Organization and Functioning of International Financial Markets

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Abstract

In the sphere of any economy, it has the dual quality of real economy (based on goods and services) and financial economy (which is composed of money and financial assets), we can distinguish the real market and the financial market. In the real market, real assets (tangible and intangible goods) are mediated, while financial assets are mediated in the financial market. The activity within the financial markets must be carried out on the basis of economic efficiency conditions. This concept of efficiency presents the ratio between effect and effort assumed in carrying out activities of an economic nature. Financial markets involve organization, operation, control, evaluation and application of strategies.

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1. Introduction

The economic efficiency of investments in financial securities must be addressed in the two segments of the financial market, the primary capital market and the secondary capital market. In general, at the level of the primary market, the operations aim at the capitalization of companies by issuing securities, and at the level of the secondary market, the operations have a speculative or risk hedging purpose (Allen& Santamero, 1998). The efficiency of various placements of financial securities can be reflected by means of an indicator called investment yield (Ahmed et al., 2017).

The international financial markets are characterized by new trends: the increase in the number of institutional operators; the integration of financial markets

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to constitute more efficient and competitive financial markets; the promotion of free markets that facilitate the circulation of capital on the financial markets; the increase in the volume of transactions due to access to the electronic system; the considerable reduction of the cost of capital and the efficiency of its allocation; diversification of financial assets at an international level; alignment with international standards by complying with international regulations, so the state authority is subject to international regulations; increasing the country's dependence on the global economy, thus the country's economy becomes sensitive to the evolution of international financial markets and is indirectly affected (Anghelache, 2007).

In the context of globalization, the emphasis returns to the competitive process between the large international financial centers. The competition on the financial markets led to the process of mergers and acquisitions between several international financial centers, determining the reduction of the number of stock exchanges, but at the same time they became more concentrated in terms of the activity carried out (Buzoianu et al., 2021).

2. Literature review

In the specialized literature, the theory of efficient markets has both supporters and opponents. Adherents of this theory argue that the fair value of a security at a given time, on the market, includes all the information. Others argue, however, that the financial markets are not efficient, one argument being the gains that can be obtained from some transactions.

In certain works, the financial market includes all the institutions and procedures that facilitate the transfer of funds, both short-term and long-term, from surplus entities to deficit entities, in exchange for financial instruments issued by them (Fama, 1970). The international financial market appeared and expanded due to the financing requests of the issuers and the wishes of the investors to place their funds in foreign markets (Atje& Jovanovic,1993).

In the opinion of the author Borges, 2010, the financial market is made up of a set of organized markets where demand and supply of resources face each other, respectively deficient entities and surplus ones, through specific relationships, institutions and mechanisms (Borges, 2010).

Most of the time, we talk about financial markets and not about the financial market, in a developed economy there are a multitude of different financial markets. Each market trades different types of financial securities, serves a different customer segment or operates in a different region of the country.

In a broad sense, the international financial markets include the operations of confronting the demand for financing from international financial institutions, governments, local administrations, commercial companies from abroad with the supply of capital from banks, investors, insurance companies, pension funds and to other long-term capital holders. On the international financial markets, foreign currency resources are concentrated and borrowed through shares, bonds, Lombard and mortgage loans.

In a narrow sense, financial markets mediate the meeting of demand and supply of shares and bonds, being designated as securities markets. Financial markets have both an economic and a social role (Buzoianu et al., 2020).

3. Research methodology

The statistical indicators regarding labor resources, the organizational part and the characteristics of the financial markets, were synthesized to highlight a series of aspects that we presented and which must continue to be basic elements in establishing the scientific framework for data processing. The correct use of indicators and data extracted, analyzed and synthesized can be used to improve the sustainable development strategy in terms of financial management. In this research, data were taken from foreign databases, related to the two countries that constituted the central element of the comparative method, respectively Great Britain and Germany, and processed by the author.

4. Results and discussion

The organization and operation of the financial markets must ensure and promote an efficient framework, in which the rules are correct, in order to be attractive and comply with the imposed standards.

According to international practices, the organization and operation of stock exchanges is carried out differently from one country to another and even from one stock exchange institution to another (Mishkin& Eakins, 2021).

