Chapter 6 Understanding the Rolling Settlement

Learning Objectives:

After reading this chapter, you should be able:
1. To identify the various segments into which the market is divided.
2. To recognize the activities performed at various stages of trading, clearing, settlement and post settlement in various markets.
3. To apply the knowledge of the working of the market in real life situation.
4. To examine the present system in the light of historical perspective.

Your guide engine to learning:

6.1 Introduction

As we have already read in the previous chapter, that under rolling settlement, all trades executed on a trading day are settled X days later. This is called 'T+X' rolling settlement, where 'T' is the trade date and 'X' is the number of business days after trade date on which settlement takes place. The rolling settlement prevailing in India is T+2, implying that the outstanding positions at the end of the day 'T' are compulsorily settled 2 days after the trade date.

Rolling settlement was first introduced in India by OTCEI. As dematerialization took off, NSE provided an option to settle the trades in demat securities on rolling basis. In January 2000, SEBI made rolling settlement compulsory for trades in 10 scrips selected on the basis of the criteria that they were in the compulsory demat list and had daily turnover of about Rs.1 crore or more. SEBI reviewed the progress of rolling settlement in February 2000. Consequent on the review, SEBI added a total of 156 scrips under rolling settlement. Scrips that trade on any of the exchanges and had signed agreements with both the depositories were included for compulsory rolling settlement from March 21, 2000.

Following Finance Minister's announcement on March 13, 2001 that the rolling settlement would be extended to BSE-200 list would be traded only in the compulsory rolling settlement on all the exchanges from July 2, 2001. Further, SEBI mandated rolling settlement for the remaining securities from December 31, 2001. SEBI introduced T+5 rolling settlement in equity market from July 2001. Subsequently shortened the settlement cycle to T+3 from April 1, 2002. After having gained experience of T+3 rolling settlement, it was felt appropriate to further reduce the settlement cycle to T+2 thereby reducing the risk in the market and to protect the interest of investors. As a result, SEBI, as a step towards easy flow of funds and securities, introduced T+2 rolling settlement in Indian equity market from 1st April 2003.

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Advantages of Rolling Settlement

Rolling settlement offers several advantages over account period settlement:

- The account period settlement does not discriminate between an investor transacting on the first day and an investor transacting on the last day of the trading period, as trades are clubbed together for the purposes of settlement and all investors realize the securities and/or funds together. Hence some investors have to wait longer for settlement of their transactions. Under rolling settlement, the investors trading on a particular day are treated differently from the investors trading on the preceding or succeeding day. All of them wait for "X" days from the trade date for settlement. Further, the gap between the trade date and the settlement date is less under rolling settlement making both securities and funds easily convertible.
- The account period settlement combines the features of cash as well as futures markets and hence distorts price discovery process. In contrast, rolling settlement, which segregates cash and futures markets and thereby removes excessive speculation, helps in better price discovery.
- Account period settlement allows build up of large positions over a trading period of five days and consequently, there is a pressure to close them out on the last trading day, leading to significant market volatility. This does not happen under rolling settlement, where positions can be built during a day only.
- There is scope for both intra-settlement and intra-day speculation under account period settlement, which allows large outstanding positions and hence poses greater settlement risks. In contrast, since all open positions under rolling settlement at the end of a date 'T' are necessarily settled 'X' working days later, it limits the outstanding positions and reduces settlement risk.
- Till recently, it was possible to shift positions from one exchange to another under account period as they follow different trading cycles. Rolling settlement took care of this by making trading cycle uniform.

A tabular representation of the settlement cycle (normal market) for rolling settlement is given below:

Table 6.1: Rolling Settlement Cycle for Normal Market

	Activity	**Day**	**Timings**
Trading	Rolling Settlement Trading	T day	
Clearing	Download of obligation of members /custodians by NSCCL	T+1 days	By 1.30 pm
	Custodial Confirmation		
	Delivery Generation - Members receive obligations to be fulfilled		
Settlement	Members give instructions for paying – in of securities i.e. move securities in the settlement A/c of NSCCL	T+2 days	By 10.30 am
	Securities and Funds pay in		At 11.00 am
	Securities and Funds pay out		At 1.30 pm
	Valuation of shortages based on T+1 closing prices		By 2.30 pm
Post Settlement	Auction	T+3 days	
	Bad Delivery Reporting	T+4 days	
	Auction settlement	T+5 days	
	Rectified bad delivery pay-in and pay-out	T+6 days	
	Re-bad delivery reporting and pickup	T+8 days	
	Close out of re-bad delivery and funds pay-in & pay-out	T+9 days	

Further, let discuss these activities in detail under the major classification of Trading, Clearing, Settlement and Post Settlement activities.

