

**ADAPTATION OF TRADING
PLATFORMS TO DIGITAL AGE**

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Scopul principal al acestui studiu este prezentarea celor mai importante principii care sunt luate în considerație de către traderi (în mod special, de către traderi începători) în procesul de alegere a platformei pentru tranzacționare cu instrumente financiare. Una din condițiile pentru adaptarea sistemelor multilaterale de tranzacționare noii ere informaționale este asigurarea unui proces sigur și fiabil de tranzacționare, cu reguli facile de acces pentru toți investitorii. În același timp, pentru a opera eficient, platformele de tranzacționare trebuie să țină pas cu dezvoltarea tehnologiilor informaționale. A doua parte a studiului prezintă o analiză critică a Sistemului Multilateral de Tranzacționare (M.T.F.) implementat în cadrul Bursei de Valori a Moldovei (BVM). În urma analizei s-au constatat multiple probleme, cu care se confruntă BVM, ce țin de lipsa capacităților practice în procesul de vânzare a valorilor mobiliare, dar și absența operatorilor de piață cu abilități profesionale tehnice, precum și alte obstacole care încetinesc digitizarea acestei instituții. În final, sunt date niște recomandări pentru îmbunătățirea regulilor de tranzacționare în cadrul Sistemului Multilateral de Tranzacționare a BVM.

***Cuvinte-cheie:** Sistemul Multilateral de Tranzacționare, platforma de tranzacționare, contul Demo, broker, trader, marja inițială, instrument financiar.*

The main purpose of the article is to present the most important operating principles, which are considered by traders (especially the novice ones) in the process of selecting the trading platform to trade stocks. One of the conditions for adapting multilateral trading systems to the new information age is ensuring online, safe and reliable trading with easy access rules for all investors. Also, to operate efficiently, it is crucial for trading platforms to keep pace with technological developments. The second part of the study presents a critical analysis of the Multilateral Trading System (MTF) of the Moldova Stock Exchange (MSE). The analysis finds that the Moldova Stock Exchange faces problems related to low development of stock exchange transactions' technology, lack of practical skills in the sale of securities and lack of market operators with professional IT abilities, as well as other obstacles that cease this institution's digital development. Finally, there are given some recommendations for the improvement of trading rules within the Multilateral Trading System of the Moldova Stock Exchange.

***Keywords:** Multilateral Trading Facility, trading platform, Demo account, broker, trader, initial margin, financial instrument.*

***JEL Classification:** G10, G20.*

Introduction. The rise of alternative trading systems on international scale exercised a deep impact on the activity of stock exchanges. Stock exchanges are continuously modernizing their trading platforms due to the harsh competition by off-exchange trading platforms. Beginning in mid 1990s, alternative trading platforms became increasingly famous, allowing market participants to easily trade, thus creating premises to avoid exchanges as trading place. In the United States during the 1960s transactions were made through the so called electronic communication networks (ECNs), while in Europe the spread of ECNs spurred the development of Multilateral Trading Facilities (MTFs) all over the continent as a result of adoption of the Markets in Financial Instruments Directive (MiFID) in November 2007. The Directive has prompted rapid development of MTF platforms, which the same as the ECNs from the United States also aimed at minimizing trading costs for market participants in order to attract new companies to trading platforms, increase liquidity and transparency of transactions.

I. Operating principles of trading platforms in foreign practice

The choice of trading platforms by a trader will depend, first of all, on the specific needs of each individual investor as well as on its own trading strategies. Thus, to operate efficiently, it is crucial for trading platforms to keep pace with technological developments and new business models at international level. One of the conditions for adapting multilateral trading systems to the new information age is ensuring online, safe and reliable trading with easy access rules for all investors, especially for novice traders.

The most important operating principles that are considered by investors are listed below:

1. Trading platform design and architecture. In the last decades, companies which are offering online trading have considerably redesigned their trading platforms to make information more available to their clients. The trading platform is considered the investor's doorway to markets. For traders it is important that the platform and any software is easy to use, is visually satisfying, is offering a variety of technical and/or fundamental analysis tools and orders are easily entered and exited. A well-designed trading platform should have even a "panic" button that closes all open positions, besides "buy" and "sell" buttons. On the other hand, a poorly designed interface could lead to costly order entry mistakes, such as accidentally adding to a position rather than closing it, or going short when the trader wanted to trade long.

