Chapter 4

Trading, Clearing and Settlement in Stock Exchanges
Trading in Stock Exchange takes place either on the basis of the Auction system on a trading floor which is order driven or customer driven or a Broker-Dealer market which is quote driven or dealer driven. World over every stock market uses one of the two trading systems or a hybrid of both. In an order driven system customers buy and sell orders, reach a central point where they are matched. In a quote driven system dealers compete to give customers the best price. Electronic trading simply carries out the same functions automatically. In order driven markets it matches buyers and the sellers and in a quote driven ones it finds for the customer the best price available. An example of Auction Market which is order driven is New York Stock Exchange (NYSE); and a broker dealer market which is a quote driven or dealer driven is the over the counter market served by a computerized network called National Association of Security Dealers Automated Quotation System (NASDAQ). BSE is a hybrid market, option market which is quote driven. NSE is an order driven market based on auction system with fully automated screen based trading system.

In auction market there is a single designated market maker (The Specialist). Specialists ensure greater liquidity because they are obliged to stand in the market all the time and an auction system based on a current high bid-low offer. Those not meeting either of those prices may not participate in the auction. The auction system allows the buyer and the seller to find a mutually agreeable price with no intervention of Broker-Dealers. Auction plus specialist market offers most protection to investors especially retail ones.
On the other hand, Broker-Dealer market such as the over the counter market is a negotiated market. Competing market makers are obliged to quote prices through system. Market makers offering best price are assigned orders on a rotating basis. Prices are arrived by dealers negotiating with other dealers in order to arrive at best prices. Dealers make two sides (bid-offer) market by quoting a price they would pay a prospective seller (Bid) or a price they would charge a prospective buyer (Offer). A quick scan of an electronic screen instantly reveals the best market for an order.

The Auction market and Broker-Dealer market depend for their effective functioning on Specialist and Market makers respectively. To make a market means that the dealers create and maintain a market in a security. The Dealer’s quotations consist of his bid and offer prices. The price at which a dealer will sell a given security is called his asked price or offer. The difference between bid and offer prices in any quotation is the spread.

**BOMBAY STOCK EXCHANGE: HYBRID MARKET**

BSE is a hybrid with auction type of trading where bids and offers being made by open out cry and quote driven system is prevalent. BSE was influenced by the pattern set by London Stock Exchange (LSE), which had an auction type of market with jobbers giving two-way quotes. A jobber had no duty in (LSE) to maintain an orderly and continuous market like the specialist at NYSE. Jobbers were acting on their own behalf and never as agents. Their income was derived from spread. As a result, large price discontinuities were common. Later in 1987, London adopted NASDAQ system and jobbers went out of the picture. BSE has an informal system of
jobbers. Computerisation and screen based trading had rendered jobbers redundant. But even in screen based trading market makers are required as NASDAQ has.

**Margin Trading:**

Margin accounts or margin trading is in vogue in many countries. In case of margin accounts investors have to furnish more information because they are applying for permission to buy securities on credit. Through margin trading customer gains leverage by the use of borrowed funds. Margin accounts can also be used for short sales spreads, as a device to procure quick and easy loans etc. When investors buy securities on margin, they buy some shares with cash and borrow from broker to pay for additional shares; using the paid shares as collateral.

**Kinds Of Orders Used In Trading Shares:**

Familiarity with different kinds of orders would enable investors and brokers to know their rights and their liabilities and results to expect from different orders. Orders may be classified according to (1) Size (2) Type of transactions (3) Price limits (4) Time limits (5) Special Types.

1. **By Size of the Orders:**

**Market Lot/Round Lot & Odd Lot**

**Market Lot/ Round Lot:** - A Fixed minimum number, in which or in multiple of which, shares are bought & sold on the stock exchange. For shares whose face value is Rs. 10, the marketable or trading lot may be 50 or 100. For Rs.100 shares the market lot is usually 5 or 10.
Odd Lot: - Any number of shares less than the market lot makes an odd lot. It arises from Bonus or Rights issues. For odd lot the selling price for the investor is lower than normal, but the buying price is higher.