6.2 Trading Activities (T Day)

T stands for trading. Trading can be done the entire day i.e. from **09:55 am to 3.30 pm** in the four major segments of the capital market, namely, Equity segment; Futures and Options segment (F&O); Retail debt market (RDM) and Wholesale debt market (WDM). Trading day can be any working day. (Saturday and Sunday are trading holidays and other holidays are intimated by the exchange from time to time).

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Sun Outage
A sun outage is an interruption in or distortion of geostationary satellite signals caused by interference from solar radiation. The effect is due to the sun's radiation overwhelming the satellite signal. Generally, sun outages occur in February, March, September and October, that is, around the time of the equinoxes. At these times, the apparent path of the sun across the sky takes it directly behind the line of sight between an earth station and a satellite. As the sun radiates strongly at the microwave frequencies used to communicate with satellites (C-band and K_u-band) the sun swamps the signal from the satellite.

NSE Market timings during Sun Outage

Event	**Duration**
Market open	9:55 am to 11:25 am
Break	11:25 am to 12:10 pm
Market resume	12:10 pm to 04:15 pm
Closing session	04:35 pm to 04:45 pm

You can buy and sell shares in any Stock Exchange where that share is listed, but only through member brokers registered with the SEBI and the Stock Exchange concerned. For this to happen one has to open a trading account with a broker, place the order to purchase/sell the shares and make the payment/delivery for the purchase/sell obligation plus pay brokerages and other charges.

6.2.1 Opening of Trading Account

The various documents required for opening an individual trading account are as follows:

- Clear photocopy of any one of the following documents as Identity proof showing all details such as No., date of issue, date of validity and place of issue:
  - PAN card
  - Voter Id
  - Valid passport
  - MAPIN card
  - Driving license
- Clear photocopy of any one of the following documents as Address proof:
  - Valid passport
  - Bank statement/passbook
  - Ration card
  - Latest electricity bill
  - Driving license
  - Latest telephone bill
  - Voter Id
  - Lease and license agreement/agreement for sale/rent agreement
- PAN is compulsory for all Segment

- Photocopy of a Bank pass book/statement/cancelled cheque leaf containing the client name.
- Photocopy of the holding/transaction statement or client master of the depository account.
- All the places marked cross should be signed on the account opening form.
- Form should be properly filled including the witness signature and photo should be signed across.

The various documents which are required for a corporate/Non-institutional trading account are as follows:

- One passport size photograph of: Partners, Whole time Directors/Karta /Proprietor/Individual promoters holding 5% or more, either directly or indirectly in the shareholding of the company. Authorized persons to deal in securities.
- Photocopy of any one of the following documents as address proof:
  - Copy of bank statement.
  - Duly acknowledged copy of any document submitted with ROC.
  - Lease and license agreement/agreement for sale/rent agreement
- Duly acknowledge copy of income tax return.
- Copy of balance sheet for the last two financial years
- Copy of latest shareholding pattern including list of all those holding more than 5% in the share capital of the company, duly certified by the company secretary/whole time director/M.D.
- Certified true copy of MOA and AOA in case of body corporate and partnership deed in case of partnership firm.
- Copy of Resolution of Board of Directors approving participation in equity/ derivatives trading and naming the authorized persons for dealing in securities.
- Copy of PAN card.
- Photocopy of holding/transaction statement or client master of the Depository account with a Depository Participant.
- All the places marked cross on the account opening form should be stamped and signed by the authorized signatory.

Once a trading account is opened and is made active by your member broker, one has to fund that account with some reasonable amount. This funded amount is assigned some trading limits. Trading limit means the value up to which you are allowed to buy/sell shares on the exchange. These assigned limits can be different for delivery trades and for intra-day trades.

6.2.2 Placing the Order to Buy/Sell

When you place orders, you can set certain conditions to suit your requirements. You can specify the time, price and or quantity. Let’s see how these conditions work.

- You can set a limit like a Day order. This is valid for a day it is entered and if not matched during the day, would get cancelled at the end of the trading day.
- You can also place an Immediate or Cancel Order (IOC) to buy or sell. As soon as an IOC order is released into the market, it is either executed if a match occurs or else the order will be removed from the market.

