DegreeLive

BBA | Semester II | UK2MDCMGT101

# Stock Market Operations

Course Code: UK2MDCMGT101 • Module 2 Notes

# Module 2: Secondary Market Architecture, Trading and Settlement

Course: Stock Market Operations (UK2MDCMGT101) • Semester II • BBA FYUGP Kerala University

## 1. Theoretical Architecture and Economic Significance of the Secondary Market

The **Secondary Market**, colloquially designated as the Stock Market or Stock Exchange, represents the organized, centralized institutional marketplace where existing, previously issued financial securities—such as equity shares, preference shares, debentures, bonds, and exchange-traded funds—are continuously bought and sold among investors. Unlike the Primary Market, where capital transactions directly alter the capital structure and cash balance of the issuing enterprise, secondary market transactions involve strictly the horizontal transfer of ownership titles and liquid funds between third-party market participants.

Notwithstanding the absence of direct capital mobilization for corporate treasuries, the secondary market performs several indispensable macroeconomic functions that underpin modern industrial capitalism:

1. **Continuous Liquidity Transformation:** Fixed industrial assets—such as heavy manufacturing machinery, high-voltage power grids, and automated assembly plants—are physically immobile and economically illiquid. The secondary market transforms these illiquid assets into fractional, standardized digital shares that investors can liquidate into cash within milliseconds. In the absence of an active secondary market offering guaranteed exit routes, private individuals and institutional savers would never commit their capital to primary market offerings.
2. **Continuous Real-Time Price Discovery:** Secondary markets continuously evaluate corporate balance sheets, operational efficiencies, management quality, competitive threats, and macroeconomic indicators to generate real-time market clearing prices. Through the decentralized interaction of millions of buyers and sellers expressing competing valuations, the stock market creates transparent price discovery that reflects the collective consensus of all public information.
3. **Barometer of Macroeconomic Health:** Aggregate stock market indices (such as the S&P BSE SENSEX and NIFTY 50) serve as sensitive, real-time telemetry systems for national economic performance, anticipating industrial expansion, recessionary pressures, geopolitical shifts, and monetary policy changes months before they appear in formal government GDP accounting.
4. **Signaling Mechanism for Optimal Capital Allocation:** By rewarding profitable, well-governed, innovative corporations with high market valuations (low cost of equity capital) and penalizing poorly managed, declining enterprises with depressed valuations (high cost of capital), secondary markets direct scarce societal savings toward the most productive economic activities.
5. **Facilitating Corporate Valuation and Control:** Secondary market valuations establish unambiguous benchmark prices for executing corporate mergers, amalgamations, acquisitions, strategic joint ventures, and executive stock-option compensation programs.

DegreeLive

## 2. Listing of Securities: Objectives, Prerequisites, and Regulatory Mandates

**Listing** refers to the formal admission of a corporation's securities to the trading platform of a recognized stock exchange, granting them public tradability. Listing constitutes an institutional legal contract between the issuing enterprise and the stock exchange, subjecting the corporation to continuous, stringent regulatory scrutiny.

### Key Objectives of Listing Securities

- **Liquidity and Marketability:** Providing shareholders with an instantaneous, transparent, continuous exit mechanism through standardized digital trading platforms.
- **Enhanced Capital-Raising Capability:** Bestowing superior balance sheet prestige, public visibility, and investor confidence upon the enterprise, dramatically reducing the underwriting spread and interest costs for subsequent capital issuances (FPOs, Rights Issues, Debenture tranches).
- **Fair Collateral Valuation:** Listed securities are readily accepted by commercial banks and financial institutions as prime collateral for advancing business loans, utilizing standardized loan-to-value (LTV) ratios calculated against published market closing prices.
- **Mergers and Strategic Currency:** Providing liquid publicly quoted equity that can be used directly as consideration for acquiring target companies through share-swap arrangements.