Regardless of these specific characteristics, it is appreciated that stock market management includes different categories of bodies, each with a special role within the stock market. The expansion of the stock markets determines a strong competition at the international level, which leads to a certain convergence of the rules governing the different national markets, as well as the need for cooperation between the market control authorities

The liquidity and mobility of financial instruments issued in the primary market is ensured by the secondary market, which has expanded from an institutional point of view and trading systems (Cărăușu, 2015). The markets that form the secondary market have different characteristics depending on the location, regulation, the way of creating the price, the way of concretizing the transactions.

Capital markets can be organized according to several characteristics and criteria. Depending on the location and level of transaction regulation, the financial market has two forms

- regulated market (stock exchange);
- OTC markets (negotiation markets).

Most exchanges practice the principle of self-regulation based on which the operator who organizes the market, establishes within the allowed limits the way the market is organized and functions, which ensures the open and free nature of trading. In order to organize and operate the market, rules are drawn up (for example, the Market Operator's Code, the Arbitration Chamber Regulation, the Corporate

Governance Code) which are compulsorily imposed on all participants, issuers and investors.

Stock exchanges exist in every developed country and in many developing countries. There are three exchanges located in the main international financial centers, where the majority of global financial transactions take place: NYSE Euronext, the London Stock Exchange and the Tokyo Stock Exchange. Over 65% of the transactions with financial instruments at the international level are carried out on these financial markets.

The OTC market is an electronic interdealer, over-the-counter market organized in the form of a telecommunications network where non-standard transactions are carried out and which ensures remote trading. regulated.

The regulations of the Over the Counter market are drawn up by the association of dealers who also act as intermediaries, have the power of self-regulation.

In table no. 2 shows the differences between the way of organization and operation at the level of the two stock exchange segments.

The main differences between the stock market and the over-the-counter market

Table 1

Stock Exchange	**OTC market**
Location of transactions;	Transactions take place at the dealers' offices;
Direct access to the market, limited to members;	Extended access for customers;
The negotiation and execution of contracts is carried out by public auction;	The negotiation is carried out between the seller-buyer, the role of
The operation of the exchange is ensured by the law and the regulations of the exchange;	The operation is carried out according to less firm and strict regulations;
Single rate for all securities admitted to trading;	Different courses for the same title at the same time;
The size of the contracts and the due dates are fixed;	Contracts can be concluded for any amount and any settlement date;

Source: Ahmed, S., Coulibaly B., Zlate A., (2017).

The regulation of the international financial markets requires the establishment of norms and rules to govern the functioning of the markets, to check the activity of the participants, to aim for the creation of an effective framework in order to meet the proposed objectives of the market.

Financial market regulation refers to a form of supervision by financial institutions that impose certain restrictions, respectively requirements for participants, so that the integrity of the financial system can be ensured (Dragotă& Mitrică, 2004).

In contrast, deregulation refers to situations in which state authorities deliberately diminish their role in the market in order to ensure greater freedom within it. Precisely for this reason, market liberalization is often associated with the concept of deregulation.

One of the goals of the regulation is to ensure confidence among market participants, thereby supporting the objective of maintaining confidence in the respective system and ensuring financial stability. Moreover, the regulation in the financial market is a measure of the states regarding the reduction of financial frauds and illegal practices.

The regulation and supervision of international financial markets can be done either directly through state institutions, or indirectly through self-regulatory institution (Gertler&Kiyotaki, 2010).

Governments have the power to develop and exercise regulations through specialized institutions or to have authorities with self-regulatory capacity. Domestic laws are legislative acts, in accordance with international ones, issued by the government authority. Each state delegates an authority that is able to ensure the regulation and functioning of the financial markets (Chinoda& Mashamba, 2021).

The first country that practiced the system of regulations and supervision regarding the financial markets was the USA. In the United States of America, market supervision and regulation is provided by the Securities and Exchange Commission, which protects investors, the Federal Reserved System, which decides the size of the initial and permanent margin in the case of margin transactions, and the self-regulatory bodies, which oversees intermediaries and transactions.