2. By Type of Transactions: -

Buy or sell order is placed when a rise in market price is anticipated. Such order represent establishment of a long position or may cover a short position.

Long position – Holding of securities in the expectation of a price rise in the future, when a sale will realise profit.

Short position - Shares, which a person has sold short by delivering, borrowed certificates, but which he has not yet covered by actually buying shares to repay the loan as on a particular date.

Sell orders may be for selling either long or short. Selling long would constitute a liquidation of a long position. Selling short is in anticipation of a price decline.

Short Selling: -

Can be defined as sale of any security, which the seller does not own, or any sale, which is consummated by the delivery of a security, borrowed by or for the account of seller. The short seller may have to borrow stock because he does not own it or he may own it but prefers to sell it short. When a share is sold short, the short seller expects the price to fall and wants to profit from that price fall.

3. Price Limits: -

(i) Market Order – Order to the stockbroker to buy or sell a share at the best available price.
(ii) Limit Order – The client gives the stockbroker the price limit above which he cannot buy or below which he cannot sell. There will also be a time limit. In a sharply rising or falling market such an order may result in no buying or selling.

4. Time Limits:

All orders are day orders unless specified. Other orders are week orders, month orders or open orders. Open orders or GUC (Good Until Cancelled) are used when investors believe that they will get the share at a specific price they have in mind.

5. Special type of Orders:

They are designed to protect customers existing profit or limit losses. They are in the nature of suspended order coming into effect if the share touches or passes by certain price.

(i) Stop Orders and Limit Orders – Limit Order to buy is placed below the market and the reverse to sell. Stop Limit order specifies the stop price and limit price at which the customer is willing to buy or sell.

(ii) Discretionary order – Here the customer gives latitude to the broker to fill the given order.

(iii) Immediate or Cancel – It specifies a price and demands execution or cancellation immediately. The trader may feel as much as possible and cancel the remainder.

(iv) Fill or Kill Order – An order to a stockbroker to buy or sell a particular share or shares immediately. If the order is not executed at once, it should be treated as cancelled.
(v) All or None – Here price is specified but requires the filling of an entire order.

(vi) Do Not Reduce (DNR) – A limit order to buy or sell is reduced automatically when a share goes ex-dividend.

(vii) Contingent Orders – The order instructs the broker to do something only after something else has been done. The order may be to sell a share at one price and when sold immediately to buy another.

(viii) A Switch – Order specifies price difference that is sell one and buy another at a specified price difference per share or more. Brokers are responsible for filling them properly.

(ix) Scale Order – Order to the broker to buy or sell a fairly large number of shares in stages, in smaller lots so that the price does not shoot up or dip suddenly. The client can get the benefit of an average.

(x) Stop Loss – A client’s order to his broker to sell a share if its market price falls to a certain level below the current price. It is a means of protecting ones profit or reducing ones loss while waiting for the market to recover. For example one may have bought TISCO at Rs.300. The price rises to Rs.500 and is expected to rise further. The investor wishes to protect his profit already made while waiting for further rise. He may therefore give a stop loss order to his broker to sell at Rs.450 so that his entire profit does not melt away.

(xi) Cancel Order – There are two types of cancel orders (1) Straight Cancel (2) Cancel Former Order.
cancels the previous orders and Cancel Former Order also cancels previous order but is replaced by a new order with some alteration in character.

