondents	Percentage of respondents
Male	42	60
Female	28	40
TOTAL	**70**	**100**

*Source: Primary data

The above table indicates that out of the total respondents, 60% of the respondents were Male and 40% were Female

CHART-2



EDUCATIONAL QUALIFICATION

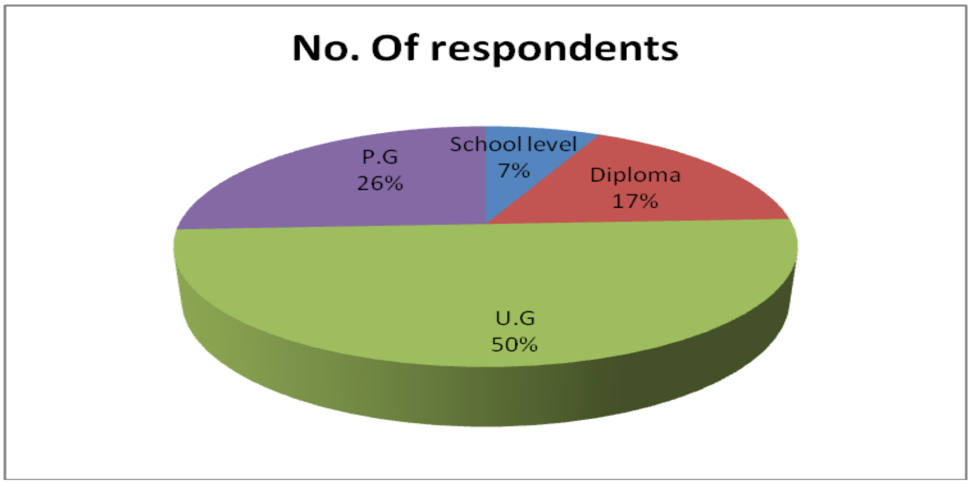
TABLE No-3

Particulars	No. Of respondents	Percentage of respondents
School level	5	7
Diploma	12	17
U.G	35	50
P.G	18	26
Total	**70**	**100**

*Source: Primary data

The above table shows that out of 70 respondents, 5 have school level education, 12 having Diploma, 35 of them Under graduates and 18 of them hold Post Graduate level of education.

CHART 3



INCOME

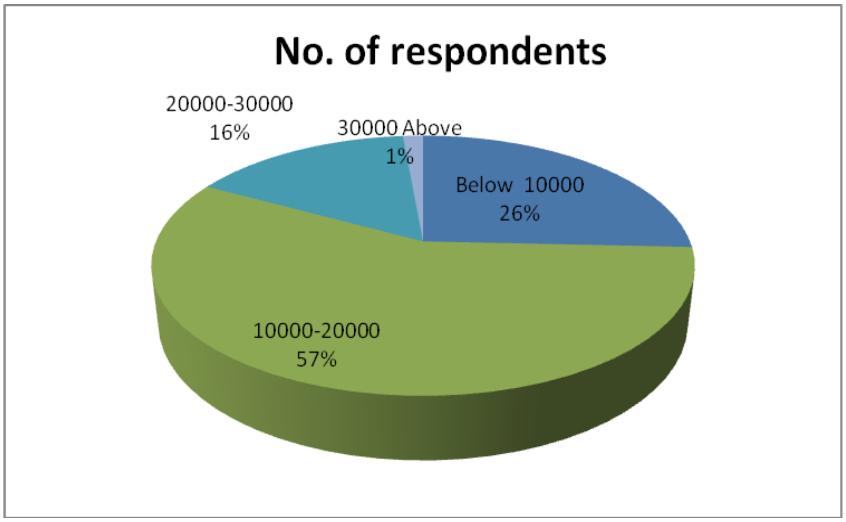
TABLE-4

Particulars	No. of respondents	Percentage of respondents
Below 10000 P.M	18	26
10000-20000 P.M	40	57
20000-30000 P.M	11	16
30000 Above	1	1
TOTAL	**70**	**100**

