

Stock Market in UAE

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ABSTRACT

Trading in stocks on the stock market is typically driven by speculation, based on company news and performance factors. There are two ways to try and find the market value of a stock. Stock value is determined using some type of cash flow, sales or earnings analysis. This form of stock valuation is based on historic ratios and statistics and aims to assign market value to a stock based on measurable attributes. Another way a stock market can be explained is to ask one to look at how much investor is willing to pay for a particular share of stock and by how much other investors are willing to sell a stock for. In other words, it explains the market's supply and demand. This form of stock valuation is very hard to understand or predict, and it often drives the short-term stock market trends the article title "The Stock Market in UAE" was done to assess the stock market in the country. The tool used for data collection was a secondary data from different sources like ESCA (Emirates Securities & Commodity Authority), Abu Dhabi Securities market, DFM (Dubai Financial Market) and DGCX (Dubai Gold & Commodities Exchange). The main finding of the study was that, the Stock market in UAE is new and still needs for more rule and regulations to meet the standards of international stock market. The researcher understands that there could be two reasons for this finding, either the market is not that free in decisions (demand and Supply) and the market have its own rules and regulation which is make it a way from the international lows of stock and securities exchange. Therefore, it can be assessed that, the stock market in UAE needs some lows to enhance their activities. The researcher has undertaken a sincere effort in understanding the stock market in UAE and hopes that the findings and suggestions elicited in the thesis would be productive to the market.

A BRIEF HISTORY

Stock Market History

History of stock market trading in the United States can be traced back to over 200 years ago. Historically, the colonial government decided to finance the war by selling bonds, government notes promising to pay out at profit at a later date. Around the same time private banks began to raise money by issuing stocks, or shares of the company to raise their own money. This was a new market, and a new form of investing money, and a great scheme for the rich to get richer. A little further on the history timeline, more specifically in 1792, a meeting of twenty-four large merchants resulted into a creation of a market known as the New York Stock Exchange (NYSE). At the meeting, the merchants agreed to meet daily on Wall Street to daily trade stocks and bonds. Further in history, in the mid-1800s, United States was experiencing rapid growth. Companies needed funds to assist in expansion required to meet the new demand. Companies also realized that investors would be interested in buying stock,

partial ownership in the company. History has shown that stocks have facilitated the expansion of the companies and the great potential of the recently founded stock market was becoming increasingly apparent to both the investors and the companies. By 1900, millions of dollars' worth of stocks was traded on the street market. In 1921, after twenty years of street trading, the stock market moved indoors.

History brought us the Industrial Revolution, which also played a role in changing the face of the stock market. New form of investing began to emerge when people started to realize that profits could be made by re-selling the stock to others who saw value in a company. This was the beginning of the secondary market, known also as the speculators market. This market was more volatile than before, because it was now fueled by highly subjective speculation about the company's future.

This was the pretext for appearance of such stock market giants as NYSE. History books tell us that the reason the NYSE is so highly

regarded among stock markets was primarily because they only trade in the very large and well-established companies. It acted as a more stable investment alternative, for people interested in throwing their capital into the stock market arena. The smaller companies making up the stock market formed into what eventually became the American Stock Exchange (AMEX). Contrary to the 80-year old history, today the NYSE, AMEX, NASDAQ and hundreds of other exchange markets make a significant contribution to the national and global economy.

The growth in the number of market participants led the government to decide that more regulation of the stock market was needed to protect those investing in stock. History was made in 1934, when following the Great Crash, Congress passed the Securities and Exchange Act. This act formed the Securities and Exchange Commission (SEC), which, through the rules set out by the act and succeeding amendments, regulates American stock market trading with the help of the exchanges. It also includes overseeing the requirements for a company to issue stock shares to the public and ensures that the company offers relevant information to potential investors. The SEC also oversees the daily actions of market exchanges and how they trade the securities offered.

Although historically, investing in stocks was a “hobby” for the rich, an average person too soon came to realize the value of the investing in stocks vs. traditional assets like land or a house.

Stock Market - Explained in Brief

A typical dictionary definition for stock is (the capital raised by a corporation through the issue of shares entitling holders to an ownership interest (equity); "he owns a controlling share of the company's stock").

Stocks are usually explained to be a collection of shares in a company, and are also referred to as stock shares. A stock is a certificate (sheet of paper) declaring you own a small fraction of that company (corporation). To explain further let's look at some of the reasons for why a company might want to issue stock. A company issues a stock so that it might use the money from a stock offering to buy equipment, hire

people, advertise, or expand facilities. Basically, stocks help companies grow.