Rationale For Margins:
Under the current clearing and settlement system in India, if an investor buys and subsequently sells or sells and subsequently buys the same number of shares of a stock during a settlement period he or she does not need to take or make delivery of shares and can pay or receive the difference between the sell and buy prices. A very short term and speculative investment is thus possible at a relatively low cost. FII’s and domestic institutional investors are not permitted to trade without delivery. One of SEBI’s primary concerns is the risk of settlement chaos that may be caused by increasing number of non-delivery transactions, as the stock market gets excessively speculative. Short selling is an integral part of margin trading.²

Stock Lending:
A short delivery takes place when a broker, a custodian or the clearing house delivers fewer securities then what were contracted for to either another broker, custodian or the clearing house. This phenomenon is known as short delivery. A stock-lending scheme reduces the likelihood of short deliveries in the market. A stock lending scheme would enable a seller to borrow shares for a specific period for a fee under a share lending contract; and deliver them to a buyer to settle a transaction. At a later date and at the expiry of the contract the seller acquires the shares by purchasing them from the market or by further borrowing and returns them to the lender. The system facilitates margin trading as well as arbitrage activities using
stock index futures and options. Margin trading would possibly replace the badla system and further enhance the liquidity of stocks.

**Custodians:**

An FII is required to appoint a custodian for its portfolio investments in India. A custodian in India provides FIIs with the following services:

- Settlement services that is receipt and delivery of securities, execution of transfer deeds, for securities sold etc.;
- Lodgement of securities bought with the registrar or transfer agent;
- Safe keeping of securities;
- Dividend collection and reporting;
- Collection of withholding taxes on capital gains;
- Corporate actions which involves tracking entitlement etc.;

Custodians registered with SEBI to provide custodial services in India include:

1. ANZ Grindlays Bank
2. Citibank
3. HSBC, ICICI
4. Stock Holding Corporation of India Ltd.
TRADING IN SHARES ON INDIA STOCK EXCHANGE
(Other than NSE and Online Stock Exchanges)

On receipt of an order to buy or sell, the member of the Stock exchange have three alternatives to execute the orders: Go to the trading ring, set-off matching transactions of purchase and sell and purchase and sale out of the stock held by him. Communication is either verbal or through hand signals. Traders within the trading ring can communicate with their office on internal phones within the ring. In the trading ring jobbers or market makers stand at specific locations called trading posts and announce continuously the two way quotes for the scripts traded at the posts. As there is no prohibition on jobber acting as a broker any member is free to do jobbing on any day.

On striking a deal, traders enter abbreviated details in small books called Sauda Books. At the end of the trading period, all details are transferred to sauda sheet, which is handed over to the computer dept. for processing. Any transaction outside trading hours is termed as curb trading. Trading in shares is broadly classified into two groups i.e. specified and non-specified shares called A & B groups. BSE has further classified B group into two groups i.e. B1 & B2 to reduce the settlement burden. A group and B1 group are settled through the clearinghouse and have the same trading or settlement cycle and procedures. Badla or carry forward facility is not available for B1 group securities. In a weekly settlement trades are settled only at the end of the week and pay in or delivery takes place during subsequent week.
Criteria For Inclusion In Specified List:

The selection of shares for inclusion in specified list depends on the following criteria.

1. The company’s share should have been listed for a period of three years.

2. The company should have an issued capital of at least Rs. 75 Crores with market capitalisation of two to three times thereof.

3. The number of shares publicly held should be at least Rs.4.5 Crores F.V. (face value)

4. The company must have at least 10,000 public shareholders.

5. The company must be growth oriented and dividend paying.

6. Shares of the company should have been actively traded during preceding six months.

Settlement Procedures:

With the introduction of depository system, where ownership of securities is recorded electronically and no physical certificate exist, has paved the way for switching the Indian settlement system to a daily rolling basis from a batch basis. There are three key words to understand the India settlement system.

1. Settlement Period (or Trading period)

2. Pay-in Day

3. Pay-out Day

Stock exchanges in India divide one-year periods into periods of 7 calendar days, known as a settlement period/account period on BSE
and a trading period on NSE. Usually there are 5 trading days during a settlement period since there are no trades on Saturdays and Sundays. The transactions entered during a settlement period/trading period are settled on a set of pay-in day and pay-out day.

The pay-in day is the day when brokers have to make payments to the clearing house of the exchange for all purchases in the preceding settlement period and to deliver security certificates, together with transfer deeds, for all sales made by them in the same settlement period. Delivery and receipt takes place only for securities in a physical form. An electronic transfer of balance is made between relevant accounts for securities in a book entry form on the pay-in and pay-out.