ONLINE TRADING

The above table indicates that out of the total respondents, 26% of the respondents had an income below Rs. 10,000 per month, 57% of the respondents had income in the range of Rs. 10,000 and Rs. 20,000, 16% of the respondents had income in the range of Rs. 20,000 and Rs. 30,000 and 1% of the respondents had income above Rs. 30,000

CHART-4



MOTIVATING FACTOR

TABLE-5

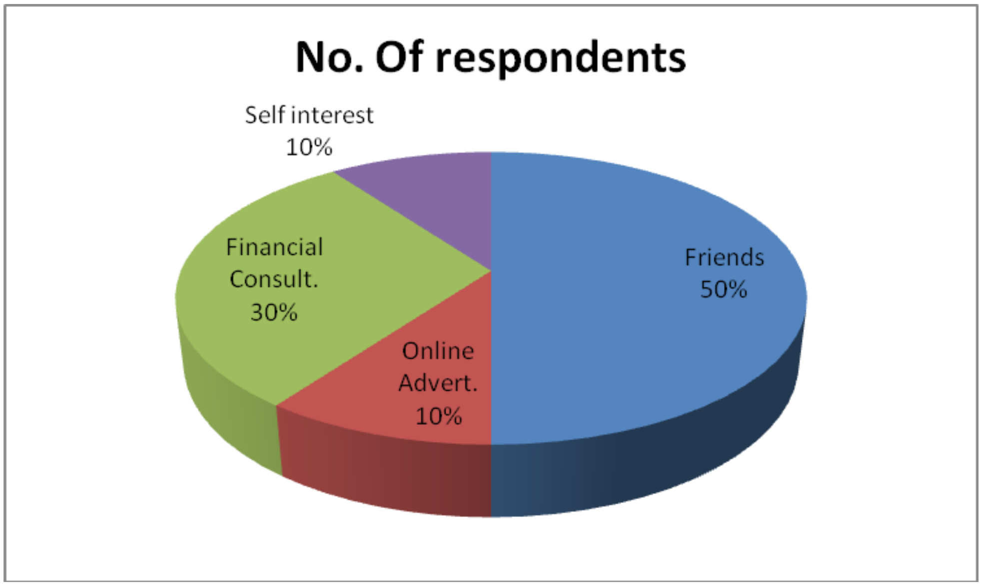
Particulars	No. Of respondents	Percentage of respondents
Friends	35	50
Online Advert.	7	10
Financial Consult.	21	30
Self interest	7	10
Total	**70**	**100**

*Source: Primary data

ONLINE TRADING

The above table indicates that out of the total respondents, 50% of the respondents were induced by Friends into On-line share trading, 10% of the respondents were induced by On-line advertisements and 30% of the respondents were induced by Financial Consultants, 10% are from their self interest.

