

**Presentation
On
Securities Transaction in Secondary Markets**



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What is a Secondary Market

Secondary Market: A market in which existing securities are traded; as opposed to a primary market where securities are sold for the first time. In most cases a stock exchange largely fulfils the role of a secondary market, with the flotation of new issues representing only a small proportion of its total business. However, it is the existence of a flourishing secondary market, providing liquidity and the spreading of risk.

What is a Stock Exchange



A Stock Exchange may be defined on the basis of pre-automation and post-automation concept.

- ⇒ **Pre-Automation Concept:** Stock Exchange is a recognized market place where authorized representatives of the investors assemble for buying and selling of issued securities on competitive bids and/or offers.
- ⇒ **Post-Automation Concept:** It is a recognized market system which provides on-line real time facilities to the investors for buying and selling of issued securities on electronic matching basis against competitive bids and/or offers.



An over view of stock Exchanges

The objectives & Functions of the Stock Exchanges

- To provide market place or facilities for bringing together buyers and sellers for trading of securities;
- Listing of the securities;
- Provide investment opportunities for all groups of investors through quick, easy and accurate transaction;
- To ensure orderly market, fair trading and protect investors in the securities in compliance of laws;
- Clearing and settlement of the traded securities;
- Stock Exchanges are basically functioning as Self-regulatory Organization (SRO);



An over view of stock Exchanges

- Stock Exchanges have an oversight responsibility on the activities of their members;
- It is also monitor the activities of listed securities;
- Its' rules provide for the expulsion, suspension and other disciplinary measures against its' members for violation of code of conduct as well as other securities laws;
- It has the power to take punitive measures against the listed companies for violation of its' rules/regulations.
- Stock Exchanges may make rules/regulations, with approval of SEC, to carry out the aforesaid functions.



Stock Exchanges in Bangladesh

□ Dhaka Stock Exchange Ltd. (DSE)

- Incorporated on 28th April 1954 as the East Pakistan Stock Exchange Association Ltd.
- Formal trading commenced in 1956
- In June 1962 renamed as the Dhaka Stock Exchange Ltd.
- Commenced screen based automated online trading in August 1998

□ Chittagong Stock Exchange Ltd. (CSE)

- SEC approved CSE in February 1995
- Started floor trading on 10th October 1995
- Commenced screen based automated online trading from Chittagong, Dhaka and Sylhet in June 1998
- Over-the-Counter (CSE): For de-listed and un-listed securities



Products Available in our Capital Market

- Share
 - **Ordinary Share**
 - **Preference Share**
- Mutual Fund
- Debt Securities
 - **Debenture**
 - **Bond**

Category of the listed Companies



- Settlement of Stock Exchange Transactions Regulations, 1998 grouped the listed companies of our stock exchanges into following four categories:-
 - A-category companies;
 - B-category companies;
 - Z-category companies;
 - G-category companies; and
 - N- category companies.



Category of the listed Companies

✓ **A-category companies:**

- Regular in holding the current AGM;
- Declared at least 10% dividend in the last calendar year;
- Newly listed company with at least 10% EPS; and
- Debentures and Mutual Funds.

✓ **B-category companies:**

- Regular in holding the current AGM;
- Declared less than 10% dividend in the last calendar year; and
- Newly listed company with less than 10% EPS;

Category of the listed Companies



✓ **Z-category companies:**

- Failed to hold current AGM; or
- Failed to declare dividend; or
- Not in operation for more than six months; or
- Accumulated loss exceeds paid-up capital, however, this condition shall not apply if the company declares dividend out of current years profit and holds AGM.

✓ **G-category companies:**

Newly listed green field companies shall be grouped under this category.

N-category companies: Newly listed companies shall be grouped under this category for first year.