For securities in a physical form the pay-out day falls four working days after the pay-in day on BSE and two working days on NSE. Under a book entry system, the settlement for funds and securities can take place on single day. If an investor buys and sells the same quantity of the same stock during the same settlement/trading period he/she can square of his/her orders and trades can be reversed by contra transactions entered into during the same settlement/trading period and consequently result in no delivery. This method of trading is very popular in the Indian stock markets for speculative purposes, through Indian institutions; mutual funds and FII's are not permitted to conduct such transactions.

BSE has made considerable improvement to its settlement system. There are two segments of equity trades on the BSE from the point of view of settlement periods.

1. Ordinary Settlement segment and
2. The rolling settlement segment which is also known as Sunshine segment.

Trades executed in the ordinary settlement segment are settled in two ways:

1. Settlement through the clearing house and
2. Hand delivery

**Settlement through the clearinghouse:**

All BSE listed stocks follow a 7 day settlement period in the ordinary segment and can be settled through the BSE’s clearing house i.e. Bank of India Shareholding Ltd. All trades executed during settlement period are then settled during the subsequent weeks. Table TG No. IV: 1 gives the sequential steps of (1) the ordinary settlement (2) the rectification of a short delivery and (3) the rectification of short delivery.

<table>
<thead>
<tr>
<th>WEEK</th>
<th>DAY</th>
<th>ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Monday</td>
<td>The Settlement Period starts.</td>
</tr>
<tr>
<td></td>
<td>Friday</td>
<td>The Settlement Period ends.</td>
</tr>
<tr>
<td>2</td>
<td>Monday</td>
<td>• The BSE issues settlement reports to its members.</td>
</tr>
<tr>
<td></td>
<td>Thursday</td>
<td>Pay-in-day</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The Selling brokers or custodians deliver shares to the Clearing house.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• The buying brokers or custodians deliver cheques to the Clearing house.</td>
</tr>
<tr>
<td></td>
<td>Friday</td>
<td>• Buying brokers’ bank accounts are debited and the Cheques are encashed by 10:30 a.m.</td>
</tr>
</tbody>
</table>
**Saturday**

Pay-out day

- The clearing house credits bank accounts of the selling Brokers or custodians, and release the cheques to the selling brokers or custodians.

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**3 Monday**

- The clearing house, on behalf of the selling brokers or Custodians who have not delivered in full, puts up the short delivery for auction. Short delivery is auctioned or closed out.
- The buying brokers or custodians examine delivered Securities and report bad delivery (if any) to the clearing house by 7:00 p.m.

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**Tuesday**

- The selling brokers or custodians collect the rectified delivery from the clearing house.

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**Wednesday**

- The selling brokers or custodians rectify the delivery or Give non-rectification notices to the clearing house.
- The selling and buying brokers sign confirmation letters For rectification and submit them to the clearing house.
- The selling brokers or custodians deliver the rectified securities to the clearing house.

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**Thursday**

- The buying brokers or custodians collect the rectified delivery from the clearing house.

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**4 Monday**

- If the selling brokers or custodians fail to rectify the bad Delivery, the securities will be auctioned.

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* This settlement cycle is effective from January 1998.

**Source**: BSE.

**Hand Delivery Trade:**

This type of trade is popular among BSE members. The selling and the buying member broker mutually agree on the price delivery and
payment terms of the transaction. The selling broker delivers the securities directly to the buying broker in exchange for the funds on a DVP basis. Since they do not go through the clearinghouse these trades are not protected by automatic buy-ins, bad deliver cells and other facilities that the clearinghouse provides.

Sunshine Segment / Rolling Settlement

Started full-scale operation on 1\textsuperscript{st} September 1997 with the aim of wooing institutional investors back to BSE. In this segment trades settle on a daily rolling basis on the fifth working day from their trade day (the trade day is counted as $T + O$). This settlement cycle is conventionally termed as $T + 5$. For e.g. a transaction made on Monday pay-in and pay-out for funds and securities on next Monday. BSE is planning to reduce the settlement cycle to $T + 3$.

