Terms Used in Capital Markets

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Equity Markets

- Spot Market - Orders that have spot settlement are entered into the Spot market.
- Screen Based Trading vis-à-vis Outcry System
- Settlement is the payment or receipt of an outstanding due at the end of the period.
- Price Rigging - When a person or persons acting in concert with each other collude to artificially increase or decrease the prices of a security, that process is called price rigging.

Equity Markets

- Buyer, Seller, Opening Price, Closing Price, Average Price
- Counterparty: When a member enters an order, any other member with an order on the opposite side is referred to as the counterparty.
- Brokerage - It is the commission charged by the broker.
- Auction: It is a mechanism utilized by Exchanges to fulfill its obligation to the trading members.
- Arbitration: Quasi-judicial process to resolve disputes.
- Order Driven Trading: No intervention of a market maker or jobber → avoids manipulation, high spread, monopoly
- Bid and Offer: Bid is the price at which the market maker buys from the investor and offer is the price at which he offers to sell the stock to the investor. The offer is higher than the bid.

Equity Markets

- Dematerialization - It is the process by which shares in the electronic form are cancelled and credit in the form of electronic balances are maintained at the depository.
- Disclosed Quantity (DQ) - A dealer can enter such an order in the system wherein only a fraction of the order quantity is disclosed to the market.
- Clearing - Clearing refers to the process by which the mutual indebtedness between members is settled (using multilateral netting).
- Circuit Breakers - Pre-established mechanisms used to alter the procedures/pace of trading when the market gets 'overheated'.

Equity Markets

- Matching - When a buy and a sell order satisfy the price - time priority, they can result in a trade. (can be full or partial depending on order conditions)
- No-delivery Period - Whenever a Record Date is announced by a company, the Exchange sets a no-delivery period for that share. During this period, trading is permitted in that security. However, these trades are settled only after the no-delivery period is over.
- Insider Trading - Trading carried out by people who have access to non-public price sensitive information.

Equity Markets

- Carry Forward Trading - Trading where the settlement of trades is postponed on the stock exchange until a future settlement period involving payment of interest on the account.
- Carry forward trading has evolved in response to local needs and in India, it refers to ‘badla’.
- Trading in which the settlement is postponed to the next account period on payment of contango charges (known as 'vyaj badla') in which the buyer pays interest on borrowed funds or the backwardation charges (a.k.a 'unda badla') in which the short seller pays a charge for borrowing securities.

Equity Markets

Order Types –

- 'Limit' or 'Market'
- Good Till Cancelled
- Good Till Date
- Minimum Fill
- Negotiated Trade
- All or None condition
- At the Opening
- Immediate or Cancel

Bond Markets

- Certificate of Deposit (CD) is issued by scheduled commercial banks. These are unsecured negotiable promissory notes. (maturity period: 91-365 days)
- Commercial Paper (CP) is a short term, unsecured instrument issued by corporate bodies to meet working capital requirements. (91-365 days)
- Wholesale Debt Market (WDM) provides for trading in a minimum lot size of Rs. 5 lakhs.
- Treasury Bills are short-term obligations issued by RBI on behalf of the Government of India at a discount. (14-364 days, issued by tender)

Bond Markets

- Time Conditions – Day, Good Till Cancelled, Good Till Day, Immediate or Cancel.
- Volume Conditions – Disclosed Value, Minimum Fill, All or None.
- Negotiated Market refers to deals that have been negotiated outside the exchange and are reported on the trading system for approval by the exchange.
- Repo Trades are Repurchase agreements. In these a trader sells securities to a customer while simultaneously agreeing to repurchase them at a future date.

Badla
[Carry Forward Trading]

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What is Badla?

- It is a carry forward mechanism at the BSE
- i.e., one can carry forward his purchases or sales of shares in his account without paying complete money for them on the stock exchange

→ you just pay a small margin of the amount involved.

In case of a Long Position

- On the settlement day, you will take a loan (vyaj badla) from a badla financer
- for the margin money to be paid
- and deliver the margin money needed to carry forward the settlement by another week.
- If you are big broker or a reputed trader - then there will be no dearth of the money you can take from the market.
- But, when the risks you take are beyond your payment capacity OR when the markets act very volatile (say, against your expectation of a rise) – then?

In case of a Short Position

- On the settlement day, you need to deliver the securities (shares)
- So, you will take the required securities to be delivered as loan (undha badla) from a badla financer for the securities to be delivered
- *In otherwords, the badla session, is designed to bring together longs (tejiwallahs or bulls), shorts (mandiwallahs or bears) and lenders of cash (vyaj badla financiers) and stock (share balda financiers) to match demand for delivery stock cash obligations.*