- Like you specify the time, you can also define the price conditions. If you place a Stop Loss (SL) order, it gets activated only when the market price of the relevant security reaches or crosses a threshold price known as the trigger price. Until then the order does not enter the market.
- Another possibility is to specify the quantity. You can place a Disclosed Quantity (DQ) order, which allows your broker to disclose only a part of your total order quantity to the market. For example, you place an order for 10000 shares with a disclosed quantity condition of 1000. Only 1000 is displayed to the market at a time. After this quantity is traded, another 1000 is automatically released till the full order is executed.

There are 3 important documents that record your transactions through the Exchange – an “Order Confirmation Slip”, “Trade Confirmation Slip” and a “Contract note”. After you have placed the order with specifying your conditions, your broker should give you an Order Confirmation Slip and after the trade has taken place, you should get a Trade Confirmation Slip. Normally, brokers give a Contract note within 24 hours of the execution of the trade, once the deal is through. The Contract note is an important document as it contains details of the trade, the price and brokerage charged within. You should preserve this Note for tax purposes. It would also help you in resolving any disputes with the broker regarding the exact time and price at which the deal was struck.

6.2.3 Collecting Charges

Charges that are collected for the trades done are of the following nature:

- *Brokerage:* Percentage of commission charged by the Broker on the trades done by the client during the day. Charged scrip wise to the trades of the clients.
  - Delivery Brokerage: Charged on the Outstanding Net Position of the day.
  - Jobbing Brokerage: Charged on the scrip wise closed positions of the day on both sides of the trades.
  - Derivatives Brokerage: Charged on the trades done on the Futures and Options segment of the exchange.
- *Statutory charges:* Charges Imposed by Regulatory Authorities on the trades done by the clients during the day.

Table 6.2: Charge Structure

Charges		**NSE**		**BSE**
Types	**On**	**Cash Segment**	**F&O Segment**	
Service Tax	Brokerage	12.36	12.36	12.36
Other Charges (Stamp charges + Turnover charges)	Turnover	0.0055 (Jobbing) 0.0155 (Delivery)	0.0041	0.0155 (Jobbing) 0.0235 (Delivery)
STT (Effective June' 05)	Turnover	0.02 (Jobbing - Selling) 0.10 (Delivery)	0.0133 (Selling)	0.02 (Jobbing - Selling) 0.10 (Delivery)
Minimum processing fees	In Case of Brokerage less	Rs.25	Rs.25	Rs.25

	than Rs.25			

During a trading process an investor buys the shares and sells the shares and after the trade execution the buyer and the seller receives the shares and funds respectively. This is what the process in stock exchange looks like. But in reality there is much more complex process that goes on at the backend. The transactions in secondary market pass through three distinct phases, viz., trading, clearing and settlement. While the stock exchanges provide the platform for trading, the clearing corporation determines the funds and securities obligations of the trading members and ensures that the trade is settled through exchanges of obligations. The clearing banks and the depositories provide the necessary interface between the custodians/clearing members for settlement of funds and securities obligations of trading members. The clearing process involves determination of what counter-parties owe, and which counter-parties are due to receive on the settlement date, thereafter the obligations are discharged by settlement. The clearing and settlement process for transaction in securities on NSE is presented further.

6.3 Clearing Activities (T+1 Day)

Clearing is a process of determination of obligations, after which the obligations are discharged by settlement. Trades done during the entire day are accounted together for netting of obligations. The NSCCL gets the information from the NSE about the trades executed during the day which helps the CC (Clearing Corporation) to determine the obligations of each member in terms of funds and securities.

This is the next working day after the trading day. On this day, by 11:00 am the NSCCL gives the confirmation of all trades. Once the netting of obligations is done, then by 1:30 pm on the same day, all the files are being processed and downloaded so that each member knows as to what he has to pay-in and receive.

1 Unilateral Netting

Suppose, an investor, Ram buys 100 Reliance on Monday @ Rs.2600, i.e. **T day** or trading day and on the same day sells the entire holding @ Rs.2800. His net obligations in terms of securities and funds will be calculated for the day, on Tuesday. In terms of securities, his net obligation is nil. So, he will neither receive nor give out any security. On the other hand, his monetary obligations will also be calculated and netted, so that he either gives or receives funds (the difference between the buy and sell price), i.e. receive Rs.20,000. This pay in or pay out of funds is done on T+2 day, i.e. Wednesday, in our example.