In case of rolling settlement trades are netted on a daily basis. position cannot be carried over to the next day, therefore speculation is limited to a day rather than a week. The benefits of rolling settlement are:

- Reduction of risk since each trading day position would come up for settlement on same day.
- The process of price formation in the cash market would improve considerately.
- The anomalies of the present system in which the prices in the cash and forward market are mixed up would be avoided.
- The seller and buyers get early the monies and securities respectively for their sale and purchase transactions.
The pre-requisite for rolling settlement is dematerialisation. Since rolling settlement involves the conversion of the market into a cash market, there is no mechanism to introduce speculators who provide the bulk of volume. Barely 10% of the market is cash market and the rest of the transactions represent the forward market. Delays in the cheque clearance are also likely to come in the way of rolling settlement.

In rolling settlements, T + 3 or T + 5 denotes after how many days the trades done on T day will be settled. Since the movement of money payment and securities deliveries needs to be very fast in rolling settlements, the investors need to consider the depository and banking infrastructure available at his location. The scrip codes falling in the 5 lacs series represents scripts which would be settled on rolling settlement basis moreover, scrip ID has a suffix DM for the rolling settlements.5

Settlement Troubles:

Settlement troubles in the Indian stock market can be generally categorised as follows:

- Short deliveries;
- Bad deliveries; and
- Objections to transfer

In spite of transactions being based on physical certificates, safe keeping of certificates with brokers would lessen the need for their physical hauling around. But this system is not popular in India because in general Indian investors did not trust their brokers to safe
keep their shares for them. The main cause of settlement trouble is the high level of speculation existing in Indian stock market.

**Short Delivery:**

A short delivery takes place when a broker, custodian or the clearinghouse delivers fewer securities than what were contracted for either to another broker, a custodian or the clearinghouse.

**Bad Delivery:**

A bad delivery is a delivery of shares certificates and their accompanying transfer deed that have an obvious defect, such as absence of a broker’s stamp from the transfer deed.

**Objection To Transfer:**

If defective share certificates or transfer deeds look likely it lead to an objection of transfer, the delivered share certificate is usually rejected on the ground of bad delivery as a precautionary measure.

The defects include –

* Mismatching of any of the distinctive number Range ("DNR"), the certificate number or the registered folio number with those on the company’s register.
* Signature difference.
* Stolen certificates.

More and more stolen share certificates have been shipping into the system as the recent economic reform has made Indian criminals realize the pecuniary value of share certificates. There was no time limit for rectification of objected certificates and these typically took many months to rectify. This was one of the notorious features that
kept away foreign investors from the Indian stock market. SEBI has mandated the creation of a Bad delivery cell (BDC) at each stock exchange. BDC plays the role of a centralized Bad delivery rectification agency. BDC rectify the process of objections between buying and the selling brokers whether belonging to the same or different stock exchanges. BSE set up its BDC in December 1997. Buying brokers submits objected share certificates to BDC every Tuesday. The whole process of rectification takes maximum of 45 days. It should be noted that only trades settling through the clearinghouse enjoy the benefit of the BDC.6

Registration For Transfer:

Once the trade is duly settled, delivered shares can either be sold again in another transaction and delivered to next buying broker or custodian as long as their transfer deed is valid or sent to the registrar or the transfer agent for registration.

The title to share certificate passes by delivery.

Time for Registration:

Registration guidelines were set among Indian registrars in August 1996 that:

* the registrars would intimate the custodians the status of deliveries within seven days of the submission of share certificates.

