

FESE Capital Markets Academy

What are exchanges?



1 What are exchanges?

Key Facts: Exchanges



Market venues where investors can **buy or sell** different financial instruments at prices they can trust and which they know in advance.



Investors buy and sell financial instruments for several reasons: return on investment, diversification, protection against market fluctuations, etc.



Frequently traded instruments: shares, bonds, currencies, commodities and derivatives.



Companies use financial instruments to finance themselves and to manage their risk.

How did exchanges develop?

Trading venues similar to exchanges existed during the Renaissance, the Middle Ages and even Ancient Rome.



How did exchanges develop?

Soon, a lot of companies began issuing shares.
While in some cases this euphoria ended with bubbles and crashes,
shares were very successful overall.



19th century

London Stock Exchange and New York Stock Exchange were established → Exchanges became a central part of the financial system and the modern economy.

1866

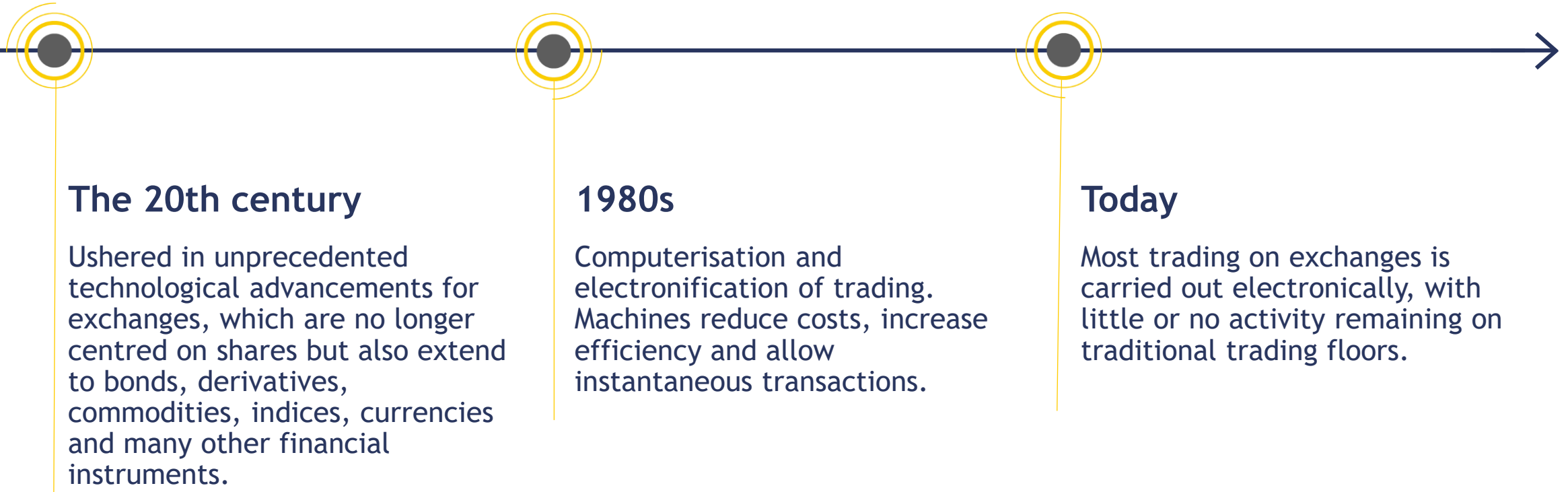
A telegraph line between New York and London reduced time delay between them from 5 days to 20 minutes.

1870 - 1914

Rapid development of international financial flows. Prices on exchanges transmitted worldwide.

How did exchanges develop?

Most countries in the world have their own exchange.
FESE represents 36 European exchanges (regulated markets).



What is the role of an exchange?

1. Exchanges **enable the financing and risk management*** of companies of all sizes via a wide range of instruments (equity, bonds and derivatives).

2. An exchange allows companies to raise funds by providing them with access to a pool of private and institutional investors.

THE PRIMARY MARKET OF AN EXCHANGE:

= Market for new issues of securities where companies issue shares directly to shareholders.

- Enables issuers and companies to raise new capital;
- Brings companies and investors together;
- Facilitates the process of investors subscribing in shares (and other securities*).

*Security: A general term for shares, bonds, options, subscription rights, warrants and other tradable investments that confer a right to income or ownership.

THE SECONDARY MARKET OF AN EXCHANGE:

= Market where previously issued shares are bought and sold.

- Provides a central market by matching supply and demand for listed instruments;
- Helps price formation and price dissemination;
- Creates trust and certainty.

Who trades on exchanges?

INVESTORS

Buy-side

- Pension funds
- Insurance companies
- Hedge funds



End Investors



Broker

INVEST CAPITAL



Broker

RAISE CAPITAL

COMPANIES

L'ORÉAL

Telefonica

Swedbank

SWAROVSKI



NOKIA

swatch

ABInBev

How are exchanges regulated?