Ram's Obligation in terms of Securities:

T	**T+1**	**T+2**
Trading Day	**Netting of Obligations**	**Pay-in & Pay-out of Securities**
+100 Reliance(Buy) - 100 Reliance(Sell)	NIL	NIL

Ram's Obligation in terms of Funds:

T		T+1	T+2
Trading Day	**Amount (in Rs.)**	**Netting of Obligations**	**Pay-in & Pay-out of funds**
+100 Reliance(Buy) - 100 Reliance(Sell)	2,60,000 2,80,000	+20,000	Receive Rs.20,000

Suppose, an investor, Shyam buys 100 Reliance on Monday i.e. **T day** @ Rs.2600. His net obligation on Tuesday would be to give Rs.2,60,000. On Wednesday i.e. T+2 day, he will receive 100 Reliance in his Demat account and will have to pay-out Rs.2,60,000 for the same.

Shyam's Obligation in terms of Securities:

T	T+1	T+2
Trading Day	**Netting of Obligations**	**Pay-in & Pay-out of Securities**
+100 Reliance	+100	Receive 100 Reliance

Shyam's Obligation in terms of Funds:

T		T+1	T+2
Trading Day	**Amount (in Rs.)**	**Netting of Obligations**	**Pay-in & Pay-out of funds**
+100 Reliance(Buy)	2,60,000	-2,60,000	Give Rs.2,60,000

Suppose, an investor, Mohan Sells 100 Reliance on Monday i.e. **T day** @ Rs.2800. His net obligation on Tuesday would be to give 100 Reliance. On Wednesday i.e. T+2 day, he will pay-out 100 Reliance through his Demat account and will receive Rs.2,80,000 for the same.

Mohan's Obligation in terms of Securities:

T	T+1	T+2
Trading Day	**Netting of Obligations**	**Pay-in & Pay-out of Securities**
-100 Reliance	-100	Give 100 Reliance

Mohan's Obligation in terms of Funds:

T		T+1	T+2
Trading Day	**Amount (in Rs.)**	**Netting of Obligations**	**Pay-in & Pay-out of funds**
-100 Reliance(Sell)	2,80,000	+2,80,000	Receive Rs. 2,80,000

The netting done in the above examples is known as unilateral netting of obligations. **Unilateral netting** is done scrip wise and client wise. This means that we will take each scrip (company) and trades done by each client in that scrip and then net their respective obligations.

2 Multi lateral Netting

Suppose, Ram, Mohan & Sohan are clients of a broker. Ram buys 100 Reliance @ Rs.2600 and sells 50 @ Rs.2800. On the same day he took a long position in Infosys of 800 shares @ Rs.2000 and sold 100 @ Rs.2100. He also bought 600 TCS @ Rs.1000 and sold 500 of them @ Rs.1100. Mohan bought 900 Infosys and 400 TCS and sold

300 Reliance, 600 Infosys and 500 TCS at the above prices. Sohan bought 600 Reliance, 1000 Infosys and 1500 TCS at the above prices. Multilateral netting of securities and funds for the broker is given below.

Broker's Obligation in terms of securities:

Scripts	Ram	Netting of Obligations	Mohan	Netting of Obligations	Sohan	Netting of Obligations	Broker
Reliance	+100 -50	+50	-300	-300	+600	+600	+350
Infosys	+800 -100	+700	-600 +900	+300	-1000	-1000	NIL
TCS	+600 -500	+100	+400 -500	-100	-1500	-1500	-1500

Broker's Obligation in terms of funds:

Scripts	Ram	Netted Obligation	Mohan	Netted Obligation	Sohan	Netted Obligation	Broker
Reliance	-260,000 +140,000	-120,000	+840,000	+840,000	-1560,000	-1560,000	-840,000
Infosys	-1600,000 +210,000	-1390,000	+1260,000 -1800,000	-540,000	+2100,000	+2100,000	+170,000
TCS	-600,000 +550,000	-50,000	-400,000 +550,000	+150,000	+1650,000	+1650,000	+1750,000
Net Obligation of the Broker							+1080,000

The above example helps us to understand the concepts of multi lateral netting.