CHART –5



INTERNET ACCESS

TABLE -6

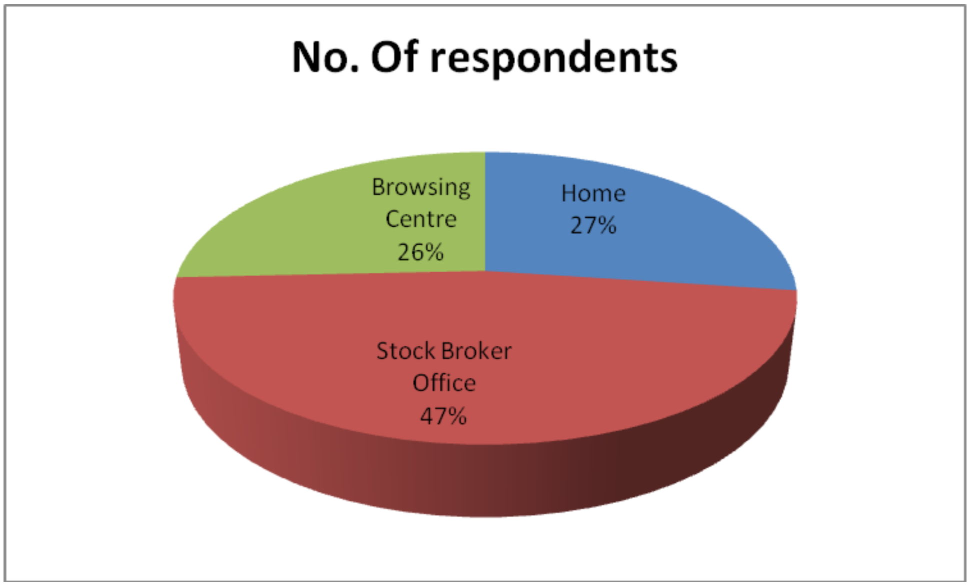
Particulars	No. Of respondents	Percentage of respondents
Home	19	27
Stock Broker Office	33	47
Browsing Centre	18	26
Total	70	100

*Source: Primary data

ONLINE TRADING

The above table indicates that out of the total respondents, 27% of the respondents were accessing Internet for Share trading at home, 47% of the respondents were accessing internet for Share trading at the Stock Brokers Office and 26% of the respondents were accessing internet for Share trading at Browsing Centre's.

CHART-6



TRADING PERIODICITY

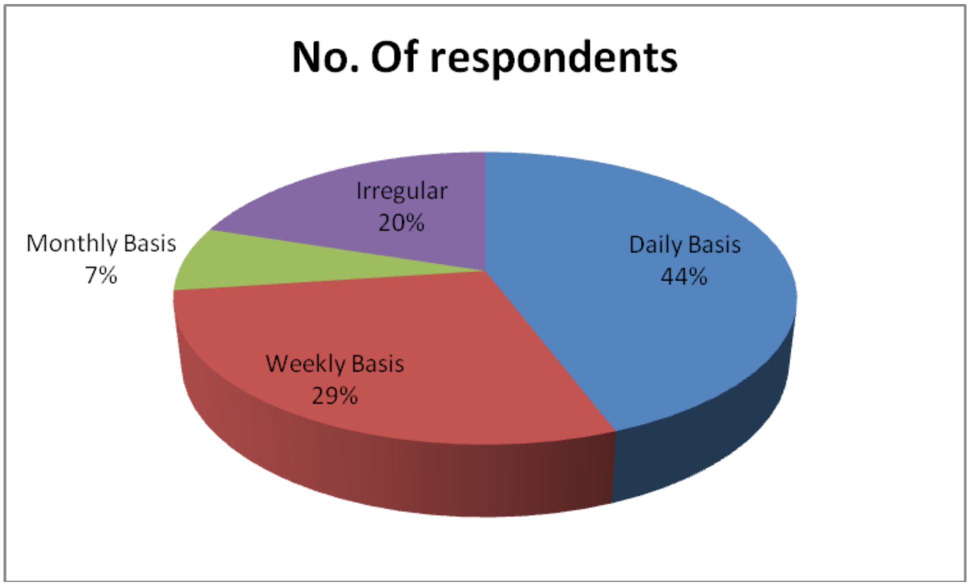
TABLE –7

Particulars	No. Of respondents	Percentage of respondents
Daily Basis	31	44.28
Weekly Basis	20	28.57
Monthly Basis	5	7.14
Irregular	14	20
TOTAL	**70**	**100**

*Source: Primary data

The above table indicates that out of the total respondents, 14% of the respondents were doing On-line Share trading on a daily basis, 29% of the respondents were doing On-line Share trading on a Weekly basis, 7% of the respondents were doing On-line Share trading on a monthly basis and 20% of the respondents were doing On-line Share trading on an irregular basis.