### Statutory Prerequisites and Minimum Listing Criteria

To qualify for listing on the mainboard trading platforms of premier Indian stock exchanges (NSE and BSE), issuing corporate entities must fulfill rigorous eligibility benchmarks established under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, and stock exchange bye-laws:

- **Minimum Paid-Up Equity Capital:** The post-issue paid-up equity capital of the applicant company must not be less than ₹10 crores on the National Stock Exchange (NSE) or ₹25 crores on the BSE for mainboard listing.
- **Minimum Market Capitalization:** The aggregate market capitalization of the applicant company calculated at the issue price must meet prescribed minimum thresholds (typically ₹25 crores or higher).
- **Track Record of Operational Profitability:** The company must possess an operating track record of at least three consecutive financial years, demonstrating minimum average operating profits and positive tangible net worth. If an applicant lacks this historical accounting profitability, SEBI mandates that at least 75% of the total issue size must be allotted to Qualified Institutional Buyers (QIBs).
- **Statutory Minimum Public Shareholding (MPS):** Under Rule 19A of the Securities Contracts (Regulation) Rules, 1957, every listed company in India must achieve and perpetually maintain a minimum public shareholding of at least **25%** of its total issued equity capital, ensuring adequate floating stock and preventing promoter market manipulation.

### Continuous Listing Obligations: SEBI LODR Regulations, 2015

DegreeLive

Once admitted to trading, listed entities are bound by the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR)**. Non-compliance results in severe financial penalties, trading suspensions, and criminal prosecution. Key continuous obligations include:

- **Quarterly Financial Results:** Mandatorily publishing audited or limited-review standalone and consolidated quarterly financial statements within 45 days of the close of each quarter.
- **Immediate Material Event Disclosures (Regulation 30):** Disclosing all price-sensitive, material events—such as board decisions regarding dividends, mergers, acquisitions, executive management changes, large commercial contracts, labor strikes, regulatory sanctions, or litigations—within 30 minutes of board meeting closure or within 12 to 24 hours of event occurrence.
- **Board Composition & Independent Oversight:** Maintaining an optimum board structure where at least 50% of the board consists of non-executive directors, with mandatory quotas for Independent Directors and at least one independent woman director.
- **Shareholding Pattern Disclosures:** Submitting comprehensive quarterly breakdowns of promoter holdings, institutional shareholding (FPIs, Mutual Funds), and public shareholding within 21 days from the end of each quarter.

### Delisting of Securities: Voluntary versus Compulsory

**Delisting** represents the permanent removal of a company's securities from trading on a recognized stock exchange:

- **Voluntary Delisting:** Initiated by the company or its controlling promoters who decide to take the public corporation private. Governed under the SEBI (Delisting of Equity Shares) Regulations, 2021, the acquirer must make a formal public delisting offer using the **Reverse Book Building (RBB)** mechanism, allowing public shareholders to tender their shares at their demanded exit price. Delisting succeeds only if the promoter's aggregate shareholding reaches at least 90% of the total issued equity capital.
- **Compulsory Delisting:** A punitive regulatory enforcement action executed by the stock exchange against a listed entity for persistent violation of listing agreements, prolonged suspension of trading, financial fraud, insolvency, or non-payment of listing fees. Promoters of compulsorily delisted entities are legally barred from accessing Indian capital markets for a period of ten years, and must provide exit payouts to minority shareholders based on independent third-party asset valuations.

## 3. Stock Exchange Trading Mechanics: Screen-Based Automated Trading

The modernization of Indian stock exchanges began in the early 1990s with the elimination of the chaotic, opaque physical open-outcry trading floor (the trading ring) where brokers executed trades via shouting and frantic hand signals. In 1994, the National Stock Exchange of India (NSE) pioneered fully automated, nationwide, satellite-connected screen-based electronic trading via the **NEAT (National Exchange for Automated Trading)** system. The Bombay Stock Exchange promptly countered in 1995 with its proprietary **BOLT (BSE On-Line Trading)** architecture.