It can be stated that the financial markets carry out their activity according to strict regulations of organization and operation. These rules and regulations are issued by capital markets supervisory bodies and aim at: authorization and supervision of institutions, operation of stock exchanges, protection, informing investors about the changes that have occurred and prohibiting the provision of confidential information of listed companies (Demirgüç-Kunt&Levine, 2001).

4.1 The comparative approach regarding the organization and functioning of the financial market in Great Britain and the financial market in Germany

The comparison made below is based on the two international financial markets that are part of Europe because the financial markets present the following particularities:

- *history.* Most of the financial techniques and systems used on the current financial market have their origins in early Europe (stocks, bonds, forward contracts);
- *diversity.* The financial markets in Europe offer the possibility to choose a diversified range of institutions and systems in making some comparisons;
- *particularity.* Europe stands out globally by introducing the monetary union which represented the only experiment throughout history;

- *preference for a certain type of financial system*. In Germany, financing is mainly obtained from banks, while in Great Britain financing is provided from the capital market.

Financial integration causes all financial markets to become solid over time in terms of organization, operation, rules, regulations, transactions and market practices.

Savings can be transferred mainly through two channels. Resources can be mobilized in the banking system in the form of deposits, which represent for banks funds to distribute in the form of loans. The second channel is represented by the financial market, where money is invested in securities directly.

The concerns regarding the economic-financial reform mainly concerned the formation of the institutional framework characteristic of the market economy. One of the most important institutions and with a significant impact on the macroeconomics is the stock exchange. This represents the competition of the banking system.

The present paper aims to comparatively approach two suggestive systems with regard to the obtained performances, the financial market from Great Britain and the financial market from Germany. Thus, the characteristics of the two financial systems will be presented, which present different features in terms of their evolution due to the system on which they are based. In Germany, most of the financing is provided by banks, while in Great Britain, financing is mainly obtained from the capital market.

The preference for a certain type of financial system depends, in some international researches, on the degree of development and openness of the respective country, arguing that developing countries prefer the financial system based on banks. In Great Britain the pension system is private, which causes a higher demand for securities, while in Germany the pension system is specific, causing a lower demand for securities.

The stock market system in Great Britain is organized as a joint-stock company, which has the possibility of self-regulation and self-governance, compared to the stock market system in Germany, which is organized as a public law institution with partial legal capacity.

A first similarity between the two international financial markets is represented by the securities that are negotiated: ordinary, preferential, non-voting shares, subscription rights, certificates of deposit, classic and convertible bonds.

The two financial markets present many differences in terms of organization and operation. A difference between the two international financial markets is the involvement of the state in the economy. The involvement of the state in the London economy is extremely low, the influence of government policies being insignificant, compared to Germany where the state has a substantial participation. The UK financial market has its own rules by which it operates, influencing government policies.

Another difference is represented by the objectives pursued by the two financial markets. The stock market system in Great Britain aims to maximize the wealth of the owners, compared to Germany which aims to harmonize the objectives of those agents with interests.

It can appreciate the fact that the structure of a financial system, regardless of whether it is based on banks or the financial market, also depends on the way in which the company's activity is administered. Therefore, it is considered that when the possibilities of production within an enterprise are known, the managerial decisions being accurately evaluated, the variant of a system based on banks is optimal.

Another similarity is represented by the members of the exchange for the two states, who can be both legal and natural persons who meet the following conditions regarding: capital, experience in the financial sector, good financial situation.

One factor supporting the German banking system is the structure of the German corporate sector. A very high percentage of activity is concentrated in industry. About 60% of manufacturing employment in Germany is represented by SMEs, compared to about a third of manufacturing employment in the US and UK.

Currently, the London stock exchange is the most important stock exchange in Europe and one of the largest in the world. LSE membership can only be obtained by investment firms and lending firms authorized in the European Economic Area. Figure 1 shows the evolution of the stock market capitalization in the period 2017-2023 on the two financial markets. Figure 1 reflects data showing the comparative evolution of the two financial markets. It can be seen that the evolution of the two markets shows both increases and decreases due to events of different natures.

