

Dealing through a Stock Exchange

If you choose to deal (buy or sell) directly with another person, you are exposed to counter party risk, i.e. the risk of non-performance by that party. However, if you deal through a Stock Exchange, this counter party risk is reduced due to trade/settlement guarantee offered by the Stock Exchange mechanism. Further, you also have certain protections against defaults by your broker.

When you operate through an exchange, you have the right to receive the best price prevailing at that time for the trade and the right to receive the money or securities in time. You also have the right to receive a contract note from the broker confirming the trade and indicating the time of execution of the order and other necessary details of the trade. If you have opted for transaction in physical mode, you also have the right to receive good delivery and the right to insist on rectification of bad delivery. If you have a dispute with your broker, you can resolve it through arbitration under the aegis of the exchange.

Entering in a deal through a Stock Exchange

If you decided to operate through an exchange, you have to avail the services of a SECURITIES AND EXCHANGE BOARD OF INDIA registered broker/ sub-broker. You have to enter into a broker-client agreement and file a client registration form. Since the contract note is a legally enforceable document, you should insist on receiving it. You have the obligation to deliver the securities in case of sale or pay the money in case of purchase within the time prescribed. If you have opted for transaction in physical mode, in case of bad delivery of securities by you, you have the responsibility to rectify them or replace them with good ones.

Do's and Don'ts while dealing with Brokers & Sub-Brokers

DO'S

- ✓ Deal only with SEBI registered intermediaries.
- ✓ Ensure that the intermediary has a valid registration certificate.
- ✓ Ensure that the intermediary is permitted to transact in the market.

- ✓ State clearly who will be placing orders on your behalf.
- ✓ Insist on client registration form to be signed by the intermediary before commencing operations
- ✓ Enter into an agreement with your broker or sub-broker setting out terms and conditions clearly.
- ✓ Insist on contract note] confirmation memo for trades done each day.
- ✓ Insist on bill for every settlement.
- ✓ Ensure that broker's name, trade time and number, transaction price and brokerage are shown distinctly on the contract note.
- ✓ Insist on periodical statement of accounts.
- ✓ Issue cheques/drafts in trade name of the intermediary only.
- ✓ Ensure receipt of payment/ delivery within 48 hours of payout.
- ✓ In case of sub-broker disputes, inform the main broker about the dispute within 6 months.
- ✓ Familiarise yourself with the rules, regulations and circulars issued by stock exchanges/SEBI before carrying out any transaction

DON'TS

- ✗ Do not deal with unregistered intermediaries.
- ✗ Do not pay more than the approved brokerage to the intermediary.
- ✗ Do not under take deals for others.
- ✗ Do not neglect to set out in writing, orders for higher value given over phone.
- ✗ Do not sign blank Delivery instruction slip(s) while meeting security payin obligation.
- ✗ Don't accept unsigned/duplicate contract note/confirmation memo.
- ✗ Don't accept contract note/ confirmation memo signed by any unauthorised person.
- ✗ Don't delay payment/deliveries of securities to broker/ sub-broker.
- ✗ Don't get carried away by luring advertisements, if any.
- ✗ Don't be led by market rumours or get into shady transactions.