6.4 Settlement Activities (T+2 Day)

On the second working day after the trading day, settlement of trades is done. This requires all the members to pay-in the required funds and securities by 11:00 am to the NSCCL by giving the required instructions to the respective clearing banks and depositories for the same. By 1:30 pm, on the same day, members get the required funds and securities through the NSCCL. If the seller defaults in paying-in the securities, the CC debits the clearing member with an amount (T+1 closing price of the security). This is known as **valuation debit.**

6.4.1 Pay-in and Pay-out of Funds

NSCCL offers Clearing Members the facility of settlement of funds obligations through 13 Clearing Banks (as mentioned in the previous chapter). Clearing Members are required to open clearing account with any one bank for the purpose of settlement of their transactions. They are also required to authorize their Clearing Bank to access their clearing account for debiting, crediting, reporting of balances and any other information in accordance with the advice received from NSCCL. Clearing accounts are used exclusively for clearing and settlement of transactions, i.e., for settling funds and other obligations to/from the NSCCL, including payments of margins and penal charges. Clearing Banks debit/credit the clearing account of clearing members as per instructions received from the NSCCL electronically.

Members are informed of their funds obligations for various settlements through the daily clearing data download. Members are also provided daily funds statement which gives date-wise details of each debit/credit transaction in the member's clearing account. The summary statement provided to members summarizes the debit/credit information for a quick reference. Members can refer to these statements and provide for funds accordingly.

Member's account may be debited for various types of transaction on a daily basis. A member is required to ensure that adequate funds are available in the clearing accounts towards all obligations, by the scheduled date and time. It is possible that the total value of funds pay-in receivable by a bank is different from the value of funds pay-out from the bank, i.e. the pay-in may be either more than the pay-out in a bank, or vice-versa. In such cases, funds need to be transferred from the bank where there is excess pay-in to the bank from where there is a shortage in pay-in. Based on estimated pay-in and pay-out of funds, on the day preceding the pay-out day, NSCCL advises the banks having pay-in in excess of pay-out to issue pay orders to the banks having pay-in less than the pay-out. The deficit banks accordingly get the funds to facilitate timely pay-out.

Funds Shortages: Members requires ensuring that adequate funds are available in the clearing account towards all obligations, on the scheduled date and time. In all cases of funds shortages, NSCCL may initiate various actions including withdrawing the trading facility of the member, withholding the securities pay-out due to the member, reduction in permissible gross exposure limits, requiring the member to make advance pay-in, etc. We will discuss these in detail in our next chapter.

6.4.2 Pay-in and Pay-out of Securities

In order to settle trades in the dematerialized securities, a clearing member needs to open a clearing account with a depository participant (DP). Each clearing account consists of three sub-accounts:

1. ***Pool Account:*** This is used by the clearing member to interface with his clients. The clients deliver securities to this account of the clearing member.

The clearing member pools all client deliveries in this account before making a delivery to NSCCL.

2. ***Delivery Account:*** This is used by the clearing member to deliver securities to NSCCL. The clearing member moves net deliverable quantity of shares from the pool account to the delivery account from where it comes to NSCCL.
3. ***Receipt Account:*** NSCCL gives pay-out to the clearing member in the receipt account from where it is transferred to the pool account of the clearing member.

Clearing members are informed of their securities obligation for various settlements through the daily clearing data download. Clearing members are also provided final delivery statement and delivery details statement.

Before pay-in, selling investors instruct DP to transfer security balances from their beneficiary accounts to clearing member's pool account. At or before the time and day specified for pay-in by NSCCL, the clearing member instructs his DP to move the required balance from his pool account to his delivery account. On the pay-in day, the depository moves balances from all the clearing members delivery accounts and sends them to NSCCL at the scheduled time. The balance in respective clearing members' delivery accounts are first transferred to NSCCL's pool account which is then matched with the obligations generated by NSCCL system. The quantity and securities matched are accepted and credited to the Receipt Accounts of the receiving clearing members through depository. The quantity and securities, not matched for any reason whatsoever, are not accepted and as such credited back to Delivery Accounts of the delivering clearing members. On receipt of pay-out instructions from NSCCL, the depository credits the receipt accounts of the receiving clearing members from which the securities get transferred to the clearing members' pool accounts. From the pool accounts, the clearing members distribute the deliveries to the buying clients by issuing instructions to his DP.

Securities Shortage: On the securities pay-in day, NSCCL identifies short deliveries and the respective clearing member is debited by an amount equivalent to the securities not delivered by him and valued at a valuation price. This is called a valuation debit. A valuation debit is also conducted for bad delivery by clearing members.

