

Advantages Of Stock Exchange Listing

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Abstract

The Stock Exchange is a regulated market of securities where contracts for the sale and purchase of the financial instruments are stipulated. The financial instruments such as stocks, bonds, derivatives with a definite price are traded and exchanged in the Stock Exchange. In this case the price is determined by the balance of supply and demand.

If we would describe the Stock Exchange with an image, we would think a square in which some companies with public offer or companies with public participation operate. In particular, in it we may found industrial companies, financial companies, banks, services companies, etc.

If we refer to history, the first and real trade of securities occurred around the year 1500 in Bruges. Nevertheless, Antwerp has been considered the first Stock Exchange, as the one of Bruges cannot be defined a genuine Stock Exchange.

In Albania, till the end of 2014 we have had the Tirana Stock Exchange (TSE). The Tirana Stock Exchange was founded in 2002 in the form of a joint stock company, and has operated in accordance with the provisions of the Law No. 9901 dated 14.04.2008 “On the Entrepreneurs and trading companies” and the Law no. 9879, date 21.02.2008 “On Securities”.

Initially, the listing of securities on the stock exchanges, for many entrepreneurs, meant an advertisement for the company, while now it is a widespread phenomenon in the world. If we refer to our country, we believe that the listing in the stock exchange has an important role towards the awareness of our companies regarding finding different manners from the traditional ones about their liquidity.

Through this paper, it is aimed to answer to a fundamental question as the one related to the reasons why companies should be listed on the stock exchange.

Each of the actions related to trading on the stock exchange is one of the steps in the process of investment, therefore we can say that this kind of financial transactions is not just about buying or selling a particular security.

Keywords: Stock exchange, investors, financial instruments, Tirana stock exchange, listed companies, investment

Introduction

History shows that the first and real trade of securities occurred around the year 1500 in Bruges⁴⁶. The entrepreneurs met through channels, in order to sell or purchase securities that represent a loan or goods moving from distant countries and that could not be materially subject of exchange or purchase. This kind of organized market was mainly held in a square where traders gather to buy, sell or exchange. By the time it was named “Stock Exchange” the place where business was conducted. More precisely, the commerce took place in a building whose facade was sculpted three bags, the symbol of the family Van de Bourse, from which derives current name of “Stock Exchange”.

Those purchasing offer “Money”, while those selling offer “letter”, meaning the document. From this moment the diffusion of these two terms “Money” and “paper” occurred, terms that are still prevalent even today. But, the one of Bruges cannot be defined as a real Stock Exchange. Unanimously, the Antwerp Stock Exchange is considered the first stock exchange in the history. It was established in 1531 in the German city of Antwerp, which took the place of Bruges as the meeting place of the traders and bankers to trade between them. The prices of the goods were contracted by these operators in a particular building, namely Bursa, whose name originates from the palace of Bruges.⁴⁷

After a lot of efforts, in 1611 it was achieved the establishment of an organized genuine market, in Amsterdam, a city with commercial and naval tradition, economically rich, having a coin recognized everywhere – the *Fiorino d'oro* - and a strong banking organization. This city gave life to a stock Exchange which has obscured, regarding the importance, the Paris square (1563) and London (1571). The Amsterdam Stock Exchange was affirmed as the largest center of business and the first modern Stock Exchange in Europe⁴⁸. The Amsterdam Stock Exchange had set strict rules. The transactions occurred every day in predetermined schedules and the participation to the quotations was allowed only to the agents, the stockbrokers. This Stock Exchange has achieved such a success that, it is thought that, about five thousand persons participate in it every day.

From then the Stock Exchanges were multiplied around the world. In the XVIII century, London and Paris, have gained a considerable economic

⁴⁶ The Belgium city of Bruges was considered the northern Venice at the period.

⁴⁷ http://www.saperinvestire.it/index.php?option=com_content&task=view&id=604

⁴⁸ Attack J., Neal L., *The Origine and Development of Financial Markets*, Cambridge University, 2009, fq. 147.

and commercial importance, and they have quickly attracted most of the financial transactions, deriving in the detriment of Amsterdam.

Stock Exchange in Albania

Tirana Stock Exchange was the only regulated market of securities in Albania. It was a joint stock company owned by the Ministry of Finance. The brokerage companies licensed by the Authority, which were accepted as members of the stock Exchange, could participate to the trade in the stock exchange.

