

# Stock exchange

A **stock exchange** or **bourse** is an exchange where stock brokers and traders can buy and/or sell stocks (also called shares), bonds, and other securities. Stock exchanges may also provide facilities for issue and redemption of securities and other financial instruments, and capital events including the payment of income and dividends. Securities traded on a stock exchange include stock issued by listed companies, unit trusts, derivatives, pooled investment products and bonds. Stock exchanges often function as "continuous auction" markets, with buyers and sellers consummating transactions at a central location, such as the floor of the exchange.<sup>[2]</sup>

To be able to trade a security on a certain stock exchange, it must be listed there. Usually, there is a central location at least for record keeping, but trade is increasingly less linked to such a physical place, as modern markets use electronic networks, which gives them advantages of increased speed and reduced cost of transactions. Trade on an exchange is restricted to brokers who are members of the exchange. In recent years, various other trading venues, such as electronic communication networks, alternative trading systems and "dark pools" have taken much of the trading activity away from traditional stock exchanges.<sup>[3]</sup>

The initial public offering of stocks and bonds to investors is by definition done in the primary market and subsequent trading is done in the secondary market. A stock exchange is often the most important component of a stock market. Supply and demand in stock markets are driven by various factors that, as in all free markets, affect the price of stocks (see stock valuation).

There is usually no obligation for stock to be issued via the stock exchange itself, nor must stock be subsequently traded on the exchange. Such trading may be *off exchange* or over-the-counter. This is the usual way that derivatives and bonds are traded. Increasingly, stock exchanges are part of a global securities market.

## History

The idea of debt dates back to the ancient world, as evidenced for example by ancient Mesopotamian clay tablets recording interest-bearing loans. There is little consensus among scholars as to when corporate stock was first traded. Some see the key event as the Dutch East India Company's



The New York Stock Exchange on Wall Street in New York City, the world's largest stock exchange per total market capitalization of its listed companies<sup>[1]</sup>

## Financial markets



### Public market Exchange · Securities

#### Bond market

Bond valuation · Corporate bond · Fixed income  
· Government bond · High-yield debt ·  
Municipal bond ·  
Securitization

#### Stock market

Common stock · Preferred stock ·  
Registered share · Stock ·  
Stock certificate · Stock exchange

#### Other markets

Derivatives  
(Credit derivative · Futures exchange ·  
Hybrid security)

founding in 1602, while others point to earlier developments. Economist Ulrike Malmendier of the University of California at Berkeley argues that a share market existed as far back as ancient Rome.

In the Roman Republic, which existed for centuries before the Empire was founded, there were *societates publicanorum*, organizations of contractors or leaseholders who performed temple-building and other services for the government. One such service was the feeding of geese on the Capitoline Hill as a reward to the birds after their honking warned of a Gallic invasion in 390 B.C. Participants in such organizations had *partes* or shares, a concept mentioned various times by the statesman and orator Cicero. In one speech, Cicero mentions "shares that had a very high price at the time." Such evidence, in Malmendier's view, suggests the instruments were tradable, with fluctuating values based on an organization's success. The *societas* declined into obscurity in the time of the emperors, as most of their services were taken over by direct agents of the state.

Tradable bonds as a commonly used type of security were a more recent innovation, spearheaded by the Italian city-states of the late medieval and early Renaissance periods.

The Dutch East India Company, formed to build up the spice trade, operated as a colonial ruler in what is now Indonesia and beyond, a purview that included conducting military operations against wishes of the exploited natives and competing colonial powers. Control of the company was held tightly by its directors, with ordinary shareholders not having much influence on management or even access to the company's accounting statements.

However, shareholders were rewarded well for their investment. The company paid an average dividend of over 16 percent per year from 1602 to 1650. Financial innovation in Amsterdam took many forms. In 1609, investors led by one Isaac Le Maire formed history's first bear syndicate, but their coordinated trading had only a modest impact in driving down share prices, which tended to be robust throughout the 17th century. By the 1620s, the company was expanding its securities issuance with the first use of corporate bonds.

Joseph de la Vega, also known as Joseph Penso de la Vega and by other variations of his name, was an Amsterdam trader from a Spanish Jewish family and a prolific writer as well as a successful businessman in 17th-century Amsterdam. His 1688 book *Confusion of Confusions* explained the workings of the city's stock market. It was the earliest book about stock trading, taking the form of a dialogue between a merchant, a shareholder and a philosopher, the book described a market that was sophisticated but also prone to excesses, and de la Vega offered advice to his readers on such topics as the unpredictability of market shifts and the importance of patience in investment.