Deposit and withdrawal options, as well as deposit bonus offered by trading platforms represent other options that are usually considered by traders. At present, MTFs with a rich historical and practical experience use different deposit and withdrawal systems, such as PayPal, Google Wallet, Paymentwall, ACH payment, bank transfers, credit and debit cards,

bank checks, etc. The minimum deposit margin also is a motivating factor. At the same time, it matters a lot what is the maximum amount that can be withdrawn by the investor. Many trading platforms offer the possibility of free registration as well as other services for which fees and commissions are not charged, as opposed to other platforms within financial institutions, such as fixed-cost banks, entry fees and other payments.

2. Demo account opening is a binary option (a demonstration account) especially for those who invest for the first time. Thus, novice investors have the opportunity to test their trading strategies before the actual transaction begins, without incurring any losses or costs. In foreign practice, many brokers (for example, within the Demo FOREX Platform) offer a free demo account. At the same time, several FOREX platforms offer investors the opportunity to open mini and micro accounts with some initial deposit requirements. Opening a demo account is beneficial and at the same time is indicated before opening a real account, as the client is entered into the trading environment by simulating transactions. Thus, a virtual account gives him the benefit of learning and experimenting with certain trading ideas before applying them on a real account.

Within a demo version, it is not necessary to possess money, while quotations, prices, market changes reflect the real situation on most of the markets and financial instruments. The trader can access and test all functionalities of the platform, including real trading, technical analysis indicators, other information and analyses. In such a way, a novice investor can test his own investment strategies without incurring the risk of losing any real money.

Test platforms allow to better understand the trading rules on markets, as well as characteristics of financial instruments, thus helping the investors within the process of investment decision making in future. The stock market simulator enables to test the most popular types of orders (Stop Loss, Buy Limit, Sell Limit, Sell Stop, Buy Stop, Take Profit, etc.). Also, the investor has the opportunity to develop an empirical understanding of how approaches like the financial leverage or short selling work.

Most common mistakes made by novice traders while trading within a demo version are:

- Risking most of capital within one transaction;
- Not understanding that losses are a natural moment in trading, just as profits are. It is more important to learn how to reduce the value of losses rather than diminish their frequency;
- Operating on losses for a long time, expecting that a trend will eventually reverse;
- Opening up a number of large positions at the same time and not being able to control them.

3. Customer service is another motivating aspect for investors within the decision making process to access a trading platform. For novice investors, the most important is intuitiveness in use and ease in placing orders. Professional investors, on the other side, search for more complex and advanced platforms that will offer a wide range of technical analysis tools. Choosing a broker that will enable the platform by providing a few different ways to trade is also very important.

Important factors are the free 24-hour online accessibility of the customer broker, call center activity, or the availability of live chat, so these small opportunities denote respect and willingness to work with customers, at the same time marking transaction statistics.

4. Leverage and profit margins represent an easy opportunity to trade on the market with a small amount of capital. Generally leverage is very important while trading on the derivatives market, allowing investments to bring higher returns. At the same time, risks should be carefully considered. Even if the direction of price changes was correctly foreseen, it is impossible to strictly predict the moment when the changes will happen. Position taken by trader must be able to survive small price fluctuations. With a high leverage, it is hard to survive small price fluctuations and losses might be incurred on an adverse excursion in market price, even though the trade idea was correct and played out as expected.

5. Types of traded assets: some institutions offer on-line trading platforms with the ability to trade different assets on different markets. Thus, in the case of stock trading, customers are able to view real-time quotes in different markets, and in the case of currencies – the possibility of trading using automatic instruments, graphs and analyzes on the main currency pairs. For indices, the availability of information on the most common indices such as Dow Jones, S & P 500, NASDAQ, GER JPN 30, as well as free access to real-time tariffs on indices is taken into account. If the goods are traded, it is important for the investor to access the goods directly from the on-line platform without the obligation to buy or sell the physical asset. At the same time, an extra benefit for the institution hosting a trading platform is the possibility of forecasting for the market so that the client can correctly determine the buying and selling positions and set the predetermined limits for profit and loss.