The first and only stock Exchange established in Albania is Tirana Stock Exchange, which opened on May 2, 1996, having the form of a department of the Bank of Albania. The aim was to detach after a period of several years. The opening to the Bank of Albania was due to the fact that the State was the main promoter and supporter of the establishment of the stock exchange. Unlike the countries of Central and Eastern Europe, which have a similar history to the Albania's, the Tirana Stock Exchange was established under the administration of the Central Bank. This modality the organization of the Stock Exchange derived from the following reasons⁴⁹:

- The lack of a previous tradition in this field;
- The limited range of financial instruments;
- A weaker private sector than in other countries of Central and Eastern Europe, then, as consequence, the lack of financial securities from the private sector;
- The absence of the start for the strategic enterprises' privatization;
- The small chances of enabling, in short terms, the economic efficiency of this new institution;
- The lack of professional and sufficient experts and experience outside the governmental financial institutions (in our case the Bank of Albania).

The main purpose of the Tirana Stock Exchange is to provide the capital necessary to finance the private and the public sector. It should also offer to the investors, both individual and institutional, diverse investment opportunities and diversification for their portfolios, guaranteeing at the same time, the necessary legal protection⁵⁰.

Conscious that, for the medium term, the activity of this stock exchange would not be the trade of shares, the Government, in cooperation with the Bank of Albania and the Commission of the Securities have decided

⁴⁹ http://www.bankofalbania.org/web/pub/ringjallja_burses_607_1.pdf page 335

⁵⁰ <http://www.doktoratura.unitir.edu.al/wp-content/uploads/2013/03/Doktoratura-Visar-Malaj-Fakulteti-Ekonomise-Departamenti-i-Ekonomiksit.pdf> page 114.

to organize, within the Tirana Stock Exchange, the primary and secondary market of the bonds⁵¹.

An important part of the activities of this institution has been the cooperation with other, domestic and foreign institutions in order to develop the capital market⁵². It is understandable that, we cannot assume the functioning of a stock Exchange if one of the essential elements, such as staff who should be well prepared, thus capable and professional, is missing. The problem is that all this has considerable costs. It is in function of this aim that it is been stipulated the cooperation agreement between the Tirana Stock Exchange and the International Finance Corporation - IFC, as part of the Corporate Governance in Southeast Europe under which IFC will provide the Tirana Stock Exchange with technical assistance, training of staff, various activities to inform the business about the governance and capital markets⁵³. The Tirana Stock Exchange has been a member with full rights of the Euro-Asian Federation of Stock Exchanges since 1996 although the bilateral cooperation was limited to the regular exchange of information regarding the economic developments in the country⁵⁴.

But, because we are a small country with a small market, perhaps it would be better to require cooperation with other countries of the region in order to establish a Stock Exchange in regional level. The countries of the region have a more developed financial market and big companies that are interested in financing through the stock exchange listing.

The Stock Exchange was organized as order-driven market, and its main activity consisted in the secondary trading of bonds and 5 government bonds. The trading sessions were initially held twice a week, but after October 1997, the sessions began to be held every work day and, as trading instruments, were accepted the three and six months bonds. It enabled the functioning and the primary market of bonds up to August 1, 1998⁵⁵.

Although, these activities are not “natural” activities of the stock exchanges and with these movements were served more other objectives, such as⁵⁶:

- The establishment of a tradition for the functioning and operational activity of Tirana Stock Exchange;
- The realization of a marketing (with no explicit cost) and public and institutions education, on the functioning of the Exchange, the

⁵¹ http://www.bankofalbania.org/web/pub/ringjallja_burses_607_1.pdf page 335

⁵² <http://www.doktoratura.unitir.edu.al/wp-content/uploads/2013/03/Doktoratura-Visar-Malaj-Fakulteti-Ekonomise-Departamenti-i-Ekonomiksit.pdf> page 114.

⁵³ Idem.

⁵⁴ Idem.

⁵⁵ <http://www.tse.com.al/?fq=brenda&gj=gjl&kid=1>

⁵⁶ http://www.bankofalbania.org/web/pub/ringjallja_burses_607_1.pdf

Exchange investment and the operation of the financial intermediaries;

- The establishment, from the existing staff of the Tirana Stock Exchange, of the necessary experience on the trading principles and clearing of the regulation of securities;
- The gradual, theoretical and practical, preparation of the staff, to further withstand the Tirana Stock Exchange engagement in new activities in the future.

