DegreeLive

B.Com Honours | Semester VI | Calicut University

Stock Market Investment and Trading

Course Code: COM6FS113 (1) • Module 1 Notes

Stock Market Investment and Trading
Course Code: COM6FS113 (1) • Module 1 Notes

Module I: Introduction to Securities Market

The securities market constitutes the financial nervous system of a modern economy, facilitating the mobilization of household savings and allocating productive capital to commercial enterprises, infrastructure development, and governmental initiatives. For commerce students and financial analysts, developing a rigorous conceptual foundation of the capital market architecture is essential. This module provides an exhaustive examination of the core tenets of the securities market, demarcating investment from speculative and gambling behaviors, detailing the operational ecosystem of demat and trading accounts, exploring regulatory compliance frameworks such as Central KYC and DDPI, analyzing modern investment channels, dissecting varied trading styles, and reviewing statutory investor protection mechanisms overseen by the Securities and Exchange Board of India (SEBI).

1. Conceptual Boundaries: Investment, Speculation, and Gambling

In financial economics, capital allocation decisions can be categorized into three distinct behavioral paradigms: investment, speculation, and gambling. While all three involve the commitment of monetary resources with an expectation of financial return under conditions of uncertainty, they differ fundamentally across theoretical justification, time horizons, risk-return profiles, analytical rigor, and economic contribution.

The Tripartite Capital Allocation Spectrum Theoretical Matrix
Benjamin Graham's Foundational Axiom (Security Analysis, 1934):
"An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative."

To Graham's classic duality, modern financial jurisprudence adds gambling—an artificial creation of non-commercial risk devoid of economic utility.

1.1 Definitional Architecture

- **Investment:** An economic activity involving the conscious, long-term commitment of capital into assets (such as equity shares, sovereign bonds, debentures, or real property) following comprehensive fundamental investigation. The primary objectives are capital preservation, sustained purchasing power protection against inflation, and the generation of steady recurring yield (dividends or interest) supplemented by capital growth over extended time horizons. The investor acts as a partial owner of an enterprise and participates in its commercial expansion.
- **Speculation:** The deployment of funds in financial instruments with the explicit objective of exploiting short-to-medium term price fluctuations. Speculators assume calculated, elevated levels of market risk without necessarily intending to retain underlying asset ownership. Speculation is driven by anticipations of changes in market psychology, earnings announcements, technical chart setups, or macroeconomic shocks. Speculators frequently employ borrowed funds (leverage) to magnify gains, accepting the commensurate hazard of accelerated capital drawdown.

Degreelive

- **Gambling:** An activity characterized by staking capital on artificial, high-uncertainty events governed primarily by chance, luck, or random distribution (e.g., lotteries, casino games, roulette, or illegal betting). In gambling, risk is intentionally created purely for the transaction itself; there is no underlying productive economic asset, no ownership transfer, and no positive aggregate economic sum. Over repeated iterations, the mathematical expectation of return in gambling is strictly negative due to house edges and transaction spreads.

Dimension	Investment	Speculation	Gambling
Primary Objective	Safety of principal, long-term wealth compounding, stable cash flow yield.	Rapid capital appreciation by capturing short-term asset price volatility.	Immediate monetary windfall driven by high-risk wagering and entertainment.
Time Horizon	Extended (Typically 3 to 10+ years, transcending business cycles).	Brief (Intraday, days, weeks, up to several months).	Extremely instantaneous (Minutes or hours, single event termination).
Basis of Decision	Exhaustive fundamental analysis (financial statements, management quality, industry moat).	Technical indicators, price action, momentum signals, market sentiment.	Intuition, superstition, hunch, arbitrary chance, random distribution.
Risk Profile	Moderate and controlled; minimized through asset diversification.	High; willingness to accept volatility in exchange for elevated upside.	Extreme; total capital loss risk on every discrete transaction.
Nature of Risk	Inherent commercial business risk; economically unavoidable in productive activity.	Deliberately accepted market pricing volatility risk.	Artificially engineered risk created purely for the purpose of the wager.
Use of Leverage	Rarely leveraged; primarily funded with unencumbered equity savings.	Extensively leveraged (margin facilities, futures, options contracts).	Fixed stake per bet; borrowing creates catastrophic personal exposure.
Economic Utility	Direct capital formation; funds industrial capacity and infrastructure.	Provides vital market liquidity, depth, and efficient price discovery.	Zero capital formation; acts as pure wealth transfer with negative sum.