Market Intermediaries

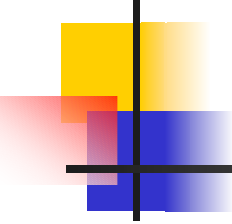
- ⇒ Stock-broker/Stock-dealer and their authorized representative;
- ⇒ Merchant Banker/Portfolio Manager/Underwriter;
- ⇒ Asset Management Company;
- ⇒ Custodian;
- ⇒ Trustee;
- ⇒ Depository Participant (DP);

Market Intermediaries (Continue)




- ❑ Broker is entitled to buy and sale the securities on others account and Dealer is entitled to buy and sale the securities for his own account;
- ❑ Broker/Dealers are the members of the exchanges;
- ❑ They are licensed by the Commission to act as broker/dealer;
- ❑ Authorised Representatives (AR) are employees of broker/dealer;
- ❑ Apart from the broker/dealers ARs are authorised to deal with the clients of the concerned broker;
- ❑ They are also licensed by the Commission;
- ❑ Their activities are regulated by SEC (Broker/Dealer and Authorized Representatives) Regualtions, 2000.

Obligations of the stock-broker to their customers

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- ⇒ Accepting a customer to open a customer account for trading;
 - ⇒ Executing the customer's order for buy or sell as per their written or telephonic order;
 - ⇒ Providing trade confirmation report on the executed order with details within 24 hours of trading;
 - ⇒ Making payment against sell of security, or delivery of security bought, to the customer on end of T+3 (For A,B,G and N categories scripts) or on end of T+7 (for Z categories script). In case of default, interest @ 1.5 per month on the value of transaction is also payable to the customer.

Obligations of the stock-broker to their customers (continue)

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- To replace the defective script or refund the money to the customer with interest @2.5% per month from the date of settlement of transaction to date of refund, along with the benefit accrued, if any, provided complaint is lodged within 10 days of book closure or 6 months of settlement date, whichever is earlier, for the defective script as per the settlement of transaction regulations of stock exchanges;
 - To settle the customer's complaint, if any, against the stock-broker concerned;
 - To keep separately the customer's securities from others' securities;
 - To keep separately the customers' money through consolidated customer's bank account from the broker's money.

Responsibilities of investors to their stock-brokers



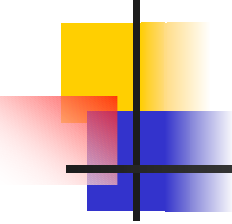
- ⇒ Signature of the investor/client in the Customer account information to form an contractual agreement;
- ⇒ To know the client code number for trading;
- ⇒ Introducer's information;
- ⇒ Terms & condition attached in the form for margin facilities;
- ⇒ To set rate of Commission for trading by negotiation;
- ⇒ To take acknowledgement receipt for share deposit with the signature of the authorized person of stock-broker;
- ⇒ To take money receipt for fund deposit with the signature of the authorized person of stock-broker;
- ⇒ Declaration given in respect of shares trading by director or sponsor etc.

Obligations of the investors for the market



- ⇒ ***Investors should not be involved to Create artificial price through Syndication and Manipulation by involving with issuer companies;***
- ⇒ ***Not to Influence issuer companies to inflate financial report and declaring artificial dividend;***
- ⇒ ***Not to Influence/ Misguide others investors for trading;***
- ⇒ ***Not to open more than one account in different brokers and merchant banks for ill motives;***
- ⇒ ***Not to involve for spreading rumor or phony information in the market***

Work as a market Intelligence of the SEC



The surveillance function of SEC cannot be effective and successful without strong market intelligence. Signals of weakness or suspected irregularities come to the knowledge of the market players (investors) much before it gets detected or noticed by the SEC officials. The surveillance department through its wide information source should gather information from the market sources. The rumors floating in the market are to be verified and reported. This enables the exchange to avert market problems before it causes serious damage.

Applicable rules and regulations may be studied by investors

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- ⇒ ***Securities & Exchange Rules, 1987;***
 - ⇒ ***Securities & Exchange Commission (stock dealer, broker and authorized representative) Rules, 2000;***
 - ⇒ ***Securities & Exchange Commission (substantial shares acquisition) Rules, 2002;***
 - ⇒ ***Margin Rules, 1999***
 - ⇒ ***Settlement of Dhaka/Chittagong Stock Exchange Transactions Regulations, 1998;***
 - ⇒ ***Dhaka Stock Exchange (Short Sale) Regulations 2006.***