Summing up some practices in the operating activity of trading platforms from foreign countries, it is obvious that MTFs should provide modern software solutions that would guarantee: functionality, high order execution speed, high data flow in real time, ensuring availability, integrity and confidentiality of information, easy access and ease of use, automated trading options, technical and fundamental analysis tools, etc.

II. The Multilateral Trading System of the Moldova Stock Exchange

In any developed country, the role of the securities market indicator belongs to the stock exchange, designed to perform the functions of an organized market, ensuring a "meeting place" of supply and demand. In Moldova, this institution is represented by the Moldova Stock Exchange (MSE).

At present, the Moldova Stock Exchange (MSE), despite of some important achievements in the process of its creation and development, still faces problems related to: low development of securities sale technology; poor professional training of market operators, lack of practical skills within the process of selling stocks; low development of education system in the domain of stock exchange transactions.

In the Republic of Moldova, the Moldova Stock Exchange uses a computer assisted program called the Multilateral

Trading System (M.T.F.). According to legislative provisions, MTF is a multilateral system, operated by the MSE, which ensures, in accordance with its own non-discretionary rules, the confrontation of multiple bid/ask orders of financial instruments received from third parties. The M.T.F. can be accessed from the terminals (PC) inside the stock exchange, or by remote access¹. However, some shortcomings in the functionality of the system are obvious:

- The system does not offer services similar to trading platforms from advanced countries. The services offered within the M.T.F. are outdated, and the software solutions used are obsolete. Also, the information infrastructure is poor on the domestic secondary market;

- There is no call center or customer service;

- The members of the M.T.F. have the obligation to provide their stockholders with their own technical conditions in accordance with the requirements of the MSE for the realization of the remote transactions under optimum conditions. Although the National Commission for Financial Market obliges the MSE to ensure online access for the NCFM and brokers, transaction operation supposes physical presence of brokers within the trading sessions;

- If stock exchange members encounter technical difficulties in operating the remote multilateral system, the stock market offers them the possibility to carry out transactions at headquarter within the limit of the number of computers available. In exceptional circumstances where the system operator is unable to record transactions or to issue the final trading report of that day due to incidents arising from the operation of the M.T.F., the executive management of the system operator may decide to cancel all transactions in day or part thereof with the agreement of the NCFM. Also, the remote access is determined by the unconditional observance of all the requirements established by the exchange;

- The M.T.F.'s timetable is reduced (from 10:00 to 13:30 Monday to Friday inclusive, excluding the days declared as legal holidays), so live chat and live data exchange is not possible with other platforms from foreign countries. The President of the MSE is entitled to modify this timetable in the cases necessary for the proper conduct of transactions on M.T.F. Any changes to the trading session schedule are announced to the M.T.F. in advance, at least one working day, and are reported to the NCFM. The executive management of the system operator is also entitled to decide to suspend, reduce, extend or modify the program and the trading session in exceptional cases such as natural disasters, the fall of the national telecommunications system or the supply and / or transmission of electricity, or the fall of the M.T.F. support infrastructure;

- Trading session still implies bureaucratic procedures. The President of the MSE appoints the Chairman of the trading session, who will also exercise the functions of the M.T.F.'s Administrator: operating in the system and announcing the opening and closing of the trading session, overseeing the observance of the rules of order and discipline during the trading session. Also, the Chairman has the right to exclude from the trading room persons who have an inappropriate behavior to the standards imposed by the system operator. Although this peculiarity represents a disadvantage for market participants in Moldova, according to European Directive *“Regulated markets and MTFs are not obliged to operate a ‘technical’ system for matching orders and should be able to operate other trading protocols including systems whereby users are able to trade against quotes they request from multiple providers. A market which is only composed of a set of rules that governs aspects related to membership, admission of instruments to trading, trading between members, reporting and, where applicable, transparency obligations is a regulated market or an MTF within the meaning of this Regulation and the transactions concluded under those rules are considered to be concluded under the systems of a regulated market or an MTF”*² bureaucratic procedures are somehow accepted within legal norms;

- Concerning the authorization of listing of securities in M.T.F., the executive management of the system operator or NCFM may order a temporary suspension of its quotations, if it considers that this measure is necessary to protect investors or to maintain public confidence in the integrity of the stock market.

