Topic for today- Market participants in Secondary Market (v.imp)

Market Participants in Securities Market

- Who Are The Various Market Participants And What Are Their Activities?

Market Participants in Securities Market include buyers, seller and various intermediaries between the buyers and sellers. Some of these entities are briefed below:

- Market Intermediaries
  1. Stock Exchanges

  Stock Exchanges offer a trading platform where buyers and sellers can carry out transactions in already issued securities.

  Stock markets such as NSE, BSE and MSEI are nationwide exchanges. Trading occurs on these exchanges through electronic trading terminals which attribute anonymous order matching. Stock exchanges also appoint clearing and settlement agencies and clearing banks that manage the funds and securities settlement that arise out of these trades.

  2. Depositories

  Depositories are institutions that hold securities (like shares, debentures, bonds, government securities, mutual fund units) of investors in electronic form.

  By means of a registered Depository Participant, Investors open an account with the depository. They also provide services related to transactions in the securities held in dematerialized form.

  - There Are Two Depositories In India That Are Registered With SEBI At Present:
3. Depository Participant

A Depository Participant (DP) is an agent of the depository through which it interfaces with the investors and provides depository services. Investors were enabled depository participants to hold and transact in securities in the dematerialized form. While the investor-level accounts in securities are held and maintained by the DP, the company level accounts of securities issued is held and maintained by the depository.

Who Can Register As A DP?

With the approval of SEBI Depository Participants were appointed by the depository. Scheduled commercial banks, Public financial institutions, foreign banks operating in India with the approval of the Reserve Bank of India, state financial corporations, custodians, stock brokers, clearing corporations / clearing houses, NBFCs and Registrar to an Issue and Share Transfer Agents complying with the requirements prescribed by SEBI, can be registered as a DP.

4. Trading Members/Stock Brokers & Sub-Brokers

Trading members or Stock Brokers are registered members of a Stock Exchange. They assist buy and sell transactions of investors on stock exchanges. All secondary market transactions on stock exchanges have to be basically conducted through registered brokers of the stock exchange.

Trading members can be individuals (sole proprietor), Partnership Firms or Corporate bodies, who are permitted to become members of recognized stock exchanges subject to completion of minimum practical needs.

A sub-broker is an entity who is not a member of Stock Exchange but who acts on behalf of a trading member or Stock Broker as an agent for assisting the investors in buying, selling or dealing in securities all the way through such trading member or Stock Broker with whom he is connected.
Sub-brokers assist in increasing the reach of brokers to a larger number of investors. Trades have to be routed only through the trading terminals of registered brokers of an exchange, to be accepted and executed on the electronic system. Sub-brokers in remote locations who do not have electronic facilities offer trading services to their customers through phone or physical orders formats. The main broker to whom they are affiliated then enters these trades into the system. Broker-members of exchanges can complete transactions on the exchange only electronically. It is called proprietary trade when brokers trade on their own account, using their own funds. SEBI registration to a broker is approved based on aspects such as availability of adequate office space, equipment and manpower to successfully perform his activities, past experience in securities trading etc. SEBI also make sure the capital competence of brokers by requiring them to deposit a base minimum capital with the stock exchange and limiting their gross exposures to a multiple of their base capital. Brokers receive a commission for their services, which is called as brokerage. Maximum brokerage chargeable to customers is fixed by individual stock exchanges.

5. Authorised Person

Authorized person is any person (individual, partnership firm, LLP or body corporate), who is appointed by a stock broker or trading member as an agent to reach out to the investors spread across the country. A stock broker may appoint one or more authorized person(s) after acquiring precise previous consent from the stock exchange concerned for each such person. The approval as well as the appointment of authorized person(s) is for a definite segment of the exchange.
6. Custodians

A Custodian is a body that is charged with the accountability of holding funds and securities of its large clients, characteristically institutions such as banks, insurance companies, and foreign portfolio investors.

In addition to safeguarding securities, a custodian also settles transactions in these securities and keeps record of corporate actions on behalf of its clients.

It Aids In:

* Maintaining a client's securities and funds account
* Collecting the benefits or rights accruing to the client in respect of securities held
* Keeping the client informed of the actions taken or to be taken on their portfolios.

7. Clearing Corporation

Clearing Corporations play a vital role in protecting the interest of investors in the Securities Market. Clearing agencies ensure that members on the Stock Exchange meet their obligations to deliver funds or securities. These agencies act as a legal counter party to all trades and guarantee settlement of all transactions on the Stock Exchanges. It can be a part of an exchange or a separate entity.

8. Clearing Banks

Clearing Bank acts as a significant mediator between clearing members and the clearing corporation.

Every clearing member needs to maintain an account with the clearing bank. It is the clearing member’s accountability to ascertain that the funds are available in its account with clearing bank on the day of pay-in to meet the obligations arising out of trades executed on the stock exchange. In case of a pay-out, the clearing member receives the amount in their account with clearing bank, on pay-out day.
9. **Merchant Bankers**

Merchant bankers are bodies registered with SEBI and act as issue managers, investment bankers or lead managers. Investors were enabled depository participants to hold and transact in securities in the dematerialized form. They are single point contact for issuers during a new issue of securities. They assess the capital needs of issuers, constitute a suitable instrument, get concerned in pricing the instrument and manage the entire issue process until the securities are issued and listed on a stock exchange. They connect and co-ordinate with other mediators such as registrars, brokers, bankers, underwriters and credit rating agencies in managing the issue process.

10. **Underwriters**

Underwriters are mediators in the primary market who undertake to subscribe any portion of a public offer of securities which may not be bought by investors. They fulfill a significant function in the primary market, providing the issuer the ease that if the securities being offered to public do not draw out the desired demand from investors, they (underwriters) will step in and buy the securities. When the underwriters make their guarantee at the initial stages of the IPO, it is called hard underwriting. Soft underwriting is the commitment given once the pricing is resolute. The shares that transferred are more often than not placed with other financial institutions, thereby restraining the risk to the underwriter. Soft underwriting also comes with a part that offers the option to exit from the commitment in the event of certain events happening. The risk in rigid underwriting is much higher than in soft underwriting.