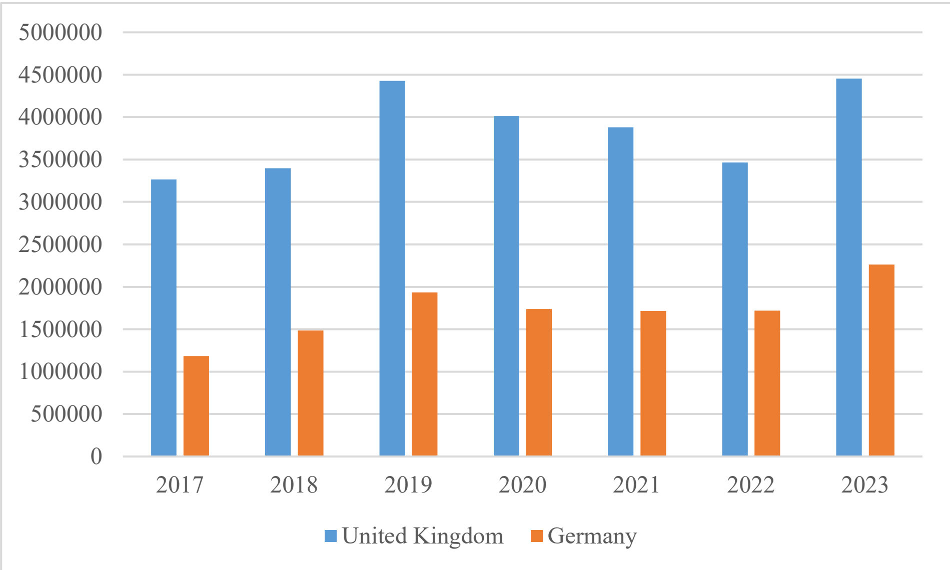

Figure 1. The evolution of the stock market capitalization on the two financial markets in the period 2017-2023 (billions of USD)

Source: own takeover from the World Federation of Stock Exchanges

The graph shows that the general evolution of financial markets shows an upward trend in stock market capitalization. The best results were recorded in 2023 for both countries, with Great Britain standing out with the best capitalization.

The increase in stock market capitalization from different years was manifested in the context of global returns of GDP rates, the decrease in the inflation level, the decrease in volatility on the market.

The yield of the main stock exchanges according to the market capitalization

Table 2

Nr. crt.	**Exchange name**	**2019**	**2020**	**2021**	**2022**	**2023**
1.	NYSE NYSE Euronext(US)	27,4	7,8	-8,1	10	10,9
2.	Tokyo Stock Exchange	58,7	-	12,4	-1,7	20,9
3.	NASDAQ Stock Exchange	32,8	14,7	4,3	6,8	29,1
4.	Euronext NYSE Euronext (Europe)	26,5	5,5	10,3	8,6	11,5
5.	London Stock Exchange	24,8	3,2	7,0	-7,3	13
6.	Shanghai Stock Exchange	-4,7	61,4	21,0	-3,6	16,4
7.	Hong Kong Exchanges	9,5	23,9	-1,5	0,3	37,3
8.	Deutsche Börse	24,6	2,3	9,3	3,8	15,8
9.	TMX Group	9,6	8	-9,0	21,4	10,9
10.	BME Spanish Exchanges	7,4	1,3	-12,2	-7,1	10,8

Source: own processing according to the World Federation of Exchanges

From the data in the table above, it follows that the general evolution of the financial markets shows an upward trend in the stock market capitalization and the differences are billions of dollars. The London Stock Exchange registered both positive and negative values during the studied period. Total capital raised on equity markets through new issues increased by 74%, and the largest IPO in Europe in 2023 was Allied Irish Bank.