1.2 Investment vs Trading in the Stock Market

Within the operational framework of secondary equity markets, market participants divide broadly into **investors** and **traders**. While both execute transactions on registered stock exchanges, their strategic objectives, psychological posture, and operational methodologies diverge significantly:

Stock Market Investment (The Business Owner Perspective)

- **Focus on Intrinsic Business Worth:** Investors view equity shares as undivided fractional ownership in an ongoing business enterprise. They evaluate corporate balance sheets, cash flow

statements, competitive moats, pricing power, return on equity (ROE), and management integrity.

- **Passive Volatility Endurance:** Short-term fluctuations, interim market corrections, and macroeconomic noise are viewed not as structural hazards but as potential buying opportunities. Dividends received are routinely reinvested.
- **Compounding Mechanics:** Long-term holding enables the geometric expansion of capital via earnings compounding, bonus share issues, and structural earnings growth.

Stock Market Trading (The Price Action Perspective)

- **Focus on Supply, Demand, and Momentum:** Traders treat shares and derivative contracts as tradeable inventory. Price trends, volume weighted average prices (VWAP), support-resistance thresholds, and moving averages take precedence over accounting balances.
- **Active Risk Mitigation:** Traders operate with strict pre-defined stop-loss mechanisms and target profit levels. Preserving trading capital through disciplined position sizing is the core operational principle.
- **Velocity of Capital:** Focuses on generating high recurring cash returns on deployed margin capital through swift turnover, irrespective of whether the broader macroeconomic backdrop is bullish or bearish.

2. Pre-requisites to Invest in the Stock Market

Participating in modern electronic securities markets requires an integrated infrastructure linking the banking sector, the securities depository, and registered trading intermediaries. In India, the equity holding and trading architecture operates on a seamless tripartite framework comprising three distinct accounts.

The Tripartite Account Ecosystem Operational Flow
1. Bank Account (Funds Repository): Holds liquid cash; facilitates electronic deposits, dividend receipts, and pay-in/pay-out transfers.

↓ Electronic Clearing / UPI / NetBanking Gateway

2. Trading Account (Transaction Interface): Maintained with a SEBI-registered stock broker; serves as the execution portal for placing buy/sell orders on stock exchange order books.

↓ T+1 Clearing Corporation Settlement (Clearing & Settlement Mechanism)

3. Demat Account (Securities Custody): Maintained with a Depository Participant (DP) registered under NSDL or CDSL; acts as an electronic ledger storing dematerialized shares, debt securities, and mutual fund units.

2.1 Dematerialized (Demat) Account Architecture

Prior to the promulgation of the Depositories Act, 1996, Indian capital markets functioned via physical share certificates. Physical settlement suffered from crippling structural inefficiencies, including bad deliveries, certificate theft, counterfeiting, signature discrepancies, and prolonged transfer stamp delays (often extending from 45 to 90 days). The introduction of electronic depositories transformed Indian markets into global benchmarks for settlement efficiency.

DegreeLive

A **Demat Account** (short for Dematerialized Account) is an electronic holding account where physical securities are converted into electronic entries and maintained under strict custody. In India, two central depositories perform this sovereign custodian function:

- **National Securities Depository Limited (NSDL):** Promoted by IDBI, UTI, and the National Stock Exchange (NSE) in 1996. Demat accounts under NSDL utilize a 14-digit numeric format preceded by the country identifier "IN" (e.g., IN30021412345678).
- **Central Depository Services (India) Limited (CDSL):** Promoted by the Bombay Stock Exchange (BSE) and leading commercial banks in 1999. Demat accounts under CDSL utilize a 16-digit purely numeric Beneficiary Owner Identification (BO ID) number (e.g., 1208160012345678).

