

COURSE NAME- LAW
CLASS- LL.B. 6TH SEM
SUBJECT- FINANCIAL MARKET REGULATIONS
TOPIC- STOCK EXCHANGE

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Meaning of Stock Exchange

A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. Here, the securities are bought and sold as per well-structured rules and regulations.

A Stock Exchange is an institution which provides a platform for buying and selling of existing securities. It facilitates the exchange of a security i.e. share, debenture etc. into money and vice versa

DEFINITION OF STOCK EXCHANGE

The Securities Contracts (Regulation) Act of 1956 defines, a stock exchange as “an association, organization or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling, business in buying, selling and dealing in securities.”

Designated stock exchange has been defined under Section 2(1)(d) of the Securities and Exchange Board of India (Issue and Listing Debt Securities) Regulations, 2008, as, “a stock exchange in which securities of the issuer are listed or proposed to be listed and which is chosen by the issuer for purposes of a particular issue under these regulations”.

History of Stock Exchange in India:

The first organised stock exchange in India was started in 1875 at Bombay and it is stated to be the oldest in Asia. In 1894 the Ahmedabad Stock Exchange was started to facilitate dealings in the shares of textile mills there. The Calcutta stock exchange was started in 1908 to provide a market for shares of plantations and jute mills.

Then the madras stock exchange was started in 1920. At present there are 24 stock exchanges in the country, 21 of them being regional ones with allotted areas. Two others set up in the reform era, viz., the National Stock Exchange (NSE) and Over the Counter Exchange of India (OICEI), have mandate to have nation-wide trading.

They are located at Ahmedabad, Vadodara, Bangalore, Bhubaneswar, Mumbai, Kolkata, Kochi, Coimbatore, Delhi, Guwahati, Hyderabad, Indore, Jaipur, Kanpur, Ludhiana, Chennai, Mangalore, Meerut, Patna, Pune, Rajkot.

The Stock Exchanges are being administered by their governing boards and executive chiefs. Policies relating to their regulation and control are laid down by the Ministry of Finance. Government also Constituted Securities and Exchange Board of India (SEBI) in April 1988 for orderly development and regulation of securities industry and stock exchanges.

Features of Stock Exchange:

A market for securities- It is a wholesome market where securities of government, corporate companies, semi-government companies are bought and sold.

Second-hand securities- It associates with bonds, shares that have already been announced by the company once previously.

Regulate trade in securities- The exchange does not sell and buy bonds and shares on its own account. The broker or exchange members do the trade on the company's behalf.

Dealings only in registered securities- Only listed securities recorded in the exchange office can be traded.

Transaction- Only through authorised brokers and members the transaction for securities can be made.

Recognition- It requires to be recognized by the central government.

Measuring device- It develops and indicates the growth and security of a business in the index of a stock exchange.

Operates as per rules- All the security dealings at the stock exchange are controlled by exchange rules and regulations and SEBI guidelines.

Functions of Stock Exchange

Economic Barometer: A stock exchange is a solid barometer to gauge the economic circumstance of a country. A stock exchange is also known as a pulse of the economy or economic mirror which reflects the economic conditions of a country.

Pricing of Securities: The stock market helps to assess the securities on the basis of demand and supply factors. The securities of effective and growth-oriented organisations are estimated higher as there is more demand for such securities.

Safety of Transactions: In the stock market only the indexed securities are traded and stock exchange authorities include the corporations named in the trade list only after verifying the soundness of the organisation. The organisations which are listed also have to function within the stringent rules and regulations. This guarantees the security of dealing through the stock exchange.

Contributes to Economic Growth: In stock exchange securities of various organisations are traded. This method of disinvestment and reinvestment helps to invest in the most productive investment proposal and this leads to capital structure and economic growth

Spreading of Equity Cult: Stock exchange urges people to invest in ownership securities by managing new issues, better trading practices and by educating the people about investment.

Providing Scope for Speculation: To assure liquidity and demand of supply of securities the stock exchange allows healthy consideration of securities.

Liquidity: The principal purpose of the stock market is to present a ready market for sale and purchase of securities. The presence of the stock exchange market gives certainty to investors that their investment can be transformed into cash whenever they want.

Better Allocation of Capital: The shares of profit-making organisations are valued at higher prices and are actively traded so such organisations can efficiently raise capital from the stock market.

Promotes the Habits of Savings and Investment: The stock market gives attractive chances for investment in different securities. These attractive opportunities inspire people to save more and invest in securities of the corporate sector rather than investing in unfruitful assets such as gold, silver, etc.,

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