Unit - 4

History of the stock exchange.

I*ndex of the stock exchange is taken as a barometer of the economy of a county. It is the most dynamic and recognized component of the capital market . Especially, in developing countries like India, the stock exchanges play a cardinal role in promoting the level of capital formation through effective mobilization of savings and ensuring investment safety. It is important to have an understanding of the Governance of the stock exchange, and the services they provide to Investors.*

Meaning.

Stock exchange is a marketplace for buying and selling of securities and ensuring liquidity to them in the interest of the investors . The stock exchanges are virtually the nerve center of the capital market and reflect the health of the country's economy as a whole.

(a) any body of individuals, whether incorporated or not , constituted before corporatisation and demutualisation under section 4A and 4B , or

(b) a body corporate incorporated under the companies act, 2013 whether under a scheme of corporations and demutualisation or otherwise

Functions.

Following are some of the most important functions that are performed by stock exchanges

- *Role of an Economic Barometer:*
- *Valuation of Securities:*
- *Transactional Safety:*
- *Contributor to Economic Growth:*
- *Making the public aware of equity investment:*
- *Offers scope for speculation*
- *Facilitates liquidity:*
- *Better Capital Allocation*
- *Encourages investment and savings:*

Role of an Economic Barometer

Stock exchange serves as an economic barometer that is indicative of the state of the economy. It records all the major and minor changes in the share prices. It is rightly said to be the pulse of the economy, which reflects the state of the economy.

Valuation of Securities:

Stock market helps in the valuation of securities based on the factors of supply and demand. The securities offered by companies that are profitable and growth-oriented tend to be valued higher. Valuation of securities helps creditors, investors and government in performing their respective functions.

Transactional Safety:
Transactional safety is ensured as the securities that are traded in the stock exchange are listed, and the listing of securities is done after verifying the company's position. All companies listed have to adhere to the rules and regulations as laid out by the governing body.

Contributor to Economic Growth:
Stock exchange offers a platform for trading of securities of the various companies. This process of trading involves continuous disinvestment and reinvestment, which offers opportunities for capital formation and subsequently, growth of the economy.

Making the public aware of equity investment:
Stock exchange helps in providing information about investing in equity markets and by rolling out new issues to encourage people to invest in securities.
Offers scope for speculation:
By permitting healthy speculation of the traded securities, the stock exchange ensures demand and supply of securities and liquidity

Facilitates liquidity:
The most important role of the stock exchange is in ensuring a ready platform for the sale and purchase of securities. This gives investors the confidence that the existing investments can be converted into cash, or in other words, stock exchange offers liquidity in terms of investment.

***Better Capital Allocation**:*
Profit-making companies will have their shares traded actively, and so such companies are able to raise fresh capital from the equity market. Stock market helps in better allocation of capital for the investors so that maximum profit can be earned.
Encourages investment and savings: Stock market serves as an important source of investment in various securities which offer greater returns. Investing in the stock market makes for a better investment option than gold and silver.
Features of Stock Exchange:

- *A market for securities- It is a wholesome market where securities of government, corporate companies, semi-government companies are bought and sold.*

Second-hand securities- It associates with bonds, shares that have already been announced by the company once previously.

- *Regulate trade in securities- The exchange does not sell and buy bonds and shares on its own account. The broker or exchange members do the trade on the company's behalf.*
- *Dealings only in registered securities- Only listed securities recorded in the exchange office can be traded.*
- *Transaction- Only through authorised brokers and members the transaction for securities can be made.*
- *Recognition- It requires to be recognised by the central government.*

- *Measuring device- It develops and indicates the growth and security of a business in the index of a stock exchange.*
- *Operates as per rules– All the security dealings at the stock exchange are controlled by exchange rules and regulations and SEBI guideline.*

Stock exchange Vs commodity exchange:

Stock exchanges as an organized security market provide marketability and price continuity for shares and help in fair evaluation of securities in terms of their intrinsic worth.

Apart from the above basic functions it also assists in mobilizing funds for the government and the industry and to supply a channel for the investment of savings in the performance of its functions.

As a segment of the capital market it performs an important function in mobilizing and channelizing resources which remani otherwise scattered.

Commodity Exchange.

A commodity market is a marketplace for buying, selling, and trading raw materials or primary products.

Commodities are often split into two broad categories: hard and soft commodities. Hard commodities include natural resources that must be mined or extracted—such as gold, rubber, and oil, whereas soft commodities are agricultural products or livestock—such as corn, wheat, coffee, sugar, soybeans, and pork.