CHART-7



STOCK BROKING COMPANY

TABLE- 8

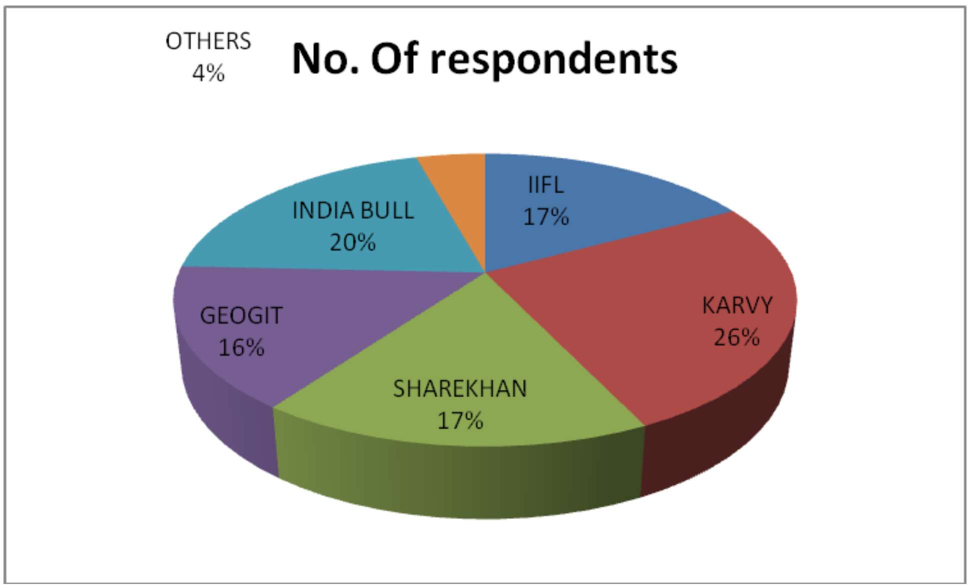
Particulars	No. Of respondents	Percentage of respondents
IIFL	12	17
KARVY	18	26
SHAREKHAN	12	17
GEOGIT	11	16
INDIA BULL	**14**	**20**
OTHERS	**3**	**4**

TOTAL	70	100

*Source: Primary data

The above table indicates that out of the total respondents, 17% of the respondents chose IIFL as their broker to do On-line Share trading, 26%of the respondents chose Karvy as their broker to do On-line Share trading, 17%of the respondents chose Sharekhan as their broker to do On-line Share trading,20% of the respondents chose Geojit as their broker to do On-line Share trading,20% of the respondents chose India bull as their broker to do On-line Share trading and 4% of the respondents chose other firms like Motilal as their broker to do On-line Share trading.

CHART-8



INFRASTRUCTURE OPINION

TABLE- 9

SELECTED RESPONDENTS OF RATING INFRASTRUCTURE

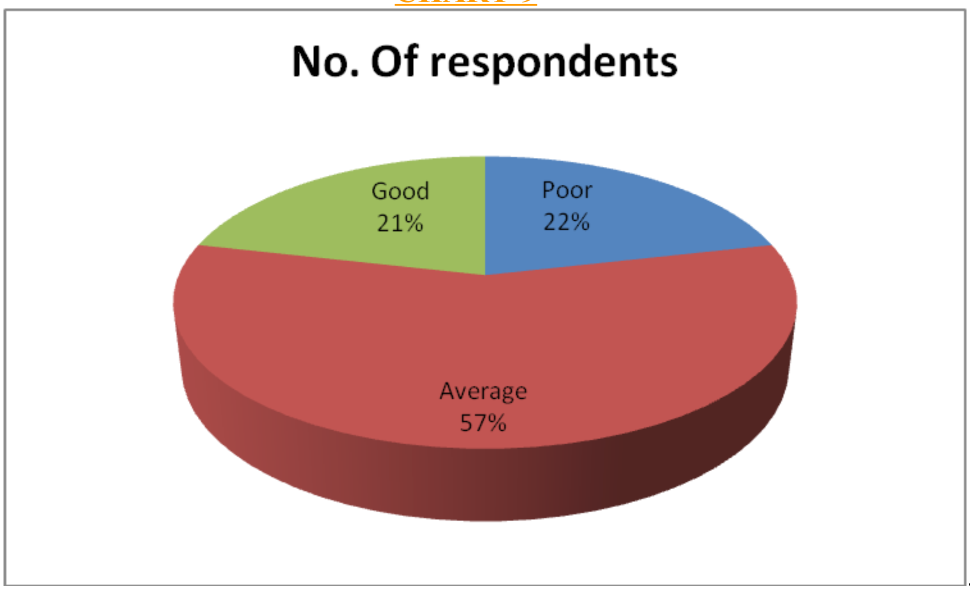
Particulars	No. Of respondents	Percentage of respondents
Poor	15	21.42
Average	40	57.14
Good	15	21.42
TOTAL	**70**	**100**

