

# THE ROLE OF THE AUSTRALIAN SECURITIES EXCHANGE

## WHAT DOES THE AUSTRALIAN SECURITIES EXCHANGE (ASX) DO?

ASX is one of the world's top 10 listed exchange groups.



### LEARN ABOUT ...

The size of the Australian sharemarket

What ASX does

### KEY DEFINITION

**Securities market:**  
The market in which securities are issued and traded. Securities is another word for shares.

### DID YOU KNOW?

"Bourse" is the French word for stock exchange. The name came from the Dutch noble family Van Bourse who allowed tulips to be traded at their offices in the 17th century. Tulip bulbs were traded in much the same way that shares are traded today.

### ASX ACTIVITIES INCLUDE:

1. Reviewing applications by companies to be listed on ASX. This includes reviewing the company's history and finances. Each company must agree to obey the ASX Listing Rules.
2. Supervising companies after they are approved to make sure they obey the rules.
3. Making the shares in listed companies available for trading on a network of computers in an electronic market.
4. Reviewing applications by stockbrokers to be ASX Market Participants.
5. Giving approved stockbrokers access to the sharemarket so they can buy and sell shares for themselves and customers.
6. ASX also operates a system for keeping a record of ownership of shares.



## ASX PERFORMS MANY ROLES

Within your own school, the principal and teachers run the school. They set rules and see they are adhered to, develop courses, organise school activities, teach and report on student progress, amongst a host of other things. Now, let's look at what ASX does to ensure the sharemarket runs smoothly and efficiently.

### 1. ASX ALLOWS COMPANIES TO RAISE FUNDS (CAPITAL)

ASX is Australia's largest stock exchange allowing companies and trusts to issue securities (such as shares) to the general public in order to raise funds (to set up a new business or expand an existing business). Once listed on ASX, investors can trade their securities.

### 2. ASX PROVIDES A MARKET FOR SECURITIES TO BE TRADED

The sharemarket is made up of buyers and sellers wishing to exchange securities. ASX provides an electronic trading system. Buyers and sellers do not physically meet to buy and sell shares as their orders are entered electronically. Prior to the introduction of the computerised trading system in 1987, ASX had a physical location known as the trading floor and before that there were separate exchanges with their own trading floors in capital cities around Australia.

### 3. ASX PROVIDES A SYSTEM TO TRANSFER OWNERSHIP OF SECURITIES

ASX also provides a computerised system to transfer legal ownership of the securities between buyers and sellers as well as the transfer of money for these securities.

### 4. ASX SETS LISTING RULES FOR COMPANIES TO FOLLOW

An example of a rule affecting listed companies is the rule of "continuous disclosure" where listed companies must inform ASX of any information that may affect their share price. For example, if a listed company is going to merge with another company, release a financial report, announce a technological breakthrough or change in company management, ASX must be informed so it can immediately release this important information to the market.

Another important area covered by the listing rules is how a company can issue shares and who they can be issued to.

There are over 2,000 companies listed on ASX. This seems like a large number but there are over 1.5 million companies registered in Australia from big companies to very small companies.

## DO YOUR HOMEWORK

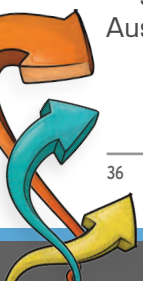
Every day in the news there is information about how overseas sharemarkets have performed.

In Australia we use the S&P/ASX indices and to a lesser extent, the All Ordinaries Index as a barometer to check the overall direction of the Australian sharemarket. Check the business section of the newspaper to find out the names of the indicators used in New York, London, Hong Kong and Tokyo.

## QUICK QUIZ

After completing this lesson, test your knowledge by doing this quick quiz. State whether the following statements are true or false.

1. You can visit ASX and see the trading floor in operation today.
2. Shares are traded through a network of computers.
3. Once a company or trust becomes listed, investors can buy and sell securities in that company.
4. Once a listed company is established, what it does is its own business and there is no obligation to report any news about the company to ASX.
5. If the share price of a company increases dramatically without any justifiable explanation, it is up to ASIC to investigate.



