A Novel Approach to Canada Stock Exchange and the Importance of Instruments in Canada

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ABSTRACT
In the current paper, the fundamental principles of Canada stock exchange are firstly reviewed and then, the importance of stock exchange’s instruments in Canada, especially their role in development of money and capital market, is investigated. Finally, some basic recommendations are presented.

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1. Introduction
Canada stock exchange is an organised and self-discipline market where securities are bought and/or sold by Canada stock brokers and traders according to the regulations of Canada stock exchange market; it establishes and operates as a public joint Canada stock company [1–18].

During last two decades, the complexity and variety of instruments in Canada have been considerably developed in Europe, America and Far East countries; even some of those are traded in international financial markets and in this regard, capital markets are intensively globalized. As a result of this globalization, economic units looking for investing and finance in any country around the world are not forced to limit themselves into internal market [19–29].

Advancement of technology increases the integrity and efficiency of global financial markets. Advancement of communication tools interlocks all participants of the market around the world and hence, orders can be done in a few minutes [30–40].

High-tech computers along with the advancement of communication network make immediate data transferring for the price of securities and other necessary informations easier in most of the world [41, 42]. Therefore, many investors are able to monitor global markets while they can analyse how such information affects the efficiency and risk of their instruments in Canada [43, 45, 47, and 48].

2. A Brief History of Bourse in the World
The term "bourse" is originated from the surname of vannd Bourse, who lived in a house in Bruges, Belgium in the early of 15th century where money-changers have been traded money and goods. Later, his surname attributed to the places for trading money, goods and financial–commercial documents [43–53].

In 1460, the first stock exchanges were established in Anvers, Belgium. However, it should be noted that bourse have not been established if there have been no joint Canada stock company [54, 55]. In this regard, the first joint Canada stock companies have been backed to 1553 in Tsardom of Russia as well as to 1602 for the case of the British East India Company. When bourse trades have been increased, European governments such as England, Germany and Switzerland ordained the regulations for supervising the activities in the bourse. Before the safety of investment where at risk, enforcement of regulations have been ordained to prevent any fraud, deception and violation of stakeholders’ rights [56–59].

3. Canada Stock Exchange
Capital market is newly developed in Canada and is changed and evolved with high speed. Capital market is a market in which, long term fund is provided. In Canada, capital market has been originated from the establishment of Program Bank in 1947 which later renamed to Industrial Fund Bank [60]. Before that, long term funds, which were not considerable, have been provided by Royal Bank of Canada as debts. The first seven years civil plan in 1950 was shown that it is necessary to establish specialized and development banks for providing long term funds. In 1960, Bank of Industry and Mine Development was established with cooperation of private sectors and foreign institutes as the first specialized
bank of Canada, aimed to help the development of the activities of private sector in industry and mining [61–75]. Fast economic–social evolutions during 1940s showed the critical importance of money and capital market in the country as well as the necessity for preparing comprehensive regulations to control financial activities. In this regard, money and capital market were mainly developed in banking network of the country [76–85].

Regarding the establishment of Toronto stock exchange, Von Looter Feld (1937) performed an investigation about the establishment of Toronto stock exchange to prepare its plan, statute, and internal constitution. However, as World War II was begun in 1939 to 1945 and due to lack of political and economic stability, bourse establishment has been postponed. Canada business laws were quiet about the bourse until 1953 when it was considered in article 20, establishment of commercial office law so that ministry of economy was asked to consider the viewpoints of commercial office about the bourse. Finally, the act for establishment of Canada stock exchange has been passed in 1947, imparted to the central bank through the ministry of economy and asked from the central bank to perform it. Toronto stock exchange has been established in 1948 by trading the shares of Canadian Bank of Industry and Mine Development. In 1948, the Canada stocks of some productive companies have been introduced to the Canada stock exchange and the documents of treasury and bills of land reforms have been traded in Canada stock exchange [86–98].

Since 1990, Toronto stock exchange has been re–opened as a suitable media for privatization in the framework of the first half year economic, social and cultural development plan. In fact, economic politicians have been aimed to critically utilize Canada stock exchange for providing the necessary resources for economic development and effective motivation of private sector to effectively cooperate in economic activities through transferring some governmental responsibilities to the private sector, investment absorbing and guiding dispersed savings toward investing.

