

## **BSE bets on new members to revive its F&O segment**

SE Receives 400 Membership Applications After It Slashed Charges By 90%

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THE Bombay Stock Exchange (BSE) has received 400 applications for membership on the bourse in the past couple of months, after it slashed deposit charges by 90% in April this year.

“We have cleared some of the applications and forwarded them to the Securities and Exchange Board of India (Sebi)”, said a senior BSE official, who did not wish to be named. “We are scrutinizing the credentials of the remaining applicants”, he added.

At present, the exchange has around 1,000 members officially, but only 600-odd out of them are active. “It is an elaborate process; it would take about a couple of months at least before the applications are approved”, the official said. Even if half of the 400 applicants are finally cleared to become BSE members, the bourses active member base will increase 33%. He said that many of the prospective entrants had applied for membership in equity as well as equity derivatives segments. This is despite the fact that the BSE’s futures and options segment is barely operational.

“The new members hold the key to the success of our F&O segment,” the official said, adding, “ We have been getting 50,000-60,000 quotes in our derivatives segment daily. But liquidity is an issue and these quotes don’t get executed. Once the membership base increases, hopefully, the derivatives segment can be revived.”

In April, the exchange had slashed the deposit charge for trading membership by 90% to Rs 10 lakh. Along with other charges, including refundable ones, such as base minimum capital, contribution to trade guarantee fund and sundry fees, membership on BSE’s cash market segment now comes for a little less than Rs 33 lakh. But within a couple of weeks, a Sebi panel proposed to increase brokers net worth requirement to Rs 1 crore for corporates and Rs 75 lakh for individuals by the end of this year, and Rs 3 crore for both categories by 2012. It is widely perceived that the new net worth requirement norm may affect BSEs plan to widen its membership base by offering low entry rates.

“It has not affected our membership drive in a big way; most of the applicants are already members of other exchanges where the net worth requirement is higher. Besides, they are fully aware that the rules on net worth may change (may be raised),” the official said.

In October last year, BSE had selectively cut transaction charges to attract passive investors mostly retail investors who place ‘limit orders’. Limit orders are those trades which will be only executed at the price specified by the investor, unlike market orders, which are executed at the latest quoted bid or offer price on the trading screen.

However, that strategy is yet to yield any result. BSE’s market share in the cash segment has

been hovering at 24-25 % for the past many months. It has shown a slight improvement in July, so far, to 26.4%.

The growth in BSE's core revenues income from trading members has been sluggish. With the exchange now slashing deposit charges for new entrants, the interest that it earned on treasury operations (BSE's own cash, and margin/deposits collected from members) is also expected to decline.

"We will persist with our low transaction charges for a while; there are competitive pressures," the official said, referring to the impending entry of MCX-SX.

**Source:**

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