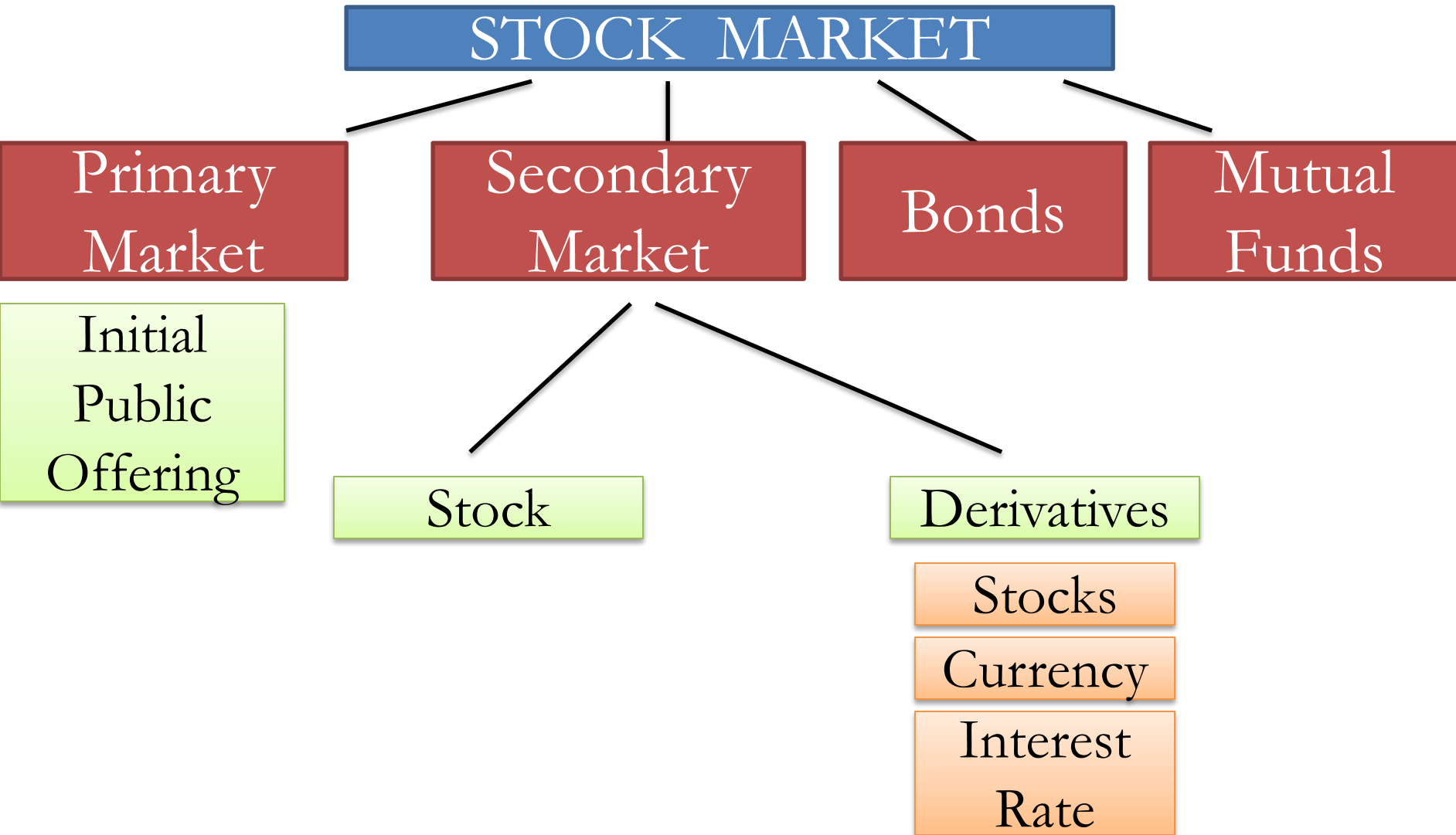


**Mini Presentation on PPI for
Activities Auxiliary for
Financial Services
(India)**

Section		Division		Group	
NIC (2008)	ISIC (2008)	NIC (2008)	ISIC (2008)	NIC (2008)	ISIC (2008)
K – Financial and Insurance Activities	K – Financial and Insurance Activities	66- Other Financial activities	66- Activities auxiliary to financial service and insurance activities	661- Activities auxiliary to financial service activities, except insurance and pension funding	661-Activities auxiliary to financial service activities, except insurance and pension funding
				663- Fund management activities	663 - Fund management activities