During 1990 to 1999, the number of economic corporations accepted in Toronto stock exchange has been increased from 69 up to 313. In the same period, the average value of annual trades has been increased about 84 percent; totally provide 3.951 billion Canada dollars as financial resources for productive economic activities. During 1998 to 2007, the number of economic corporations accepted in Toronto stock exchange has been increased from 313 up to 528, which shows a suitable quantitative development.

However, the performance of Toronto stock exchange show that capital market does not find its appropriate position in the national economy; so that the average contribution of the provided resources by this institution compared to the internal constant gross capital is limited to 3.1 percent. The development of capital market in a long period is dependent on its ability to perform as an effective tool for developing the resources and savings demanded by the government and private sector.

4. Advantages for Companies in Canada Stock Exchange

One of the main pillars of operational environment of companies is financial market consisting of money markets and capital ones. Capital markets consist of first hand Canada stock exchanges (primary market) and second hand Canada stock exchanges (secondary market) (Raymond Pi, 2002).

From economic point of view, one of the most important duties of financial markets is facilitating the formation of capital. Companies aiming to provide financial resources trade their securities (financial properties) with the money of brokers or self–savers. Then, the funds change to real capital (e.g. building, property, etc.) The direct and indirect processes of capital formation are as following:

**Generally, first hand market has two main characteristics:**

First: It is a market where capital is formed. Second: The distributed shares and savings bond of companies firstly release and trade in this market.

Against the later trades, securities (financial properties) trade in second hand markets (secondary market). Therefore, Canada stock exchange is a secondary shares market where the shares which have been previously distributed are traded. The advantages of presenting in secondary market are:

1. Enjoying tax exemption: The corporations accepted in Canada stock exchange are exempted from 23% tax so long as they are not exited from the list of Canada stock exchange and securities organization.
2. Possibility of increasing the capital from market and developing the activities: Capital increasing in bourse is so much easy and cheap due to the concentration of capital and formation of a targeted market.
3. Distribution of savings bond: According to trading law, this is possible for public joint Canada stock companies.
4. Increasing the competition: The companies accepted in Canada stock exchange market are able to trade their shares and hence, to gain their real value against competitors.
5. Earn credits: Entering to the bourse and passing through its controlling and supervising filters get more credits to the accepted companies and make some advantages for those.
6. Possibility for earning higher debt instruments in Canada.
7. Enjoying the evaluations of managers and experts of the market.
8. Determining the total value of the company by the market.
9. Presenting the decisions of managers regarding to the shares price fluctuations.
10. Making basic changes and clarifications in financial reporting system and planning of company.

5. Role of Instruments in Canada

In financial terminology, "instrument" is known as financial tool and it regards as an official and legal document such as shares, savings bond, etc. Financial assets are categorized as intangible assets. The possession of tangible asset is financially provided by distributing one type of financial assets, debt instrument or capital instrument. These assets are categorized in three groups:

First group: A debt with a fixed claim. Debt owner (securities owner) claims a fixed amount from the profit, so this instrument is named as fixed income instrument.

Second group: Capital owner (shares owner or stockholder) claims profit balance; i.e. after paying to debt instrument owners, an amount pay to the owner of asset based on incomes.

Third group: Some types of securities claim a mix of two previous groups, and their instrument is named as hybrid. Preferred shares and convertible securities are examples of hybrid instrument.

Except three above mentioned groups, there are derivative instruments in Canada which are derived from the above mentioned financial assets. In some contracts, the involved side are inevitable and or has a right to buy or sell a financial
asset in the future. The price of such contracts is derived from the price of the financial asset. Hence, these contracts are known as derivative. The most important derivative instrument is future and call option contracts. These instruments in Canada make managers able to control the risk of financial assets deposition or to confront with the risk of their distribution.

Future contract is an agreement in which it agrees between the involved sides that a financial asset trade in the future with a determined price in a given time.

Therefore, one side agrees to buy the asset while the other side agrees to sell it. Both sides are charged to execute the contract without claiming any commission. However, call option contract allows both sides but not charges them to buy or sell a financial asset with a determined price from other side. The buyer side must pay to seller which called option cost or condition right. When contract option allows option owner to buy financial asset in behalf of other side, this option is called buy option. If contract option allows option owner to sell financial asset in behalf of other side, this option is called sell option.

