

## Unit - III

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### 1. Expand SEBI

Securities Exchange Board of India.

### 2. Define Index

A stock market index is a method of measuring a section of the stock market. Many indices are cited by news or financial services firms and are used as benchmarks, to measure the performance of portfolios such as mutual funds.

### 3. Define Options

A stock option gives an investor the right, but not the obligation, to buy or sell a stock at an agreed upon price and date.

### 4. Define Future

Far Futures represent an agreement to buy or sell a specific quantity of a stock, security or commodity at a set price on a specified date in the future.

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### 1. List out objectives of SEBI

#### • Protection

To protect the rights and interests of the investors by properly guiding them and ensuring the safety of the money invested.

## • Prevention of malpractices

To prevent fraudulent and malpractices related to trading and regulate the activities of the stock exchange.

## • Establishing a code of conduct

To regulate and develop a code of conduct for intermediaries such as brokers, underwriters and so on.

## • Establishing balance

To establish a balance between statutory regulation and self regulation by the securities industry.

## • Promote proper functioning

To promote orderly functioning of the stock exchange and securities industry by regulating them.

## 2. Short note on Future

Stock future are financial contracts where the underlying asset is an individual stock. Stock future contract is an agreement to buy or sell a specified quantity of underlying equity share for a future date at a price agreed upon between the buyer and seller. The contracts have standardized specifications like market lot, expiry date, unit of price quotation, tick size and method of settlement. Presently stock future are settled in cash. The final settlement price is the closing price of the underlying stock. For market lot and other details of the various stock futures available on BSE, please visit the F&O list section.

### 3. Types of options

#### • Call Option

Call option give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a particular date by paying a premium.

#### • Put Option

Puts gives the buyer the right but not obligation to sell a given quantity of the underlying asset at a given price on or before a particular date by paying a premium.

The other two types are,

#### • European style option

European style options can be exercised only on the maturity date of the option, also known as the expiry date.

#### • American style option

It can be exercised at any time before and on the expiry date.

On the basis of types of security,

**Stock Option** - This is very common type of options contract in which the underlying asset is the publicly traded shares of a company.

**Index option** - It is similar to the stock option. But the difference is that here underlying asset is the index like bank nifty, nifty, S & P 500 etc. instead of shares of a publicly listed company.

Here are some of the option type by its expiration cycle.

**Regular option** - This is a standard expiration cycle. You will get options for four different months of expiration while purchasing this type of option contract.

**Weekly Option** - This type of contract is as same as regular options, but the difference is that its expiry period is much shorter than the regular option. Currently weekly options are available for limited underlying securities and some major indices.

**Exotic Option** - Exotic options are normally traded in the OTC market instead of any stock exchange. It comes under non-standardized options and has been customized.

#### 4. Short note on Index

A stock market index, also known as stock index, is a statistical measure that reflects changes taking place in the market. It's created by grouping a few similar stocks among the securities listed on the exchange and the selection criteria could be the size of a company, its market capitalisation or type of industry.

Change in prices of underlying securities impacts the overall value of the index. If price rise, the index will rise and if they go down, so will the index.

Types of Indices in Indian Stock Market.

- Benchmark indices like BSE Sensex and NSE Nifty.
- Broad-based indices like Nifty 50 and BSE 100.
- Market capitalisation based indices such as BSE midcap and BSE small cap.

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## 1. How to SEBI protect the investors.

Investor protection legislation is implemented under the section 11(a) of the SEBI Act. The measures are as follows:

- \* Stock Exchange and other securities market business regulation.
- \* Registering and regulating the intermediaries of the business like brokers, transfer agents, trustees, portfolio managers, merchant bankers, etc.
- \* Recording and monitoring the work of custodians, depositories, participants, foreign investors, credit rating agencies, etc.
- \* Registering investment schemes like mutual fund & venture capital funds and regulating their functioning.
- \* Promotion and controlling of self-regulatory companies.
- \* Keeping a check on frauds and unfair trading methods related to the securities market.
- \* Observing and regulating major transactions and take over of the companies.
- \* Carry out investor awareness and education programmes.
- \* Train the intermediaries of the business.
- \* Inspecting and auditing the security exchanges (SEs) and intermediaries.
- \* Assessment of fees and other charges.

## 2. Functions of SEBI

Sec. 11 (1) of the Act casts upon SEBI, the duty to protect the interests of investors in securities and to promote and development of, and to regulate the securities market through appropriate measures. The

\* Regulating the business in stock exchanges and any other securities.

\* Registering and regulating

## 2. Functions of SEBI

SEBI primarily has three functions,

1. Protective Function
2. Regulatory Function
3. Development Function

### Protective Functions

As the name suggest, these functions are performed by SEBI. to protect the interest of investors and other financial participants.

It includes -

- Checking price rigging
- Prevent insider trading
- Promote fair practices
- Create awareness among investors
- Prohibit fraudulent and unfair trade practices

## Regulatory Functions

These functions are basically performed to keep a check on the functioning of the business in financial Markets.

These functions include -

- Designing guidelines and code of conduct for the proper functioning of financial intermediaries and corporate.
- Regulation of takeover of companies
- Conducting inquiries and audit of exchanges
- Registration of brokers, sub-brokers, merchant bankers
- Levying of fees.
- Performing and exercising powers
- Register and regulate credit rating agency.

## Development Functions

SEBI performs certain development functions also that include but they are not limited to -

- Imparting training to intermediaries
- Promotion of fair trading and reduction of malpractices
- Carry out research work
- Encouraging self-regulating organizations
- Buy-sell mutual funds directly from AMC through a broker.

is the role of sebi in indian economy