On July 1, 2002, the Tirana Stock Exchange has definitely separate from the Bank of Albania. From this year up to December 2014, the year corresponding with its closure, it has functioned as a state-owned joint stock company. The Ministry of Finance was the shareholder of the Stock Exchange, owning 100% of the shares.

The Financial Supervisory Authority has issued the license to the Tirana Stock Exchange as a securities market on July 1, 2003. This license was renewed again in 2005 for a 2-year term. In 2007, Tirana Stock Exchange was licensed by the Financial Supervision Authority “to exercise the activity as a market of securities for the Government debt, the corporate debt and shares in Albania” for an indefinite term⁵⁷. Its minimum capital was twenty million lekë⁵⁸. The Tirana Stock Exchange has organized the official market which is a “high-level” market divided into two levels of trade: Level I and Level II and a parallel market which is the market in which are admitted to trading the securities of the joint-stock companies that do not meet the criteria to be listed on both the levels of the official market, the following markets⁵⁹: Market for the trade of securities in the Tirana Stock Exchange were divided into segments, depending on the issuer and the type of securities and in accordance with the law “On Securities”⁶⁰.

- a) The segment of shares
- b) The segment of Bonds
- c) The segment of short term securities.

Despite the efforts and modalities of organization, the Tirana Stock Exchange, was not operating. In 2014, the Ministry of Finance has left to the Tirana Stock Exchange three months of time to find the incomes for the business continuity. Since the Tirana Stock Exchange failed to provide this incomes, the document for its closure was signed.

⁵⁷ <http://www.tse.com.al/?fq=brendahome&aid=59&gj=gj1>

⁵⁸ Art. 80, Law no. 9879, dated 21.2.2008, “On Securities”.

⁵⁹ Paragraph 3.1, Regulation of Tirana Stock Exchange.

⁶⁰ Paragraph 3.3, Regulation of Tirana Stock Exchange.

Which are the advantages of a company from the listing in stock exchange?

In our opinion, the reasons of listing in the stock exchange may be the most varied and relate to the benefits that may derive to the company from this listing. The first reason, but not the principal one, which has taken off recently, is related to the banks and to the consulting companies. In general, the banks operate in several, different sectors of the economy in order to diversify their profit, without being limited to the credit sector. We often look at the banks just as credit institutions, where you can open a bank account, apply for loans to buy a home or start a business. In reality, there are also other banking services which may be unfamiliar to most people, especially in those cases where their main customers are only the big companies. These banks are called “*Merchant Bank*” or “commercial bank”.

In these banks work highly qualified advisers, who, evaluate the important relationships of business with great accountants or lawyers, have the task to identify the companies that may be listed in the stock exchange, preferably leader companies in the sector with the biggest billing, in order to prompt them to be listed. The advisers provided to a company to be listed in the stock exchange, is one of the most profitable activities that a bank or a company may have, because the rewards would be very high.

But in the situation where an entrepreneur has a solid company which provides consistently incomes and profits, why should it attract foreign capital by listing their company on the Stock Exchange for further increasing the profits? We believe that the main goal of every entrepreneur is the profit or to increase the profit, and although how solid or increasing incomes are provided by the company, in order to have them, he has to try and should try a variety of modalities. Consequently, the entrepreneurs may consider the stock exchange as a point of arrival for the financial success or as a certificate proving the success of the company. Through the listing, the company gains visibility, it becomes nationally and internationally known, thus achieving a wider investors.

Nevertheless, the marketing accompanied by strong advertising campaigns may constitute one of the reasons, but not the main reason that led the company towards the listing, as the publicity may also be obtained by other means such as the advertising spots, which cost less than the whole process needed to be listed on the stock exchange. So what induces the companies towards listing in the stock exchange?

In a situation where a company needs capital it may decide to take the credit in the bank and therefore to pay the interest, or to address to the public through the stock exchange listing.

In our opinion, the listing provides the company with the opportunity of finding greater financial liquidity, the company may immediately dispose

of a direct source of alternative financing, the auto financing without compromising its own capitals. It is understood that, in such situation the investors or the institutional investors are the ones who have the risks.