In 1865, the New York Stock Exchange opened its first permanent headquarters near Wall Street in New York City. The irony of stock market is that companies live and die by their stock price, yet for the most part they don't actively participate in investing and in trading their stocks within the market. Companies get funds from the securities market when they first sell a security to the public in the primary market, commonly referred to as an initial public offering (IPO). In the subsequent trading of these shares on the secondary market (what most refer to as “the stock market”), it is the average investor exchanging the stock who benefits from any appreciation in stock price. Fluctuating prices are translated into gains or losses for these investors as change of ownership of stock takes place. Individual traders investing in the market acquire the full capital gain or loss after transaction costs. The original company that issues the stock does not participate in investing and taking of any profits or losses resulting from these transactions because this company is not supposed to have any monetary interest in stock market transactions.

From the start there was not need to explain that individuals couldn't realistically be buying shares of stock directly from the company. Stock market brokers have facilitated the obstacle of individual buyers dealing with companies issuing the stock. A stock broker is someone who performs transactions in stock on a stock market as an agent of their clients who are unable or unwilling to trade for themselves. A firm that buys stock from the company and resells it to the investors is known as the underwriter.

Technology and internet have made investing in the stock market incredibly accessible to the mainstream public. Electronic trading began to grow in popularity by mid 1960s and by 1968 NASD (National Association of Securities Dealers) created the National Association of Securities Dealers Automatic Quotation System or NASDAQ. The trading floor of the ‘new stock market’ is now virtual computer space driven by 21st-century technology that makes investing in stock market EASY. The new technology brings news and other info to the investor, and stock trades can now be done

from around the world at lightning speed. Internet stock market trading continues to grow and a special study by the SEC found that as of the second quarter of 1999 there were 9.7 million investors with with online trading accounts.

Main Stock Market Players

If one is interested in investing it is valuable to know who the main players in the stock market game are. The main players in the stock market are the exchanges. Exchanges are where the sellers are matched with buyers to both facilitate trading and to help set the price of the stock shares. As mentioned in the history section, the primary exchanges are the NASDAQ, the New York Stock Exchange (NYSE), all of the ECNs (electronic communication networks) and several other regional exchanges like the American Stock Exchange and the Pacific Stock Exchange. Not too long ago, all of the trading was done through the traditional exchanges (like the NYSE, American and Pacific Exchanges), but today most of the stock market trading is done through the NASDAQ, which uses ECNs and other firms with access to the NASDAQ to facilitate trading.

SCA (Securities and Commodity Authority) in UAE

SCA – Introduction:

Since its inception, the Securities and Commodities Authority has been keen on putting the objectives stated in the Federal Law No. (4) of 2000 into effect by sparing no effort to strengthen the legislative structure through issuing such regulations and instructions that ensure the development of the organizational and supervisory framework of the list joint-stock companies and other companies operating in the securities field. Besides, the Authority has introduced some controls and criteria that would contribute positively to enhancing the investors' trust in the Authority.

As part of the Authority's continuous effort to streamline its control and supervisory role and improve the organizational aspects of the company's subject to control, the Authority has deemed it suitable to alert these companies to the basic requirements stipulated by the Trading Companies Law No. 8/1984 and the amendments thereof and the Federal Law No. 4/2000 and the regulations, decisions and

circulars issued in implementation thereof. Based on the above, markets for trading in securities and commodities have been set up in the UAE where each market shall take the shape of a local public establishment licensed by the Securities and Commodities Authority, provided that the markets across the UAE are electronically connected on a reciprocal basis. The market is managed by a board, which is formed by a decision by the competent local authority, provided that none of the board members shall be a board member of a listed public joint-stock company or a financial broker.

SCA – Establishment:

On January 29, 2000 HH UAE President issued **a federal decree** to set up a public authority in the UAE's capital, which was called "Securities and Commodities Authority." The Authority enjoyed a legal entity, financial and administrative independence with the control and executive powers necessary for it to discharge its tasks in line with the provisions of this law and the regulations issued in implementation thereof, noting that the authority reported to the minister. The Authority may set up subsidiary branches or offices to discharge the tasks of supervising and monitoring the markets but may neither practice trade activities nor seek benefit in any project nor own or issue any securities.

SCA – Goal:

To improve the efficiency of the Financial Market and protect investors from unfair and incorrect practices.

