# Quinte Financial Technologies | FinTech Solutions

**Assignment on**

**IPO PROCESS AND SECURITIES TRADING**

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# Initial Public Offering (IPO) Processs

An Initial Public Offering (IPO) is the process by which a private company offers its shares to the public for the first time, transitioning from a private to a publicly traded company. This move allows the company to raise capital from public investors, increase its visibility, and provide liquidity for its shareholders.

**Steps in the IPO Process:**

1. **Pre-IPO Planning and Preparation:**
   * **Internal Assessment:** The company evaluates its readiness for an IPO, including financial health, market position, and corporate governance.
   * **Hiring Advisors:** Engaging investment banks (underwriters), legal advisors, and accounting firms to guide the IPO process.
   * **Corporate Structuring:** Ensuring that the company’s structure, including its board of directors and internal controls, meets regulatory and market expectations.
   * **Financial Audits:** Conducting thorough audits of financial statements to ensure accuracy and compliance with regulatory standards.
2. **Selecting Underwriters:**
   * **Request for Proposals (RFPs):** The company issues RFPs to various investment banks to evaluate their capabilities and terms.
   * **Pitch Meetings:** Investment banks present their IPO strategies and expertise to the company’s management.
   * **Underwriter Selection:** The company selects lead underwriters and potentially co-managers to form an underwriting syndicate.
   * **Underwriting Agreement:** The company and the underwriters sign an agreement detailing the terms of the IPO, including the fees and responsibilities.
3. **Due Diligence and Documentation:**
   * **Due Diligence:** The underwriters and legal advisors conduct comprehensive due diligence on the company’s financials, operations, legal matters, and market position to assess risks and opportunities.
   * **Drafting the Prospectus:** The company, with input from its advisors, prepares the prospectus (Form S-1 in the U.S.), which provides detailed information about the company, its business model, financials, and risks.
   * **SEC Filing:** The prospectus is filed with the Securities and Exchange Commission (SEC) for review.
4. **Regulatory Review:**
   * **SEC Review:** The SEC reviews the prospectus and may provide comments or request additional information. This process can involve several rounds of revisions and amendments.
   * **Regulatory Compliance:** Ensuring that the company complies with all relevant securities laws and regulations, including those related to disclosure, accounting, and corporate governance.
5. **Marketing the IPO:**
   * **Roadshow:** The company’s management team, along with the underwriters, conducts a roadshow to present the investment opportunity to potential investors, including institutional investors and mutual funds. These presentations aim to generate interest and gauge demand for the IPO.
   * **Book Building:** Collecting orders from institutional investors during the roadshow to determine the demand and guide the pricing of the shares.
6. **Pricing and Allocation:**
   * **Setting the IPO Price:** Based on the demand observed during the book-building process, the company and the underwriters set the final offer price for the shares.
   * **Allocating Shares:** The shares are allocated to institutional and retail investors according to the demand and the underwriting agreement.
7. **Going Public:**
   * **Listing on the Exchange:** The company’s shares are listed on a stock exchange, such as the New York Stock Exchange (NYSE) or NASDAQ. Trading typically begins the next business day after the IPO pricing.
   * **First Day of Trading:** The stock starts trading on the public market, and its performance is closely monitored by the company and investors.
8. **Post-IPO Phase:**
   * **Market Stabilization:** The underwriters may provide support to stabilize the stock price in the initial trading period, if necessary.
   * **Regulatory Compliance:** The company must continue to comply with ongoing disclosure and reporting requirements, including quarterly and annual financial reports.
   * **Investor Relations:** Maintaining communication with investors, analysts, and the public to build confidence and manage expectations.

**Benefits of an IPO:**

* **Capital Raising:** Access to a large pool of public capital to fund growth, research and development, and other strategic initiatives.
* **Liquidity:** Provides liquidity for existing shareholders, including founders, employees, and early investors.
* **Visibility and Credibility:** Increases the company's visibility, credibility, and market presence.
* **Currency for Acquisitions:** Publicly traded shares can be used as currency for acquisitions and mergers.

**Risks of an IPO:**

* **Cost and Complexity:** The IPO process is costly and complex, involving significant legal, accounting, and underwriting fees.
* **Regulatory Scrutiny:** Increased regulatory scrutiny and compliance requirements as a publicly traded company.
* **Market Pressure:** Pressure to meet quarterly earnings expectations and market performance, which can impact long-term strategic decisions.
* **Disclosure:** Requirement to disclose sensitive business information to the public, including financial performance and strategic plans.