* in case of objections, the registrars would be required to return the shares within seven days; &

* Good deliveries would be transferred and sent back to transferees within 30 days.
Precautionary measures in order to reduce the probability of settlement troubles. Such measures include:

- Dealing only with well-known and reputed brokers;
- Avoiding deals where many brokers are involved;
- Settling trades through clearing house to ensure guarantee of trades done;
- Entertaining orders only from investors with good references;
- Collecting funds or securities from the broker or the custodian / investor before the pay-in day; and
- Following up with the brokers prior to the settlement so as to confirm their actual ability to deliver.

Timely settlement of the executed deals is the essence of effective management of the stock exchange. In case of screen based on line trading stock exchanges like BSE, settlement of transaction depends on the nature of shares, specified or non-specified.

**Debt Segments;**

With the opening of Indian Corporate and government debt investment to FII's BSE had re-activated corporate debt securities trading and also re-activated government securities through a rolling settlement on the BSE on-line trading systems (BOLT).  

BSE commenced trading in corporate bonds in September 1996, with maturity ranging from 1 to 9 years are listed on BSE. The market segment for corporate debt securities listed on BSE is called 'F' Group, which stands for fixed income securities. BSE also proposed for trading in government securities under 'G' Group segment which
includ government securities, government-guarantee bonds, financial institutions bonds, public sector undertaking bonds, and money market instruments include treasury bills, commercial papers etc. All trades of ‘G’ group securities are planned to be settled through a central clearinghouse.

**Forward Trading And Speculation:**

Forward trading or carry over trading is also known as badla trading, is allowed on BSE. It is a speculated system, which allows and investor to carry over his/her transaction of a particular stock to the next settlement cycle without cash settlement in the current cycle. It provides a great deal of liquidity to the securities market

**Contango:**

Also known as “Seedha Badla” in Indian stock exchange when a bull buys in the anticipation of an immediate rise in price, but finds that the price has not risen, he may either pay for the shares and take delivery, or he may carry over his transactions to the next accounting period by paying carry over charges or “Seedha Badla” to the seller.

**Backwardation: (Ulta Badla)**

When a bear sells in anticipation of a fall in prices in the immediate future (so that he can pick up the shares later for delivery and make a profit), but fall does not happen within the accounting period he has the option to borrow or buy the shares for delivery or have his sales carried over to the next accounting period on payment of ulta badla or backwardation charges to the buyer. Badla is financed by “badliwala”.


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Forward Trading:
Contract to buy or sell specific quantities of goods, currency or freight at a stated price and a stated time in the future. These contracts are made in trade by buyers who wish to cover themselves against price fluctuations and sellers who wish to benefit from them. Forward contracts are bought and sold in the futures market.8

Futures Contract:
A contractual agreement to buy or sell a specified quantity of a commodity, currency or shares at a particular price on a fixed date in the future. Futures are a hedge against price fluctuations for those who must buy at future dates.9

FORWARD CONTRACTS v/s FUTURES CONTRACTS
➢ Futures is a type of forward contract
➢ Forward contract is customized while future is standardized
➢ Forward contracts are individually agreed between two counterparties, while futures being traded on exchanges have standardized terms by the exchange.
➢ Futures are much more liquid and their price is much more transparent due to standardization.
➢ A forward contract can be reversed only with the same counterparty with whom it was entered. A futures contract can be reversed with any member of the exchange.

The badla system is only available to domestic non-institutional investors in respect of group A shares (specified shares) listed on the
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BSE. FII’s are prohibited from trading without actual deliveries i.e. Badla trading.

At the end of a settlement period and Indian investor has three choices

(i) Square of his or her position by a contract transaction.

(ii) Deliver or pay as contracted for; or

(iii) Carry forward his or her position to the next settlement.

The role of forward trading in the stock markets is to supplement the buyers and sellers and make the demand and supply functions continuous. It helps to build a large volume of trade, which imparts liquidity to the market. It also lends stability by enabling hedge trading to take place. Badla system has three components: transfer of market position, stock lending and borrowing/lending in money market.¹⁰

Due to rampant malpractices and excessive speculation, price rigging, market manipulation, non-reporting of transactions, neglect of interests of small investors, absence of adequate infrastructural facilities prolonged period of settlement, delay in deliveries etc. SEBI issued an order preventing undesirable speculation on December 13th, 1993 following a steep rise in share prices. Subsequently SEBI's order on March 12, 1994 brought a complete halt for trading in specified shares with carry over facilities.