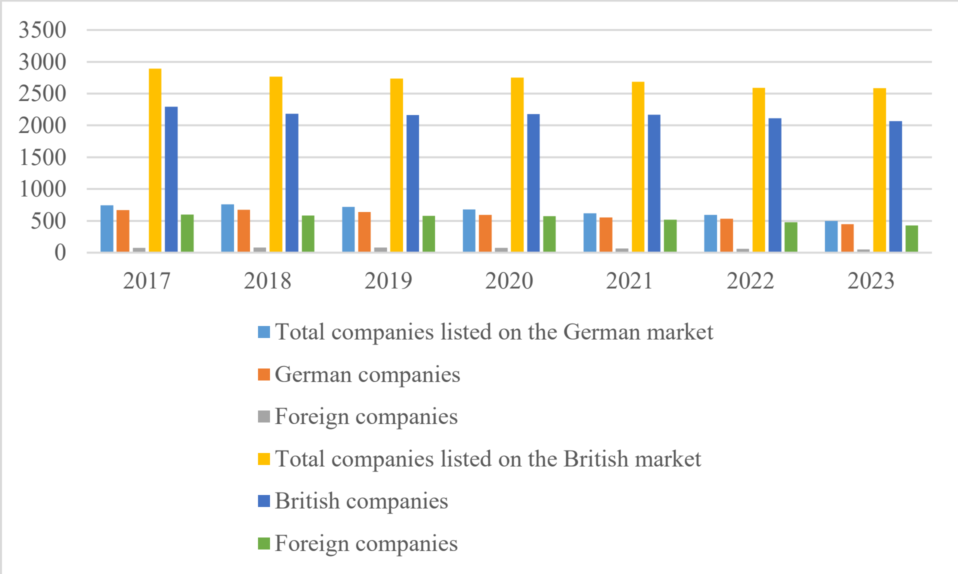

Figure 2. Evolution of the number of listed companies (December 2023)
Source: own processing according to the World Federation of Exchanges

The graph shows that Great Britain registered a very high number of companies compared to Germany, being the leader in the number of IPOs in Europe. LSEG was placed in the top 3 worldwide for money raised through IPOs. The UK is more attractive to foreign investors and issuers in terms of the number of listed companies compared to the German financial market.

Conclusion

The present paper analyzed and interpreted the evolution of international financial markets, identified the functioning and organization of financial markets at the international level. The research carried out in the work shows that the financial markets have an important role, from an economic point of view, they contribute to the amplification of the investment process and to the good functioning of the market economy. Financial instruments, capital flows and increasingly complex trading systems, supervision and regulation aim to support economic development and ensure an efficient trading framework for participants.

We can appreciate that for the good functioning of the economy at the international level, the financial markets represent the element that contributes to the financing of economic activities and ensuring capital mobility.

The investors belong to a different country than the country where the money is placed, at least one of the two participants in the transaction is a non-resident, the transactions are carried out in different currencies (in the most commonly used currencies worldwide), capitals are mobilized over a long period of time.

The placement of available financial capitals had an individual character for a long time, being found in the form of direct investments. Their importance decreased over time in favor of indirect investments made through collective investment bodies.

These bodies attract the resources saved from the population and other entities that do not have knowledge, nor sufficient resources to participate effectively in the financial market. We can say that the globalization process has boosted the evolution of international financial markets, the IT field by making transactions and information exchanges in real time.

It can be appreciated that the functioning of the financial markets is influenced by the state of the economy, the coherence of the monetary, budgetary, social policies and the regulations in force.

The existence and sustainability of the saving process at the national level is the main influence. Any economic entity can become a participant in the economic and investment process within the economy.

Market regulation involves the establishment of norms and rules to govern the functioning of the markets, to check the activity of the participants, to aim for the creation of an efficient framework in order to meet the proposed objectives of the market. Financial market regulation refers to a form of supervision by financial institutions that impose certain restrictions, respectively requirements for participants, so that the integrity of the financial system can be ensured.

The activity on the financial markets must be carried out based on conditions of economic efficiency. We can say that a financial system is efficient if it meets a series of conditions: the trend of the economy is growing and positive; there should be no budget deficits in the economic environment; companies listed on the market to present high returns; to have access to liquidity; the value of the assets to be real. The efficiency of the international financial markets is reflected by the relations between the participants through the market value resulting from the confrontation of demand and supply.

The supervision and regulation in the case of the two financial markets aims to ensure an efficient framework for carrying out transactions with financial instruments in a fair, legal and transparent way.

In order to fulfill these conditions, it is necessary to involve several authorized institutions. The financial system in Great Britain operates and is regulated by the Financial Services Authority, while the financial system in Germany has opted for the single supervision model for the entire system as a whole (banks, investment companies, the capital market and insurance companies.)

The size of international financial markets has grown considerably as a result of the liberalization of national markets and the increase of investment opportunities, so foreign and portfolio investments have registered a diversification trend.

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