DegreeLive

### Order-Driven versus Quote-Driven Trading Systems

| Operational Parameter | Order-Driven Market System | Quote-Driven Market System |
|---|---|---|
| **Market Maker / Specialist Role** | Operates without designated market makers or institutional specialists. All market participants submit buy and sell orders directly into a common central digital order book. | Relies fundamentally on designated Market Makers (or Dealers/Specialists) who continuously post two-way quotes (Bid and Ask prices) and maintain inventory. |
| **Price Determination** | Prices are determined dynamically by matching incoming client orders based on computerized matching algorithms. | Prices are established and posted by market makers, who profit from the bid-ask spread (the difference between buying and selling quotes). |
| **Operational Transparency** | High transparency: the entire market depth (best five or twenty buy and sell bids, including quantities) is visible in real-time to all terminals nationwide. | Lower transparency: investors trade against the market maker's private quote inventory, with limited visibility into underlying order books. |
| **Global & Indian Implementations** | The standard operating model for Indian equity cash and derivatives markets (NSE and BSE) and premier European exchanges. | Historically utilized by NASDAQ in the United States and over-the-counter (OTC) foreign exchange and fixed-income bond dealer markets. |

### The Price-Time Priority Matching Engine

The central computerized trading engine of modern stock exchanges operates upon an uncompromising, mathematically objective allocation rule known as **Price-Time Priority**:

- **Price Priority:** A buy order with a higher price bid is granted absolute execution priority over a buy order with a lower price bid. Conversely, a sell order with a lower asking price is granted absolute execution priority over a sell order with a higher asking price.
- **Time Priority:** When multiple orders are submitted at identical price levels, the orders are executed strictly in the chronological sequence in which they arrived at the central exchange trading server (first-come, first-served).

## 4. Comprehensive Taxonomy of Stock Market Orders

Trading terminals and algorithmic trading software provide market participants with sophisticated order types designed to manage execution speed, price slippage, market volatility, and risk exposure:

### 1. Core Price-Conditioned Orders

- **Market Order:** An order to buy or sell a specified quantity of shares immediately at the best available prevailing market price in the order book. Market orders prioritize certainty and speed of execution over price precision, exposing the trader to potential price slippage in illiquid stocks.

- **Limit Order:** An order to buy or sell a security at a specified price (the Limit Price) or better. A Buy Limit Order can only execute at or below the limit price; a Sell Limit Order can only execute at or above the limit price. If market prices do not reach the specified limit price, the order rests unexecuted in the order book.
- **Stop-Loss Order (SL):** A risk-mitigation order designed to limit an investor's downside capital loss on an open position. It remains dormant on the broker's server or exchange engine until the stock trades at or through a declared **Trigger Price**, upon which the order is instantaneously activated:
  - *Stop-Loss Limit (SL-L):* Once the trigger price is breached, the order is submitted as a Limit Order at the specified limit price.
  - *Stop-Loss Market (SL-M):* Once the trigger price is breached, the order is submitted as a Market Order, executing immediately at the prevailing price.

### 2. Time-In-Force and Structural Orders

- **Day Order:** An order that remains valid throughout the normal trading session (9:15 AM to 3:30 PM). If unexecuted by market close, the order is automatically canceled by the exchange trading engine.
- **Immediate-or-Cancel (IOC) Order:** An order requiring that as much of the order quantity as possible be executed immediately upon reaching the trading engine; any unfilled residual portion is instantaneously canceled without resting in the order book.
- **Disclosed Quantity (DQ) Order:** An order configuration allowing an institutional trader to reveal only a fraction of their total order volume to the public market depth window (minimum 10% under Indian exchange rules), concealing the true institutional order size from competitors to prevent predatory front-running and adverse price slippage.
- **Bracket Order (BO) & Cover Order (CO):** Advanced multi-leg intraday algorithmic orders. A Cover Order couples an initial market or limit entry order with a mandatory, non-cancelable stop-loss order. A Bracket Order simultaneously couples an entry order with both a target profit-booking limit order and a stop-loss order; when either the target or stop-loss leg executes, the remaining opposite leg is automatically canceled (One-Cancels-the-Other / OCO).
- **After-Market Order (AMO):** An order submitted by retail investors outside official trading hours (between 3:45 PM and 8:59 AM next morning), queued by the brokerage platform and injected into the exchange engine during the opening pre-market auction session.