**Key Statistics:**

1. **Global IPO Market:**
   * In the first half (H1) of 2024, there were 551 listings raising $52.2 billion in capital, a 12% decrease in the number of IPOs and a 16% drop in proceeds raised YOY. This result is mainly due to a slowdown in Asia-Pacific IPO activity with the Americas and Europe, the Middle East, India and Africa (EMEIA) seeing robust growth in H1.
   * EMEIA regained the No. 1 global IPO market share by number for the first time in 16 years.
   * In H1 2024, EMEIA captured 45% of global deal volume and 46% of deal value, its highest since 2008. America accounted for 34% of deal value.
2. **Performance:**
   * **Average First-Day Returns:** IPOs typically see significant first-day returns, averaging around 15-20% globally.
   * **Long-Term Performance:** The long-term performance of IPOs varies, with some companies achieving substantial growth while others underperforming.

# Securities Trading

A security trading involves the buying and selling of financial instruments such as stocks, bonds, commodities, and derivatives. This trading can take place on various platforms, including stock exchanges, over-the-counter (OTC) markets, and electronic trading systems.

**Types of Securities:**

1. **Stocks:** Shares of ownership in a company, which can be common or preferred.
2. **Bonds:** Debt securities issued by corporations or governments, promising to pay back the principal along with interest.
3. **Commodities:** Physical assets like gold, oil, or agricultural products traded on commodity exchanges.
4. **Derivatives:** Financial contracts whose value are derived from underlying assets, including options, futures, and swaps.

**Trading Venues:**

* **Stock Exchanges:** Centralized platforms where securities are bought and sold. Examples include the New York Stock Exchange (NYSE) and NASDAQ.
* **Over-the-Counter (OTC) Markets:** Decentralized markets where securities not listed on exchanges are traded directly between parties.
* **Electronic Trading Platforms:** Digital systems that facilitate trading, often providing high-frequency trading capabilities.

**Market Participants:**

* **Individual Investors:** Retail investors who trade securities for personal investment purposes.
* **Institutional Investors:** Entities such as mutual funds, pension funds, and hedge funds that trade large volumes of securities.
* **Market Makers:** Firms or individuals who provide liquidity by continuously buying and selling securities, helping to stabilize prices.
* **Brokers and Dealers:** Intermediaries who execute trades on behalf of clients or for their own accounts.

**Trading Mechanisms:**

* **Order Types:** Instructions for buying or selling securities, including market orders, limit orders, stop orders, and stop-limit orders.
* **Matching Engines:** Technology used by exchanges to match buy and sell orders based on price, time, and order type.
* **Clearing and Settlement:** Processes that ensure the transfer of securities and payment between buyer and seller, typically managed by clearinghouses.

**Regulation and Compliance:**

* **Regulatory Bodies:** Organizations such as the Securities and Exchange Commission (SEC) in the U.S. oversee securities markets to ensure transparency, fairness, and investor protection.
* **Compliance Requirements:** Rules that participants must follow, including disclosure requirements, reporting standards, and trading practices.

**Market Dynamics:**

* **Supply and Demand:** Prices of securities are influenced by the supply of and demand for those securities.
* **Market Sentiment:** Investor perceptions and reactions to economic news, corporate earnings, and geopolitical events can impact security prices.
* **Economic Indicators:** Data such as GDP growth, employment rates, and inflation can affect market performance.

**Benefits of Securities Trading:**

* **Liquidity:** Provides investors with the ability to quickly buy or sell securities.
* **Price Discovery:** Helps determine the fair market value of securities through continuous trading.
* **Investment Opportunities:** Offers a wide range of investment options to diversify portfolios.
* **Capital Raising:** Enables companies and governments to raise funds for growth and development.

**Risks of Securities Trading:**

* **Market Risk:** The potential for losses due to changes in market prices.
* **Liquidity Risk:** The risk that an investor may not be able to buy or sell securities at desired prices.
* **Credit Risk:** The risk that the issuer of a security may default on its obligations.
* **Operational Risk:** Risks related to system failures, fraud, and errors in the trading process.

**Key Statistics:**

1. **Global Trading Volumes:**
   * The total value of global equity trading worldwide in 2023 amounted to approximately 130 trillion U.S. dollars, reflecting the high level of activity in stock markets worldwide.
   * As of August 2020, the global bond market was estimated to be worth about $128.3 trillion. This included $87.5 trillion in SSA bonds (68%) and $40.9 trillion in corporate bonds (32%).
2. **Major Stock Exchanges by Market Capitalization (as of 2022):**
   * **New York Stock Exchange (NYSE):** $28.4 trillion
   * **NASDAQ:** $22.2 trillion
   * **Shanghai Stock Exchange:** $7.7 trillion
   * **Euronext:** $6.8 trillion
   * **Tokyo Stock Exchange:** $6.6 trillion
3. **Growth in Electronic Trading:**
   * Electronic trading has become increasingly dominant, with over 80% of equity trades in the U.S. executed electronically.
   * High-frequency trading (HFT), which uses algorithms to execute trades at high speeds, accounted for around 50% of equity trading volume in the U.S.

Thank You