

Notes on Trading and settlement, Pledge and hypothecation, corporate actions.

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Name of the presenter: Mr. Shekhar Sawant

TRADING AND SETTLEMENT:

Trade settlement is a two-way process which comes in the final stage of the transaction. Once the buyer receives the securities and the seller gets the payment for the same, the trade is said to be settled. While the official deal happens on the transaction date, the settlement date is when the final ownership is transferred. The transaction date never changes and is represented with the letter 'T'. The final settlement does not necessarily occur on the same day. The settlement day is generally T+2.

Types of settlements in the stock market:

- Trade settlements in the stock market have been broadly categorised into two:
- 1. Spot settlement – This is when the settlement is done immediately following the rolling settlement principle of T+2.
- 2. Forward settlement – This happens when you agree to settle the trade at a future date which could be T+5 or T+7.

PLEDGE AND HYPOTHECATION

- Securities held in a **depository** account can be **pledged/hypothecated** to avail of loan/credit facility. **Pledge** of securities in NSDL **depository** requires that both the borrower (pledgor) and the lender (pledgee) should have account in NSDL/CDSL **depository**.

Procedure for creation of pledge/hypothecation

- The pledgor will submit an **instruction** to its DP to initiate a pledge/hypothecation request in the DPM (software provided by NSDL to the DP) indicating the option 'create a pledge/hypothecation' in the pledge/hypothecation form.
- The DP will check for the completeness of the form.
- If the form is complete in all respects, the DP will accept the form for processing and issue an acknowledgment for the same to the pledgor.
- The DP will enter the details of the request in the DPM, generate a

pledge/hypothecation instruction number for the request and release the request to NSDL.

- The securities pledged are moved from 'Free balances' to 'Pledged balances' account. Thus the securities pledged will not be available to pledgor for any other purpose.
- The DP shall write the pledge/hypothecation instruction number on the pledge/hypothecation form and intimate the same to the pledgor.
- The details of the pledge/hypothecation are electronically communicated to the DPM of pledgee's DP through the DM for confirmation.

Corporate actions

- Corporate actions are taken by the board of directors of a company. These are then approved by its shareholders. These actions have a bearing on the assets of the company. Corporate actions include changing the name or brand of a company, issuing dividends, spinoffs, mergers and acquisitions etc.

Types of corporate actions

- **Mandatory corporate action** : These actions are initiated by the board of directors of a company. Examples of mandatory corporate actions include stock splits, mergers and acquisitions and issuing cash dividends.
- **Mandatory corporate actions with options**: These are gain taken by the board of directors, and provide various options to the shareholders. For instance, the company can decide to offer dividends to its shareholders in the form of either cash dividends or share in its stocks.
- **Voluntary corporate action**: These are actions where shareholders can participate. Any voluntary corporate action requires active participation from its shareholders.
- Corporate actions can be in the form of issuance of bonus shares, stock splits ,Dividends and Right issue.