William sought to modernize England's finances to pay for its wars, and thus the kingdom's first government bonds were issued in 1693 and the Bank of England was set up the following year. Soon thereafter, English joint-stock companies began going public.

Foreign exchange  
(Currency · Exchange rate)  
Commodity · Money · Real estate · Reinsurance

**Over-the-counter (off-exchange)**  
Forwards · Options  
Spot market · Swaps

**Trading**  
Participants · Regulation · Clearing house

**Related areas**  
Banks and banking · Finance ( corporate · personal · public)



Among many other things, the Code of Hammurabi recorded interest-bearing loans.



Courtyard of the Amsterdam Stock Exchange, circa 1670

London's first stockbrokers, however, were barred from the old commercial center known as the Royal Exchange, reportedly because of their rude manners. Instead, the new trade was conducted from coffee houses along Exchange Alley. By 1698, a broker named John Castaing, operating out of Jonathan's Coffee House, was posting regular lists of stock and commodity prices. Those lists mark the beginning of the London Stock Exchange.



London Stock Exchange in 1810

One of history's greatest financial bubbles occurred in the next few decades.

At the center of it were the South Sea Company, set up in 1711 to conduct English trade with South America, and the Mississippi Company, focused on commerce with France's Louisiana colony and touted by transplanted Scottish financier John Law, who was acting in effect as France's central banker. Investors snapped up shares in both, and whatever else was available. In 1720, at the height of the mania, there was even an offering of "a company for carrying out an undertaking of great advantage, but nobody to know what it is."

By the end of that same year, share prices were collapsing, as it became clear that expectations of imminent wealth from the Americas were overblown. In London, Parliament passed the Bubble Act, which stated that only royally chartered companies could issue public shares. In Paris, Law was stripped of office and fled the country. Stock trading was more limited and subdued in subsequent decades. Yet the market survived, and by the 1790s shares were being traded in the young United States.

## Role of stock exchanges

Stock exchanges have multiple roles in the economy. This may include the following:<sup>[5]</sup>

### Raising capital for businesses

A stock exchange provides companies with the facility to raise capital for expansion through selling shares to the investing public.<sup>[6]</sup>

### Common forms of capital raising

Besides the borrowing capacity provided to an individual or firm by the banking system, in the form of credit or a loan, there are four common forms of capital raising used by companies and entrepreneurs. Most of these available options might be achieved, directly or indirectly, through a stock exchange.

### Going public

Capital intensive companies, particularly high tech companies, always need to raise high volumes of capital in



The floor of the New York Stock Exchange



their early stages. For this reason, the public market provided by the stock exchanges has been one of the most important funding sources for many capital intensive startups. After the 1990s and early-2000s hi-tech listed companies' boom and bust in the world's major stock exchanges, it has been much more demanding for the high-tech entrepreneur to take his/her company public, unless either the company already has products in the market and is generating sales and earnings, or the company has completed advanced promising clinical trials, earned potentially profitable patents or conducted market research which demonstrated very positive outcomes. This is quite different from the situation of the 1990s to early-2000s period, when a number of companies (particularly Internet boom and biotechnology companies) went public in the most prominent stock exchanges around the world, in the total absence of sales, earnings and any well-documented promising outcome. Anyway, every year a number of companies, including unknown highly speculative and financially unpredictable hi-tech startups, are listed for the first time in all the major stock exchanges – there are even specialized entry markets for these kind of companies or stock indexes tracking their performance (examples include the Alternext, CAC Small, SDAX, TecDAX, or most of the third market good companies).

### **Limited partnerships**

A number of companies have also raised significant amounts of capital through R&D limited partnerships. Tax law changes that were enacted in 1987 in the United States changed the tax deductibility of investments in R&D limited partnerships. In order for a partnership to be of interest to investors today, the cash on cash return must be high enough to entice investors.

### **Venture capital**

A third usual source of capital for startup companies has been venture capital. This source remains largely available today, but the maximum statistical amount that the venture company firms in aggregate will invest in any one company is not limitless (it was approximately \$15 million in 2001 for a biotechnology company).

### **Corporate partners**

A fourth alternative source of cash for a private company is a corporate partner, usually an established multinational company, which provides capital for the smaller company in return for marketing rights, patent rights, or equity. Corporate partnerships have been used successfully in a large number of cases.