- To provide opportunities for the investment of the available cash and saving in such a manner.
- To regulate and monitor the licensing of securities in the market and determine the conditions that should be met when launching securities.
- To ensure smooth and prompt liquidation of the money invested in securities and also ensure the interaction of the demand and supply elements with a view to determining the prices of these securities and protecting small investors through consolidating the bases of sound and fair dealing among the different categories of investors.
- To gather information and statistics about the securities that are being dealt with and publish reports on them.

❖ To conduct studies and submit proposals to the different official authorities with respect to the laws in force and to amend such laws in line with the development required by the securities market.

❖ To contact overseas financial markets with a view to exchanging information and expertise in such a manner that keeps pace with the progress achieved in the methods of dealing with these markets and helps the financial market develop promptly and join the membership of the concerned Arab and international organizations and federations.

❖ To develop the investment awareness of investors by organizing awareness lectures and releasing diverse publications.

❖ To consolidate professional behavior, self-control and discipline rules among brokers and those dealing in securities and encourage and rehabilitate brokers and other dealers with the market with a view to boosting their academic and practical qualification.

SCA – Board of Director:

Pursuant to the amendments of the Federal Law # 4 of 2000 concerning UAE Securities & Commodities Authority, it has been approved by the Cabinet, the following: According to the Cabinet decree, the Authority is to be managed by a Board of Directors chaired by His Excellency the Minister and five well experienced members who will be nominated by the Chairman and the Chief Executive.

❖ The Board, in its first meeting, should elect a Deputy Chairman to act on behalf of the Chairman in case of absence.

❖ The membership term of the Board is four years' renewable for one time only except for the Chief Executive.

❖ The Board should meet four times a year at least or as required by the Chairman's invitation.

❖ The Cabinet has approved the reconstitution of UAE Securities & Commodities Authority Board of Directors, where the members have been selected to boost the Board in its mission and to enhance targets based on the success achieved through the last three years of the previous board.



SCA – Department:

The Authority has an administrative body, which is responsible for direct supervision of all the Authority's administrative and organizational works in line with the decisions of its board of directors.

The administrative body is headed by a full-time chief executive, who is appointed by the board of directors. He reports to the chairman and exercises the authorities and tasks assigned to him for supervising the different departments of the Authority in charge of implementing the general policies and achieving the objectives set for such policies.

These departments are managed by directors who are specialist in the scope of their work.

Below are the departments existing in the Authority:

Supervision Department

The department consists of three sections:

- Licensing Section
- Inspection Section
- Trading Surveillance Section

Issues & Disclosure Department

The department consists of three main sections:

- Company Registration & Data Analysis Section
- Issues Section
- Disclosure & Corporate Governance Section

Human Resources & Financial Affairs Department

The department consists of four major sections:

- Personnel Affairs Section
- Training & Development Section
- Financial Affairs Section
- Administrative Services Section

Research & Technical Support Department

The department consists of four major sections:

- Research & Financial Analysis Section
- International Relations Section
- Media & Awareness Section
- Information Technology Section

Commodities Department

The department consists of two major sections:

- Licensing Section
- Disclosure Section

Enforcement Department

SCA – Establishment Law: FEDERAL LAW

No. 4 OF 2000

CONCERNING

THE EMIRATES SECURITIES &
COMMODITIES AUTHORITY AND
MARKET

We, Zayed Bin Sultan Al Nahyan, President of
the United Arab Emirates,

Having considered the Constitution,

Federal Law No. 1 of 1972 concerning the
Competences of the Ministries and the Powers
of the Ministers, and the laws in amendment
thereof,

Federal Law No. 7 of 1976 establishing the
State Audit Institution,

**ESCA (Emirates Securities and Commodity
Authority)**

**ESCA have three different exchange
markets:**

1- Abu Dhabi Securities Market

The Abu Dhabi Securities Market is established
to organize the trading in the securities in order
to increase liquidity and to create opportunities
through an ideal investment environment.
Therefore, the main objective is to ensure
market transparency, fairness and quality
service.



2- Dubai Financial Market

In line with the high international standards
prevailing in today's professional and
technology driven securities markets, the Dubai
Financial Market has been established to create
a fair, efficient and transparent marketplace that
serves the interest of the national economy. It
provides a forum for the trade of securities,
providing investors with opportunities to invest
their funds in a manner that benefits them and
serves the interest of the UAE economy.



3- Dubai Gold & Commodities Exchange

The DGCX, the world's newest commodities
derivatives exchange, commenced trading on
22nd November 2005. It is the first
international commodities derivatives market
in the Middle East and, therefore, the first in the
critical time zone between the markets of
Europe and the Far East.



