
UNIT 5 BROKING AND TRADING

Objective

After studying this unit, you will be able to

- Know the broking and trading mechanism
- Understand how to trade in the market
- discuss the legal provisions relating to broking and trading
- Evaluate the services provided by brokers.

Structure

- 5.1 Introduction
- 5.2 Stock Market
- 5.3 Stock Exchange
- 5.4 Legal Provisions on Broking
- 5.5 Kinds of Brokers
- 5.6 Role of Broker
- 5.7 Recent Trends in Stock Trading
- 5.8 Meaning of Trading
- 5.9 Planning for Trading
- 5.10 Kinds of Orders
- 5.11 Role of SEB
- 5.12 Summary
- 5.13 Self-Assessment Questions
- 5.14 Further Readings

5.1 INTRODUCTION

Everybody wants to become rich for the sake of financial safety, comfort living, and social esteem. It is very difficult to accumulate wealth if the savings in our hand does not compound by investing it rightly. Among others, the stock market is a potential avenue of investment, making people wealthy over a period of time. However, there are instances when we lose lifetime savings due to failure in managing the investment in the stock market properly. It happens primarily due to our ignorance about the stock market. Hence, it is pertinent to understand the stock market infrastructure and the basics of the stock trading mechanism to play our hand in this kind of investment.

5.2 STOCK MARKET

Shares of listed companies are traded in the stock market. The trading of stocks is derived from the basic nature of the company. Section 2(20) of the Companies Act, 2013 enumerates a few basic characteristics of the company. The major three that distinguish a company from the others are:

- 1) A legal entity with a common seal
- 2) Collective ownership
- 3) Transferability of shares

When a company starts its operations, it needs capital. Under the mandate of **collective ownership**, the company has the privilege of collecting money from the public and institutional investors. When in the beginning it is collected from the investors, it is termed as initial public offering (IPO). The investors put their money straightway with the company and the latter allows them ownership in the form of equity shares. Such procurement of funds by the company is called a primary market.

5.3 STOCK EXCHANGE

Under the clause of **transferability of shares**, one shareholder can transfer his/her equity share to another investor and it is called a secondary market. The entity which facilitates the share transactions in the secondary market is called a stock exchange. The two major stock exchanges in India are National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). Most of the stock transactions in our country are done in these two stock exchanges. There are several other regional stock exchanges in our country. However, these exchanges do not provide stock trading facilities in present times. The stock trading infrastructure in the exchange is supported by the following three financial entities

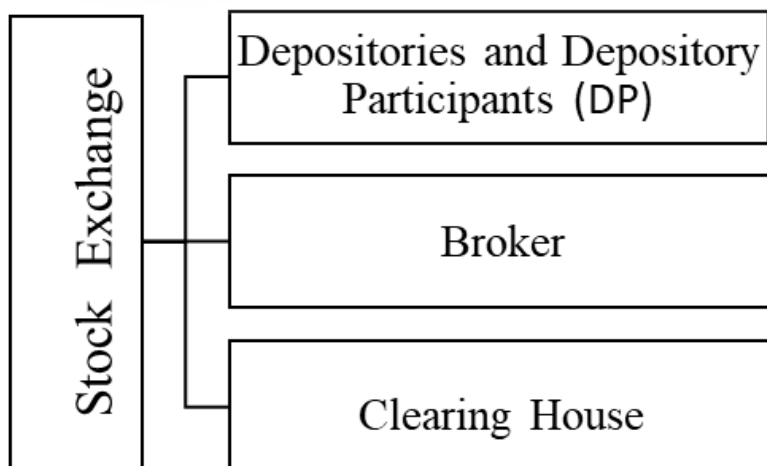


Figure 5.1: Constituents of the Stock Exchange

Depositories and Depository Participants (DP)