## **Mobilizing savings for investment**

When people draw their savings and invest in shares (through an IPO or the issuance of new company shares of an already listed company), it usually leads to rational allocation of resources because funds, which could have



London Stock Exchange, the City of London



Tokyo Stock Exchange, Tokyo



Buenos Aires Stock Exchange

been consumed, or kept in idle deposits with banks, are mobilized and redirected to help companies' management boards finance their organizations. This may promote business activity with benefits for several economic sectors such as agriculture, commerce and industry, resulting in stronger economic growth and higher productivity levels of firms.

## Facilitating company growth

Companies view acquisitions as an opportunity to expand product lines, increase distribution channels, hedge against volatility, increase their market share, or acquire other necessary business assets. A takeover bid or a merger agreement through the stock market is one of the simplest and most common ways for a company to grow by acquisition or fusion.

## Profit sharing

Both casual and professional stock investors, as large as institutional investors or as small as an ordinary middle-class family, through dividends and stock price increases that may result in capital gains, share in the wealth of profitable businesses. Unprofitable and troubled businesses may result in capital losses for shareholders.

## Corporate governance

By having a wide and varied scope of owners, companies generally tend to improve management standards and efficiency to satisfy the demands of these shareholders, and the more stringent rules for public corporations imposed by public stock exchanges and the government. Consequently, it is alleged that public companies (companies that are owned by shareholders who are members of the general public and trade shares on public exchanges) tend to have better management records than privately held companies (those companies where shares are not publicly traded, often owned by the company founders and/or their families and heirs, or otherwise by a small group of investors).

Despite this claim, some well-documented cases are known where it is alleged that there has been considerable slippage in corporate governance on the part of some public companies. The dot-com bubble in the late 1990s, and the subprime mortgage crisis in 2007–08, are classical examples of corporate mismanagement. Companies like Pets.com (2000), Enron (2001), One.Tel (2001), Sunbeam (2001), Webvan (2001), Adelphia (2002), MCI WorldCom (2002), Parmalat (2003), American International Group (2008), Bear Stearns (2008), Lehman Brothers (2008), General Motors (2009) and Satyam Computer Services (2009) were among the most widely scrutinized by the media.

To assist in corporate governance many banks and companies worldwide utilize securities identification numbers (USIN) to identify, uniquely, their stocks, bonds and other securities. Adding an ISIN code helps to distinctly identify securities and the ISIN system is used worldwide by funds, companies, and governments.

However, when poor financial, ethical or managerial records are known by the stock investors, the stock and the



Indonesian Stock Exchange (*Bursa Efek Indonesia*) building in Jakarta is considered one of the oldest in Asia.<sup>[4]</sup>



The offices of Bursa Malaysia, Malaysia's national stock exchange (known before demutualization as Kuala Lumpur Stock Exchange)

company tend to lose value. In the stock exchanges, shareholders of underperforming firms are often penalized by significant share price decline, and they tend as well to dismiss incompetent management teams.

## Creating investment opportunities for small investors

As opposed to other businesses that require huge capital outlay, investing in shares is open to both the large and small stock investors because a person buys the number of shares they can afford. Therefore, the Stock Exchange provides the opportunity for small investors to own shares of the same companies as large investors.

## Government capital-raising for development projects

Governments at various levels may decide to borrow money to finance infrastructure projects such as sewage and water treatment works or housing estates by selling another category of securities known as bonds. These bonds can be raised through the stock exchange whereby members of the public buy them, thus loaning money to the government. The issuance of such bonds can obviate, in the short term, direct taxation of citizens to finance development—though by securing such bonds with the full faith and credit of the government instead of with collateral, the government must eventually tax citizens or otherwise raise additional funds to make any regular coupon payments and refund the principal when the bonds mature.

## Barometer of the economy

At the stock exchange, share prices rise and fall depending, largely, on economic forces. Share prices tend to rise or remain stable when companies and the economy in general show signs of stability and growth. An economic recession, depression, or financial crisis could eventually lead to a stock market crash. Therefore, the movement of share prices and in general of the stock indexes can be an indicator of the general trend in the economy.

## Listing requirements

Listing requirements are the set of conditions imposed by a given stock exchange upon companies that want to be listed on that exchange. Such conditions sometimes include minimum number of shares outstanding, minimum market capitalization, and minimum annual income.

## Requirements by stock exchange

Companies must meet an exchange's requirements to have their stocks and shares listed and traded there, but requirements vary by stock exchange:

- **New York Stock Exchange:** To be listed on the New York Stock Exchange (NYSE), a company must have issued at least a million shares of stock worth \$100 million and must have earned more than \$10 million over the last three years.<sup>[7]</sup>
- **NASDAQ Stock Exchange:** To be listed on the NASDAQ a company must have issued at least 1.25 million shares of stock worth at least \$70 million and must have earned more than \$11 million over the last three years.<sup>[8]</sup>
- **London Stock Exchange:** The main market of the London Stock Exchange has requirements for a minimum market capitalization (£700,000), three years of audited financial statements, minimum public float (25 per cent) and sufficient working capital for at least 12 months from the date of listing.