Retail investors do not interact directly with NSDL or CDSL. Instead, they access depository services through accredited intermediaries designated as **Depository Participants (DPs)**, which encompass commercial banks, non-banking financial companies (NBFCs), and registered brokerage houses.

2.2 Step-by-Step Account Opening Process (Digital e-KYC Flow)

In accordance with SEBI circulars on paperless onboarding, opening a combined Demat and Trading account has been fully digitized using India Stack application programming interfaces (APIs):

- **Step 1: Broker Selection & Registration:** The client selects a registered stockbroker (traditional full-service broker such as ICICI Securities, HDFC Securities, Sharekhan or discount broker such as Zerodha, Groww, Angel One) and verifies valid SEBI registration credentials.
- **Step 2: Digital Identity Submission:** The applicant inputs mobile number and email address verified via One-Time Passwords (OTPs), accompanied by their Permanent Account Number (PAN). PAN verification against the Income Tax Department database confirms legal identity.
- **Step 3: DigiLocker Integration for Aadhaar e-KYC:** Through government-certified DigiLocker APIs, the investor consents to retrieve officially valid address documents (Aadhaar, Passport, or Voter ID).
- **Step 4: Bank Account Verification via Penny Drop:** The applicant submits bank account credentials (IFSC, Account Number). The brokerage system executes an automated real-time "penny drop" transaction (crediting ₹1.00) via Immediate Payment Service (IMPS) to validate account ownership matching the PAN name.
- **Step 5: In-Person Verification (IPV):** To eliminate identity theft and impersonation, the investor undergoes an electronic In-Person Verification (e-IPV). This involves recording a short geo-tagged video holding an OTP display or live facial recognition liveness detection verified against the Aadhaar photograph.
- **Step 6: Digital Signature (Aadhaar e-Sign):** The integrated account opening application form, tariff sheet, client agreement, and risk disclosure documents are converted into an electronic PDF and signed via Aadhaar-based OTP authentication managed by the National Payments Corporation of India (NPCI) and UIDAI.
- **Step 7: Account Activation & Delivery:** Upon compliance scrutiny, the DP generates the unique Client ID, BO ID, and Trading Account ID, dispatching welcome credentials and demat master records to the client's registered email within 24 to 48 hours.

Degreelive

2.3 Basic Services Demat Account (BSDA)

To deepen retail investor participation, particularly among small savers and entry-level investors, SEBI established the **Basic Services Demat Account (BSDA)** framework through Circular CIR/MRD/DP/22/2012, later comprehensively revamped to expand cost-free holding thresholds:

- **Eligibility Criteria:** An individual can hold only one BSDA across all depositories in India, in the capacity of sole or primary holder. The investor must not possess any other active demat account.
- **Value Slabs & Annual Maintenance Charges (AMC):**
  - *Holding Value up to ₹4,00,000:* Zero Annual Maintenance Charge (₹0 AMC). Small investors hold their securities free of ongoing custodial maintenance charges.
  - *Holding Value from ₹4,00,001 to ₹10,00,000:* Nominal capped AMC of maximum ₹100 per annum plus applicable GST.
  - *Holding Value exceeding ₹10,00,000:* Automatically converted to regular demat account status, subject to the standard tariff schedule of the respective Depository Participant.
- **Transaction Statements:** Electronic statements of holding and transactions (e-CAS) are provided free of cost. Physical statements are capped at nominal statutory postal tariffs upon client request.

