2.2.2.3.2.5 Exchanges

return to Ancillary Data

Investopedia defines an Exchange as:

An exchange is a marketplace in which securities, commodities, derivatives and other financial instruments are traded. The core function of an exchange is to ensure fair and orderly trading and the efficient dissemination of price information for any securities trading on that exchange. Exchanges give companies, governments and other groups a platform from which to sell securities to the investing public. [1)]

Although this definition is meant to be specific to existing physical and electronic exchanges covering "securities, commodities, derivatives and other financial instruments" offered on the New York Stock Exchange (NYSE), Nasdaq, London Stock Exchange (LSE), and Tokyo Stock Exchange (TSE), it is also applicable when immutable data objects themselves become financial instruments and when they are applied to public records, certificates, or supply chains.

An exchange on the surface may seem to be a trivial concept and if this were so, the development of laws, rules, and regulations governing them would also be trivial. However, a quick look at the rules governing the NYSE alone is daunting [2)] . These rules are not to torment or torture traders, or to limit trades; rather they are to "ensure fair and orderly trading".

As the DIDO exchange concepts grow and mature, the need for, and the development of, rules and regulations to "ensure fair and orderly trading" must also adopt the rules and regulations expected from any exchange and evolve to handle the unique benefits, functions, capabilities of DIDOs.

Some of the types of trades that an exchange could handle are:

- **Market Order (MKT)** – A market order is an order to buy or sell a stock at the best available price. Generally, this type of order will be executed immediately. However, the price at which a market order will be executed is not guaranteed. It is important for investors to remember that the last-traded price is not necessarily the price at which a market order will be executed. In fast-moving markets, the price at which a market order will execute often deviates from the last-traded price or "real time" quote. [3)]
- **Limit Orders (LMT)** – A limit order is an order to buy or sell a stock at a specific price or better. A buy limit order can only be executed at the limit price or lower, and a sell limit order can only be executed at the limit price or higher. A limit order is not guaranteed to execute. A limit order can only be filled if the stock's market price reaches the limit price. While limit orders do not guarantee execution, they help ensure that an investor does not pay more than a pre-determined price for a stock. [4)]
- **Stop Order (STP)** – A stop order, also referred to as a stop-loss order, is an order to buy or sell a stock once the price of the stock reaches a specified price, known as the stop price. When the stop price is reached, a stop order becomes a market order. A buy stop order is entered at a stop price above the current market price. Investors generally use a buy stop order to limit a loss or to protect

a profit on a stock that they have sold short. A sell stop order is entered at a stop price below the current market price. Investors generally use a sell stop order to limit a loss or to protect a profit on a stock that they own. [5)]

- **Stop Limit Order (STPLMT)** – A stop-limit order is an order to buy or sell a stock that combines the features of a stop order and a limit order. once the stop price is reached, a stop-limit order becomes a limit order that will be executed at a specified price (or better). The benefit of a stop-limit order is that the investor can control the price at which the order can be executed. [6)]
- Some of the types of trades that need to be considered during an Exchange are **Fill-Or-Kill (FOK)** – An FOK order is an order to buy or sell a stock that must be executed immediately in its entirety; otherwise, the entire order will be cancelled (i.e., no partial execution of the order is allowed). [7)]
- **All-Or-None (AON)** – An Aon order is an order to buy or sell a stock that must be executed in its entirety, or not executed at all. However, unlike the FoK orders, Aon orders that cannot be executed immediately remain active until they are executed or cancelled. [8)]
- **Market If Touched (MIT)** – A market-if-touched, or MIT, order is a conditional order that becomes a market order when a security reaches a specified price. When using a buy market-if-touched order, a broker will wait until the security falls to a certain level before purchasing the asset. A sell market-if-touched order will activate when the price of a security rises to the specified level. [9)]

This document provides a list of standards associated with each of the components within the DIDO Reference Architecture. In this section the descriptive text for each standard or specification is taken directly from the original standard or specification and is properly attributed with a reference to that standard or specification. This has been done in order to aid readers of the DIDO RA to be able to determine applicability and usefulness of the standard or specification to the particular instance of a DIDO they are working on.

Re-writing the descriptive text can result in a misunderstanding of the original intent of those standards and specifications. If you have ever been involved in the writing of a standard or a specification, you'll be familiar with the long discussions and debates on the selection of each word and the punctuation used. Therefore, the text in the standards listed below is duplicated as much as possible "intact".

1)
Investopedia, "Exchange,". https://www.investopedia.com/terms/e/exchange.asp#ixzz5OGeT4QUj.

2)
New York Stock Exchange, "NYSE Tools," http://wallstreet.cch.com/NYSETools/PlatformViewer.asp?selectednode=chp%5F1%5F2%5F1%5F35&manual=%2Fnyse%2Frules%2Fnyse%2Drules%2F.

3)
U.S. Securities and Exchange Commission, "Market Order," https://www.sec.gov/fast-answers/answersmktordhtm.html.

4)
U.S. Securities and Exchange Commission, "Limit Orders," SEC, https://www.sec.gov/fast-answers/answerslimithtm.html.

5)
U.S. Securities and Exchange Commission, "Stop Order," SEC, https://www.sec.gov/fast-answers/answersstopordhtm.html.

6)

U.S. Securities and Exchange Commission, SEC, https://www.sec.gov/fast-answers/answersstoplimhtm.html.

7)

U.S. Security and Exchange Commission, SEC, https://www.investor.gov/additional-resources/general-resources/glossary/fill-or-kill-order.

8)

U.S. Security and Exchange Commission, SEC https://www.investor.gov/additional-resources/general-resources/glossary/all-or-none-order.

9)

Investopedia, Market If Touched - MIT, https://www.investopedia.com/terms/m/marketiftouched.asp#ixzz5OHOMW2ba]].