Unit-2

Trading systems in stock exchanges

Stock exchanges operate trading systems that facilitate the buying and selling of securities among investors. These trading systems have evolved over time from traditional floor-based trading to modern electronic platforms. Here are the key components and features of trading systems in stock exchanges:

1. Order Entry: Investors submit buy or sell orders to the exchange through their brokers or trading terminals. Orders specify the security, quantity, price, and type of order (market order, limit order, etc.).

2. Order Matching: The exchange's trading system matches buy and sell orders based on price-time priority. Orders are matched according to their price and the time they were submitted. The exchange determines the price at which trades occur.

3. Order Book: The order book displays all buy and sell orders for a particular security, organized by price level and quantity. It provides transparency into market depth and liquidity, allowing investors to assess supply and demand dynamics.

4. Trading Mechanisms: Stock exchanges use various trading mechanisms to facilitate efficient price discovery and order execution. These include continuous trading, auction-based trading (e.g., opening auction, closing auction), and special trading sessions (e.g., pre-market trading, after-hours trading).

5. Market Data Dissemination: Exchanges disseminate real-time market data, including price quotes, trade executions, order book information, and trading volumes. Market data feeds are available to investors, brokers, financial institutions, and data vendors for analysis and decision-making.

6. Risk Management: Trading systems incorporate risk management controls to mitigate operational and financial risks associated with trading activities. These controls include pre-trade risk checks, position limits, circuit breakers, and trading halts to maintain market stability and integrity.

7. Market Surveillance: Exchanges conduct market surveillance to monitor trading activities, detect market manipulation, insider trading, and other abusive practices. Surveillance systems use advanced algorithms and data analytics to identify suspicious behavior and enforce compliance with trading rules and regulations.

8. Clearing and Settlement: After trades are executed, clearing and settlement processes ensure the final transfer of securities and funds between buyers and sellers. Clearinghouses and settlement systems handle trade confirmation, netting, and settlement of transactions to minimize counterparty risk and ensure timely settlement.

9. Compliance and Regulatory Reporting: Trading systems facilitate compliance with regulatory requirements by capturing and reporting transaction data to regulatory authorities. Exchanges maintain audit trails, transaction records, and compliance reports to support regulatory oversight and enforcement.

Overall, trading systems in stock exchanges play a critical role in facilitating transparent, efficient, and orderly trading activities, contributing to market liquidity, price discovery, and investor confidence.t development.