2.4 Closure and Transfer of Demat & Trading Accounts

Investors retaining inactive or surplus accounts often seek closure to avoid recurring maintenance charges and custodial liabilities. The procedural protocol mandated by SEBI ensures investor assets are fully protected:

- **Zero Balance Pre-condition:** A demat account cannot be closed if it contains securities balances. The account holder must either sell the holdings in the open market or transfer the entire inventory to another active demat account.
- **Securities Transfer Protocol:** Securities can be transferred inter-depository (NSDL to CDSL or vice versa) or intra-depository (within the same depository). The investor executes an off-market transfer using a physical Delivery Instruction Slip (DIS) or through secure electronic transfer platforms:
  - *NSDL Speed-e:* Internet-based infrastructure facilitating paperless electronic debit instructions.
  - *CDSL Easiest (Electronic Access to Securities Information and Execution of Secured Transactions):* Web facility allowing instantaneous, authenticated transfer of shares to designated beneficiary accounts.
- **Dues Clearance & Pledge Release:** All outstanding broker brokerage balances, DP dues, and active margin pledges must be completely cleared and released. Locked-in shares (such as ELSS mutual funds within lock-in period) cannot be transferred until statutory lock-in expiry.
- **Account Closure Request Form:** The client submits a signed Account Closure Request Form (physical or e-signed) along with unused physical DIS leaves. Upon verification, the DP terminates the BO ID and notifies the depository system within 7 working days without levying any account closure fees.

DegreeLive

3. Regulatory & Compliance Architecture: KYC, CKYC, DDPI, and Nomination

The integrity of the capital market depends on stringent Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) standards under the Prevention of Money Laundering Act (PMLA), 2002. SEBI has instituted multilayered compliance mechanisms to safeguard investor property while facilitating frictionless onboarding.

3.1 Know Your Customer (KYC) Framework & CKYC Registry

KYC is the statutory due diligence process whereby financial intermediaries establish and verify the true identity, legal status, and residential address of clients prior to opening investment accounts.

KYC Registration Agencies (KRAs)

SEBI introduced the KRA Regulations in 2011 to eliminate repetitive documentation. Entities such as CVL (CDSL Ventures Limited), NDML, CAMSKRA, Karvy, and DOTEX maintain centralized databases of verified capital market investors. Once an investor is KYC-compliant with one SEBI-registered intermediary, other stock brokers or mutual fund AMCs can access the KRA database directly without demanding duplicate paperwork.

Central KYC Registry (CKYCR)

Managed by CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest of India) under the Government of India. CKYCR spans the entire financial services spectrum (banking, capital markets, insurance, pensions). Upon successful registration, the citizen is issued a unique 14-digit **KYC Identification Number (KIN)**, enabling seamless universal interoperability across all RBI, SEBI, IRDAI, and PFRDA regulated institutions.

3.2 Evolution from Power of Attorney (PoA) to DDPI

Historically, when executing an equity sell transaction, the client was required to deliver physical securities to the broker's pool account to fulfill clearing corporation settlement obligations. To automate this process in electronic markets, stockbrokers historically obtained an open-ended, general **Power of Attorney (PoA)** from investors at account opening.

Regulatory Transition: Eliminating Broker Malpractice SEBI Circular August 2022

The Structural Vulnerability of Unrestricted PoA:

Unscrupulous brokers historically exploited broad PoA mandates to debit client securities without consent, pledging them with clearing corporations to raise working capital or finance proprietary trading positions—culminating in high-profile broker defaults (e.g., Karvy Stock Broking scandal).

The Solution: Demat Debit and Pledging Instruction (DDPI):

Effective September 2022, SEBI replaced the PoA for secondary market operations with a standardized, strictly restricted document known as **DDPI**. Under DDPI, authorization is legally restricted to only two specific operational requirements:

1. **Transfer of securities towards stock exchange deliverable pay-in obligations** arising from sales transactions explicitly initiated by the client.

DegreeLive

2. **Pledging and re-pledging of securities** in favor of the Clearing Member / Clearing Corporation exclusively to meet the client's own margin obligations.

