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The stock exchange

1. Overview of the modern-day stock exchange

A stock exchange is an organised marketplace, licensed by a relevant regulatory body, where ownership stakes (shares) in companies are listed and traded. Listing happens in the so-called ‘primary market’, where a portion of a company’s shares are made available to the public. The company often uses the listing to raise funds through issuing new equity shares (an initial public offering or IPO). Investors can then buy and sell these listed shares in the so-called ‘secondary market’. While listing in the primary market may result in a flow of funds from investors to the firm, the trading between investors in the secondary market does not.

The activity in both the primary and secondary market occurs within a framework of laws, rules and regulations, aimed at ensuring the existence of fair, transparent and orderly markets. To achieve these objectives, these rules and regulations will typically provide for the protection of investor assets, the process for transferring ownership of shares, the requirements with which companies that are listed on markets must comply, and processes for ensuring settlement of disputes. Exchanges also ensure that trading occurs according to predefined, public rules and that information about the prices at which investors are willing to buy and sell, and the prices at which instruments have sold (pre- and post-trade transparency) are publicly available.

Exchanges are supervised by a securities market regulator. Different jurisdictions have different models of who is responsible for what element of market regulation. All markets with an exchange twill stipulate:

- The listings requirements (the requirements that companies wishing to list on the exchange must meet initially and on an ongoing basis, and the information they are required to disclose to the public);
- The membership requirements (the financial, educational, conduct and other requirements that the entities who trade on the exchange on behalf of investors must meet);
- The trading rules (the rules according to which, for example, buy-and-sell orders are matched, the price determination process, what happens in the event of errors, the moment at which a binding transaction is concluded); and
- The process for clearing and settlement of transactions (e.g. how the transfer of ownership of shares and cash is effected, over what time period, and how defaults are managed).

Regardless of the specific regulatory structure, all exchanges will have some responsibility for ensuring compliance with these aspects of market regulation and engaging in some level of market surveillance.

2. Fonctions of Stock Exchanges

- Facilitate liquidity and marketability of outstanding debt and equity instruments.
- Contribute to economic growth through allocation/mobilization of funds to the most efficient channel through disinvestments and reinvestment.

- To provide instant valuation of securities caused by changes in internal environment.
- Facilitate measurement of cost of capital and rate of returns of economic entities at micro level.
- To ensure a measure of safety and fair dealing to protect investors interest.
- To induce companies to improve performance since market price at stock exchanges reflects the performance. So, companies/ corporates strive to improve their performance.[1]

[1] Centre for distance education, **Basic business finance : stock exchange**, Acharya Nagarjuna university,PP1-2, available at:http://anucde.info.