Valuation prices at which valuation debits are conducted are calculated as below:

- *Valuation Price for failure to deliver for Regular Market Deals, Depository Deals:* The valuation price for securities which were not delivered on the settlement day for securities, shall be the closing price of such securities, on the immediate trading day preceding the pay-in day for the securities unless prescribed otherwise from time to time by the relevant authority.
- *Valuation Price for Bad Delivery for Regular Market Deals:* The valuation price for securities which constitute bad deliveries, shall be the closing price of such securities, on the immediate trading day preceding the bad delivery rectification day for the securities unless prescribed otherwise from time to time by the relevant authority.

NSCCL conducts a buying-in auction for security shortages on the day after the pay-out day through the NSE trading system. If the buy-in auction price is more than the valuation price, the member is required to make good the difference.

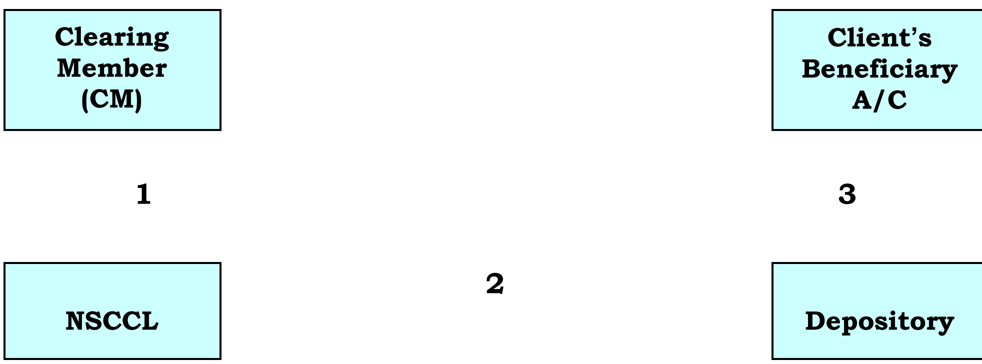
6.4.3 Direct payout to investors

With effect from April 2, 2001, SEBI has introduced the facility of directly paying –out securities, on the pay-out day, in the beneficiary account of the client. This facility has been introduced on both the depositories. Steps involved for the same are:

Step 1: The clearing member (CM) gives the beneficiary account details to the NSCCL, who is to receive the securities on the pay-out day.

Step 2: On the basis of the information received, the NSCCL gives the instructions to the depository for the direct payout to the client's beneficiary account.

Step 3: The depository pays–out the shares only to the extent of instructions received. The rest is credited to the pool account of the CM.



Suppose, the member is supposed to receive pay–out of 1200 shares for a particular script. The member has allocated the pay-out as under:

Client Name	Depository	Quantity
A	CDSL	100
B	CDSL	500
C	CDSL	600

The member receives 1000 shares in CDSL and the rest 200 in NSDL. The allocation of the quantity is as under:

Client Name	Depository	Quantity
A	CDSL	100
B	CDSL	500
C	CDSL	0
Members Pool	CDSL	400
Members Pool	NSDL	200

If the member receives the entire 1200 shares in NSDL, the same will be transferred to the member's pool account in NSDL.

In case of **non payment for the shares** by the clients or non-fulfillment of the compliances, the members are allowed not to give the details of the beneficiary account of such clients, to avoid direct payout to the investor. In that case, the securities will be **paid–out in the member's pool account.**

6.5 Post Settlement Activities (T+3 to T+9 Day)

On the T+3 working day, the CC buys the shares from the Auction market on behalf of the seller/defaulter. If there is a difference between valuation debit and the purchase price, it has to be borne by the defaulter. Any shortage not bought in is deemed to be closed out at a pre-defined terms.

6.5.1 Auction

Auctions are initiated by the Exchange on behalf of trading members for settlement related reasons. The main reasons are Shortages, Bad Deliveries and Objections. There are three types of participants in the auction market.

- ***Initiator:*** The party who initiates the auction process is called an initiator.
- ***Competitor:*** The party who enters on the same side as of the initiator is called a competitor.
- ***Solicitor:*** The party who enters on the opposite side as of the initiator is called a solicitor.

The trading members can participate in the Exchange initiated auctions by entering orders as a solicitor. E.g. If the Exchange conducts a Buy-In auction, the trading members entering sell orders are called solicitors.