*DDPI cannot be utilized for off-market transfers, mutual fund redemptions, or any broker proprietary purposes. Clients retain the fundamental right to refuse DDPI and instead authenticate every daily sell order through a **CDSL/NSDL T-PIN and OTP** mechanism.*

3.3 Nomination Framework

Under Section 72 of the Companies Act, 2013, and SEBI circulars governing demat and trading accounts, nomination is a vital legal mechanism that ensures smooth succession and protects surviving family members from protracted legal probate proceedings upon an investor's demise.

- **Mandatory Compliance:** All individual demat account holders must either register a valid nomination or explicitly submit a formal declaration opting out of nomination. Failure to comply leads to the freezing of debits in the trading and demat accounts.
- **Multi-Nominee Slabs:** Account holders can designate up to three nominees, allocating specific percentage shares to each (totaling exactly 100%). In the absence of specified percentages, holdings are apportioned equally.
- **Minor Nomination:** A minor can be designated as a nominee, provided the account holder appoints a legal adult guardian and specifies the minor's date of birth.
- **Legal Status of Nominee:** Under Indian corporate law, a nominee acts as a legal trustee and custodian for the estate of the deceased. While the depository and company recognize the nominee for immediate transmission of securities, the ultimate beneficial ownership remains governed by statutory inheritance laws and the deceased's legal will.

4. Modern Investment Channels: Direct Equity vs. Mutual Funds

Retail and institutional investors deploy capital into equity markets primarily through two foundational mechanisms: **Direct Equity Investment** and **Indirect Investment via Mutual Funds**. Choosing between these paths involves balancing analytical skill, time availability, risk tolerance, and capital size.

4.1 Direct Equity Investment

Direct equity investment entails buying shares of specific corporations directly on stock exchanges. The investor becomes an equity owner with voting rights, entitlement to declared corporate dividends, participation in rights issues, and direct exposure to corporate value appreciation.

- **Uncapped Upside Potential:** Allows concentrated allocation to high-growth businesses, enabling substantial portfolio outperformance relative to broad market indices.
- **Direct Corporate Engagement:** Investors participate in Annual General Meetings (AGMs), vote on strategic board resolutions, and exercise shareholder franchise.
- **Absence of Intermediary Management Fees:** Aside from statutory transaction costs and nominal brokerage, direct equity ownership incurs no recurring management fee (expense ratio).
- **High Unsystematic Risk:** Without disciplined diversification across sectors, corporate bankruptcy, management fraud, or industry decline can erode substantial portions of capital. It demands continuous monitoring of financial statements and corporate governance disclosures.

4.2 Mutual Fund Architecture

A mutual fund is an institutional trust established under the SEBI (Mutual Funds) Regulations, 1996, that pools money from thousands of investors sharing a common financial objective. The pooled capital is invested in a diversified portfolio of securities (equities, corporate bonds, government gilts, money market instruments) managed by a professional **Asset Management Company (AMC)** overseen by independent Trustees.

- **Institutional Diversification:** An investment as low as ₹500 provides instant exposure across 40 to 80 different companies spanning multiple industries, drastically curtailing unsystematic (company-specific) risk.
- **Professional Portfolio Management:** Funds are steered by certified fund managers supported by teams of research analysts, utilizing institutional data terminals, field surveys, and quantitative models.
- **Systematic Investment Plans (SIP):** Encourages disciplined financial habits by automating monthly or weekly investments. SIP eliminates the perilous need to "time the market" through Rupee Cost Averaging—purchasing more units when prices fall and fewer units when prices rise.
- **Net Asset Value (NAV):** The market value of all securities held in the portfolio, minus permissible operating expenses and liabilities, divided by total outstanding units:

NAV per Unit = [Total Market Value of Portfolio Investments + Current Assets - Total Liabilities & Accrued Expenses] / Total Number of Outstanding Units