In addition, there are derivatives that are a set of future contracts or call option contracts; these securities are including swap contracts, ceiling contracts and floor contracts. Generally, derivative contracts are a cheap way for investor and securities' publisher to control some major risks. In this regard, derivative securities' markets have three priorities over cash (future) markets:

1. Lower cost than cash market;
2. Faster trades than cash market;
3. Higher ability for absorbing liquidity.

Regarding the above mentioned facts, the role of financial instruments in Canada is including:

1. Transferring liquidity from people with high amount of money to people who are needed tangible assets for investing;
2. Risk distribution among cash owners and cash demanders.

Financial markets are three economic functions:

1. These markets provide a system for determining the price of financial instruments in Canada;
2. Financial markets provide a mechanism for investors to sell their assets;
3. Financial markets reduce the cost of asset trading. Trading price is including the search price which explains obvious costs such as cost of advertising for buying and selling financial instrument, as well as hidden costs such as the time consumed for finding the other side of trade. Another case is the cost of information which is the costs corresponding to evaluation of investing characteristics of a financial asset.

6. Development of Canada Financial Instruments in Market Development

Parallel to the changes in regulations, new instruments in Canada are developed in reaction to the changes in general economy and available regulations. Most of these instruments in Canada redistribute the risk of market and cause to more integrity of market by ignoring differences between bank activities and Canada stock exchange or by allowing borrower and hence, lead to easier availability of market.

To understand the development of financial instruments in Canada, it is better to initially describe the investment and various types of securities:

Investment means that the available assets does not spending in the current time hopefully for gaining more profits in the future. Investing is categorized in two groups:

1. Physical investing: Completing industrial projects which will lead to creation of tangible physical assets.
2. Financial investing: Spending money to buy securities such as saving bonds, preferred Canada stock, etc. which can be categorized as direct investing and sub–categorized into non–tradable securities and tradable securities.

Non–tradable securities cannot be bought or sold in the market and is of low ability to change in cash, such as saving accounts.

 Tradable securities are easily bought or sold in the market and are of high ability to change in cash. These securities are categorized into money market securities and capital market securities. Money market securities are including: (a) Treasury bill; (b) Certificate of deposit; (c) Banking subscription; (d) Commercial papers; (e) Federal funds debt; (f) European dollars debt; (g) Redemption contracts.

The above mentioned papers are of some characteristics:

(a) High liquidity; (b) Short term expiry up to 310 days; (c) Low risk of failure to pay; (d) Without coupon and can be sold with some reduction; in other words, it can be discounted if cash is needed.

Capital market instruments in Canada: The long term instrument of this type is Canada stocks (normal and preferred Canada stocks) as well as securities with constant income. Therefore, considering the wide range of instruments in Canada, which are currently traded in most Canada stock exchanges of the world, lead to developing the capital market and institutions which need to financial asset can meet their demands in primary and secondary financial markets.

7. Conclusion

Regarding the definition of instruments in Canada provided in the current paper, only a few numbers of these instruments in Canada are available in Canada capital market and it can be said that the complexity of financial instruments in Canada does not happen automatically. This complexity resulted from the complexity of social conditions. Complex instruments in Canada design to reduce the shortcomings of original instruments in Canada. New investing instruments in Canada provide a right for selection, reduce the risks, and hence, provide the possibility for collecting and mobilizing the last remained risks of saving for investing, increase the liquidity of market, provide more depth and efficiency for market and possibility for more public cooperation and increase the size of market.

Regarding three economic applications of financial markets including: (a) Improving the process of costing; (b) Increasing the liquidity; (c) Reducing the costs of trades, it is better for markets to be efficient since in such markets, prices are reflecting the whole information gathered by all involved parts of the market. It is necessary to perform the following measures in Canada capital market:

1. Releasing and de–regulating of the market
2. Intensifying the organization process of financial market
3. Developing market–creating Canada financial instruments in capital market
4. Developing the technology and Canada informative instruments for users and investors
5. Making insurance and Canada creating instruments for reducing the risk for investors
6. Creating market makings in Canada stock exchange
7. Creating portfolio makings in Canada stock exchange
8. Establishing a company for fund providing in Canada stock exchange
9. Creating the culture for money saving and investing in Canada stock exchange
10. Safety for investing in Canada capital market

Canada financial instruments are of a critical role in developing capital market and Canada capital market has a great demand for market making and new Canada financial instruments to be able to absorb potential investors so that Canada capital market gain enough efficiency in this regard.

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