- *A commodity market involves buying, selling, or trading a raw product, such as oil, gold, or coffee.*

There are hard commodities, which are generally natural resources, and soft commodities, which are livestock or agricultural goods.

Definition of commodity exchange

:A commodities exchange is an exchange, or market, where various commodities are traded. Most commodity markets around the world trade in agricultural products and other raw materials (like wheat, barley, sugar, maize, cotton, cocoa, coffee, milk products, pork bellies, oil, and metals). Trading includes and various types of derivatives contracts based on these commodities, such as forwards, futures and options, as well as spot trades (for immediate delivery)

Stock Exchange Vs Commodity Exchange

The key difference between commodity exchange and stock exchange is that a commodity exchange is an exchange where commodities are traded whereas stock exchange is an exchange where stock brokers and investors buy and / or sell stocks, bonds, and other securities. Both types of exchanges are driven by the demand and supply for commodities or financial instruments. An exchange facilitates a trading platform for buyers asellers to meet and conduct transactions. With the increase in the opportunities provided by the commodity and exchange markets, they are able to attract a growing customer base.sellers to meet and conduct transactions. With the increase in the opportunities provided by the commodity and exchange markets, they are able to attract a growing customer base.

Sl.No	Feature	Stock Exchange	Commodity Exchange
1.	Meaning	Stock Exchange (also called Stock Market or Share Market) is one important constituent of capital market. Stock Exchange is an organized market for the purchase and sale of industrial and financial security. It is convenient place where trading in securities is conducted in a systematic manner i.e. as per certain rules and regulations.	A commodity exchange is an exchange where commodities are traded. Tradable commodities fall into the following categories. Metals (e.g. gold, silver,copper) Energy (e.g. crude oil, natural gas) Agricultural (e.g. rice, wheat, cocoa) Livestock and meat (e.g. live cattle, lean hog)
2.	Function	Providing easy marketability	Offering hedging or price insurance services and liquidity to securities.
3.	Object	Object is facilitating capital formation and making best use of capital resources	Object is facilitating goods flow through risk reduction
4.	Participants	Investors and Speculators	Producers, dealers, traders and a body of speculators.
5.	Period of dealings	Cash, ready delivery and dealings for account for a fortnight	Instant cash dealings and a settlement period of 2 or 3 months for Future Market dealings
6.	Articles Traded	Industrial securities such as stocks and bonds and government securities.	Only durable, graded and goods having large volume of trade, price uncertainty and uncontrolled supply
7.	Speculation	Speculation ensures saleability of securities affording a broad, ready, liquid and continuous market of securities.	Speculation ensures assumption and absorption of price risk.
8.	Forward contract	Forward dealings are simplified as securities are fully standardized	Standards are to be fixed for deliverable grades to facilitate futures contract
9.	Cornering	As seller has to deliver the agreed securities, cornering is easy	Cornering is difficult as the seller has option to deliver standard or other deliverable goods.
10.	Price Quotation	As regards forward dealings, only one quotation is possible	For future dealings, multiple quotations are possible

An organized market where future delivery contracts for graded commodities (as grains, cotton, sugar, coffee, wool) are bought and sold.

A commodity exchange is an organised market that functions under established rules and regulations..

Objectives of Commodity Exchanges.

The organised market represents a public organisation consisting of buyers, sellers, producers, traders and dealers dealing in one or more commodities which constitute the articles of trade in the market. The exchange for commodities is a private association of dealers and is not for making money or profit or for fixing prices

Its objectives are to provide an open platform for the interaction of free play of the forces of demand and supply. It only registers the prices reflecting the forces of demand and supply. Buying and selling, trading practices and actual working of the organised market are governed by a code of rules and regulations and these can ensure fair dealings, fair prices and equity

Nature of Commodity Exchanges:

1. Best facilities available for close and continuous contact between total demand and total supply both present and potential.

2. All businesses are governed by rules and regulations and these rules are strictly enforced by the exchange authorities.

3. Usually the exchange enjoys internal autonomy and it is a self-regulated, self-administered and self-disciplined autonomous body. At present, almost in all organised markets there are special legislations to control the activities of these organised markets.

4. There is free competition between buyers and sellers. The forward markets for commodities and securities are also known as two-way auction markets. Open public outcry gives offers and bids by sellers and buyers. They also use finger signals to declare their prices and amounts.

5. Every forward market has a clearing house organisation to facilitate clearing of all dealings and their settlement. The clearing house guarantees payment of dues and taking and giving of delivery of commodities or securities during the settlement period.