## ACTIVITY ONE

The table below lists three company announcements released on the ASX website [www.asx.com.au](http://www.asx.com.au). Read the announcements and then answer the following questions.

Company	Announcement
1. Cochlear (COH)	In September 2011, Cochlear announced that it was undertaking a voluntary recall of the Nucleus C1500 Cochlear implant range. They also announced that they were notifying health care professionals and regulatory authorities.
2. The Reject Shop (TRS)	In January 2011, The Reject Shop announced that more than half of its 27 Queensland stores had been closed due to rising flood waters. The base level of their Ipswich distribution centre was under several metres of water.
3. Gryphon Minerals (GRY)	In March 2011, the ASX Listed African mining company announced a 520,000 ounce increase in their estimate of the gold at their Banfora Gold Project in Burkina Faso, Africa.

1. Why do you think it was important that Cochlear disclosed they had recalled one of their implant range?

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2. How would the flood affect The Reject Shop's business?

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3. i) Do you think the announcement was "price sensitive" (could result in a change in market price)?

ii) Do you think the share price would have gone up or down?

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## ASX SETS MARKET RULES

ASX also sets the Market Rules to regulate how trading may take place on ASX.

Among other areas, the rules cover

- How buyers and seller of securities must be treated.  
For example, if you wish to buy or sell shares you must use a broking firm to complete the transaction. The broking firm must enter orders into the market as soon as they are received.  
Why do you think this would be important?
- How brokers must behave so that the integrity (honesty) of the market place is maintained.

## ASIC SUPERVISION AND SURVEILLANCE

The price of securities and the quantity bought and sold (volume) changes continually. The Australian Securities and Investments Commission (ASIC) monitors the market to detect any trading that falls outside the normal pattern.

This is referred to as surveillance. A computer system monitors trading information and picks up any unusual price or volume movements and puts out what is called an alert. For example, if a share jumps up by a lot more than it normally does or if shares are traded a lot more than usual, the system will generate an alert. An analyst will then assess the market conditions that caused the price or volume movements and will investigate further if necessary.

## ALERTS

Most alerts turn out to be explainable, as a company may have made an important announcement or there may have been a favourable newspaper report about the company. However, there may be the possibility of market abuse, in which case the matter is investigated.

The main concern is that someone knew some important information that everyone else didn't know when they were trading.

## INSIDER TRADING

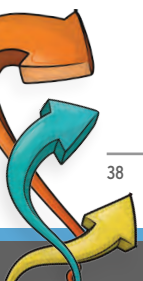
People who know confidential information (not available to the public) that might affect the share price are not supposed to buy or sell shares until the market has been informed. People who do this are breaking the law and might be charged with "insider trading".

### WEBSITE TO VISIT

Go to [www.asx.com.au](http://www.asx.com.au) by going to the Prices & Research > Announcements then complete the quick quiz below.

### QUICK QUIZ

Give an example of one company announcement and explain why you think it was important that the announcement was disclosed to ASX and therefore made publicly available to all investors.



# ACTIVITY TWO

Read all the information in this lesson to complete this crossword puzzle.  
Use the clues below to help you fill in the blanks.

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## ACROSS

1. What is the abbreviation for the Australian Securities Exchange?
2. What do companies raise when they issue shares?
4. An ..... is generated if a share price moves unusually.
7. Trading no longer takes place on the trading floor. It takes place via a computer.....?
8. What is the name of the activity for monitoring the market to detect unusual trading?
10. Another term for the stock market is the.....?
11. What is the word for a place where shares are bought and sold?
12. All Ordinaries.....?

13. The Reject Shop announcement would cause its share price to go ....
14. The ASX code for listed company Cochlear

## DOWN

1. Which organisation has responsibility for monitoring unusual trading activity?
3. If a company has something important to tell the market it makes an.....?
5. A company with shares traded on the share market is called a..... company?
6. If a person who buys or sells shares has confidential information they might be charged with..... trading.
9. Fill in the missing word:  
The..... York Stock Exchange