## 5. Market Volatility Controls: Circuit Filters, Bands, and Halts

To shield market participants from irrational panic selling, speculative flash crashes, and rogue algorithmic order execution, SEBI and stock exchanges maintain a dual-layer risk firewall consisting of **Individual Stock Price Bands** and **Index-Based Market-Wide Circuit Breakers**:

### Individual Stock Circuit Limits (Price Bands)

Degree Live

Every listed stock on the secondary market is assigned a daily operating price band calculated relative to the previous trading day's official closing price. These bands define the absolute **Lower Circuit Limit** and **Upper Circuit Limit** for the session:

- **Standard Stocks (Non-F&O):** Assigned fixed daily price bands of 2%, 5%, 10%, or 20% depending upon their market capitalization, liquidity tier, and surveillance status (such as Graded Surveillance Measure - GSM or Additional Surveillance Measure - ASM). Once a stock hits its circuit limit, orders can only be matched at that exact boundary price, or trading is temporarily paused.
- **Derivative Stocks (F&O Universe):** Stocks included in the Futures and Options segment do not possess rigid daily upper or lower circuit caps, permitting uninterrupted price discovery during major corporate announcements. However, they are governed by *Dynamic Operating Price Bands* (initially set at 10%), which are automatically flexed in increments of 5% whenever trading hits the threshold and cools for a mandated pause period.

### Market-Wide Circuit Breakers (MWCB)

The market-wide circuit breaker system applies universally to all equity and equity-derivative markets nationwide, triggered by catastrophic percentage movements in either the **NIFTY 50** or the **S&P BSE SENSEX**. Governed under comprehensive SEBI circulars, market halts are triggered at three distinct percentage thresholds:

1. **10% Circuit Trigger:** If triggered before 1:00 PM, trading across all Indian exchanges is halted for 45 minutes, followed by a 15-minute pre-open auction session. If triggered at or after 1:00 PM but before 2:30 PM, trading is halted for 15 minutes followed by a 15-minute pre-open. If triggered at or after 2:30 PM, there is no trading halt, and markets continue operating.
2. **15% Circuit Trigger:** If triggered before 1:00 PM, trading is suspended for 1 hour and 45 minutes, followed by a 15-minute pre-open call auction. If triggered at or after 1:00 PM but before 2:00 PM, trading is halted for 45 minutes followed by a 15-minute pre-open. If triggered at or after 2:00 PM, trading is halted for the remainder of the entire day.
3. **20% Circuit Trigger:** If triggered at any time during the trading day, trading across all Indian stock exchanges is instantly terminated for the remainder of the day.

## 6. Dematerialisation Architecture: NSDL, CDSL, and Intermediaries

Prior to the late 1990s, the Indian securities market operated exclusively on paper-based physical share certificates. This physical settlement regime was plagued by catastrophic structural pathologies, collectively known as **Bad Deliveries**. Physical certificates were routinely stolen, forged, counterfeited, mutilated in transit, lost in postal transit, or held up for months by registrars due to signature discrepancies. Furthermore, the mandatory execution of physical transfer deeds and the purchase of physical stamp duty created immense administrative deadweight, severely restraining trading volumes.

To eliminate paper settlement risks, the Government of India enacted the **Depositories Act, 1996**, establishing the legal architecture for **Dematerialisation (Demat)**—the technological process of

converting physical paper share certificates into equivalent electronic digital book-entry balances maintained on secure, centralized depository mainframe servers.

### Depositories in India: NSDL and CDSL

India possesses two premier national depositories licensed and governed under SEBI (Depositories and Participants) Regulations, 2018:

- **National Securities Depository Limited (NSDL):** Inaugurated in August 1996, NSDL is India's pioneer depository, promoted by the National Stock Exchange (NSE), Industrial Development Bank of India (IDBI), and Unit Trust of India (UTI). Historically, NSDL handled the dominant share of institutional institutional settlement volume.
- **Central Depository Services (India) Limited (CDSL):** Established in February 1999, CDSL was promoted by the Bombay Stock Exchange (BSE) in partnership with leading commercial banks including State Bank of India, Bank of India, and HDFC Bank. In 2017, CDSL became the first depository in India and Asia to publicly list its own shares on a stock exchange. Today, driven by the massive surge in retail fintech discount brokerages, CDSL maintains the largest number of registered retail Demat accounts.

