

# **The Stock Exchange Corner**

## **Buying & Selling Shares**

*by George Edwards*

Since the beginning of this series of articles on the operations of the securities market and the Stock Exchange, we have been receiving queries from members of the public on how to buy or sell shares. We therefore address the procedure for trading shares today.

How can a person buy or sell shares on the stock exchange?

Say you are interested in buying shares in Company A whose shares are traded on the exchange. You contact one of the Brokers of your choice. The Broker may require you to set up an account with them. Once you have an account, you indicate that you wish to trade by placing an order. This may be by simply calling your Broker and placing your order over the phone. However, typically a Broker will require that you deposit the consideration (money) for the shares (if buying) or lodge the share certificate (if selling) before they will deal on your behalf. The Broker then records your order on their order log which contains details of the order such as your name, order reference, date, time the order was made, quantity, status (buy or sell) and price.

The next step for the Broker is to take your order and see if they can find a matching order in-house – in this case a seller with matching quantities and price. If the Broker finds a matching order then they would execute this in their office - this is known as a “Cross”. They then fill out a report of the trade and submit it to the Stock Exchange before the start of the next trading session. However, if the Broker does not find a match in-house he then takes this order to the exchange.

### **Limit Orders and Discretionary Orders**

When placing an order a customer can either specify a price limit or give the Broker discretion. “Limit orders” are orders received by the Brokers with a determined price specified by the customer; for a buy order the Broker cannot go above the stipulated price specified by the customer and for a sell order he cannot go below.

Discretionary orders are orders received by the Brokers which give them the leeway to negotiate the most favourable price be it for a buy or sell order.

If a customer instructs the Broker to deal at “Best” they are indicating that they are prepared to deal at what ever price is currently offered or bid in the market.

The Stock Exchange (GASCI) supports two types of trading, a Single Price Auction (also called an opening price) and on-floor trading via Limit Order Book (an electronic record which the Brokers’ representatives view on a computer screen).

## **How do the Brokers determine which orders should be dealt with first**

Orders must be dealt with based on price and time priority. Time priority is determined by the sequence in which the Broker receives the orders from their customers. The Broker ensures the sequence is adhered to through recording the orders as they arrive in their order log. Price Priority is determined in descending order of price for bids (order to buy) and ascending order of price for offers (orders to sell).

Price priority takes precedence over time priority. So for two buy orders the order with the higher price takes precedence – even if it was received after a buy order at a lower price. For two orders at the same price the one which was received earlier would have higher priority.

## **Who is involved in trading sessions on the exchange?**

On the exchange the Market Official is responsible for supervising the activities on the Trading Floor and to open the trading session that will facilitate trading to take place between the Brokers representing the interest of the customers on the floor.

The individuals who will trade on the floor on behalf of the Brokers are called Representatives and must also be registered as such with the Guyana Securities Council and the Guyana Association of Securities Companies & Intermediaries (GASCI).

## **Single Price Auction**

If it is difficult to fairly allocate orders by time priority e.g. if there is a large build up of orders prior to the trading session the Board may invoke a Single Price Auction. The Market Official will run a Single Price Auction before on-floor trading commences.

After the Representative takes the order to the floor he/she then enters the order in the single price auction. The purpose of the Single Price Auction is to derive the price at which the most limit orders are traded. Note that in a Single Price Auction only price priority is adhered to, time priority is ignored. The Market Official may calculate an indicative price which gives the Brokers an idea of what the price and quantity traded will be. The Brokers can then amend their discretionary orders to try to fill as many orders as possible. The Market Official then runs the Auction proper which determines the opening price and the amount of each order entered which has been filled.

If any order remains unfilled then it will be brought forward into on-floor trading.

## **How are orders dealt with in on-floor trading?**

Orders are exposed to other Brokers via the Limit Order Book display which is also based on price and time priority. Time priority between Brokers is determined by the sequence in which the Brokers enter their orders onto the system i.e. the first Broker to enter an order at a particular price has priority at that price. Price Priority is determined in descending order of price for bids and ascending order of price for offers.

A buy order at a higher price has priority over a buy order at a lower price; similarly, a sell order at a lower price has priority over one with a higher price.

### **On-floor trading on the exchange**

For trading to begin the Market Official must open the session on the electronic trading system to allow access by the Brokers to commence trading on the exchange. Once the session is open the Brokers can view the orders of the other Brokers. Where there are orders that can be matched against other Brokers' orders the Brokers will deal with each other.

First the Broker checks the Limit Order Book to see if any other Broker has an order to which the first Broker's order can be matched for e.g. the buying Broker checks the Limit Order Book to see if any Broker is selling at that price. If not then the Broker enters the order on the system which allows the other Brokers to see this order on the Limit Order Book display.

One of the Brokers may wish to deal because he has a matching order to sell or one that does not specify price but gives him discretionary power to make a match. If a Broker responds to an order on the book they are termed the responding Broker. At the end of the trading session, the Market Official prints a trade report, which both the Representatives (buying and selling) certify as being correct by signing the report.

The trade report is given to the Market Official who checks it thoroughly to ensure its validity and then enters it into the system as a confirmed trade and generates a market contract. The market contract together with the transfer form showing details of the seller prepared by the selling Broker provides the customer (buyer) with proof of ownership of shares bought.

### **Next week: Settlement of Trades**

**N.B. – More information may be accessed on our website: [www.gasci.com](http://www.gasci.com)**