When investors hold shares in a company, they should have proof of the ownership. Before the 90's the shareholders were holding share certificates to signify their ownership. However, presently it has been converted to a digital/dematerialization (DEMAT) format. The depositories are the entities that handle the digital ownership of the investors. We have two major depositories in our country namely National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). However, we cannot open an account with these depositories directly. We will have to reach out to an agent, also known as Depository Participant (DP) to provide us with an account. The depositories are governed by the Securities Exchange Board of India (SEBI)

Broker

Investors cannot directly transact in the stock exchange. They will have to transact through the agents of the stock exchange who are called brokers. An individual, partnership firm, a company, or a bank can perform as a broker in a stock exchange. Further, one broker can provide trading services to investors in multiple stock exchanges. These brokers are registered in the individual stock exchanges and regulated by the SEBI.

Clearing house

A clearing corporation (clearing house) is responsible for clearing and settling all transactions including shares and funds executed in the stock market. It also provides a financial guarantee for all transactions executed on the exchange. The major clearing houses in India are

- a) India International Clearing Corporation (IFSC) Ltd
- b) Indian Clearing Corporation Ltd.
- c) Metropolitan Clearing Corporation of India Ltd.
- d) Multi Commodity Exchange Clearing Corporation Ltd.
- e) National Commodity Clearing Ltd.
- f) National Securities Clearing Corporation Ltd.
- g) NSE IFSC Clearing Corporation Ltd

For the purpose of stock trading, SEBI is the regulatory authority of the clearing houses.

5.4 LEGAL PROVISIONS ON BROKING

Stockbrokers are members of individual stock exchanges and are governed by the Securities Contracts (Regulation) Act, 1956, SEBI Act, 1992, and SEBI Rules and Regulations, 1992.

The major Provisions relating to Stockbrokers and sub-brokers in the Securities Contracts (Regulation) Act, 1956 are enumerated as follows:

- a) “stockbroker” is a member of the stock exchange;
- b) “sub-broker” means any person not being a member of a stock exchange who acts on behalf of a stockbroker as an agent or otherwise for assisting the investors in buying, selling, or dealing in securities through such stockbrokers;

The central government prescribes

- a) the qualification of the members.
- b) the manner in which contracts shall be entered into and enforced as between members;
- c) the maintenance of accounts of members and their audit by chartered accountants whenever such audit is required by the Central Government.
- d) that every recognized stock exchange and every member shall maintain and preserve records and books of accounts for five years. The specific documents are decided by the central government in consultation with the stock exchange concerned. Such books of account and other documents shall be subject to inspection at all reasonable times by the Securities and Exchange Board of India. (SEBI).

The stock exchange where the member is registered has the authority to

- a) Restrict the voting right of the member.
- b) Terminate any contract entered by the member with any party relating to the stock transactions.
- c) Fix the scale of brokerage and other charges
- d) The limitations on the volume of trade done by any individual member in exceptional circumstances;
- e) May impose fine, expulsion from membership, suspension from membership for a specified period, or any other penalty of a like nature not involving the payment of money.

As per the SEBI Act, 1992 and SEBI rules and regulations Act 1992

- a) Every stock broker and sub-broker must register with SEBI and act as per the conditions specified in the registration certificate,
- b) If the broker fails to issue contract notes in the form and in the manner specified by the stock exchange of which such broker is a member, he shall be liable to a penalty not exceeding five times the amount for which the contract note was required to be issued by that broker;
- c) fails to deliver any security or fails to make payment of the amount due to the investor in the manner within the period specified in the regulations, he shall be liable to a penalty of one lakh rupees for each day during which such failure continues or one crore rupees, whichever is less.