Class		Sub Class
NIC (2008)	ISIC (2008)	NIC (2008)
6611 - Administration of financial markets (includes operation and supervision of financial market other than by public authorities, such as commodity contracts exchange, securities exchanges, stock exchanges stock or commodity option exchanges)	6611- Administration of financial markets	66110- Administration of financial markets
6612-Security and commodity contracts brokerage (includes dealing in financial markets on behalf of others (e.g. stock broking) and related activities, securities brokerage, commodity contracts	6612- Security and commodity contracts brokerage	66120- Security and commodity contracts brokerage
6619- Activities auxiliary to financial service activities n.e.c. (includes activities of investment advisors, mortgage advisors and brokers, financial transaction processing and settlement activities, trustee,	6619- Other activities auxiliary to financial service activities	66190- Activities auxiliary to financial service activities n.e.c.
6630-Fund management activities	6630- Fund management activities	66301- Management of mutual funds
		66302- Management of pension funds
		66309- Management of other investment funds

COVERAGE



WEIGHTING DIAGRAM

- Weights to be based on the relative share of each product in the securities market.

TRANSACTION COST

EXPLICIT COST

Stocks & Derivatives

Brokerage Commission

Stamp Duty

Service Tax

Custody Charges

Mutual Funds

Expense Ratio

Exit Load

Corporate Bonds

Brokerage

Underwriter

Lead Arranger's Fee

Annual Listing Fee

Initial Listing Fee

Trustee Fee

Printing, Advertisement and Distribution

IPO

Underwriter's Discount

Legal Advisory Cost

Financial Reporting Advisor

Printing

Registration fee

Exchange Listing Fee

TRANSACTION COST

IMPLICIT COST

Bid- ask Spread

Realised Spread

**Opportunity
cost of delayed
execution or
non execution**

Factors Affecting Transaction Cost

- 1. Clearance and Settlement System:** Cost differs for transactions based on the settlement system (delivery, non-delivery, squared up or carried forward)
- 2. Investor Profile:** Institutional investors (Mutual funds, FII's) pay lower brokerage than retail investors.
- 3. After trade practises:** The cost like custody charges (higher for securities in physical form) vary depending on whether the shares are held in physical or dematerialised form.
- 4. Margins:** Margins are different across different investors also forms an important part of the transaction cost.

- Some costs are measured on the basis of the volume of trade (brokerage commission), some are measured as flat rate on pre-transaction basis (custodian fee).
- Thus, to bring uniformity costs can be converted into basis points. **(Raju M T and Marathe V, 1999)**

Transaction cost

- To calculate transaction cost, following services can be included
 1. Brokerage fee
 2. Stamp duty
 3. Custody Charges(Physical)
 - Safekeeping
 - Transaction fee
 4. Custody Charges (Demat)
 - Safekeeping
 - Transaction fee
 - * Buy
 - * Sell

SOME APPROACHES

Effective Bid – ask Spread

(Raju M T, Karande K and Taneja S, 2002)

- Consider **percentage effective half spread** as a measure (price) of execution cost.
- **Effective half spread** is the difference between the trade price and the quote mid-point.

where;

Trade price is the price at which a security is currently selling

Quote mid point is calculated as $[(A_{it} + B_{it})/2]$ where;

<i>A_{it}</i>	Ask Price (minimum price a seller is willing to receive for the security I at time T)
<i>B_{it}</i>	Bid Price (maximum price a buyer is willing to pay for the security I at time T)

Numerically the measure of trading cost reflecting execution cost due to trading inside the quotations (trading at a price within the bid and ask price) is ;

Effective percentage half spread $it = 100(P_{it} - M_{it}) / M_{it}$

Where;

<i>M_{it}</i>	Quote Mid point price $[(A_{it} + B_{it})/2]$
<i>P_{it}</i>	Transaction Price (Price at which a security I is currently selling at time t)

Global Trading Cost (Elkins / McSherry (E/M))