Exchanges are highly regulated entities subject to harmonised European rules that ensure they...



1. Provide highly efficient, reliable and democratic markets



2. Ensure market integrity through fully transparent markets



3. Enable financing of the real economy

In order to ensure the integrity of markets run by exchanges, they are subject to the following EU rules:

- The Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR).
- The Markets Abuse Regulation (MAR) and Markets Abuse Directive (MAD).
- The Benchmarks Regulation (BMR).
- The European Market Infrastructure Regulation (EMIR).
- The Short Selling Regulation.
- The Prospectus Regulation.
- The Transparency Regulation.



2 The social impact of exchanges

The background of the slide is a blurred image of financial documents. On the left, a portion of a spiral-bound notebook is visible. The main background shows various financial charts, including a line graph with an upward trend and a table with numerical data. A pen is also visible in the lower right area of the background.

What are the main functions of an exchange?

- ✧ To provide price formation
- ✧ To guarantee transparency
- ✧ To act as a barometer of the economy
- ✧ To offer diversified investment opportunities
- ✧ To promote economic growth and innovation

Price Formation



MATCHING SUPPLY AND DEMAND

Exchanges provide a venue for an open and efficient interaction between buyers and sellers of securities*.



PRICE FORMATION

The interaction between buyers and sellers allows them to determine a common price.

*Security: A general term for shares, bonds, options, subscription rights, warrants and other tradable investments that confer a right to income or ownership.

Guarantee transparency

MARKET TRANSPARENCY

Exchanges provide exhaustive information on all instruments that can be traded on their markets.

COMPANY TRANSPARENCY

Securities admitted to trading on exchanges have to comply with EU disclosure requirements and accounting and auditing standards.

When a public company is listed, it must

1. Produce and publish regular financial results reports (at least annually and half yearly);
2. Disclose information on new developments, whether positive or negative.
 - ✧ Business operations (contracts, customers, suppliers);
 - ✧ Financial conditions (turnover, liquidity, payments, funding etc.);
 - ✧ Management (background and terms and conditions including pay etc.).

Act as a barometer of the economy

A market index tracks a given market's performance over time.

Each market index has its own calculation methodology. The purpose of this methodology is to reflect whether or not the price of the securities in that market are collectively falling or rising.

WELL-KNOWN MARKET INDICES

EURO STOXX 50:

An index for the Eurozone made up of 50 of the largest and most liquid shares.

CAC 40:

A share index consisting of the 40 largest companies on Euronext.

DAX:

A stock index consisting of 30 of the largest and most liquid German companies on Deutsche Börse.

OMX Stockholm 30:

An index which tracks the 30 most-traded stocks on NASDAQ.

IBEX 35:

An index which tracks the 35 most-traded stocks on BME.

FTSE 100:

A share index consisting of the 100 most actively traded companies on the London Stock Exchange.

Exchanges offer diversified investment opportunities

DIVERSIFICATION



FINANCING OPPORTUNITIES

For companies, exchanges:

- ✦ Enable the financing of companies* of all sizes via a wide range of instruments
- ✦ Raise funds by providing companies with access to a pool of private and institutional investors.
- ✦ Raise new capital by offering companies with alternatives to bank loans
- ✦ Help companies raise capital without taking on debit.

INVESTMENT OPPORTUNITIES

For investors, exchanges:

- ✦ Provide investors with access to a wide range of financial instruments with different characteristics.
- ✦ Provide wealth creation opportunities
- ✦ Provide stable and predictable repayments when offering bonds

*Exchanges also enable the financing of governments and banks.

Promote economic growth and innovation

Depending on the **company's size, needs and profile**, it can list on one of the '**main markets**' (Regulated Markets*) or one of the '**alternative markets**' (Multilateral Trading Facilities*).

This differentiation allows the markets to **adapt their listing requirements to the size of companies**. Both markets provide companies with a certain **prestige** as well as **access to millions of investors**.

Types of public equity funding



EXCHANGES ARE INTENT ON FACILITATING ACCESS TO CAPITAL FOR SMES

Exchanges share their knowledge and expertise with companies that are new to listing. European exchanges host a variety of pre-IPO programmes that help and prepare companies to go public.

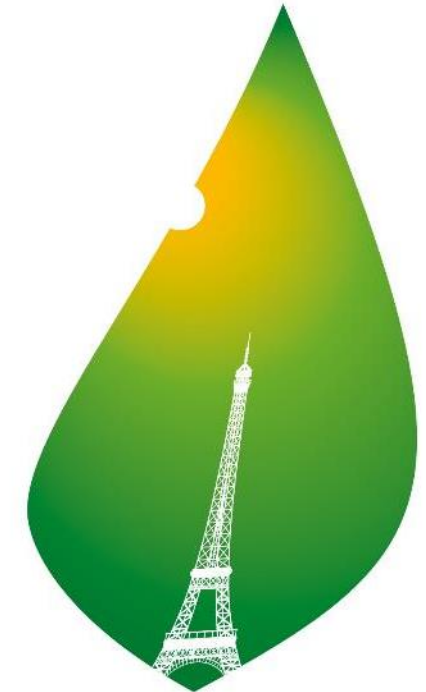
Empower tomorrow's preservation

The **PARIS CLIMATE AGREEMENT IN 2015** has entrusted all major financial institutions with responsibilities vis-à-vis the financing of the Ecological Transition. The UN has initiated the **Sustainable Stock Exchanges Initiative*** in this regard

