**IPO (Initial Public Offering) process**An IPO is an initial public offering, in which shares of a private company are made available to the public for the first time. An IPO allows a company to raise equity capital from public investors.

The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors. Meanwhile, it also allows public investors to participate in the offering.

Companies must meet requirements by exchanges and the Securities and Exchange Commission (SEC) to hold an IPO.

IPOs provide companies with an opportunity to obtain capital by offering shares through the primary market.

Companies hire investment banks to market, gauge demand, set the IPO price and date, and more.

An IPO can be seen as an exit strategy for the company’s founders and early investors, realizing the full profit from their private investment.

**Steps to an IPO**

1. **Proposals.**Underwriters present proposals and valuations discussing their services, the best type of security to issue, [offering price](https://www.investopedia.com/terms/o/offeringprice.asp), amount of [shares](https://www.investopedia.com/terms/s/shares.asp), and estimated time frame for the market offering.
2. **Underwriter.**The company chooses its underwriters and formally agrees to underwrite terms through an underwriting agreement.
3. **Team.**IPO teams are formed comprising underwriters, lawyers, [certified public accountants](https://www.investopedia.com/terms/c/cpa.asp) (CPAs), and [Securities and Exchange Commission](https://www.investopedia.com/terms/s/sec.asp) (SEC) experts.
4. **Documentation.**Information regarding the company is compiled for required IPO documentation. The S-1 Registration Statement is the primary IPO filing document. It has two parts—the prospectus and the privately held filing information.1 The S-1 includes preliminary information about the expected date of the filing.2 It will be revised often throughout the pre-IPO process. The included prospectus is also revised continuously.
5. **Marketing & Updates.**Marketing materials are created for pre-marketing of the new stock issuance. Underwriters and executives market the share issuance to estimate demand and establish a final offering price. Underwriters can make revisions to their financial analysis throughout the marketing process. This can include changing the IPO price or issuance date as they see fit. Companies take the necessary steps to meet specific public share offering requirements. Companies must adhere to both exchange listing requirements and SEC requirements for public companies.
6. **Board & Processes.**Form a [board of directors](https://www.investopedia.com/terms/b/boardofdirectors.asp) and ensure processes for reporting auditable financial and accounting information every quarter.
7. **Shares Issued.**The company issues its shares on an IPO date. Capital from the primary issuance to shareholders is received as cash and recorded as stockholders' equity on the balance sheet. Subsequently, the balance sheet share value becomes dependent on the company’s stockholders' equity per share valuation comprehensively.
8. **Post IPO.**Some post-IPO provisions may be instituted. Underwriters may have a specified time frame to buy an additional amount of shares after the initial public offering (IPO) date. Meanwhile, certain investors may be subject to [quiet periods](https://www.investopedia.com/terms/q/quietperiod.asp).

**Pros**

* Can raise additional funds in the future through [secondary offerings](https://www.investopedia.com/terms/s/secondaryoffering.asp)
* Attracts and retains better management and skilled employees through liquid stock equity participation (e.g., ESOPs)
* IPOs can give a company a lower [cost of capital](https://www.investopedia.com/terms/c/costofcapital.asp) for both equity and debt

**Cons**

* Significant legal, accounting, and marketing costs arise, many of which are ongoing
* Increased time, effort, and attention required of management for reporting
* There is a loss of control and stronger agency problems

**Securities trading (e.g., stocks, bonds, derivatives)**

The United States has the largest and most liquid securities market in the world. The main regulatory body overseeing the US securities industry is the Securities and Exchange Commission (SEC). The SEC is responsible for enforcing federal securities laws, proposing securities rules, and regulating the securities industry, including stock exchanges, broker-dealers, and investment advisors.

The two primary stock exchanges in the US are the New York Stock Exchange (NYSE) and the Nasdaq Stock Market. These exchanges list thousands of publicly traded companies and facilitate the trading of their stocks, as well as other securities like exchange-traded funds (ETFs) and options.

Key Participants in US Securities Trading

1. Investors: Individual investors, institutional investors (e.g., mutual funds, pension funds, hedge funds), and foreign investors can all participate in the US securities markets.
2. Brokers: Broker-dealers execute buy and sell orders on behalf of investors. They provide access to the exchanges and facilitate securities transactions. Examples include online brokers like E\*TRADE, Fidelity, and Charles Schwab.
3. Market Makers: These are firms that provide liquidity to the markets by continuously quoting buy and sell prices for specific securities. They help ensure orderly and efficient trading.
4. Exchanges: The major stock exchanges in the US are the NYSE and Nasdaq. They provide the platforms and infrastructure for securities trading and listing.
5. Regulators: The SEC is the primary regulator of the US securities industry. It oversees the activities of brokers, dealers, investment advisors, and other market participants to protect investors and maintain fair and efficient markets.

Trading Mechanisms and Order Types

1. Order Types:
   * Market Order: An order to buy or sell a security immediately at the best available price.
   * Limit Order: An order to buy or sell a security at a specified price or better.
   * Stop Order: An order to buy or sell a security once the price reaches a specified level (the "stop price").
   * Stop-Limit Order: An order that combines a stop order and a limit order, executing at the limit price or better once the stop price is reached.
2. Trading Mechanisms:
   * Continuous Trading: The majority of trading occurs through continuous, electronic order matching on the exchanges.
   * Auction Trading: Certain securities, such as initial public offerings (IPOs), may use auction-based trading mechanisms to determine the opening price.
   * Over-the-Counter (OTC) Trading: Some securities, particularly less liquid or more specialized instruments, are traded directly between dealers rather than on a centralized exchange.

Costs and Fees for US Securities Trading

1. Brokerage Fees: Online brokers typically charge $0 commissions for online US-listed stock, ETF, and options trades. However, there may be other fees, such as account maintenance fees or fees for broker-assisted trades.
2. Exchange and Regulatory Fees: Exchanges and regulators charge various fees, such as transaction fees, clearing fees, and SEC fees, which are often passed on to investors.
3. Foreign Exchange Conversion Fees: Investors outside the US may need to convert their local currency to US dollars to trade US securities, incurring foreign exchange conversion fees.
4. Taxes: Investors may be subject to taxes on dividends, interest, and capital gains from their US securities investments, depending on their tax jurisdiction and residency status.