*Source: Primary data

ONLINE TRADING

The above table indicates that out of the total respondents, 21.42% of the respondents rate the Telecommunication and Internet facility in Hyderabad city as Poor, 57.14% of the respondents rate the Telecommunication and Internet facility in city as Average and 21.42% of the respondents rate the Telecommunication and Internet facility in Hyderabad city as Good.

CHART-9



RATING REGULATORY ENVIRONMENT OF ONLINE TRADING

The following is about the respondent's opinion on the regulatory environment of online trading

TABLE –10

SELECTED RESPONDENTS OF RATING REGULATORY ENVIRONMENT

Particulars	No. Of respondents	Percentage of respondents
Highly Satisfied	30	33.33
Satisfied	33	36.67
Neutral	12	13.33
Dissatisfied	15	16.67

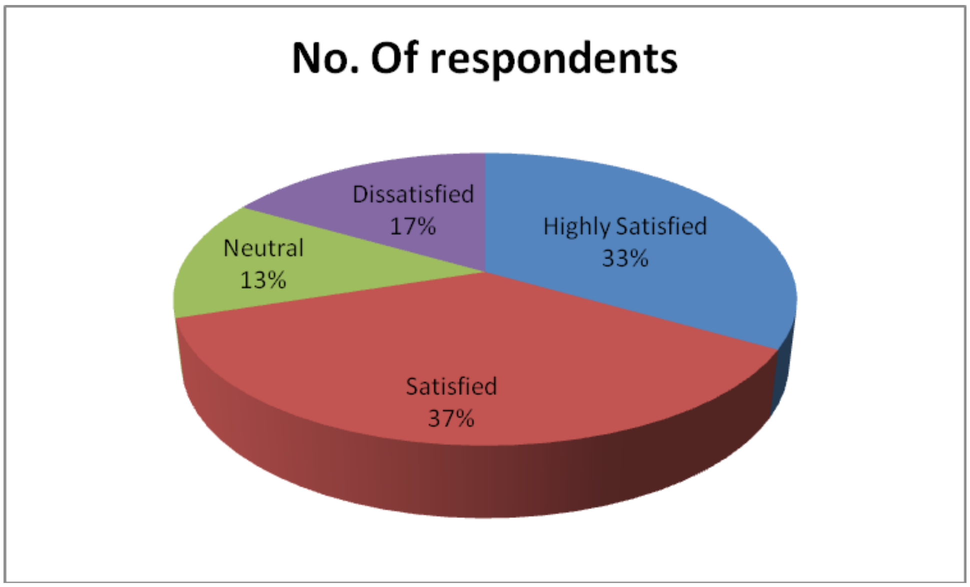
TOTAL	**90**	**100**

*Source: Primary data

From the above table, 36.67 percent are satisfied with the regulatory environment of online trading, and 33.33 percent are highly satisfied, and 16.67 percent are dissatisfied where a 13.33 percent are with neutral opinion.