To support this transition Exchanges:

- ✧ Develop and promote **clean financing**
- ✧ Democratise **positive financing** by expanding investor access to green product offering, such as:
 - ✧ Cleantechs (investing in environmentally friendly companies)
 - ✧ Green bonds
 - ✧ Dedicated sustainable indices
 - ✧ ETFs, etc.
- ✧ Boost **transparency** by influencing reporting standards.

*The Sustainable Stock Exchanges Initiative is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can enhance corporate transparency - and ultimately performance - on environmental, social and corporate governance issues and encourage sustainable investment.



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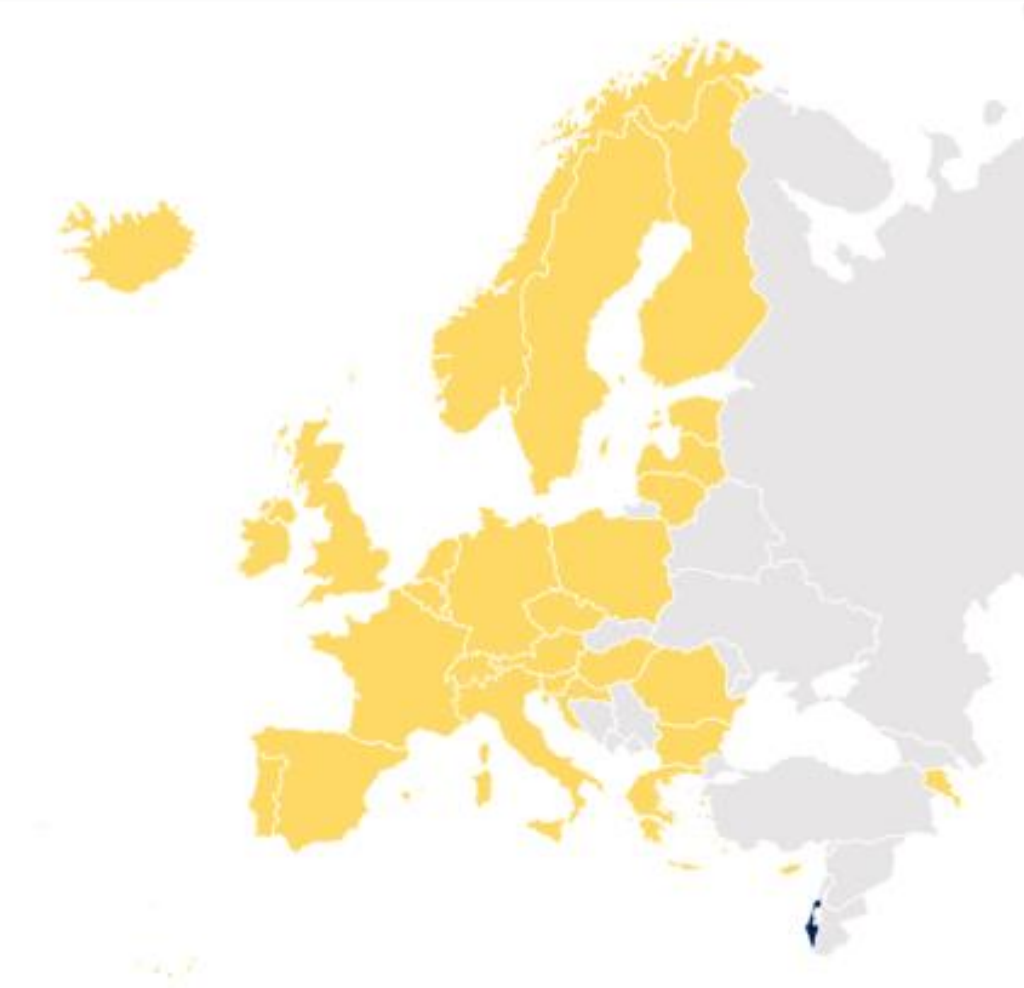
FESE - Federation of European Securities Exchanges

FESE represents **36 exchanges** in equities, bonds and derivatives

13 Multilateral Trading Facilities (MTFs) dedicated to listing and trading of SMEs

From **EU member states** as well as **Iceland, Norway and Switzerland**

16 Full Members and **1 Affiliate Member**



35 Regulated Markets
13 MTFs dedicated to SMEs

1 Affiliate Member



Related papers

- ✧ Primary Markets - Listing
- ✧ What is Equity?
- ✧ What are Bonds?
- ✧ What are Derivatives?