Evaluation Parameter	Direct Equity Investment	Mutual Fund Investment
Portfolio Control & Selection	Total autonomy; investor selects individual company shares and timing.	Delegated to professional fund manager; zero control over constituent securities.
Knowledge & Research Demand	High; demands rigorous understanding of financial statements, valuation, and industry dynamics.	Low; fund manager conducts research; investor only chooses appropriate fund category.
Risk Mitigation	Requires disciplined individual portfolio building; high risk of concentration failure.	Instant structural diversification; unsystematic risk substantially neutralized.
Operating Cost / Fee Structure	One-time transaction brokerage (0.01% - 0.2%) + statutory taxes. No recurring management levy.	Ongoing Total Expense Ratio (TER) ranging from 0.1% to 2.25% deducted daily from NAV.
Investment Flexibility	Flexible lump-sum execution; fractional shares not legally permissible under Indian law.	Highly flexible; accommodates fractional units via automated SIP starting at ₹100 - ₹500.
Tax Rebalancing Impact	Selling an existing share to reallocate triggers immediate capital gains tax liability.	Fund manager buys and sells constituent shares within the scheme without triggering direct tax for unit holders.

5. Trading Horizons & Styles: Intraday, Swing, and Derivatives

Traders in financial markets deploy differentiated styles calibrated to time horizon, holding period, analytical methodology, and leverage utilization. Mastering these distinct styles is critical for capital preservation and tactical execution.

5.1 Intraday Trading (Day Trading)

Intraday trading involves purchasing and selling (or short-selling and covering) financial securities within the confines of a single trading day. All open positions must be closed prior to the exchange market close (typically 3:30 PM IST).

- **Zero Overnight Risk:** By liquidating all positions before market close, intraday traders insulate themselves completely from adverse overnight events, international market crashes, geopolitical shocks, or morning gap-down openings.
- **Margin Leverage Utilization:** Brokers provide intraday margin multipliers (under SEBI Peak Margin guidelines, up to 5x margin for cash equity intraday MIS orders). This amplifies capital purchasing power but simultaneously escalates risk of ruin.
- **Automated Square-off:** If an intraday trader fails to close an open position by the broker's designated cutoff (e.g., 3:15 PM), the broker's automated Risk Management System (RMS) executes compulsory market orders, often levying auto-square-off charges.
- **Execution Discipline:** Requires absolute reliance on minute-by-minute charts (1-min, 5-min, 15-min intervals), strict pre-determined stop-losses, and disciplined emotion control.

5.2 Swing Trading & Positional Trading

Swing trading is an active strategy that attempts to capture short-to-medium term gains in a stock over a holding period spanning several days to a few weeks. **Positional trading** extends this timeframe across several weeks to several months.

- **Capitalizing on Market Swings:** Operates on the premise that stock prices do not move in straight lines but oscillate in waves of impulse and corrective cycles. Swing traders identify turning points using technical price patterns, break-outs from consolidation zones, moving average cross-overs, and volume surges.
- **Full Cash Delivery (CNC):** Positions are taken on a Delivery (Cash and Carry - CNC) basis or funded via formal Margin Trading Facilities (MTF). Because positions are held overnight, the trader absorbs overnight risk.
- **Synergy of Technicals and Fundamentals:** Swing traders frequently blend technical setups with near-term fundamental catalysts, such as quarterly corporate earnings releases, central bank monetary policy updates, or sector-specific budgetary announcements.

5.3 Derivative Trading (Futures & Options)

Derivatives are financial contracts whose economic value is derived from an underlying asset, such as an equity index (NIFTY 50, BANK NIFTY) or individual corporate stocks (Reliance, TCS, HDFC Bank). The derivative segment constitutes the overwhelming bulk of daily turnover on Indian exchanges.