The individuals who invest in a company accept a risk, which is the risk of losing their investment. If the company will provide profits, it will distribute them to the shareholders; otherwise, if it will not ensure profits, it will not distribute. Also, the interest rates paid on the debit are much lower than those that would be applied by the banks in order to have the same funding.

As conclusion, after the listing in the stock exchange, the shareholders of the company will have control over a company with a greater capital. In our opinion, the stock exchange listing has a positive effect on the performance of different companies.

If we refer to the Albanian market, the companies have lost a lot from the failure to use this opportunity to expand their activity. Twenty years have passed and the Albanian companies did not know or did not want to use the financial instruments to raise funds with lower costs, in this case, that the bank loan. As the Tirana Stock Exchange has considered the private sector as a source of considerable supply of securities, it has realized contact with the stakeholders of the capital market, with the domestic business, with the financial intermediaries in the market as well as operators that have an impact on the development of the capital market. The meetings with the representatives of the businesses that operate in our country were considered by the Tirana Stock Exchange as a possibility of an ongoing effort to attract the local businesses to use the market securities as an unexploited investment alternative⁶¹. Various meetings in institutional level were conducted with representatives of the Chamber of Commerce and Industry and the representatives of the Konfindustria⁶².

Nevertheless, in our opinion, the information provided, regarding the stock exchange listing and the advantages that derive from the listing, are not sufficient. Often the information is the main incentive to take a certain decision. The guide on the opportunities of listing and the benefits that can result from it, can affect the attraction of the business towards the stock exchange listing.

On the other hand, despite the information and guide they can receive from the stock exchange, as we have already mentioned, most of the businesses of our country are small businesses. We think that the absence of large companies, with high billing, is one of the main obstacles to the stock exchange listing. In these circumstances, we think that perhaps we have to

⁶¹ Idem.

⁶² Idem.

work more or to pay more attention to the possibility of attracting the foreign capital.

We cannot overlook another reason, very important in our opinion, related to “fear” of the companies to be listed considering that they are often characterized by the lack of transparency and a tendency to avoid the fiscal system. Thus, the high levels of informality in economy make the local business not interested about the use of stock exchange as an alternative financing opportunity⁶³. The annual financial statements of the companies, currently, are less reliable. The stock exchange listing obliges the companies to be transparent, which means that they should reflect the actual turnover and profit.

We emphasize that, in our country is been paid a lot of attention to the banking system by overlooking the non-banking financial system. Currently, the commercial banks are very powerful because they are the only financial institutions in the country and therefore, the ones who decide to set the credit terms. From the experience, we know that in such situations, when there is no choice, we are not favored but, we must accept the terms set by the banks in the attempt to save the company and to move forward. We think that, in these conditions, the companies themselves need to find alternative modalities to finance themselves, and one of those modalities is the stock exchange listing. The sale of shares or bonds in the stock exchange would help the companies as regards the financing problems. An efficient stock exchange in Albania would be a strong contender and, at the same time, useful for the banking institutions as the increase the efficiency of shares market influences the increase of the rate of debts, so the growth of the banking activity⁶⁴. A country does not need only a functioning banking sector, but also a developed and effective non-banking financial market⁶⁵.

On the other hand, the problem is that in such a situation the companies with private equity may be reluctant to test new financing alternatives because they have no security. Maybe they have expected that the government to make the first step by listing in the stock exchange the companies with government capital. Contrary to most Eastern European countries, the process of privatization in Albania was not conducted through the capital market, erasing the opportunity of establishing an initial bid for the securities⁶⁶.

⁶³<http://www.doktoratura.unitir.edu.al/wp-content/uploads/2013/03/Doktoratura-Visar-Malaj-Fakulteti-Ekonomise-Departamenti-i-Ekonomiksit.pdf>, page 108.

⁶⁴<http://www.doktoratura.unitir.edu.al/wp-content/uploads/2013/03/Doktoratura-Visar-Malaj-Fakulteti-Ekonomise-Departamenti-i-Ekonomiksit.pdf> page 119.

⁶⁵ Idem.

⁶⁶ Idem, page 108.