### Institutional Architecture: DPs, Custodians, and Beneficial Ownership

The operational mechanics of the depository ecosystem are structured upon a two-tier organizational hierarchy:

- **Depository:** The central electronic repository and registry of securities. However, an individual retail or institutional investor cannot interface or open an account directly with NSDL or CDSL.
- **Depository Participants (DPs):** Financial intermediaries (commercial banks, institutional brokerages, non-banking financial companies) that act as authorized agents of the depository, serving as the direct institutional bridge between the depository and the end investor. The relationship between the depository and the DP is governed by a legally binding agreement under the Depositories Act.
- **Registered Owner versus Beneficial Owner:** In the electronic depository framework, the Depository (NSDL or CDSL) is entered into the statutory register of members of the issuing company as the *Registered Owner* holding the nominal legal title. However, the depository possesses zero economic rights, zero voting power, and zero dividend entitlements. The individual investor is recognized by law as the **Beneficial Owner (BO)**, enjoying 100% of the economic benefits, voting rights, dividend credits, bonus shares, and corporate entitlements.
- **Custodians:** Specialized financial institutions (such as Deutsche Bank, Citi, or SBI-SG Global Securities) responsible for the safekeeping, corporate action tracking, and clearing settlement of securities portfolios held exclusively by large Foreign Portfolio Investors (FPIs), domestic mutual funds, and pension trusts.
- **The 3-in-1 Account Matrix:** To transact in modern secondary markets, an investor maintains three interconnected accounts:
    1. *Bank Account:* Holds cash funds for buying shares and receives dividend payouts or trade sale proceeds.

2. *Trading Account:* Opened with a SEBI-registered stockbroker, providing the digital interface to submit buy and sell orders into the exchange trading engine.
3. *Demat Account:* Opened with a Depository Participant, functioning as the electronic digital locker that safely holds custody of purchased securities.

## 7. Clearing, Settlement, and the Modern T+1 Settlement Mechanism

Trading on a stock exchange represents merely the initial legal agreement between buyer and seller. The actual operational completion of the transaction—involving the physical or electronic exchange of securities and funds—constitutes **Clearing and Settlement**.

### The Evolutionary Journey of Settlement Cycles

The efficiency of the Indian settlement regime has achieved world-class velocity through progressive structural transformations:

- **The Badla & Account Period Era (Pre-2001):** Trades were aggregated over a weekly or fortnightly accounting cycle, with rampant speculative carry-forward mechanisms (Badla) that frequently triggered severe payment defaults, broker runs, and market crashes.
- **Rolling Settlement Era:** SEBI abolished Badla in July 2001, mandating strict rolling settlements where each day's trades were cleared independently. Settlement compression progressed relentlessly: **T+5** (2001) → **T+3** (2002) → **T+2** (April 2003).
- **The Landmark T+1 Settlement Transition:** In January 2023, India made history by becoming the very first major global economy and capital market to successfully transition its entire equity cash and derivatives universe to **T+1 Rolling Settlement** (where all trades executed on Day T are fully settled within 24 hours on Day T+1). This monumental leap drastically compressed systemic market risk, liberated working capital for institutional traders, reduced broker margin requirements, and eliminated credit default exposure. In 2024, SEBI further pioneered a phased pilot for **T+0 (Same-Day) Settlement** and instantaneous real-time clearing.

### Role of the Clearing Corporation: Legal Novation and Settlement Guarantee

Clearing and settlement is not conducted by the stock exchange itself, but by an autonomous, wholly owned subsidiary designated as the **Clearing Corporation**: the *National Securities Clearing Corporation Limited (NSCCL / NSE Clearing)* for NSE, and the *Indian Clearing Corporation Limited (ICCL)* for BSE.

