

What is a Securities Exchange?

A security is any type of financial instrument that represents an asset that can be readily traded. Examples of this include shares in a company, government bonds or even some specific contracts that can be traded.

Put simply, a Securities Exchange is a company that creates the opportunity for potential buyers and sellers of a security to come together for trading.

Older national exchanges around the world, which have been in existence for many years, originally began as exchanges which only offered listing and trading of company shares (stock). Thus they were referred to as “stock exchanges” and generally have “stock exchange” in the name. Most of the large national exchanges now offer listing and trading of multiple types of securities and are therefore now referred to as “securities exchanges”. A good example of this is the JSE Securities Exchange, formerly called the Johannesburg Stock Exchange, which has been in existence for over 120 years. The JSE has evolved from originally only being a stock exchange into a multi-asset securities exchange and thus decided to change its name to more accurately reflect its business.

The Seychelles Securities Act, 2007 defines a Securities Exchange as being: *“a market, exchange, place or facility which provides for the bringing together on a regular basis purchasers and sellers of securities, and sets rules for the execution of securities transactions or for the negotiation or conclusion of sales and purchases of securities.”*

If we were to think of a *securities* exchange vs. a *stock* exchange as the Victoria Market, the concept becomes much clearer. In this case a *securities* exchange might sell fish, meat, fruits, vegetables and spices whereas the stock exchange would only sell one of these, for instance fish.

Trop-X (Seychelles) Limited is a local company licensed and regulated by the Seychelles International Business Authority (SIBA) under the Seychelles Securities Act, 2007 to setup and operate the Seychelles Securities Exchange (“Trop-X”). Company shares of both local Seychelles and foreign companies can be “listed” and thus made available to trade (buy and sell) on Trop-X. Trop-X will also offer listing and trading of other types of securities including corporate and government bonds, derivatives and many more.

How does “trading” occur on a Securities Exchange?

Historically, securities were traded on exchanges on an “open outcry” system on a trading floor. This involves the traders buying and selling paper based securities through the use of specific calls, shouts and hand signals. Whilst this system is more exciting but it has mostly been phased out due to its inefficiency and inaccuracy compared to electronic systems.

Electronic trading platforms are seen to be the way forward for modern exchanges although certain exchanges (such as the New York and London Stock Exchanges) operate a dual open outcry and electronic trading. An electronic trading platform, such as that operated by Trop-X, provides a high speed matching engine which is able to handle thousands of buy or sell orders per second from traders which it matches against existing buy and sell orders.

Trading on Trop-X

Let's use the Victoria Market as an example of how a Securities Exchange works. The Securities Exchange is like the Victoria Market. The merchants operating the stands at Victoria Market are like the brokers (members) of Trop-X. The shoppers interested in buying produce and fish and the suppliers looking to sell produce and fish through the merchants are like the buyers and sellers of securities of Trop-X. On the market, whenever a buyer agrees a price with one of the sellers a sale takes place. The buyer gets the produce and the seller gets cash.

The Securities Exchange (Trop-X) provides this market place through an electronic platform accessed by the brokers (its members). Only brokers registered as members of Trop-X can buy and sell securities on the exchange. These brokers act as agents on behalf of their clients.

An individual wishing to sell his or her securities (such as shares in a listed Seychelles company) would go to a broker who would enter the price and number of securities available for sale to the market place where all other investors can view it. The same process would occur for someone wanting to buy securities where they would contact their broker who would enter the number of securities they are looking to purchase and at what price. Securities listed on Trop-X can be bought and sold as often as is desired by the client.

The diagram below illustrates the process, from left to right, of a transaction taking place on the Trop-X automated trading system (ATS).

