

The Stock Exchange Corner

The Role and Functions of the Stock Exchange

Businessmen/businesswomen seeking to establish/expand businesses may finance them by using their own funds. If this proves to be insufficient, then they may seek financing from those with surplus funds e.g. their relatives and friends or, as is more usual, from lending agencies such as commercial banks. Commercial banks act as financial intermediaries by bringing together the holders of surplus funds with those who require financing. However, financing by commercial banks is of a short-term nature as their deposits tend to be short-term.

An alternative way of raising financing is to issue corporate bonds or by selling equity to investors - i.e. selling shares to new or existing owners. If a private company wishes to raise funds, it can do so through a private placement or an offer to the public. In the latter case, the company must be registered with the Guyana Securities Council and issue a prospectus that gives such details as its organisation, financial structure and performance. Its Initial Public Offering (IPO) of shares may then be traded on the Stock Exchange. The only shares that may be traded on the Guyana Stock Exchange are those of public companies that are registered as Reporting Issuers with the Guyana Securities Council.

When businesses borrow to finance their operations, this is called debt financing. This may be done by issuing corporate bonds. When businesses raise funds by issuing shares, this is called equity financing. Both bonds and shares may be sold and purchased on the Stock Exchange. However, in Guyana, bonds are not yet traded on the Stock Exchange.

The Stock Exchange provides a platform for members (brokers) to buy and sell shares and bonds on behalf of their clients. This buying and selling take place in a market that is regulated by the Stock Exchange in accordance with its Rules. These rules are established to ensure that trading is fair and that no participant enjoys an unjust advantage over other participants.

Stock Exchange rules also ensure an efficient market by requiring that transactions executed on the trading floor are settled in the shortest time possible. The Guyana Stock Exchange rules require that settlement between brokers takes place within five (5) working days (T + 5). However, the change of ownership, which is evidenced by a transfer form, may not be recorded in the issuing company's books and a share certificate issued until sometime later.

The Stock Exchange oversees the activities of companies whose shares are traded on the exchange and enforces its rules pertaining to disclosures. This means that companies must disclose a minimum level of accurate information pursuant to the Regulations, in a timely manner and on a regular basis to the Stock Exchange and the public. This information is also submitted to the Guyana Securities Council, the ultimate authority in the regulation of the securities market. Among the information required to be disclosed

are corporate conditions and developments, payment of dividends, changes in directorship, directors' interests in the company, mergers and joint ventures etc. In short, any information that will assist investors to make informed and intelligent decisions about the particular stock they are holding or are interested in buying, must be disclosed.

Contrary to some people's beliefs, the Stock Exchange does **NOT** buy or sell securities (bonds /shares) - the brokers do so on behalf of their clients. The Stock Exchange does **NOT** set the prices for the securities being traded – it is the brokers' clients who decide the price at which they are willing to buy or sell securities. Their price-setting decisions may be influenced by their expectations of the companies' performance, their need for cash immediately or in the near future, and trends in the market.

It may be seen therefore, that the Stock Exchange provides a platform for trading securities, regulates the behaviour and practices of the participants in the market, and ensures transparency by demanding adequate and timely disclosures.

Next week – The benefits of owning shares and the answers to some frequently asked questions.

N.B. – More information may be accessed on our website: www.gasci.com