Functions of Commodity Exchanges:

Commodity exchanges are generally utilised for wholesale dealings in agricultural commodities or the products of some important primary industries like lumbering.
These exchanges perform the following important functions

1. *Providing a Market Place*
2. *Regulating Trading:*
3. *Collecting and Disseminating Market Information:*
4. *Grading of Commodities:*
5. *Settling Disputes through Arbitration:*

1. Providing a Market Place:

A commodity exchange provides a convenient place where the members can meet at fixed hours and transact business in a commodity according to certain well established rules and regulations. This type of facility is very important for trading in such commodities as they are produced in abundance and cover a very wide field as far as trading therein is concerned.

2. Regulating Trading:

As organised markets commodity exchanges establish and enforce rules and regulations with a view to facilitating trade on sound lines. The rules define the duties of members and lay down methods for business transaction.

3. Collecting and Disseminating Market Information:

The buyers and sellers on the commodity exchange enter into deals for settlement in future after making an assessment of the trends of price and the prospects of a rise or fall in prices of a commodity. The commodity exchange acts as an association of these traders collecting the necessary information and the relevant statistical data and publishing it for the benefit of traders all over the country.

4. Grading of Commodities:

Commodities which are traded on the commodity exchanges have to be graded according to quality. In this manner, the dealers can quickly enter into agreements for the purchase and sale of commodities by description.

5. Settling Disputes through Arbitration:

The commodity exchange provides machinery for the arbitration of trade disputes.

Stock exchange Traders:

Only the registered members are permitted to carry out trading on the floor of a stock exchange. However, for reasons of convenience some other persons are also permitted to enter the premises and transact business on behalf of the members.

- *Related Terms:*
- *faang:*
- *Target Hash:*
- *break even analysis:*
- *Shariah-Compliant Funds:*
- *annuity:*

Types of Stock Traders:

Stock traders can be categorised into three types - informed, uninformed, and intuitive traders. While informed traders make use of fundamentals, patterns, and technical analysis to make transactions, uninformed traders take an approach that is entirely the opposite. Intuitive traders, on the other hand, find opportunities by primarily relying on their experience and instincts. Stock traders can be further classified depending on their style of trading, such as day trading, swing trading, long-term trading, and momentum trading.

Related Terms:

mcx,Multi Commodity Exchange

Multi Commodity Exchange (MCX) is an exchange where commodities like crude oil, lead, gold, etc are traded.

FAANG:

In finance, "FAANG" is an acronym that indicates the stocks of five prominent American technology companies: Facebook, Amazon, Apple, Netflix, and Alphabet (GOOG) (previously known as Google).

Target Hash:
A target hash is a number that must be greater than or equal to a hashed block header for a new block to be awarded.

Break Even Analysis:
Break-even analysis informs the decision maker as to how many units of a product must be sold to cover the fixed and variable costs of production.

Shariah-Compliant Funds:
Shariah-compliant funds are funds that follow the principles of Shariah law.

Annuity:
An annuity is a contract between you and any insurance company in which you make a lump-sum payment and, in return, receive regular disbursements, starting either immediately or at some point in the future.

Regulations of stock exchanges:
All stock exchanges were subject to self-regulation till 1956 , whereby the regulation emanated from their own management bodies, i.e. Board of Governors. Now, Indian stock Exchanges are subject to three- tier regulation. The first level constitutes the authority exercised by the Central Government under the Indian constitution and through its Ministry of finance over the functioning of the stock exchange.
The authority, however ,is regulated primarily through the securities contract act, 1956 (SCRA). Further, the securities and exchange board of India (SEBI) also Regulates the stock exchanges in order to protect the interest of investors

Step in stock Trading:
Stock trading refers to the buying and selling of shares in a particular company; if you own the stock, you own a piece of the company.Stock traders, as the name suggests, are individuals who trade shares and equities. The primary objective of a stock trader is to trade, i.e., purchase and sell shares of different companies at the right time and the right price and make a profit out of the transactions for both the clients as well as themselves.

Following are the typical steps involved in trading on the National stock exchange.
- Client Registration
- Agreement
- Order placing
- Order confirmation
- Trade confirmation
- Contracts Note.

STEPS IN STOCK TRADING

Following are the typical steps involved in trading on the National Stock Exchange:

Client Registration

The buyer approaches the broker and executes a client registration form wherein all details about the buyer are furnished. This forms the basis for trading in the exchange through the broker.

