HMRC - STSM121010 - Background: History

Modern companies and stock markets first developed in the 17th & 18th centuries, particularly in England & Holland. An entrepreneur wishing to undertake a trading expedition to newly discovered parts of the world such as the East or West Indies would create a company whereby investors would provide capital in return for a share of the profits of the venture. Some of the earliest companies to be formed in this way were the Hudson Bay Company and the East India Company. Dealings in these companies’ shares started, at first, informally, but eventually organised and more formal exchanges were formed.

The London Stock Exchange (LSE), having started life in the coffee houses of 17th century London, was formally established in 1773. Initially trading took place on the floor of the exchange (the ‘dealing room’) but now trading is undertaken via exchange based or remote electronic systems. In some countries trading still takes place on an exchange floor, e.g. on the New York Stock Exchange,

Exchanges are generally referred to as Markets and serve two purposes:

to provide a process for companies & Governments to raise money by issuing new shares. This function is called the Primary Market; and

to provide a means for investors to buy and sell existing shares i.e. shares that have already been issued. This function is called the Secondary Market.

The early days of the stock exchange experienced many scandals and stock crashes, as there was little to no regulation. Today, stock exchanges operate around the world and have become highly regulated. In the UK, the LSE and other UK financial markets are regulated by the Financial Conduct Authority (FCA).

The number of exchanges has expanded rapidly over the years as a result of traders/investors wishing to diversify or specialise in particular types of securities and other investments. Today, a range of different exchanges exist, catering for all kinds of trading in investments, including traditional shares but also commodities and derivatives, and this is commonly referred to as trading or dealing in the financial markets. (See STSM123000).

Next page