Hence, it can be concluded that respondents are highly satisfied with the regulatory environment of online trading.

CHART-10



CHAPTER - VI

FINDINGS

SUGGESTIONS

FINDINGS

The study has revealed the nature of the share investors, share broking
Firms and investment atmosphere in Hyderabad city.

- It's good to note that the younger generation is more involved in on-line share trading.

- Share trading.
  * Men are more into this investment mode.
  * Post graduate investors are found to be more in this study.

- People in the beginning of their earning life seem to be more involved in on-line share trading.

- Married men and women have found on-line share trading as a source for extra income

- Friends have been the major inducing factor towards on-line share Trading.

- Most of the respondents access the internet at the stock brokers office.

- And they access it on all business days.
  * Only less than 1/3rd of the investors are professionals.
  Hyderabadis show equal consideration towards the trading sites.

- The investors of the Manchester of South India are interested in getting more information about the stock prices etc.

- 50% of the on-line share trading respondents here rate the infrastructure facility in this town as average

SUGGESTIONS

Share trading in Hyderabad city seems to be good. To improve the volume of share trade in Hyderabad city, these could be implemented

a) Conducting more awareness among the public through local media.

b) Training camps on the methods of on-line trade could be conducted.

c) Telecommunication and Internet provision could be further enhanced.

d) Share trading could be highlighted as a means to earn income for the Commerce graduates.

e) House wives could be educated in ladies clubs etc.

f) Considering the ongoing trend in Hyderabad city, the infrastructure for on-line share trading will improve in the city and there would be hike in volume of share trading.

CONCLUSION

The purpose of this study is well achieved. The day is not far when there would be free internet access in this city. It's delightful to note that the investors are eager to be updated about the market situation. Considering the ongoing trend in Hyderabad city, the infrastructure for on-line share trading will improve in the city and there would be hike in volume of share trading.

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www.moneyrediff.com

www.sebi.org

APPENDIX

QUESTIONNAIRE

CUSTOMER SATISFACTION TOWARDS ON-LINE SHARE TRADING WITH SPECIAL REFERENCE TO HYDERABAD.

1) Name- ________________

2) Age- i) below 30 ii) 30 – 50 iii) above 50

3) Gender- i) Male ii) Female

4) Educational Qualification

i) School level i) Diploma ii) Under Graduate iii) Post Graduate iv) others– please specify_____________

5) Income

i) below 10,000 i) 10,000 – 20,000 per month ii) 20,000 – 30,000 per month iii) above 30,000

6) Marital Status

i) Married ii) Unmarried

7) What motivated you to do on-line share trading?

i) Reference by friends ii) On-line advertisements iii) Advice by financial . consultants iv) self interest

8) Were you doing share trading before choosing Online?

i) Yes ii) No

9) From where do you access the internet?

i) Home ii) Stock broker office iii) Browsing centre

10) How often do you do on-line share trading?

i) Daily basis ii) Weekly basis iii) Monthly basis iv) Irregular

11) Are you a professional trader?

i) Yes ii) No

12) Which site do you use for trading?

i)IIFL ii) karvy iii) Sharekhan iv) Geojit v) IL&FS vi) if others, please . . specify_________________

13) Does the site guide you on on-line trading?

i) Yes ii) No

14) Are you satisfied with the information provided by online to do trading?

i) Yes ii) No

15) Does your broker site provide you with up-to-date news about IPOs (Initial . . Public Offer)?

i) Yes ii) No

16) Is the commission charged by the trading site reasonable?

i) Yes ii) No

17) Are you aware of T +2 method of trading?

i) Yes ii) No

18) Is on-line trading simple?

i) Yes ii) No

19) How would you rate the internet and telecommunication facility in . . . Hyderabad?

i) Poor ii) Average iii) Good

20) What are your suggestions to develop share trading?

In Hyderabad _________________________________.