- d) charges an amount of brokerage which is in excess of the brokerage specified in the regulations, he shall be liable to a penalty of one lakh rupees or five times the amount of brokerage charged in excess of the specified brokerage, whichever is higher.
- e) If any insider who, -
 - i) either on his own behalf or on behalf of any other person, deals in securities of a body corporate listed on any stock exchange on the basis of any unpublished price sensitive information; or
 - ii) communicates any unpublished price-sensitive information to any person, with or without his request for such information except as required in the ordinary course of business or under any law; or
 - iii) counsels, or procures for any other person to deal in any securities of anybody corporate on the basis of unpublished price-sensitive information, shall be liable to a penalty of twenty-five crore rupees or three times the amount of profits made out of insider trading, whichever is higher.
- f) If any person, who is required under this Act or any rules or regulations made there under, fails to, -
 - i) disclose the aggregate of his shareholding in the body corporate before he acquires any shares of that body corporate; or
 - ii) make a public announcement to acquire shares at a minimum price;
 - iii) make a public offer by sending a letter of offer to the shareholders of the concerned company; or
 - iv) make payment of consideration to the shareholders who sold their shares pursuant to a letter of offer. he shall be liable to a penalty of twenty-five crore rupees or three times the amount of profits made out of such failure, whichever is higher
- g) If any person indulges in fraudulent and unfair trade practices relating to securities, he/she shall be liable to a penalty of twenty-five crore rupees or three times the amount of profits made out of such practices, whichever is higher.
- h) Whoever fails to comply with any provision of this Act, the rules or the regulations made or directions issued by the SEBI thereunder for which no separate penalty has been provided, shall be liable to a penalty which may extend to one crore rupees.

5.5 KINDS OF BROKERS

There are 305 active stockbrokers in NSE and almost the same number of brokers in BSE. Primarily there are two different kinds of stockbrokers in terms of the ownership i.e.

- a) **Institutional:** These stockbrokers are either registered companies or nationalized and private banks. They provide standard services and clients can get information about them from various published internet services.
- b) **Sole traders and Partnership Firms:** These stockbrokers are registered as sole trader businesses or partnership firms. They do not have a wide presence across the country. However, clients join them in hope of personalized and customized services.

Here are the 15 Biggest Stockbrokers with their market shares.

Table 5.1: 15 biggest stockbrokers with their market shares

Name of the stock broker	Market Share
Zerodha Broking Limited	17.42%
UPSOTX	14.47%
GROWW	10.68%
Angel One	10.15%
ICICI Securities	8.41%
5 Paise Capital Limited	4.87%
Kotak Securities Limited	3.49%
HDFC Securities Limited	3.17%
IIFL Securities Limited	3.14%
Motilal Oswal Financial Services Limited	2.49%
Sharekhan Limited	2.12%
SBICap Securities Limited	1.76%

Source: <https://tradebrains.in/biggest-stockbrokers-india-with-highest-clients/>

Further, stockbrokers may be divided into two categories on the basis of providing services to the clients.

Full-service broker: Full-service brokers provide a variety of services besides the facilitation of buying and selling securities. They provide educational services, stock advice, market research reports, real-time data, and news through websites and SMS. They have branch offices in different cities to cater personally to the needs of the customers. They may provide dedicated service managers for larger clients. There may be customized and as well as tailored brokerage plans for various levels of transactions done by