DegreeLive

- **Futures Contracts:** Standardized exchange-traded agreements to buy or sell a specified quantity of an underlying asset at an agreed future date and price. Both buyer and seller face binding legal obligations. Margins (SPAN and Exposure) are calculated dynamically in real-time, and daily price variances are settled via Mark-to-Market (MTM) credits or debits.
- **Options Contracts:** Agreements conferring upon the buyer the right, but not the obligation, to buy (**Call Option**) or sell (**Put Option**) an underlying asset at a pre-determined strike price on or before contract expiry. The option buyer pays an upfront *premium*, capping maximum downside risk to that premium. Conversely, the option seller (writer) assumes theoretically unlimited downside risk in exchange for pocketing the premium.
- **Hedging vs. Speculation:** Institutional asset managers utilize derivatives primarily to hedge downside equity portfolio risks (e.g., purchasing index put options as portfolio insurance). Retail traders frequently utilize derivatives for speculative leverage, leading SEBI to publish data indicating that over 90% of active retail traders in futures and options incur net trading losses.

5.4 Modern Online Trading Infrastructure

The transition from open-outcry trading floors to screen-based automated trading has established a multi-tiered electronic infrastructure connecting investors to exchange matching engines:

- **Order Management System (OMS):** The broker software layer that receives the client's order, validates account status, checks instrument tradeability, and routes the order to the designated exchange.
- **Risk Management System (RMS):** Operates concurrently with OMS, validating that the client holds sufficient cash balance or collateral margin before transmitting the order to the exchange order book. RMS enforces stop-loss checks and initiates auto-liquidation when margin thresholds are breached.
- **Trading Platforms:** User-facing interfaces spanning mobile applications, web portals, and downloadable high-frequency desktop terminals (e.g., NEST, ODIN). Modern platforms feature integrated advanced charting engines (TradingView, ChartIQ), algorithmic execution brackets, and API hooks for automated quantitative trading.

6. Regulatory Governance: SEBI and the SCORES Redressal Mechanism

A capital market cannot thrive without robust, impartial regulatory oversight that protects retail participants from predatory manipulation, insider exploitation, and intermediary fraud. In India, statutory governance is vested in the Securities and Exchange Board of India.

6.1 Genesis and Statutory Mandate of SEBI

SEBI was initially established in 1988 as an administrative non-statutory body and was subsequently granted comprehensive statutory authority through the promulgation of the **Securities and Exchange Board of India Act, 1992 (SEBI Act)**.

The preamble of the SEBI Act establishes a clear, threefold institutional mandate:

1. Investor Protection
Protecting the legal rights, savings, and legitimate commercial interests of investors in securities.

2. Market Development
Promoting the orderly development, modernization, depth, and structural liquidity of the securities market.

3. Regulatory Oversight
Regulating market intermediaries, preventing fraudulent trade practices, and enforcing corporate governance.

6.2 Tripartite Powers of SEBI

To fulfill its statutory mandate effectively, the SEBI Act equips the Board with a unique confluence of three institutional powers, making it one of the world's most formidable securities regulators:

- **Quasi-Legislative Power:** SEBI drafts rules, regulations, codes of conduct, and disclosure norms governing market participants without requiring prior Parliamentary enactment for each operational circular (e.g., SEBI ICDR Regulations, SEBI LODR Regulations, SEBI PIT Regulations).
- **Quasi-Executive Power:** SEBI conducts inspections, investigates suspected fraudulent activities, subpoenas books of accounts, raids commercial premises, inspects electronic server logs, and freezes suspect bank accounts and securities.
- **Quasi-Judicial Power:** Following investigation, SEBI Whole-Time Members and Adjudicating Officers conduct hearings, pass binding enforcement orders, levy heavy monetary penalties, impound unlawful ill-gotten gains, and debar errant directors or brokers from capital market participation.