Stock Exchange trade

The market alternates at different stages. Understanding them is very important, so that we can make decisions to invest in the stock market. This dynamic comprises a first stage where the stock exchange is stable, sustainable and exactly because it is stable and does not represent a specific tendency there is no interest to invest in it. Only the professional operators such as banks, brokers etc., operate at this stage

Each of the actions related to *Trading*, about the securities, represents only one of the last steps of a very long process that begins with the establishment of a company, which must achieve a certain level of income and afterwards to the stock exchange listing or to be acquired by a company listed in the stock exchange, to join a company listed in the stock exchange, etc. This type of financial transactions is not just about buying or selling a particular security. In fact, these are complex actions that constitute the foundation of the stock exchange and of the bonds' market.

To understand what is hidden behind every security and to analyze different financial operations that have occurred in time, to understand the structure, to understand who controls the company, to know the shareholders owning the majority and those who own a minority, to understand how are made the decisions regarding the company or the purpose that influence to make certain choices, it is crucial in order to create a complete tableau about the company in which is intended to invest. It happens often to realize purchase and sale of securities without stopping and analyzing these aspects.

The institutional investors analyze and deal constantly with issues regarding the securities on which they intend to invest. Before undertaking any investment, which has duration longer than six months, it is required to conduct a retrospective analysis on the securities of the company in which it is intend to invest. We say investments lasting more than six months due to the fact that these arguments do not matter or are of little importance when it comes to *day trading*, so, when the entry and the exit for the security occur within the same day.

The analysis of the history of a security and the various financial operations relating to it, helps investors to not face unpleasant situations. It is very important to understand the real financial situation of the security on which it is decided to invest in the future years.

The question that arises regarding this argument is whether companies with characteristics such as the instability exist in the market. The answer is yes, they exist. Why is it important for all those who invest their capital in companies that are part of the stock exchange to be aware of these factors? Because if a medium or long term investment is to be made on a specific security and the security gain value from the moment of entry into the market (ie, from the moment of purchase), if a risk of collapse would be

verified for the company, the securities will be sold with profit and without any problem. But if the objective of the investment is always in the medium or long term we can therefore accept to keep the security in losses for the first few months in order to have a following recovery, if it occurs something disturbing in the months in which the security is in loss, we would be forced to block the investment suffering losses as a result of the possible bankruptcy of the company.

To identify the securities that have the characteristics that we have mentioned so far it is sufficient to be informed about the history of some of the companies listed on the stock exchange and try to understand who has control on the company and how this control was taken. Who deals with major investments in the stock exchange knows these dynamics very well, almost perfectly, even better than any broker or investment adviser. Despite the fact that the loss toward which may undergo the investors who invest millions of Euros, in many cases does not affect their wealth, they know very well the dynamics abovementioned. Consequently, those who invest their savings at the risk of losing everything cannot feel excluded from the opportunity to recognize these dynamics.

Conclusion

In our opinion, an essential element that affects the functioning of the stock exchanges is related to the staff resources. The staff must be competent and professional.

Listing on the stock exchange can be realized for various reasons. Every entrepreneur aims the profit and the increase of the profit. He can and should try a variety of opportunities, in order to ensure these. Listing to the stock exchange is one of these opportunities. It could be considered as a point of arrival for the financial success or a certificate proving the success of the company. Through the listing, the company gains credibility, it becomes known by achieving a wider investors to provide the needed liquidity.

In the situation in which a company needs financing, in order to realize further investments, it may choose to address to the public through the stock exchange listing. Further the more, after the stock exchange listing, the shareholders of the company will have the control on a company with a greater capital than the capital they own in this company.

In our opinion, the stock exchange listing has a positive effect on the performance and the transparency of different companies too.

Regarding to the Tirana Stock Exchange, we believe the stock exchange itself should offer more information about the stock exchange operating and the listing advantages. Despite this, one of the major impediments of the stock exchange listing has derived as consequence of the

fact that most of the businesses of our country are small businesses. In these circumstances, we think that perhaps we have to work more or to pay more attention to the possibility of attracting the foreign capital.

On the other side, the “low reliable” annual financial statements of the companies in our country, were another impediment.

Albania is a small country with a small market. This is one of the reasons that the development of the capital market is a very difficult process. In these conditions, perhaps it would be better to attempt the development of the stock exchange at regional level as the region countries have more developed market and larger companies who are interested to the financing through the stock exchange listing.

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