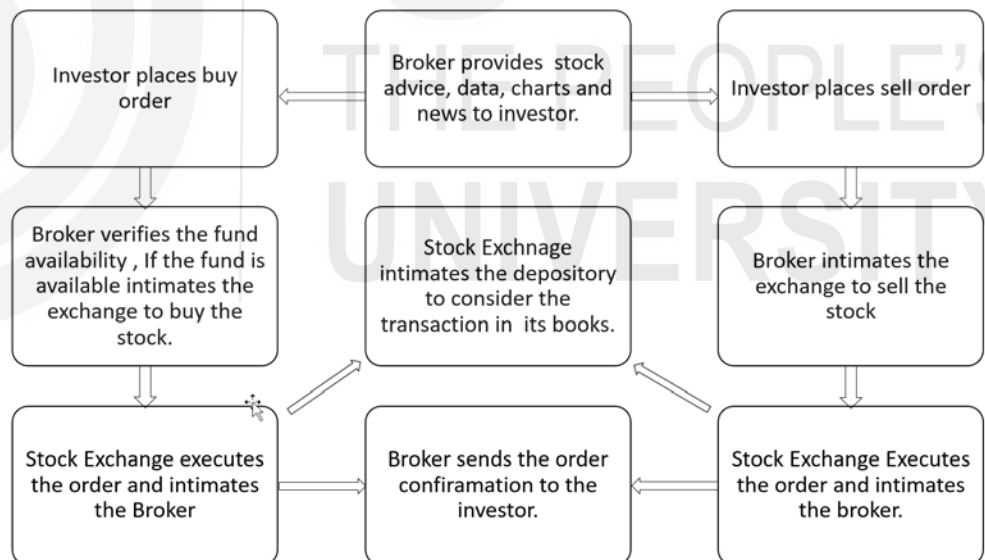
the clients. The full-service brokers also provide transaction facilities for the mutual funds, debt instruments, fixed deposit schemes, IPOs, currency, commodity, and derivative transactions. As many of the Indian banks have also brokerage outfits, transfer of funds becomes easier and instant for the clients having accounts with this kind of brokerage. However, the commission charged by those broking houses is higher than the discount brokers.

Discount brokers: These kinds of brokers provide their service at a very low rate of brokerage. In many cases, they have a flat amount of brokerage for an individual transaction. At present times, we have few broking houses that provide broking services at zero rates for delivery transactions. They provide services primarily on stocks and mutual funds. In order to minimize and manage within low brokerage income, these broking houses have a lesser number of physical setups and charge extra fees for the additional benefits provided by them. These benefits may be add-on services like technologically advanced charts and market information.

5.6 ROLE OF BROKER

The role of the broker in a stock market transaction process can be explained in the following diagram.

Figure 5.2: Brokers role in stock transactions



Services provided by the stockbroker

The major services provided by the stockbroker include the following

- Providing services on different financial instruments:** The broker may provide services like Equity trading (delivery, intraday, and derivative), mutual funds, and derivative products related to the indexes. Further, the broker is involved in several other financial services other than the stock. It includes currency, commodities, insurance, corporate fixed deposits, loans, NPS, wealth management, global investments, and others.

- **Financial Planning:** Progressive stock brokers advise the clients on how to handle their finances. These kinds of services are more prevalent among high-income earning individuals as they do not find time to take care of their investment management.
- **Share Trading tips and research calls:** Many investors in India depend a lot on the broker for their stock trading decisions. The broking houses have dedicated research cells to provide research inputs on stock trading. These kinds of services are provided on a monthly, fortnightly, weekly or daily basis through SMS, WhatsApp messages, or e-mail.
- **Online Trading Platform:** The majority of trading activities in India are done through the online platform. Hence almost all brokers in the Indian stock market provide an online platform to their clients. An efficient and user-friendly online platform is a big selling point for the brokers, for acquiring larger numbers of clients.
- **Portfolio Analysis:** It is wiser for the investor to hold shares in multiple companies in order to reduce their risk. This mechanism is called portfolio management. The brokers help the investors to select stocks in the portfolio and advise them on the timing of buying and selling the stocks in the portfolio.
- **Client Support:** The brokers handle the shares and funds of the investors during the process of stock transactions. The investor may face problems during such transactions and it is the sanguine duty of the broker to satisfy the client on those matters. There are several penalties imposed by SEBI if the complaints of the clients are not addressed properly.
- **Relationship Management:** All the brokers try to increase the number of clients by providing good services to the clients. Among them, assigning individual executives to look after the requirement of the individual investors is also an important aspect of the broker's service.
- **Training Sessions to Customers:** Training session for customers is more prevalent in our country as most of our investors are not aware of the intricacies of the stock market or they do not have dedicated investment advisors. The brokers may provide this service to the clients either on a paid basis or free of cost.
- **Offline Branch Presence:** In order to win the confidence of the clients, broking firms open offices in different cities to contact the customers face to face. Although it involves overhead costs, the broking houses try to cover the cost by procuring a higher number of clients.
- **Facilities for margin funding:** Many times, investors try to transact for a higher value of stocks with lesser money. These kinds of transactions are allowed by the SEBI with an understanding that the transaction will be squared off in near future and if there are any losses, they can be covered with the margin amount. Brokers can provide margin to the clients for