According to stock exchange, statistics, only a quarter of joint stock companies that are admitted to the Stock Exchange are traded. However, this does not mean that within societies there is no continued struggle for action and no owners change. According to the opinion of the President of the Moldova Stock Exchange, Mr. Corneliu Dodu, these processes are not open and less transparent methods are applied, including the dispersal of the opponent's package through extra emission, the assignment of rights based on court decisions, the contribution to shares in the social capital of another company. Thus, this local specificity does not contribute to the development of the market itself³.

Fairness of transactions in the multilateral system is ensured by an information technology auditing or consulting company that should annually evaluate system functionality, but the results of the expertise are not presented to the general public and it is not clear if audit reports formally exist. The executive management of the system operator may suspend or reduce the schedule and duration of the trading session in some exceptional cases (for example, the fall of the national telecommunications system, the power supply or the fall of the information infrastructure of the M.T.F.). At the same time, capital market legislation allows the management of the MSE to cancel all transactions, if the system operator is not able to record transactions for some justified reasons or to issue the final trading report of that day due to incidents occurring in the operation of the M.T.F. However, these cases may in certain circumstances create opportunities for fraudulent practices and thus diminish transparency and public confidence in the integrity of the stock exchange.

¹ Definition is presented in the Rules of Multilateral Trading Facility within the Hotărîre cu privire la eliberarea autorizației de sistem multilateral de tranzacționare nr. 60/8 din 13.11.2015, published in Monitorul Oficial nr. 311-316/2261 from 20.11.2015

² REGULATION (EU) No 600/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012, P (7)

³ Interview of Mr. Corneliu Dodu, the President of the MSE, <http://agora.md/stiri/1955/directorul-bursei-de-valori-din-moldova--despre-dezechilibrele-pe-piata-autohtona>

Conclusions

The implementation of the concept of M.T.F. on the Moldovan capital market undoubtedly represents a new step the process of domestic capital market internationalization. The new regulatory framework, although imperfect, offers opportunities for the modernization of the stock exchange transactions in the future. Still, the Moldova Stock Exchange remains limited only to a small group of financial institutions and legal entities, while natural persons avoid to participate within transactions.

In the Republic of Moldova there is no viable long-term development strategy for the local stock market and it is regrettable that the competent public authorities are not interested in promoting and consolidating stock exchange transactions in the context of digital age and democratization of world capital markets. Thus, the chances for the internationalization of the MSE are ambiguous, also lack of investments hamper the perspectives of its digital transformation.

To improve trading mechanism within the M.T.F. of the MSE, the following recommendations would be appropriate:

➤ The administration of the Moldova Stock Exchange should develop efficient procedures for recruitment of specialists and training of personnel in order to promote the creation of electronic trading system and its active use by market makers.

➤ A great attention should be paid to design and architecture of the trading platform:

▪ Creation of an intelligent and modern electronic trading platform and its active promotion among natural persons.

▪ Providing a demo version of the platform which would be easily accessed and operated by novice investors.

Promotion of electronic trading with stocks should be part of educational program within economic specialties at universities, as well as an extended promotional campaign in mass media.

▪ Trading platforms should keep evidence of their electronic systems trading, especially information on main decisions, systems' properties, testing methodologies, results of tests and periodic reviews. Recordings must be sufficiently detailed to enable the competent authorities to monitor compliance with the relevant obligations of the trading platform.

▪ Trading platforms should inform the competent authorities in accordance with surveillance measures in of any significant risk, which may affect the proper management of operations and the major incidents in the system in case of materializing those risks.

➤ The mechanism of transactions' registering should be improved within the MSE.

➤ There should be created a flexible communication network, which would inform all market participants on prices and transaction volumes.

➤ National authorities should elaborate a complex strategy of capital market development in Moldova in order to reestablish the investors' trust in institutional structures and to attract population within stock exchange transactions. Population needs to be informed on the possibilities of active and efficient trading on the secondary capital market. This will be possible only with the promotion of electronic trading platforms and a strong educational campaign.

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