Agreement

An agreement between the buyer and the broker as specified by the exchange concerned is entered into. This agreement is called the client member agreement.

Order Placing

Buyer places the order in writing with the broker for the purchase of certain number of scrips at a certain specified price.

Order Confirmation

After collecting the order from the client ,the broker places the order in his computer system, which is in turn transmitted to the computer system of the NSE at Mumbai. The order confirmation slip is obtained by the broker from the exchange.

Trade Confirmation

A trade confirmation slip is generated as soon as the order is matched by the computer against the price generated by the matching algorithm (price-time priority). The trade confirmation slip gives details of the trade executed. The buyer makes payment of necessary margin money to the broker.

Contract Note

The broker issues a contract note to the buyer in respect of all the orders that are executed during the day. Such a note spells out the obligations of the parties concerned, for the buyer to make payment and the broker to make delivery of scrips. Accordingly, the payment is made and the scrips are taken delivery by the buyer, which thus concludes the contract.

BSE and NSE

Meaning of BSE.

The Bombay stock exchange is the oldest stock exchange in Asia and it was established as early as 1875 itself .

It is under the control of a Governing Body consisting of 19 directors. Among them, one is an executive director, another one is a RBI nominee .

Nice are elected by brokers and the balance five are public representatives. It has more than 700 members and most of them are individual members. At present, corporate members are being admitted.

Segments of BSE.

- *E quality segment .*
- *Debt Segment, and.*
- *Derivatives segment.*

1.Equity segment.

In this segment , there are nearly 5,000 listed companies. It had a market capitalization of 51, 38, 015 crore during 2007- 08 . The cash segment turnover during 2007 - 08 was ~ 15,78,856 crore. Many of the companies listed on BSE are small in size . The shares of the listed companies of this exchange are grouped into three categories in terms of their quantity characteristics.

I) Group A shares, having a large equity base , very high liquidity and consistency of good performance.

II) Group B2 shares, having equity below ~ 3 crore low trading record and not sound financial conditions.

III) Group B1 shares , having sound financial conditions , high liquidity .

*2.**Debt*** **segment.** *This segment purely deals with securities. It has also got two sub - segments OF ~ the basis of the different issues of debt securities.*

(I) FSegment , and

(II) G segment.

The F segment deals with all corporate debt securities while the G segment deals with different Government securities, treasury bills, PSU bonds, etc.

3. Derivative segment: *This segment is meant for derivative trading only . Recently , SEBI has permitted some of the derivative products like index futures , currency futures , interest rate futures, etc. and hence derivatives trading is picking up in BSE . The derivative segment turnover was just~ 9 crore in 2005 - 06 and it has gone up to 2, 42,308 crore in 2007-08.*

NSE-National stock exchange of India.

The high- powered committee on the establishment of new stock exchanges headed by M.j. Pherwani, the former UTI chairman , first mooted the idea of a national stock exchange in June 1991.

- *Indefficent and outdated trading system resulting in non-transparent operation which has an adverse effect on investors' confidence.*
- *Outdated settlement system inadequate to cater to the grower volume of business leading to delays and liquidity in market*

History NSE

NSE was mainly set up in the early 1990 to bring transparency in the markets. Instead of trading membership being confined to a group of brokers, NSE ensured that anyone who was qualified, experienced and met minimum financial requirements was a loaded trade.

In this context , NSE was ahead of its times when it separated ownership and management in the exchange Under SEBI's supervision.

The price information which could earlier be accessed only by a handful of people could now be seen by a client in a remote location with the same ease .

Objective of NSE?

1. *To establish a nationwide trading facility for equities , debt and Hybrids.*
2. *To facilitate equal access to investors across the country.*
3. *To provide fairness , efficiency and transparency to securities trading.*
4. *To enable shorter settlement cycles.*
5. *To meet international securities market standards.*

Features of NSE.

- *The NSE employs a fully automated screen - based reading system. Investors can trade from 400 cities on a real - time basis.*
- *It has three segments: the capital market segment, wholesale debt market segment and derivatives market . The capital market segment covers equities, convertible debentures and retail trade in debt instruments like non- convertible debentures. Securities of medium and large companies with Nationwide like non- convertible debentures. The wholesale debt market segment is a market for high value transactions in government securities, public sector bonds, commercial papers and other debt instruments.*
- *The NSE market is a fully automated screen- based environment. There is on trading floor as is prevalent in the traditional stock exchanges.*
- *The market operates with all participants stationed at their offices and making use of their computer terminals , to receive market information , to enter orders and to execute trade. Through 1,777 satellite dishes , there are 3,000 computer terminals connected to NSE.*
- *The trading members in the capital market segment are connected to the central computer in Mumbai through a satellite link- up using VSATs.*

Market segment of NSE.