facilitating higher trading volume. Day traders or short-term traders prefer brokers who provide higher margins for trading.

5.7 RECENT TRENDS IN STOCK TRADING

The revenue generation in stock broking is directly related to the number of investors and the volume of transactions done by them. In recent times the broking business has increased leaps and bounds due to technological development, global investment opportunities, and COVID 19. A record number of clients have joined stock trading during COVID 19 as people have more investible funds due to a lack of opportunity to spend during this period. Further, a fear psychosis of health expenses also induced the investors to higher savings. All those factors have a positive effect on the broking business in India.

Activity 5.1

1) Who prescribes the eligibility of the stock broker?

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2) Who keeps the record of stockholding by the investor?

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3) Who keeps the record of stock holding by the investor?

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4) Who is a discount broker?

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5.8 MEANING OF TRADING

We make an equity investment and become part-owners of a company when we buy its shares. Buying and holding a share in a company is known as an equity investment. The shares have high liquidity and can be easily transferred to a different owner. We need to have a bank account, DEMAT account, and trading account before transacting in the stock market. All those accounts can be opened with either a single agency or multiple agencies. In present times, almost all brokers are offering online trading facilities. Hence, the investor will get access to an online trading platform upon opening a trading account. We should allocate and transfer the investible funds to our trading account in order to start trading in the stock market.

The trading of stock can be divided into different categories as per the time frame of the transaction.

Investing vs Trading

If an investor puts his/her money for a long period of time it is called **investing** whereas when it is for a shorter period of time it is called **trading**. A long-term investment may extend beyond a period of one year.

Delivery trading vs Margin Trading

In a **delivery trading**, the buyer of the stock will have to pay the full cost of the shares and there is no time constraint in selling the shares. Further, the delivery trading can be divided into two parts.

Long-term trading: It is the other name for investing. The investment is held beyond a period of one year.

Swing Trading: The trader buys a share and holds it for a period ranging from two days to one month. The word swing comes from the regular up and down of a stock price due to the demand and supply of a specific stock. If the trader holds it for still a long period of time it is called positional trading.

Margin trading gets the benefit of leverage by trading higher volume with lesser money. The investor will not have to involve the full amount of money required for the transaction rather he/she can put a fraction of the total cost of the share. The transaction is closed on the same day and is also termed Intraday trading. If the trader does not close it before the close of the exchange, the broker squares it off during expiry hours. (Exchange closes at 3.30 PM on trading days). An investor needs to specify the trade as intraday during the buying/selling of such stocks. The broker charges lesser brokerage for intraday trading. However, the risk involved in this kind of transaction is much more than the regular delivery transactions. Another typical aspect of intraday trading is that a trader can take a sell call first without holding a share. Sell orders are called **short** orders and buy orders are termed as **long** orders.

Scalping: Scalping is a special kind of intraday trading. It is a mechanism of booking profit with small price changes and making a fast profit by selling off the investment. The investor does a high volume of trading with a small profit in scalping.

5.9 PLANNING FOR TRADING

Once we understand the different mechanisms of stock trading, we need to prepare ourselves for the trading activities. The investor and the trader should have different mindsets and analysis processes for making a profit in the stock market

A prudent investor should make his/her own decisions and avoid listening to anyone and everyone like friends, relatives, and fake advice available on various social media sites.

