INTRODUCTION

WHAT IS STOCK EXCHANGE?

A stock exchange, share market or bourse is an organization which provides "trading" facilities for stock brokers and traders, to trade shares of the listed companies and other financial instruments such as Term Finance Certificates and Derivatives. Stock exchanges also provide facilities for the issue (listing), redemption (delisting) of securities and other capital events including the payment of income and dividends. Pakistan Stock Exchange (formerly karachi Stock Exchange) is a modern market where trading takes place with electronic trading system called Karachi Automated Trading System (KATS), which gives the Exchange advantages of speed and minimum cost of transactions. Trades on an exchange are by members only.

WHY DO COMPANIES GO PUBLIC?

The primary purpose for companies to be publicly listed at the exchange is to cost-effectively raise capital. It reduces the company's reliance on the traditional financiers such as financial institutions and individuals. Listing allows business expansion without increasing borrowings or draining the company's cash reserves. History of listed companies indicate that companies that convert to public ownership are more likely to become successful than control companies that remain private. Companies that go public are also more likely to become acquirers than control companies. IPO companies grow faster than control companies after going public. However, both public and private companies must disclose financial information to regulators.

WHAT ARE SHARES?

Shares, as the name says, are shares in a limited company. Each shareholder is a partial-owner of the company in which they have bought shares and investors can buy and sell their shares on the stock exchanges. Companies on incorporation issue shares, (also called equities) and later perhaps when they are building up a business. The original shareholders might still own them, or they may have sold them to someone else through the stock market. If the company makes a profit, the shareholders normally have some of it passed to them in the form of dividends. The amount paid in dividends varies year by year, depending on how profitable the company has been and how much money the directors and the company management want to keep in reserve for future expansion. There are different ways in which you can participate in the stock market: 1. Directly: by buying and selling shares; 2. Indirectly: through a collective vehicle, in which shares are grouped together, such as a mutual fund or Exchange Traded Funds (ETFs).

THE INITIAL OFFERING OF STOCKS (IPO):

The initial offering of stocks and bonds to investors is by definition done in the primary market (IPO) and subsequent trading is done in the secondary market. Initial Public Offering (IPO) is the initial sale by a company of shares of its stock to the public in the financial market.

BOOK BULIDING PROCESS FOR NEW COMPANIES:

Book Building is the process of price discovery and pricing a new share issue. The process by which an underwriter attempts to determine, at what price to offer an IPO based on demand from institutional investors for its efficient price discovery based on actual supply and demand by informed investors.