- Wholesale debt Market segment:
- Capital Market system:

Wholesale debt market segment

This segment refers to the trading platform for a wide range of fixed-income securities like Central Government securities, bonds, issued by public sector undertakings, zero coupon bonds , treasury bills, commercial papers,, certificate of deposit, mutual funds, corporate debentures etc.

Capital Market system:

This segment of NSE provides a platform for transparent and fair trading of equity, preference shares, debentures, exchange traded funds as well as retail Government securities.

World stock exchange:

The world's stock exchange has its origin in continental Europe with the inception of the German and Dutch bourses during the Renaissance . The first stock exchange was established in Hamburg in 1538, which, however, was concerned with bills transactions . The first actual stock market began operating in Amsterdam in 1611

In Italy ,the first format stock exchange was the Mailan 'stock Exchange,' which was created in 1809.The most active and most international of Spanish markets , the Bolsa de Madrid, were founded in 1832 .

New York stock exchange (NYSE)

The New York stock exchange was created in 1817, as an organisation of brokers who agreed to meet regularly at set hours . Trading on the NYSE is conducted on a dealer - to-dealer basis, without jobbing intermediaries.

London stock exchange:

The London stock exchange is the oldest in the English - speaking world. The merchant ventures began dealing in stocks and shares during the 17th century, and an informal market dealing in shares in joint venture trading companies grew up in the coffee houses of Threadneedle Street during the 18th century as a way of spreading the risk to their backers.

The council of Associated stock exchange was formed in 1890, with an amalgam of multifarious stock exchange market in England,by 1967,they had grouped themselves into six regards stock exchanges , which finally part of the stock exchanges of Great Britain and Ireland, with trading floors in London, Birmingham, Manchester, Liverpool, Glasgow and Dublin.

North American stock exchange

New York stock exchange (NYSE)

The New York stock exchange was created in 1817 ,as an organisation of brokers who agreed to meet regulation at set hours. Trading on the NYSE is conducted on a dealer basis, without jobbing intermediaries.

American stock Exchange (AMEX)

The American stock exchange was created in 1953 by the second generation of 'on the curb' street traders as stocks and bonds who could not qualify for a listing on the NYSE, AMEX is based on a central market floor with specialist firms, which have a commitment to make a market in certain issues.

NASDAQ System:

The National Association of Securities Dealers Automated Quotations system.known as the NASDAQ, is the largest over the counter market in the world. It was started in 1971. It was regarded as the harbinger of the global stock market of the future.

Round the clock trading is available to Investors from around the world through a Fully computerized system. It is the third largest trading system in the world after the NYSE and Tokyo stock exchange.

NASDAQ was first developed as an OTC market to help many smaller companies which were unable to meet the stringent listing requirements and high listing costs of the stock exchanges.

Canadian Exchanges .

In terms of market capitalisation, Canada is the world's fourth largest public equity market. The three major stock exchanges are the Toronto stock exchange, the Montreal stock exchange, and the Vancouver stock Exchange.

Hong Kong:

Hong Kong, officially the Hong Kong Special Administrative Region of the People's Republic of China, is a city and special administrative region of China on the eastern Pearl River Delta in South China.

The Stock Exchange of Hong Kong (SEHK, also known as Hong Kong Stock Exchange) is a stock exchange based in Hong Kong. It is the world's largest bourse[2] in terms of market capitalization, surpassing Chicago-based CME. As of the end of 2020, it has 2,538 listed companies with a combined market capitalization of HK$47 trillion.[3] It is reported as the fastest growing stock exchange in Asia.[4]

The stock exchange is owned (through its subsidiary Stock Exchange of Hong Kong Limited) by Hong Kong Exchanges and Clearing Limited.

Structure and regulation of Hong Kong's securities and futures markets

(a) Hong Kong Regulatory Structure

(i) Securities and Futures Commission

The principal regulator of Hong Kong's securities and futures markets is the Securities and Futures Commission (SFC), which is an independent statutory body established in 1989 by the Securities and Futures Commission Ordinance (SFCO). The SFCO and nine other securities and futures related ordinances were consolidated into the Securities and Futures Ordinance (SFO), which came into operation on 1 April 2003.