The Clearing Corporation executes two paramount institutional functions:

1. **Multilateral Netting:** The clearing system aggregates all transactions executed by every clearing member across the entire trading day, offsetting total purchases against total sales. Instead of executing thousands of bilateral transfers, each clearing member receives a single, consolidated **Net Funds Obligation** (either net payable or net receivable) and a single **Net Securities Obligation** (either net deliverable or net receivable) per security, vastly minimizing liquidity friction.

2. **Legal Novation & Settlement Guarantee:** Through the legal doctrine of **Novation**, the Clearing Corporation interposes itself as the central counterparty (CCP) to every single matched trade, becoming the buyer to every seller and the seller to every buyer. Even if a buying broker defaults on their funds obligation or a selling broker fails to deliver securities, the Clearing Corporation unconditionally guarantees the complete financial settlement of the trade using its statutory **Settlement Guarantee Fund (SGF)**, completely shielding innocent investors from counterparty credit risk.

### The Step-by-Step Settlement Lifecycle and Handling Shortages

The operational lifecycle of a modern T+1 trade unfolds with microscopic chronological precision:

- **Trade Execution (Day T):** Investor places a buy or sell order; trade matches on the exchange engine between 9:15 AM and 3:30 PM.
- **Clearing Processing (Night of Day T):** The clearing corporation downloads all executed trade logs, performs multilateral netting, computes margin requirements, and transmits definitive Net Obligation Reports to Clearing Members by midnight.
- **Pay-In of Funds and Securities (Day T+1, Morning):**
  - *Funds Pay-In:* Buying brokers ensure adequate cash is transferred from client accounts into their clearing bank accounts, which is debited by the Clearing Corporation around 10:30 AM.
  - *Securities Pay-In:* Selling clients execute an electronic Delivery Instruction Slip (DIS) or grant an automated Power of Attorney (PoA) / electronic Demat mandate (EDIS via CDSL/NSDL TPIN), transferring shares from their Demat account to the selling broker's pool account, which is debited into the clearing corporation pool.
- **Pay-Out of Funds and Securities (Day T+1, Afternoon):** Operating upon the principle of **Delivery versus Payment (DvP)**, the Clearing Corporation releases funds to selling clearing members and credits purchased securities directly into the Demat accounts of the buying investors by 1:30 PM.
- **Handling Settlement Shortages (Auction Protocol):** If a selling client fails to deliver the promised shares on Pay-In day (an internal or external short delivery), the Clearing Corporation initiates a mandatory **Auction Session** on the subsequent trading day. The clearing corporation purchases the requisite shares on the open auction market at prevailing market prices to fulfill delivery to the buyer. Any financial difference (auction price minus trade price) plus penalty fees is debited directly from the defaulting seller's account. If shares are unavailable in the auction, the transaction is closed out through cash settlement at a punitive regulatory price benchmark.

## 8. Algorithmic Trading, High-Frequency Trading, and Co-Location Facilities

In contemporary secondary markets, market participation has been transformed by computational automation. More than 50% of daily trading volume on Indian exchanges is now generated by mathematical algorithms operating without direct human intervention:

### Mechanics of Algorithmic Trading

Degreelive

**Algorithmic Trading (Algo Trading)** refers to the automated execution of orders following pre-programmed mathematical instructions accounting for variables such as time, price, volume, and statistical patterns. Rather than a human broker manually typing order tickets, computerized execution engines slice large institutional parent orders into hundreds of micro-orders distributed across the day to minimize market impact (e.g., Time-Weighted Average Price - TWAP, and Volume-Weighted Average Price - VWAP algorithms).

### High-Frequency Trading (HFT) and Co-Location

**High-Frequency Trading (HFT)** represents an elite, ultra-low-latency subset of algorithmic trading characterized by high transaction turnover, microsecond execution speeds, and zero overnight inventory. HFT firms exploit fleeting arbitrage opportunities between cash and futures markets, or between correlated stock indices.