- **Bombay Stock Exchange:** Bombay Stock Exchange (BSE) has requirements for a minimum market capitalization of ₹250 million (US\$3.7 million) and minimum public float equivalent to ₹100 million (US\$1.5 million).<sup>[9]</sup>

## Ownership

Stock exchanges originated as mutual organizations, owned by its member stock brokers. There has been a recent trend for stock exchanges to *demutualize*, where the members sell their shares in an initial public offering. In this way the mutual organization becomes a corporation, with shares that are listed on a stock exchange. Examples are Australian Securities Exchange (1998), Euronext (merged with New York Stock Exchange), NASDAQ (2002), Bursa Malaysia (2004), the New York Stock Exchange (2005), Bolsas y Mercados Españoles, and the São Paulo Stock Exchange (2007). The Shenzhen and Shanghai stock exchanges can be characterized as quasi-state institutions insofar as they were created by government bodies in China and their leading personnel are directly appointed by the China Securities Regulatory Commission. Another example is Tashkent republican stock exchange (Uzbekistan) established in 1994, three years after collapse of Soviet Union, mainly state-owned but has a form of a public corporation (joint stock company). According to an Uzbek government decision (March 2012) 25 percent minus one share of Tashkent stock exchange was expected to be sold to Korea Exchange(KRX) in 2014.<sup>[10]</sup>

## Other types of exchanges

In the 19th century, exchanges were opened to trade forward contracts on commodities. Exchange traded forward contracts are called futures contracts. These *commodity exchanges* later started offering future contracts on other products, such as interest rates and shares, as well as options contracts. They are now generally known as futures exchanges.

## See also

- Auction
- Capital market
- Commodities exchange
- Financial regulation
- International Organization of Securities Commissions
- Shareholder
- Stag profit
- Stock exchanges for developing countries
- Stock investor
- Stock market
- Stock market data systems
- Histoire des bourses de valeurs (French)



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### Lists:

- List of stock exchanges
- List of stock market indices
- List of financial regulatory authorities by country
- List of Swiss financial market legislation

## References

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10. ↑ <http://www.uzse.uz>

## External links

- [Stock exchange at DMOZ](#)

### Financial markets






















<b>Types of markets</b>	Primary market · Secondary market · Third market · Fourth market
<b>Types of stocks</b>	Common stock · Golden share · Preferred stock · Restricted stock · Tracking stock
<b>Share capital</b>	Authorised capital · Issued shares · Shares outstanding · Treasury stock
<b>Participants</b>	Broker-dealer · Day trader · Floor broker · Floor trader · Investor · Market maker · Proprietary trader · Quantitative analyst · Regulator · Stock trader
<b>Exchanges</b>	Electronic communication network · List of stock exchanges ( Opening times) · Multilateral trading facility · Over-the-counter
<b>Stock valuation</b>	Alpha · Arbitrage pricing theory · Beta · Bid–ask spread · Book value · Capital asset pricing model · Dividend discount model · Dividend yield · Earnings per share · Earnings yield · Net asset value · Security characteristic line · Security market line · T-model
<b>Trading theories and strategies</b>	Algorithmic trading · Buy and hold · Concentrated stock · Contrarian investing · Day trading · Dollar cost averaging · Efficient-market hypothesis · Fundamental analysis · Growth stock · Market timing · Modern portfolio theory · Momentum investing · Mosaic theory · Pairs trade · Post-modern portfolio theory · Random walk hypothesis · Sector rotation · Style investing · Swing trading · Technical analysis · Trend following · Value investing



Related terms

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Largest stock exchanges by market capitalization

1  New York Stock Exchange · 2  NASDAQ · 3   London Stock Exchange · 4  Japan Exchange Group – Tokyo · 5  Shanghai · 6  Hong Kong · 7  Euronext · 8  Shenzhen · 9  Toronto Stock Exchange · 10  Deutsche Börse · 11  Bombay Stock Exchange · 12  National Stock Exchange of India · 13  SIX Swiss Exchange · 14  Australian Securities Exchange · 15  South Korea · 16  NASDAQ OMX Nordic Exchange · 17  JSE Limited · 18  BME Spanish Exchanges · 19  Taiwan · 20  BM&F Bovespa

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