How to Trade in the Stock Exchange

- ❑ Trading of securities on the stock exchanges can only be done through brokers of the concerned exchanges;
- ❑ An investor is required to open an account with a broker by filling-in a prescribed Customers Account Information Form;
- ❑ For trading in the demated securities' it is required to have a Beneficiary Owners (BO) account with a Depository Participant (DP) in addition to the aforesaid account;
- ❑ An investor can trade through a broker either in cash or credit;
- ❑ The credit transaction, however, is subject to the provisions of Margin Rules, 1999;



How to Trade in the Stock Exchanges

- ❑ Trading in the securities can be executed through written orders submitted to the concerned broker;
- ❑ Telephonic orders can also be submitted provided that such orders shall be confirmed in writing within 24 hours;
- ❑ The price of the securities can not go beyond specified circuit breaker range and an investor can quote at the tick price of the securities as specified by the exchanges.
- ❑ Short-selling of the securities are prohibited if it is not done under Dhaka Stock Exchange (Short Sale) Regulations 2006



How to Trade in the Stock Exchanges

- **Types of Order**

- **Based on price, orders may be of the following categories, namely:-**

Limit order; and

Market order

- ✓ **Limit order:** Limit order must have a price limit which ensures that the order shall be traded at the price equal to or better than the limit price.
- ✓ **Market order:** Market order is the order to be executed at the touchline price. A market order is matched immediately on arrival in to the trading engine at the touchline price.



How to Trade in the Stock Exchanges

- ❑ All orders will match automatically.
- ❑ Orders which are at the most favorable price, that is, at the lowest selling or highest buying price, shall be executed first. If two or more orders are listed in the order book at the same price, the oldest order shall be executed first.
- ❑ Orders that cannot immediately be executed shall be queued for future execution in a specific order of priority mainly based on price and time of entry.
- ❑ If an order is executed partly, the remaining part of such order shall not lose its priority.
- ❑ The queue priority is determined by the system through an interactive process.



How to Trade in the Stock Exchanges

□ Trade Confirmation

- Trade confirmation note is a proof of the transaction issued by broker;
- The broker shall issue a trade confirmation note to his client within twenty four hours of the execution of order and it should be numbered and time stamped;
- The trade confirmation note shall show:
 - ✓ Date of the trade;
 - ✓ Name and quantity of the security bought or sold;
 - ✓ Price of the security, brokerage and other charges;
 - ✓ The order and howla or contract note number and date; etc.