- *The SFC is responsible for administering the laws governing the securities and futures markets in Hong Kong and facilitating and encouraging the development of these markets. Its regulatory objectives as set out in the SFO are:*

- *The Intermediaries and Investment Products Division is responsible for devising and administering licensing requirements for securities and futures, and leveraged foreign exchange trading intermediaries, supervising and monitoring intermediaries' conduct and financial resources, and regulating the public marketing of investment products.*

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(ii) HKEX

HKEX is a recognised exchange controller under the SFO. It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses, namely Hong Kong Securities Clearing Company Limited (HKSCC), HKFE Clearing Corporation Limited (HKCC) and The SEHK Options Clearing House Limited (SEOCH).

(iii) The Stock Exchange of Hong Kong Limited (Stock Exchange)

The Stock Exchange, a wholly-owned subsidiary of HKEX, is a recognised exchange company under the SFO. It operates and maintains a stock market in Hong Kong and is the primary regulator of Stock Exchange Participants with respect to trading matters and of companies listed on the Main Board and Growth Enterprise Market (GEM) of the Stock Exchange.

(iv) Hong Kong Futures Exchange Limited (Futures Exchange)

The Futures Exchange, a wholly-owned subsidiary of HKEX, is a recognised exchange company under the SFO. It operates and maintains a futures market in Hong Kong and is the primary regulator of Futures Exchange Participants with respect to trading matters.

(v) Clearing Houses

HKSCC, SEOCH and HKCC (wholly-owned subsidiaries of HKEX), and OTC Clearing Hong Kong Limited (a subsidiary of HKEX) are recognised clearing houses for the purposes of the SFO. HKSCC and SEOCH provide services for the clearing and settlement of securities and stock option transactions respectively, including trades and transactions effected on, or subject to the rules of, the Stock Exchange. HKCC provides services for the clearing and settlement of transactions on the Futures Exchange. OTC Clearing Hong Kong Limited provides services for the clearing and settlement of OTC derivatives transactions.

(b) Regulation of the markets

(i) Legislative framework

The securities and futures markets in Hong Kong are currently governed by the SFO. The SFO consolidates and modernises the 10 previous ordinances regulating the securities and futures markets. The primary legislation and the subsidiary legislation commenced operation on 1 April 2003.

(ii) Trading Rights

By law, any person carrying on a business of dealing in securities, or carrying on a business of dealing in futures contracts in Hong Kong, has to be licensed by the SFC or fall within one of the licensing exemptions.

In addition, the rules promulgated by the Stock Exchange and Futures Exchange require any person who wishes to trade on or through their respective facilities to hold a Trading Right. e Trading Right confers on its holder the eligibility to trade on or through the relevant exchange.

(c) ***Checks and balances in the operations of the HKEX Group***

Given HKEX's status as the sole operator of the exchange-based stock and futures markets in Hong Kong, the need to ensure that HKEX discharges its responsibilities in regard to safeguarding the integrity of these markets and its strategic importance to Hong Kong's success as an international financial centre, a comprehensive framework of checks and balances has been put in place:

- *The level of fee, if any, imposed by another recognised exchange controller, recognized exchange company or recognised clearing house or any similar body outside Hong Kong for the same or a similar matter to which the fee relates.*

- *risk management – As required under the SFO, HKEX established a Risk Management Committee to formulate policies on risk management matters relating to the activities of HKEX, the Stock Exchange and Futures Exchange and their related clearing houses and to submit such policies to HKEX for its consideration. The chairman of HKEX is the chairman of the Risk Management Committee.*

- *restrictions on control - pursuant to the SFO, no person shall become a minority controller of HKEX, the Stock Exchange, the Futures Exchange or any of their related clearing houses except with the approval in writing of the SFC after consultation with the Financial Secretary.*

- *In addition, pursuant to the SFO, no person shall become or continue to be a controller of the Stock Exchange, the Futures Exchange or any of their related clearing houses unless that person is a recognised exchange controller or has been exempted from such prohibition by the Financial Secretary. HKEX is the only person that has been recognised as a controller of the Stock Exchange, the Futures Exchange and their related clearing houses.*

- *HKEX's and other applicants and issuers' compliance with the Listing Rules;*

- *The Stock Exchange's enforcement of its rules in relation to HKEX's securities and those of other applicants and issuers;*

- *The SFC's supervision and regulation of HKEX as a listed issuer and, where a conflict of interest arises, other applicants and issuers;*

- *conflicts of interest which may arise between the interests of HKEX as a listed company and companies of which it is the controller, and the interests of the proper performance of regulatory functions by such companies;*