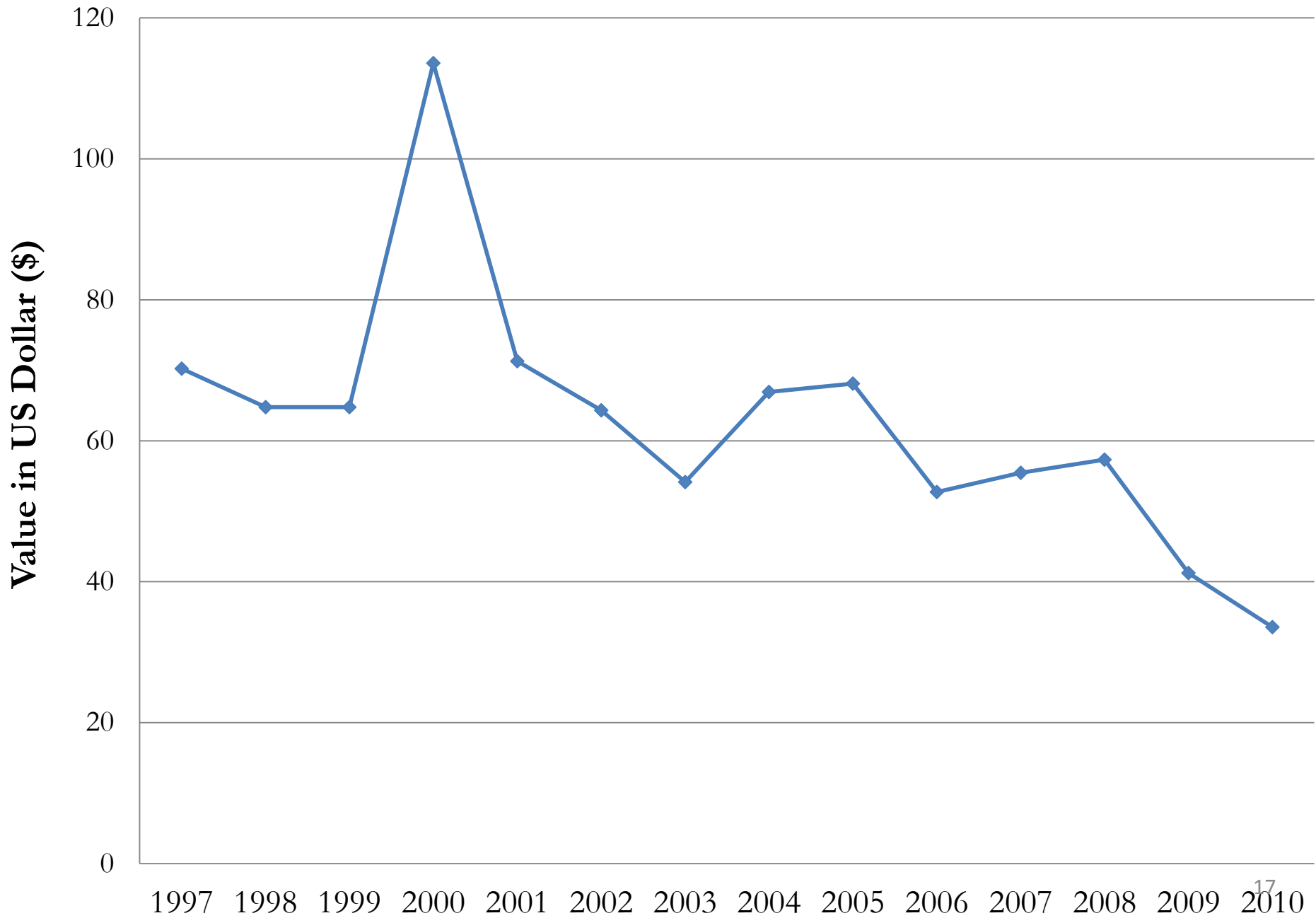
- **Total Trading Cost:** Includes Commissions, fees and market impact.

Definitions

- **Average stock price:**
 - Average traded stock price in US Dollars in that country.
- **Average Fees:**
 - Average fee paid in that country.
- **Market Impact:**
 - Average cost of trading in that country.
 - Average cost to trade versus volume weighted average price
 - Alternatively, difference between the trade executed price and average of stock's high, low, opening and closing price during trade date.

- **Volume Weighted Average Price:**
 - Ratio of sum of dollars traded for every transaction (price multiplied by number of shares traded) to the total shares traded for the day
- **Total:**
 - **Total cost of trading** in the country
 - Sum of costs of commission, fees and market impact

Total Trading cost, India



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THANK YOU