To eliminate the physical latency caused by fiber-optic transmission across geographical distances, exchanges offer **Co-Location (Colo) Facilities**—dedicated data centers situated in the exact physical server room of the stock exchange. HFT institutional members rent rack space directly adjacent to the exchange matching engines, achieving order execution speeds measured in nanoseconds.

### SEBI Regulatory Safeguards for Automated Trading

To safeguard market stability against runaway algorithms and predatory spoofing, SEBI enforces strict operational parameters:

- **Mandatory System Audits & Algorithm Approval:** Every algorithmic trading strategy deployed by institutional brokers must undergo formal testing in exchange simulation sandbox environments and receive prior written approval from the exchange.
- **Order-to-Trade Ratio (OTR) Penalties:** To prevent algorithms from flooding exchange matching engines with millions of non-genuine phantom orders designed to probe liquidity, SEBI imposes progressive financial penalty levies on brokers who maintain excessively high order-to-trade ratios.
- **Kill Switches:** Clearing members and stock exchanges maintain automated, centralized emergency "Kill Switches" capable of instantaneously terminating all active orders and halting algorithmic trading connections for any member exhibiting aberrant behavior or exceeding pre-set capital limits.

## 9. Transaction Cost Economics and Depository Innovations

Transacting in secondary markets incurs explicit and implicit transaction friction. To optimize execution, market participants evaluate the statutory transaction cost hierarchy:

### Statutory Hierarchy of Secondary Market Transaction Costs

DegreeLive

| Cost Component | Levying Authority / Beneficiary | Statutory Incidence and Basis |
|---|---|---|
| **Securities Transaction Tax (STT)** | Ministry of Finance, Government of India | Direct federal transaction tax levied on the total contract turnover of equity delivery trades (0.1% on buy and sell) and intraday/equity derivatives trades. |
| **Stock Exchange Turnover Charges** | Stock Exchanges (NSE / BSE) | Infrastructure levy charged per crore of transaction value to fund matching engine operations and data distribution. |
| **SEBI Regulatory Turnover Fee** | Securities and Exchange Board of India | Prescribed statutory levy (typically ₹10 per crore of turnover) funding regulatory market surveillance and enforcement. |
| **Integrated Stamp Duty** | State Governments (Collected via Central Hub) | Uniform nationwide stamp duty levied on the buyer under the Indian Stamp Act, 1899 (0.015% on delivery purchases, 0.003% on intraday). |
| **Goods and Services Tax (GST)** | Central & State GST Authorities | Standard 18% GST levied on the brokerage fee, exchange turnover charges, and SEBI charges (never on the underlying share value). |
| **Depository Participant (DP) Charges** | Depository (CDSL/NSDL) and Stockbroker DP | Flat transaction charge (typically ₹13 to ₹20 per scrip per day) debited strictly on sell transactions when shares exit the Demat ledger. |

### Basic Services Demat Account (BSDA) and CKYC Innovations

To reduce financial friction for small retail investors, SEBI introduced two monumental depository reforms:

- **Basic Services Demat Account (BSDA):** Mandated by SEBI for individual retail investors holding only one Demat account across all depositories:
  - For portfolio holding valuations up to **₹1,00,000**: Zero Annual Maintenance Charges (AMC) are levied, ensuring completely free demat custody.
  - For portfolio valuations between **₹1,00,001 and ₹4,00,000**: The maximum AMC is legally capped at a modest ₹100 per annum, drastically lowering entry barriers for students, rural savers, and micro-investors.
- **Central KYC Records Registry (CKYC):** Managed by CERSAI (Central Registry of Securitisation Asset Reconstruction and Security Interest), CKYC provides a digital 14-digit KYC Identification Number (KIN). Once an investor completes biometric or Aadhaar e-KYC with any financial entity (a bank, insurance firm, or mutual fund), the verified record is centrally stored. The investor can instantaneously open trading and demat accounts with any stockbroker nationwide without resubmitting physical identity or address proofs.

Degreelive