

# ROLE OF STOCK EXCHANGES IN INDIAN CORPORATE BUSINESS

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## **Abstract**

Stock exchange is the essential component of the securities market. It plays very important role in the economic development of the country. The stock exchange provides the facility of transactions between the traders of securities. Stock exchange is an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling the business of buying, selling and dealing in securities. This sector provides guidance to the corporate sector to trade their securities publically so that they can arrange their capital requirement at affordable rate and on time. In this way, we can point out that the stock exchanges in India are facilitating the financial advancement in the corporate business.

**Key Words: Stock Exchange, SEBI, Demat Account, Broker, Settlement of Transactions.**

## **Introductory View**

Stock exchange is the essential component of the securities market. It plays very important role in the economic development of the country. The stock exchange provides the facility of transactions between the traders of securities. It is the essential platform where the buyers and the sellers come together to buy or sell the securities. The transactions at the stock market are done on the basis of index. This index provides the information of the prices of the securities.



“Stock exchange is an association of persons engaged in the buying and selling of stocks, bonds and shares for the public on commission and guided by certain rules and conditions.”

-----**K.L. Garg**

“Stock exchange is an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling the business of buying, selling and dealing in securities.”

-----**The Securities Contracts (Regulation) Act, 1956**

### **Objectives of the Study**

This paper is based on the descriptive pattern. First of all introduction of the stock exchanges has been given. Middle segment of the study is related to the present scenario of these institutions in the country. Concluding part includes the final observations of the author after studying the functioning and role of these organisations in the business segment of corporate world.

### **Overview of the Functioning and Role of Stock Exchanges**

In stock exchange, only listed securities are traded. A company can list its securities on the stock exchange after fulfilling some mandatory requirements. For listing the securities, the company has to apply before the management committee for its permission. After considering the application of the company, if the management is satisfied, then the securities can be listed on the stock exchange. It is the well-organised market for the trading of securities. It works under a management committee, which control the activities of it. The management committee issues various guidelines from time to time for trading the securities on it.

The mechanism of stock exchange works through its authorised members. The securities are traded by the investors only through these members. Only the authorised members are authorised to visit the stock exchange. It works as per the set of rules that cannot be violated at any cost. These rules determine the overall working of the trading of securities.

Currently the stock exchanges are working in India. The details of permanently recognised stock exchanges have been furnished in the following table:

Sr. No.	Name of the Stock Exchange
	<b>(Permanently Recognised)</b>
1	Bombay Stock Exchange (BSE)
2	National Stock Exchange of India Ltd. (NSE)
3	Calcutta Stock Exchange Ltd.
4	Indian Commodity Exchange Limited
5	Metropolitan Stock Exchange of India Ltd.
6	Multi Commodity Exchange of India Ltd.
7	National Commodity and Derivatives Exchange Ltd.

**Source: SEBI**

The Trading procedure on a stock exchange has been explained as follows:

- **Broker:** First of all a broker should be selected for trading the securities on the stock exchange. This broker should be registered with SEBI. This broker can be individual, partnership firm and a body of individuals or a company. The investor can buy or sell the securities on through this broker.
- **Opening of the Demat Account:** This is the dematerialized account, which is opened by an Indian citizen with a depository participant. The depository participant is any bank or a stock broker who deals in the trading of securities. Depository holds the securities in the electronic form. There is no direct contact between the investor and a depository.

At present, in India two depository institutes are working for this work:

- (i). National Securities Depository Limited (NSDL)
- (ii). Central Depository Services limited (CDSL)

The depository opens the demat accounts of its investors in which the balance of their securities is maintained. This relationship between the depository and an investor is established by the depository participant who may be a bank or a stock broker that acts as per the directions of SEBI. These send the statement of accounts of the demat accounts to the investors from time to time. This statement account includes the status of the holdings of the investors.

- **Placing the Order:** Once the demat account is opened, the investor can place the order for buying the securities. The investor may give the order to broker either personally or through the phone or e-mail. The investor should give the order for buying the securities very clearly by specifying the number of securities with their price.
- **Executing the Order:** After receiving the order form the investor, the broker buys the securities as per the specifications. A contract note is prepared by the broker for the order that is signed by the broker. This note contains the name and price of the securities, the amount of brokerage and the names of the parties. This contract note serves the purpose of a proof of the investment for the investor.
- **Settlement of Transactions:** This process includes the transfer of the securities from the demat account of the seller to the demat account of the buyer. This settlement can be done in the following two ways:
  - **On the Spot Settlement:** In this settlement, the transaction is completed immediately after the selling or buying process. It is called the 'T+2 Rolling Settlement.' Under this settlement, the transaction taking place on Monday will be settled by Wednesday.
  - **Forward Settlement:** Under this process, the settlement is done on some future date. This settlement can be T+5 or T+7, etc. The time for making all types of trading has been fixed between 9.15 a.m. to 3.30 p.m. The stock exchange is opened from Monday to Friday.

The following role is played by the stock exchange for the corporate business:

- ❖ **Investors' Liquidity:** The stock exchange provides the cash to the investors, which is required by them for day-to-day operations. The investor can convert his securities into cash at the stock exchange whenever he requires.
- ❖ **Marketing Process:** The stock exchange provides a well-defined market place for trading the securities to the investors. They can buy and sell their every type of securities at the stock exchange without wasting their time and money.
- ❖ **Price Determination:** A number of buyers and sellers of the securities meet each other at stock exchange, which increases the competition in the market. This competition helps in the determination of the prices of the securities.

- ❖ **Security of Transactions:** All the transactions at the stock exchange are performed through the authorized members. These members have to follow the rules and regulations strictly, otherwise they may face strict penalty. These members act as per the guidelines of SEBI. Along with this all the transactions are done through the demat accounts which are certified accounts of the depositories. Hence, the transactions, which take place at the stock exchange, are secure and safe.
- ❖ **Supply of Information:** Stock exchange provides the every information about the securities of the companies. This information is published for the free access of the investors. The investor can avail every type of information form the stock exchange regarding the securities for the investment purpose.
- ❖ **Dealing with Speculation:** The speculation refers to the purchasing of securities for getting the profit. The stock exchange allows the speculation to the investors as per the provisions.
- ❖ **Helpful in Economic Development:** The securities trading increase the investment in the market. The market promotes the mobility of savings in the form of this investment. The money invested in the securities goes to the corporate sector that again invests this money into industrial sector. The industrial growth is directly related to the economic development.

## Conclusion

Stock exchanges are playing vital role in the security market of India. Investor cannot imagine the transaction of securities without these organisations. As per the Futures Industry Association (FIA), the National Stock Exchange (NSE) of India continues to be the world's largest derivatives exchange for three years in a row based on number of contracts traded in 2021. These institutions provide a sound base for the dealing of capital and finance by the corporate sector. This sector provides guidance to the corporate sector to trade their securities publically so that they can arrange their capital requirement at affordable rate and on time. In this way, we can point out that the stock exchanges in India are facilitating the financial advancement in the business.

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