- a) diversify the investment by building a portfolio.
- b) Not let emotions (greed and fear) overcome rational business decisions.
- c) be calm, and cool having a lot of patience
- d) have an inclination towards details for analyzing and picking the right stock
- e) watch the fundamentals of their investment and should take the right judgment when to sell their shares.

An investor makes money from two sources i.e. a) Dividend and b) Capital gain (increase in the price of the stock). A performing company earns higher profits. A higher profit enables the company to give higher dividends and achieve price appreciation. In order to identify such companies, an investor needs to do a fundamental analysis.

Fundamental Analysis The major fundamental factors are profitability, solvency, liquidity, and Activity. (These parameters are extensively discussed in corporate finance). The business model of the company and its corporate governance record also play a vital role in commanding the price of a stock in the stock market. The investor captures such information from various published records both in print and virtual media. One such published record by the company to appraise the investors about the company is the Annual Report. The other aspect depends on the short-term factors in the stock market like the performance of stock markets of other countries, the economic decision in various countries in the world, economic decisions of government and RBI in our country, industry-specific news, and company-specific news. Further, the stock market also responds to various other factors in the world. The stock market is termed the most sensitive element in the world after the human mind for this complexity.

A trader should focus on the short-term movement of the market and possess a different set of personal attributes. Short-term trading is more

of experiential learning and control over the mind. A short-term trader should:

- Accept failures and learn from mistakes.
- Understand his own mindset and align the trading style to his behavioral aspect.
- Have good tolerance towards anxiety and stress.
- shun his ego and respect the market sentiments.
- regularly do the homework for taking trading positions.
- appreciate the uncertainty in the market and use it to his advantage.
- Learn strong risk and money management skills.

The short-term trader does the technical analysis to select profitable trades.

Technical analysis: The stock market constitutes buyers and sellers. The general view of the traders in the market, guide the price movement of a particular stock. The technical analysis captures the mindset of the general traders through statistical analysis and behavioral economics. Technical analysis examines historical data of price and volume through different charts and analyses. The analysis is based upon the past historical data on price and volume and predicts what is going to happen in the future. A short-term trader should be able to analyze and interpret such charts and diagrams to make proper decisions for short-term trading. There are three kinds of technical indicators.

Crossovers: The moving average price levels are presented in a chart with different time frames. When a line of one-time frame intersects another one it indicates the change in the trend. The historical price levels are captured on a real-time basis to present the crossovers.

Divergence: It happens when the direction of the price trend and indicator trend is moving in the opposite direction. It indicates that the price trend is weakening. when the stock price and technical indicator are providing opposite signals, it is a case of divergence while confirmation is when the indicator and asset price are displaying the same signals. An example of divergence may be the price and Relative Strength Index (RSI) moving in the opposite directions.

Oscillators: They are indicators that vary within a band or may be below or above a centerline. They are range-bound, (say 0 and 100). Some examples of oscillators are ‘Moving average convergence and divergence’ (MACD), RSI, and others.

Chart: A sample of various indicators of Ashok Leyland for five days is given below.



Market timings: Stock Exchanges remain open for trading purposes from 9 AM to 3.30 PM from Monday to Friday. The first 15 minutes during the trading hours is the pre-opening session when real transactions are not done. It is a price stabilization process only through the orders placed by the buyers and sellers. The stock market also remains closed for the public holidays and festival days.

5.10 KINDS OF ORDERS

The first activity in stock trading is placing an order. To get the best price the stock exchanges allow various kinds of orders.

Market order: It is an instruction to buy or sell a security immediately at the current market prices. The execution is guaranteed while the price at which the stock will be bought or sold isn't guaranteed in market orders.

Limit order: This kind of order ensures the price at which the transaction takes place. For example, the shares of SBI if trading at a price of Rs. 458. But the trader wants to buy it at Rs. 430. When the trader puts the limit order, it will not be executed unless the price reaches the limit of Rs. 430. A trader need not keep a tab on the stock trends every minute to trade at the right price. The limit order takes care of the price. It is valid for a single day.