Total No. of Companies listed in ESCA: 127

Sector:

- **Banks** 26
- **Insurance** 24
- **Services** 48
- **Industry and Hotels** 29

Findings

1. Stock market in USA started in 1791
2. IN 1968 NASD (National Association of
Securities Dealers) created the National
Association of Securities Dealers
Automatic Quotation System or NASDAQ
in USA.
3. There were 9.7 million investors with
online trading accounts in 1999 in USA.
4. New York City, New York, U.S.A., there
is 2,800 companies whose stock is valued
at nearly \$15 trillion in global market
capitalization.
5. On January 29, 2000 HH UAE President
issued a federal decree to set up a public
authority in the UAE's capital, which was
called "Securities and Commodities
Authority."
6. ESCA (Emirates Securities and
Commodity Authority) have three
different exchange markets Abu Dhabi
Securities Market, Dubai Financial Market
and Dubai Gold and Commodities
Exchange.
7. Dubai Gold and Commodities Exchange
commenced trading on 22nd November
2005. It is the first international

- commodities derivatives market in the Middle East.
8. There is 127 Companies Registered in Emirates Securities Market (26 Banks, 24 Insurance, 48 Services, 29 Industries and Hotels).
 9. Some Shares can be owned by expatriates and some is not.
 10. There is 103 Brokers Registered in Emirates Securities Market.
 11. Brokerage business company paid-up capital is not less than five million Dirhams, submits a bank guarantee issued by a bank operating in the State in an amount of not less than ten million Dirhams and owned as to not less than 51% of its capital by natural or juristic persons holding the nationality of the State.
 12. To invest in the stock market you need to acquire a unique identification number called Investor Number (IN), maintain a direct securities account with CSD (Clearing and Depository System) and a trading account with an accredited Broker.
 13. Investment in securities is an art and science based on principles, rules and regulations, which require certain knowledge and experience that could assist in realizing the good choice and preference between the investment opportunities in the Market.
 14. The Abu Dhabi Securities Market (ADSM) was established on 15 November 2000 by Local Law No. (3) Of 2000.
 15. ADSM has the authority to establish centers and branches outside the Emirate of Abu Dhabi. To date it has done so in Fujairah, Ras al Khaimah, Sharjah and Zayed City.
 16. The Dubai Financial Market (DFM) commenced operations on 26th March 2000.
 17. Fixed commission of AED 75 against each executed order and is divided proportionality amongst broker, DFM and ESCA, if the total amount of executed orders which value is less than AED 15,000 in case of shares, AED 150,000 in case of bonds and AED 30,000 in case of Funds and warrants.
 18. The Dubai Gold and Commodities Exchange (DGCX) commenced trading in November 2005 as the regions first derivatives and commodities exchange.
 19. DGCX offers a number of important advantages like State of-the-art electronic exchange, trading possible from anywhere in the world, US Dollar denominated contracts and Dubai's strategic location as a global trading hub.

SUGGESTION

- 1) All companies should be registered in both ADSM and DFM to ease the exchange of its shares.
- 2) ADSM and DFM requested to open markets in all states in Emirates.
- 3) May be the management of the ESCA needs to modify its policy and roles by allowing everyone locals and expatriates to invest in all companies in the market.
- 4) ESCA may possibly reduce the fees charged by them, market and brokers, which can encourage the investor to invest more and make more exchange in the markets.
- 5) The markets should be more free and flexible by allowing the investor to have an electronic exchange with an e-broker.
- 6) The market should be free which is mean that a share price for any company can be at highest or lowest price in one day instead of controlling the market by 10 % up maximum and 10 % down maximum in one day.
- 7) ESCA should always watch international markets and try to copy and enhance there services to the investors, markets and brokers by having the latest technology, roles and polices and ways of investments.

CONCLUSION

These findings indicate that, the stock markets here in UAE just new since the low of controlling and organizing the stock market launch in 2000, ADSM and DFM started in 2000 and the DGCX opened in 2005.

The stock market here in UAE is growing very fast with very soiled steps, vision and will

planning sites. This will take Emirates stock market to be number one in the gulf and region. Stock market here is more advanced and having the highest technology in the region.

To conclude, the researcher understands that Emirates Stock Market is doing very well in handling the investments of investors, having soiled roles and polices and managing the market will latest technology. The Emirates Stock Market should have courses and programs to help and advise investors what to do and how to invest in the stock market in the right way. Therefore, the researcher would like to say that, the Emirates Stock market should keep up seeking and enhancing there services to all investors, markets and brokers with latest technologies and ways of investments which can make it the number one in the region always.

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