6.3 Regulatory Pillars Administered by SEBI

- **Prohibition of Insider Trading (PIT):** Enforced under SEBI (Prohibition of Insider Trading) Regulations, 2015. Prohibits corporate insiders (directors, promoters, auditors, key managerial personnel) from trading in company shares while in possession of Unpublished Price Sensitive Information (UPSI) or communicating UPSI to external parties. Mandates structural digital trading windows, pre-clearance protocols, and structured digital databases (SDD).
- **Prohibition of Fraudulent & Unfair Trade Practices (PFUTP):** Enforced under SEBI (PFUTP) Regulations, 2003. Penalizes manipulative market behaviors, including circular trading, pump-and-dump cartels, spoofing, front-running, and artificial painting of exchange tape.
- **Listing Obligations & Disclosure Requirements (LODR):** Mandates timely, continuous, and transparent corporate disclosures by listed companies regarding quarterly financial statements, board decisions, material events, and corporate restructuring.

6.4 The SCORES Portal (SEBI Complaints Redress System) & SCORES 2.0

To provide aggrieved retail investors with a direct, transparent, and enforceable mechanism to resolve grievances against listed corporations and registered capital market intermediaries, SEBI established the **SCORES (SEBI Complaints Redress System)** platform in 2011, subsequently overhauled through the launch of **SCORES 2.0** in April 2024.

SCORES 2.0 Operational Architecture Investor Grievance Redressal
Scope of Actionable Grievances under SCORES:
Non-receipt of dividend warrants, non-credit of bonus/rights shares, delay in dematerialization,

unauthorized execution of demat/trading debits, non-receipt of refund orders in public issues, and unfair broker charging structures. (Pure speculative trading losses and commercial contract disputes are excluded).

Four-Tier Resolution Lifecycle in SCORES 2.0:

1. **Tier 1: Direct Entity Redress (Time-bound: 21 Days):** The grievance logged by the investor on the central portal is routed automatically to the concerned listed company or registered intermediary. The entity must address the grievance and upload an Action Taken Report (ATR) within 21 calendar days.
2. **Tier 2: Designated Body Review (Time-bound: 10 Days):** If the investor is dissatisfied with the entity's response or if the entity fails to respond within 21 days, the complaint automatically escalates to a Designated Body (such as the Stock Exchange Grievance Redressal Committee - GRC, or Depository).
3. **Tier 3: SEBI Regulatory Intervention:** If the designated body's resolution is contested by the investor, SEBI officers review the ATR directly, initiating formal supervisory inquiries or adjudicatory proceedings if non-compliance is established.
4. **Tier 4: Smart Online Dispute Resolution (SMART ODR):** Investors dissatisfied with administrative redressal can seamlessly transition their complaint into binding online conciliation and arbitration through independent multi-lingual panels on the SMART ODR platform.

Summary Synthesis

Core Area	Key Institutional Elements	Primary Investor Implication
Capital Allocation Spectrum	Investment vs Speculation vs Gambling.	Disciplined focus on intrinsic value and safety of principal separates productive investing from hazardous speculation.
Account Framework	Bank Account, Trading Account, Demat Account (NSDL / CDSL), BSDA.	Tripartite electronic ecosystem guarantees instant custody, clearing efficiency, and zero-fee maintenance for small portfolios.
Regulatory Compliance	CKYCR (14-digit KIN), DDPI vs PoA, Mandatory Nomination.	Safeguards client securities against broker misappropriation and ensures seamless legal transmission to nominees.
Investment Channels	Direct Equity vs Mutual Funds (NAV, SIP, Diversification).	Direct equity provides autonomy and unhedged upside; mutual funds offer institutional risk diversification and compounding.
Trading Strategies	Intraday (MIS), Swing Trading (CNC), Derivatives (Futures & Options).	Time horizon dictates risk management; intraday avoids overnight risk, derivatives require strict hedging protocols.
Governance & Redressal	SEBI Act 1992 (PIT, PFUTP, LODR), SCORES 2.0, SMART ODR.	Strict market supervision ensures fair price discovery and enforces time-bound grievance resolution within 21 to 30 days.

Acing your exams is just a click away!
Visit www.degreelive.in to download the next module for free.

DegreeLive