

# Inter-Connected Stock Exchange of India

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## CONCEPT

Inter - Connected Stock Exchange attempts to enable a member of one exchange to deal with a member of another exchange through his own computer with all the protection and support for trading, clearing and settlement being provided by Inter- Connected Stock Exchange of India Limited (ISE). The ISE, which is being promoted by the participant exchanges, has been registered by SEBI as an exchange.

ISE proposed to have two types of trading members, namely, traders and dealers. Traders are member brokers of the participating exchange who enroll in ISE after fulfilling the eligibility conditions of ISE. The dealers are proposed to be those users of the system who are enrolled directly by ISE subject to different eligibility conditions and do not belong to any of the participating exchanges. The entities desired as dealers would be large net worth financial intermediaries like Fis, FII, subsidiaries of commercial banks, etc. The difference between the traders and the dealers would be that the dealers would be provided trading rights directly under the ISE and at the place of their enrollment without their coming under any participating exchanges whereas the Traders would be the member brokers of the participating exchanges trading from their location.

## ISE MISSION

ICMS attempts to pool the fragmented liquidity from numerous small and illiquid markets into a large, consolidated and liquid market by establishing formal linkages for trading, clearing and settlement between these participating exchanges. The large size of the consolidated market is expected to create economies of scale which would ensure continuous future development of these markets for retaining their competitiveness. The ICMS is expected to cater to the demands of the small and retail regional investors, small and medium capital companies in the interiors of the country at a low cost affordable by this class of investors and intermediaries. Besides, ISE proposes to enable institutional investors and intermediaries to tap this cost effective and secured retail business segment directly through the concept of dealers.

## PARTICIPATING EXCHANGES

The Exchanges of Hyderabad, Bangalore, Mangalore, Bhubaneswar, Ludhiana, Indore, Vadodara, Guwahati, Saurashtra, Coimbatore, Cochin, Kanpur, Magadh, and Jaipur are the participants of the ISE Project. Summary data for these exchanges is in Table 5.1.

## TRADING METHODOLOGY

Trading in an inter-connected market would permit the member of one exchange to trade directly with the member of another participating exchange. The member would be able to trade from his trader work station by switching from one screen which deals with local trading to another screen which deal with inter-market trading. The regional trades would match in the local server in the regional order book whereas the inter-market trades would be communicated from the member terminal via the VSAT or leased lines to the central system at Bombay where the trade would match in the national order book made from the bid and offer rates received from traders and dealers participating in the inter-market segment. The dealers are proposed to be connected into the system directly under the ISE system using a VAST or leased line connectivity or both. The

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**Table 1 Aggregated Indicators for ISE Participating Exchanges**

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Membership	4288
Of which, active members	2500
Number of traders /day (sum of all exchange)	25000
Trading volume/day (sum of all exchange)	Rs.150 crore
Listed companies	3500
Membership expected in Phase I of ISE	1000
Trading volume/ day expected in IS	Rs 300 crore

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trading, clearing and settlement obligations of the dealers (who are likely to be primarily in Bombay) will be managed directly by the ISE.

#### **SETTLEMENT SYSTEM**

The exchanges will have similar trading and settlement cycle for the local market and the national market as proposed by SEBI though the settlement obligations of the two segments will be settled separately.

The dealers would be intimated their settlement obligation which, in case of money, will need to be settled directly by debiting/crediting their payment in the designated bank and for securities by enabling them to directly receive from or deposit at the designated office of ISE or the participating exchanges.

#### **FUND TRANSFER SYSTEM**

It is proposed that a common clearing bank would be appointed to move money between exchanges for inter-market settlement. This bank will have branches located at participating exchanges center and would receive all margin money on daily basis from the Traders for their margin obligations in ISE which would be adjusted during the settlement Pay-in.

#### **MARGINS**

The margin monitoring would be done at both central and regional level, though the collection of margin will be left to the participating exchange under the supervision of the ISE. For dealers the monitoring will be exclusively done by ISE. The margin in the inter-connected market would be collected by directly debiting the accounts of the traders or dealers in the central clearing bank. This account at the central clearing Bank acts as a control account for monitoring margin collection by the regional exchanges. The funds collected during the settlement are adjusted during pay -in and pay - out.

#### **CLEARING HOUSE**

Since all exchanges already have a clearing house to manage the settlement of securities within the exchanges, it is proposed that for the settlement of securities within the inter-market segment the same clearing house would be used under the direct supervision of an ISE employee. Based on the settlement system, i.e. common or separate, all inter-market deliveries will be tendered member-wise and exchange-wise segregated by the members as they are intimated delivery advises after netting the deliveries required by the respective regional exchanges.

The deliveries meant for inter-market purpose will be dispatched to the destination clearing house by the respective regional clearing houses with the assistance of the courier agency appointed by ISE. The dealer will have to deliver to or receive the securities at the designated place of delivery specified by the ISE

## **RISK MANAGEMENTY SYSTEM**

ISE proposed so as to monitor the positions of the members on-line and to prevent them from taking larger than permissible risk at any time The system is further protected by a settlement guarantee fund to protect the investor from settlement guarantee. Every exchange is required to maintain a settlement stablisation fund available with the inter-market system to meet the temporary shortfall in the pay-in on account of any of its members so that there is no delay in declaration of pay-out. The dealer would be required to have a capital adequacy of Rs. 10 lakh with ISE and the traders would be required to have a capital adequacy of Rs.4 lakh over and above the capital adequacy maintained at the regional stock exchange.

## **FUTURE PLANS OF ISE**

**Phase I** May 1998 onwards.

In Phase I, ISE proposes to link all the fourteen Stock exchanges and enable the traders from these Stock exchanges to deal in the inter-market. It is expected that initially about 1000 members of the participating exchanges would participate in the trading at ISE. The ISE System is expected to provide

Following features in Phase I;

- All features of trading, clearing, settlement, risk management and surveillance.

- The demat trading segment.

- The central clearing bank to be appointed by ISE is expected to provide electronic fund transfer facility across the participating exchanges.

- Secured system of movement of shares.

- Insurance for various insurable risks.

**Phase II** October, 1998 onwards.

The Participating exchange are expected to expand their area of operations by expanding to areas near to stock exchanges by setting up additional trading Floors. The ISE segment would be available to any such additional Floor set up by the participating exchange. The ISE market would introduce new segment during the second phase. Activation of various inactive members at the participant exchanges would be taken up through greater use of technology.

**Phase III** April, 1998 onwards

Introduction of derivatives would be considered only after studying the performance of derivatives in other Indian exchanges. Reach to the investor population would be increased by expansion and the use of technology.