When the auction starts, the competitor period for that auction also starts. Competitor period is the period during which competitor order entries are allowed. Competitor orders are the orders which compete with the initiator's order i.e. if the initiator's order is a buy order, then all the buy orders for that auction other than the initiator's order are competitor orders. And if the initiator order is a sell order then all the sell orders for that auction other than the initiators order are competitor orders.

After the competitor period ends, the solicitor period for that auction starts. Solicitor period is the period during which solicitor order entries are allowed. Solicitor orders are the orders which are opposite to the initiator order i.e. if the initiator order is a buy order, then all the sell orders for that auction are solicitor orders and if the initiator order is a sell order, then all the buy orders for that auction are solicitor orders.

After the solicitor period, order matching takes place. The system calculates trading price for the auction and all possible trades for the auction are generated at the calculated trading price. After this the auction is said to be complete. Competitor period and solicitor period for any auction are set by the Exchange.

6.5.2 Close-out Procedures

All shortages not bought-in are deemed closed out at the highest price between the first day of the trading period till the day of squaring off or closing price on the auction day plus 5%/10%/20% (as the case may be). This amount is credited to the receiving member's account on the auction pay-out day.

For Regular Market, Depository Deals:

- *In the case of failure to give delivery:* At the highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 20% above the closing price on the auction day, whichever is higher. In cases of securities having corporate actions and no 'no-delivery period' for the corporate action, all cases of short delivery of cum transactions which cannot be auctioned on cum basis or where the cum basis auction pay out is after the book closure/record date, would be compulsory closed out. For compulsory close out, the following formula shall be applicable:
    1. Higher of 10% above the closing price of the security in Normal Market on the auction day. OR
    2. The highest traded price from first trading day of the settlement till the auction day.
- *In the case of non rectification/replacement for bad delivery:* At the highest price prevailing in the NSE from the first day of the relevant trading period till the day of the closing out or 20% above the official closing price on the auction day, whichever is higher.
- *In the case of non rectification/replacement for objection cases:* At 20% above the official closing price on the auction day.
- *In the case of Company objection cases reported as bad delivery:* Rectified/ replaced company objection reported as bad delivery shall be squared up at 10% above the official closing price on the auction day.

For Auction Market:

- *In the case of auction non delivery:* When the auction seller fails to deliver in part or full on auction pay-in day, the deal will be squared up at the highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 20% over the official closing price on the close out day whichever is higher and will be charged to the auction seller unless otherwise specified.
- *In the case of an auction bad delivery:* An auction delivery reported as bad delivery shall be squared up at the highest price prevailing in the NSE from the first day of the relevant trading period till the day of closing out or 10% over the official closing price on the close out day, whichever is higher and will be charged to the auction seller unless otherwise specified.

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Tentative list of securities to be auctioned in 2007 -08 to be held on November 05, 2007.

S No	Symbol	Series	Quantity
1	3IINFOTECH	EQ	410
2	ABAN	EQ	71
3	ABB	EQ	58
4	ACC	EQ	139
5	ACE	EQ	828
6	ADANIENT	EQ	162
7	ADHUNIK	EQ	16112
8	ADLABSFILM	EQ	1002
9	ADORWELD	EQ	100
10	ADSL	EQ	90

Rectified/Replaced bad deliveries reported as bad delivery (Re-bad delivery):

- *For Regular Market Deals:* At the highest price prevailing in the NSE from the first day of the relevant trading period till the day of the closing out or 10% above the official closing price on the auction day whichever is higher.

Enrich your learning

Monthly Settlement Statistics (2007-2008)

Month/Year	Settlement No.	No of Trades	Quantity of Shares Traded (lakhs)	Value of Shares Traded (Rs. Cr)	Short Delivery (Auctioned)	Funds-Pay In (Rs. Cr)
Apr-2007	2007059-2007078	67404263	76643.24	168180.78	5155693	14528.40
May-2007	2007079-2007099	78615273	95457.93	199170.30	6422981	15430.77
Jun-2007	2007100-2007120	75155930	77909.19	192100.43	5740992	15074.39
Jul-2007	2007121-2007142	89033985	106882.42	264949.49	9749403	20937.57
Aug-2007	2007143-2007164	87053953	101383.79	226239.34	6197099	24264.20
Sep-2007	2007165-2007184	89447152	135864.52	252894.94	9346017	21496.34

Source: nse-india.com

Summary/Recapitulation

We have moved a level up by shifting to rolling settlement from account period settlement. Currently, we are following T+ 2 rolling settlement.