How to Trade in the Stock Exchanges

- **What is Howla or Contract Note**

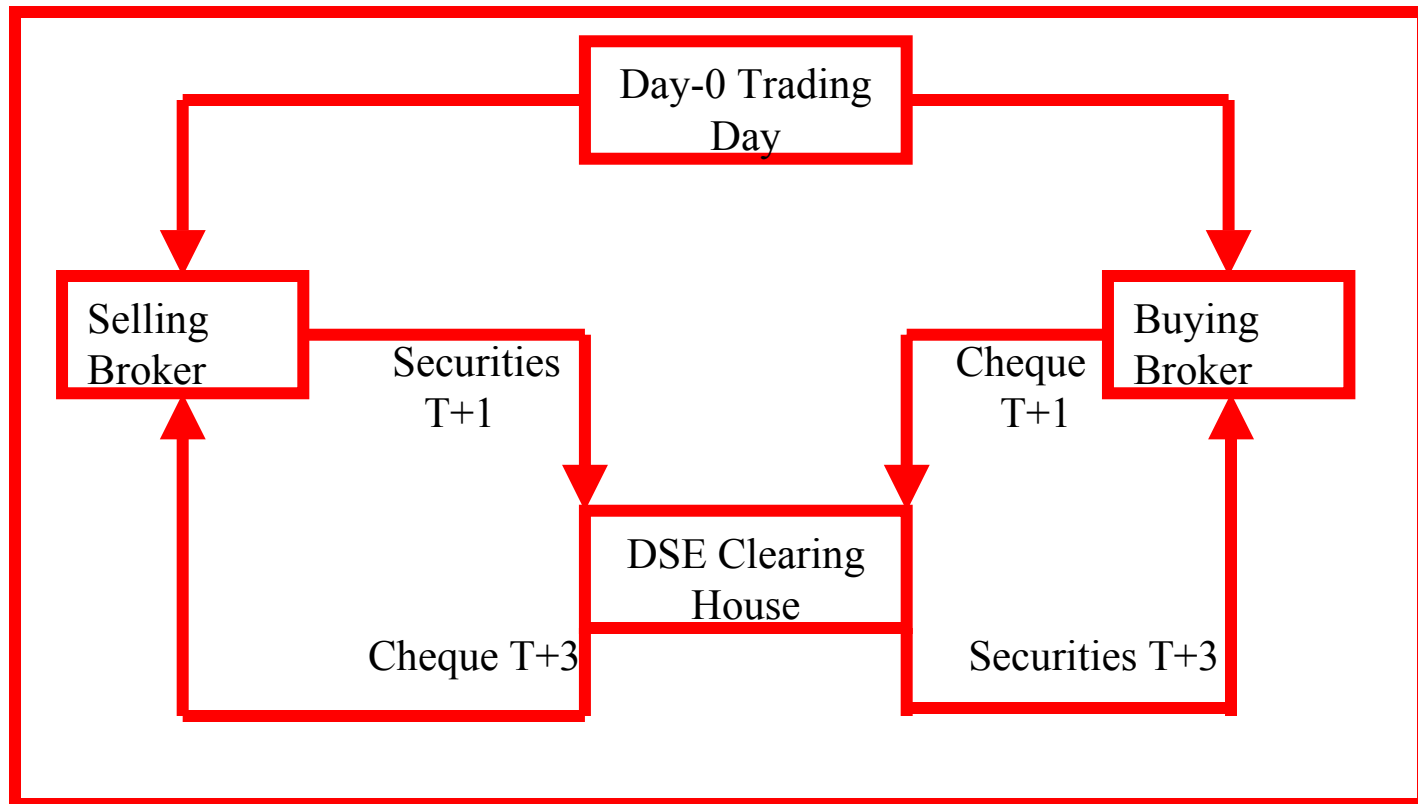
The automated trading system of the exchanges automatically provides the contract note immediately upon completion of trade. This note is the evidence of transaction and shows the contract number with date of execution and other details of the concerned trade.



Clearing and Settlement

- ❑ A trade executed through exchanges is settled amongst the brokers through the clearing house of the exchanges;
- ❑ In settlement of trade, except Z category securities, the buying and selling brokers deposit cheque and securities respectively to the clearing house on 2nd day of the trade (T+1) and the clearing house deliver securities and give cheque to the buying and selling broker respectively on 4th day of the trade (T+3). For settlement of the trades of the securities under Z-category the the aforesaid periods are T+3 and T+7 respectively.

Flow Chart of Clearing and Settlement





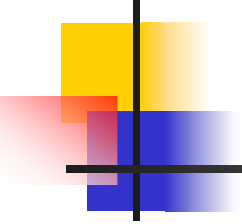
Settlement to clients by Members

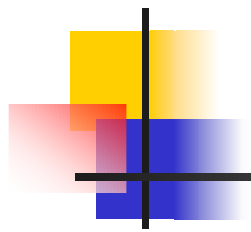
- A member shall make settlement to his client by delivery of securities and/or make payment by cheque within one day of his receipt of securities and/or cheque from the Clearing house. Any default shall attract a fine of Tk. 500 for each day for each default. Interest shall also be payable to a client for delayed payment at 1.5% per month.

Some Basic points for making Investment in the secondary market

- ❑ Investments in capital market are primarily made either for capital gain or for getting regular income as dividend;
- ❑ Before making investment decision one should determine his own objective for investment.
- ❑ Common objective of investment in secondary market is to maximize profit from bullish market and or minimize loss from bearish market.
- ❑ After determining the objective, the investor should analyze the financial statements of the company and decide to invest in the shares of that company.

Important factors to be consider for investment in the secondary market

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- ⇒ Industry of the company and their average return for last few years;
 - ⇒ Management of the company
 - ⇒ Earning per share (EPS), Price Earning ratio (P/E), Dividend, Dividend pay out ratio, Net asset value per share, No. of shares outstanding, Market price and its fluctuation, growth rate, market position etc. of the company;
 - ⇒ Product, technology, market position of the product etc. of the company;
 - ⇒ Turnover rate of the shares or liquidity position etc.



**THANK
YOU**