Impact of Ban:

➤ Average daily turnover at BSE declined tremendously

➤ Spreads between bids and offer widen.
Mutual Funds and FII's experienced lack of liquidity and were unable to buy and sell shares in desired quantities at reasonable prices.

Lack of speculative trade resulted in illiquid market.

Lack of liquidity adversely affected FII's interest because they need quick exit route.

Consequently in 1995, SEBI decided to introduce a Revised Carry Forward System (RCFS). Subject to prudential conditions and precautions stock exchanges would have to obtain prior permission from SEBI to introduce carry forward system. Other conditions are as follows:

- Screen based trading and effective monitoring, surveillance and reporting system.
- Transactions allowed carrying forward for a maximum of 90 days.
- Every member required keeping books of record of the source of finance.
- Brokers must segregate client account and own account.
- Capital adequacy norm of 3% for individual brokers and 6% for corporates should be introduced by stock exchanges.

SEBI contributed J.R. Verma Committee in March 1997 to review the RCFS. A new modified carry forward system (MCFS) was recommended by keeping in view the shortcomings of RCFS. The recommendations of the committee include:

- Abolition of the twin track system of reporting carry forward and delivery trades.
➢ Abolition of the limit of 90 days for carry forward of transactions.

➢ Scrapping the overall limit on carry forward of transactions of Rs.5 crores.

➢ Daily margin on badla transactions to be reduced to a minimum of 10 % from 15 %; 50 % of the daily margin is collected up-front either in cash or in the form of a bank guarantee.

➢ A limit of Rs.100 million on financer funding to be lifted.

Despite recommendations, some restrictions have been retained like:

➢ The twin track system whereby badla transactions are segregated from transactions for delivery at the time of trade; and

➢ The 90 days time-limit

SEBI has announced the total termination of the carry forward system/badla system. SEBI has decided to abolish the system with effect from July 2, 2001. After July 2, 2001 no fresh carry-forward transactions can be initiated on any of the Indian Stock exchanges. A new system of trading in the cash market and forward market was placed. In cash market a compulsory rolling settlement, which was done, on daily basis. In other words each trading day was taken as if settled.

When an investor buys shares he will have to pay for them and when he sells them he will have to give delivery. Further, different exchanges in India were having settlement periods closing on different days. With this new system, all settlement days of all exchanges were brought on same day. While this is the case in the cash market there is a separate market where options and futures are
permitted. An option is a right that an investor has to buy or sell a share at a future date at pre-determined price. For this there is a small premium. The great advantage with Option is that you do not have to necessarily buy or sell a particular share. In other words while it confers a right, it does not create an obligation on the investor. Options are the preferred forward derivative products in all global bourses. This epoch made decision of SEBI separated out the cash market and the futures market. While long term investor invested in the cash market and speculators in the options market without any fear that there loss would exceed a certain amount. Larger investors can hedge their positions without fear of erosion of value. In a way it is good for all concerned. After all for one who has understood the badla system, which is a complex hybrid of interest costs, the option is much easier.\textsuperscript{13}

There is no denying the fact that the Indian stock markets have come a long way. From the open out-cry ring trading system to comprehensive and complex network based online computerized trading. Therefore in this chapter we have noticed that a tremendous change has also taken place in trading and clearing rules and practices. Its not that now Indian stock market has fully matured and it doesn’t need any change or alterations in its trading and clearing rules and regulation. Still our stock markets and the regulating bodies are in the learning and practicing phase. Therefore the system right now in vogue should not be taken for granted, the watchdog SEBI is always hunting for better, transparent, free and fair investors friendly trading rules and practices.
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5. The Stock Exchange, Mumbai, "Frequently asked questions". SCM Library BSE Mumbai.
9. Ibid.