- In a normal market, we settle all the trades within two working days from the day of the trading. In case of shortage of shares, the CC buys the shares from the auction market on behalf of the seller for the buyer. The settlement of the auction trade again, is settled after two working trades.
- For settlement of funds and securities, the clearing members make the

required resources available on time on the pay-out day after knowing their obligations. Obligations are determined by Unilateral and multi lateral netting.

- While placing an order to buy / sell, one can set limits like a Day order, IOC, Stop Loss or Disclosed Quantity.
- There are three types of accounts maintained by a clearing member for the transfer of securities. They are: pool account, delivery account and receipt account.
- In case of shortages of securities on the pay out day, the clearing member is debited by an amount equivalent to the securities not delivered by him. This is called valuation debit. Then, the securities are bought from the auction market by the CC on behalf of the defaulter. In case the CC is unable to get shares from the auction market, then compulsory closed out procedure is followed.

Let's revise - New Terms

- Day order
- Immediate or cancel
- Direct payout to investors
- Unilateral netting
- Multi lateral netting
- Delivery account
- Solicitor
- Stop loss
- Disclosed quantity
- Valuation debit
- Pool account
- Receipt account
- Initiator
- Competitor

Multiple Choice Questions - Time your efforts

Q1. If the seller defaults in paying in the securities the NSCCL debits the clearing member with an amount, is known as______________
a) Clearing Settlement
b) Valuation Debit
c) Accounts Settlement
d) none of the above

Q2. Clearing is offered by NSCCL to its clearing members the facility of funds settlement through how many clearing banks.
a) 15
b) 8
c) 16
d) 13

Q3. Which account is used by the clearing members to interface with his client.
a) Pool Account
b) Delivery Account
c) Receipt Account
d) All the above

Q4. In auction process the party who enters on the opposite side of the initiator is called __.
a) Competitor
b) Rationalist
c) Solicitor
d) Initiator

Q5. The member with the funds pay-in obligation is required to have clear funds in his account on before _______________ on the scheduled pay-in day. The pay out of funds is credited to the clearing account of the members on or after ___________ on the scheduled payout day.
a) 11:00 a.m., 01:30 p.m.
b) 02:00 p.m., 03:00 p.m.
c) 10:00 a.m., 12:00 p.m.
d) 12:00 p.m., 01:00 p.m.

Q6. Pay-in in the form of highest price prevailing in the NSE from the 1st day of the relevant trading period till the day of closing out or 20% above the closing price on the auction day whichever is higher is the case of:
a) Failure to give delivery.
b) Non rectification/replacement for bad delivery.
c) Company objection cases reported as bad delivery.
d) All the above

Q7. What is known as the commission charged by the broker on the trades done by the client during the day?
a) Charges
b) Penalties
c) Brokerage
d) Fees

Q8. _________________ are the charges imposed by the regulatory authorities on the trades done by the clients during the day.
a) Statutory charges
b) Rental charges
c) Brokerage charges
d) Penal charges

Q9. What are the timings for trading?
a) 10:00 a.m. - 6:30 p.m.
b) 11:00 a.m. – 5:30 p.m.
c) 09:55 a.m. - 3:30 p.m.
d) 10:00 a.m. – 3:30 p.m.

Q10. __________ is the account used by the clearing member to deliver securities to NSCCL.
a) Delivery Account
b) Receipt Account
c) Pool Account
d) All the above.

Answers:

Q1 (b)	Q2 (d)	Q3 (a)	Q4 (c)	Q5 (a)	Q6 (a)	Q7 (c)
Q8 (a)	Q9 (c)	Q10 (a)				

Very short answer type

Q1 What is bad delivery?
Q2 When does settlement of a trade takes place?
Q3 What is the basic difference between account period settlement and rolling settlement?

Q4 What is valuation debit?

Short answer type

Q1 How shares are bought, in case of short selling?

Q2 In case of normal market, what is meant by post settlement period?

Q3 Name the three types of sub accounts accounts that a clearing member for the pay in and pay out of securities.

Long answer type

Q1 Explain the procedure of fund settlement.

Q2 List the procedure followed in the trading, clearing and settlement of trades in the normal market segment.

Q3 Explain the procedure of clearing and settlement in a limited physical market.