Stop-loss order: This is an order to buy or sell a stock when a particular price is reached. This kind of order is meant to reduce the loss in the transaction. Stop-loss orders may be buy-stop-loss and sell-stop-loss. It is valid for a single day.

Example: Suppose X has bought the share of Hindustan Unilever at Rs 2300. He wants to safeguard the loss against the purchase. He may put a sell order with a limit price of 2250 and 2275 as the trigger price. Unless the price reaches 2275 the order will not be initiated. Once the order is initiated the share will be sold out at any price between Rs 2250 and 2275. Suppose the price went up to 2350. The limit and trigger price may be changed to 2295 and 2318 respectively. Now the sale order will not be initiated unless the price reaches 2318. This mechanism of changing the stop loss is called trailing stop loss.

Likewise, suppose Y feels that the share of Infosys is 1420 and likely to go down further. However, she does not want to miss the buying of the share if it goes up. She can put a stop loss buy order with a limit of 1450 and a trigger price of 1435. Unless the price reaches 1435 the buy order will not be initiated. The trailing stop loss for a buy order can be in the same way as explained in the stop-loss sale order.

Good-till-date order: This kind of order allows the trader to buy or sell the share within a time frame (say 90 days) with a limit price. It does not require constant watch by the trader as the order will be executed as the price reaches that level. After 90 days if the order is not executed it will be canceled.

Basket Order: Most online brokers allow basket orders to the trader. These orders are placed for a group of stocks in tandem. Suppose one trader wants to buy L&T, ITC, and Dr. Reddy's stock together. He can put limit prices for each stock and place the order for execution. Whenever the price is reached for individual stocks, it gets executed on its own without the involvement of the trader. Basket orders are an easy mechanism for the HNIs who buy stocks involving huge amounts.

5.11 ROLE OF SEBI

All the transactions in the stock market are governed by the guidelines of SEBI. It is the watchdog of the stock market and provides unambiguous guidelines. The primary objective of SEBI is to protect the interest of the investors and make them aware to take judicious decisions in the stock transactions. The participants involved in the stock market are stockbrokers, sub-brokers, portfolio managers, investment advisors, share transfer agents, bankers, merchant bankers, trustees for mutual funds, registrars, underwriters, depositories, foreign portfolio investors, and credit rating agencies. SEBI regulates the work of all those agents in order to safeguard the interest of the investors. The role of SEBI is quasi-judicial, quasi executive, and quasi-legislative. Besides the vast power handled by SEBI, it also takes care of research and development relating to the Capital Market.

5.11.1 Settlement Procedure

Just like any goods, the shares are also bought by a *buyer* and sold by a *seller*. *Stock Exchange* is a synonym for a marketplace where the buyer and

seller meet each other for the transaction. There will be brokers on both sides (Buyers and Sellers). A buyer may not find a seller all the time in the market. In order to facilitate this process, the brokers may themselves offer the shares held by them in the market for sale. These kinds of brokers are termed, **market makers**. When millions of transactions are taking place in one stock exchange, there needs to be some agency that should properly keep the account of individual investors namely, stock held by investors, no of stocks reduced during the sale, no of shares increased during the buy, dividend receivable from the company, revising the records in case of any kind of stock split, bonus issue or rights issue and the buying and selling records. There are authorized agencies who do these jobs by getting information from the broker and stock exchange. They are called **custodians or Depositories**.

Further, a **clearinghouse** is involved in the process to make the settlement of the shares. It can be best explained by an example. A wants to buy the share of L&T at Rs 1550 and B wants to sell it at Rs. 1570. The price quoted by A is called a bid and the price at which the seller offers the share is called the ask price. When the bid and ask prices are different a transaction cannot take place. In the stock exchange platform, different prices are quoted both on the buy and sell sides. When both the prices match a transaction takes place. In this case, C joins as a seller and offers to sell the share of L& T at a price of Rs 1550. Now a transaction can take place. This process is called settlement of the transaction and the clearing house does it. The time between buying a stock and entry into the books of accounts of the trader maintained by the depository is called the settlement period. In the Indian stock market, this period is T+2(two days after the transaction). Likewise, when the seller sells the share he/she gets the money at T+2 duration.

5.11.2 Stock Trading Charges

The following table depicts the tax and charges levied on stock trading transactions.

Name of the Charges	Amount
Brokerage Charges	It depends on the individual brokers. The broker charges different rates for Delivery trading, Intraday trading, and Derivative Trading. The charges may be either a percentage of the transaction value or a standard amount for each transaction. There are also a few discount brokers who do not charge any brokerage for stock trading on a delivery basis
Security Transaction Tax	This is charged on both sides of the buy and sale transaction. In the case of intraday trading, the STT is only charged when the stock is sold. STT is levied at 0.1% for the

	<p>delivery transaction on each side of trading. The charges for intraday STT are around 0.025% of the transaction value payable by the selling party.</p>
Stamp Duty	<p>This fee is levied on the value of transferred shares, and this rate differs across states as the states are in charge to set and collect stamp duty. It is charged on both the buying and selling sides, and charged on the total turnover amount. It is .01% on delivery trade in Mumbai.</p>
Goods and Service Tax (GST)	<p>GST is charged at a rate of 18% on brokerage charges.</p>
Transaction Charges	<p>Transaction charges are charged on both sides of trading by the stock exchanges. A transaction fee of 0.00325% of the total amount is charged by the National Stock Exchange, while a transaction fee charged by the Bombay Stock Exchange amounts to 0.00275% of the total amount</p>
SEBI Turnover Charge	<p>The apex market regulator of the securities markets in India charges a fee on both sides of a trading transaction with a turnover charge of about 0.00015% of the total amount. The charges are the same for both intraday and delivery trading.</p>
Short term Capital Gain Tax	<p>If equity shares listed on a stock exchange are sold within 12 months of purchase with a profit, the seller makes a short-term capital gain (STCG)</p> <p>Calculation of short-term capital gain = Sale price <i>minus</i> Expenses on Sale <i>minus</i> Purchase price</p> <p>The income tax rate prescribed for short term capital gain is 15%</p>
Long term Capital Gain Tax	<p>The Income Tax Authorities charge a 10 percent long-term capital gains tax on equity investments if these are held for more than a year. Long-term capital gain tax is exempted on profits of 1 lakh or less.</p>
Income Tax on Derivative Trades	<p>Derivative trades will be charged as a business income and will be taxed accordingly.</p>

5.12 SUMMARY

The stock market is one of the most promising investment avenues. A broker helps the trader to undertake stock trading in the market. Due to the involvement of a huge amount of money, legal provisions prescribed by SEBI for the brokers are quite stringent. Besides facilitating the stock transactions, the broker also provides ancillary services like stock advice, portfolio management, market news, financing the traders, etc. When an individual puts money in the stock market, he/she is termed an investor and short-term investors are called traders. In order to get a good return from the stock market, the investor/trader must possess certain behavioural qualities. Further, they should analyze the market with various financial and technical tools. SEBI acts as a watchdog to safeguard the interest of the investor in the stock market. In recent times, there is a renewed interest in the stock market providing good opportunities to the brokers.

5.13 SELF- ASSESSMENT QUESTIONS

1. What is the role of a broker in stock trading transactions?
2. Explain the stock market ecosystem.
3. What are the legal provisions relating to broking?
4. What kind of personal attributes a stock market trader should possess?
5. How the analyses for investing and trading are different?
6. What is the settlement procedure during stock trading?

5.14 FURTHER READINGS

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SEBI rules and regulations Act 1992

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