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The impact of liquidity and transparency in the financial markets: A case study in Tehran stock exchange

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Abstract

One of the topics addressed in the capital market is liquidity and transparency in the financial markets. Transparency is one of the major issues in Trading based on the forum, and electronics system. The purpose of this study was to investigate the effect of access to transparent stock information for decision-making. Qualitative approach was used for sample selection, data collection, analysis and conclusions. Data collection methods and instruments are in-depth interviews. Sampling method was purposive,useful and was usedfor determining the size of the sample theory saturation. Results obtained from this study indicate that liquidity and transparency are effective in information about quality increase.

Keywords: Quality of stock exchange service, liquidity, transparency of information, capital market.

Introduction

Stock Exchange is one of the most important institutions in the capital markets. The main task of the Stock Exchange is to provide a fair and transparent market for trading, market operations and activities of its members. Stock market as an official market is the most important authority in charge of recruiting, appropriate organizing of wandering financial resources and gathering liquidity of the society and leading it toward the production units. In addition to moving the wheels of the economy through the provision of needing capital projects, reducing government intervention in the economy, and also increasing tax revenues, brings along significant economic benefits with it.Furthermore, it can reduce the effects of inflation leading to liquidity in the community. Economic decisions require information with which available resources can be allocated in an optimal manner. One of the most important factors in making appropriate decision is appropriate information relevant to the decision issue that if not properly processed and will have negative effects on the decision maker. On the other hand, type and how to access information is also important. Whereas information required are asymmetrically distributed among individuals, can cause different results on the same issue. So, because personal information is important for the individual, this is determining the quality of the data distribution that must be carefully evaluated. In the capital markets, related information will form the primary basis of the transaction, therefore information is known as the most valuable assets in the capital markets. In general, we can say that one of the main objectives of stock exchanges is to ensure a fair, efficient and transparent functioning of markets. Therefore financial market planners and legislators are trying to overcome the obstacles of supply and demand, because in this way the price of financial assets becomes closer to its intrinsic value. In the 1990s, many researchers paid attention to control price fluctuation mechanisms and tend to restrict price changes, with the aim of preventing financial crises increased. Price control mechanisms are handled in order to protect investors long before sudden changes in stock prices (Shahrabadi, 2010). In financial markets, fluctuation mechanismcontrols are used in two main forms including:

A) Trading halt, which prevents a transaction of a Stock Exchange sheet or whole market in a speci-

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fied period on essential conditions or according to market officials

B) Amplitude Price, which determine the maximum allowable price change or the trading price difficulties for a sheet a day.

Some Exchanges in order to prevent fluctuations, apply price limits to Stock Exchange prices. Price range meansnot letting the bargainbe more or less than the price range. Sometimes in some stocks, this restriction is only applied to reduce the price. Price limit differs from a trading halt because cost of constraints are based on price changes and when the price reaches the desired level, stopshappening automatically.

Increased market access, along with traditional broker - dealer systems and providing direct access to the market, leads to increase in various trading strategies and investors. Also providing the possibility of online transactions in the stock exchange leads to increase in participation of retail investors in particular active investors, and also improve market liquidity (Madaheasl,2008)..

Increased investment products available in the market, particularly derivative instruments, open a variety of different product choices to investors with trading strategies, risk appetite and different investment horizons. More importantly, investors are attracted to the market with a wide range of investment products to reduce the capital risk. In this context, according to the marketing instructions, providing appropriate rating, sets the ground for more prisons.

Review of the Related Literature

In microstructure analysis, market transparency, which is one of the most important issues in this field, is usually defined as the ability of market participants to observe information in the trading process. The information in this report means prices and quotes, trading volume, origin and source of the order and identity of market participants. In other words, what is the volume of information released to the public, who have received the information and when is the information released, are the main elements measuring the degree of market transparency (Jafarpour, 2004, as cited in Mohammadi, 2008). Transparency is one of the major issues concerning trading systems based on the forum and electronic systems. Fully automated trading systems, due to the impossibility of separating the elements in order, transparency have not such a meaning. In forum-based systems, there is a certain degree of transparency about the composition of the Board during the order. Quotes, which are based on the general market level have less transparency than market auction. Many studies have shown that increased transparency can lead to increased liquidity and may reduce transaction costs. Contrastively based on other studies, transparency can reduce liquidity in the market because many participants are not interested in making public policy and therefore they do not involve in the market. Besides, in the case of the reduction of transparency, informed traders will have better status than before and the investors who are not informed will have worse status. Thus, informed investors tend to reduce the transparency of the market because traders will be better able to take advantage of Personal Information. Conversely, other investors are willing to increase transparency. Also, in case of reduction of the transparency of the market; traders more are likely to delay their trades in order to collect information from the trading activities of other participants. The results of the studies indicated that the reduction in transparency reducedtransaction costs, priced volatility and market efficiency increased. The results show that there is a linear relationship between transparency and market efficiency, in other words the extent of market efficiency, increases transparency, but complete transparency seems highly unlikely (Malrki, Madaheasl, 2008).

In another study, the relationship between transparency and market price fluctuations has been studied using a theoretical model. This review focuses on information transparency of traders' order with liquidity motivation tradersandmakes distinction between the public and private access to information. In this model, the market is more transparent in terms of public information, that traders have more access to the volume of flow of order information.However, a market is consideredmore transparent in terms of information that most of the orders flows are substantially determined by each of the informed traders know (without other traders become aware of it). Results of this study indicate that when the orders of traders with liquidity motivation can benefit from appropriate price fluctuations, increasing the transparency of public information to a certain degree reduce the rate of price fluctuations but after going through it, because of the incidence of two effects, it leads to increase in price volatility. The first is awareness of the order for traders provide the opportunity to submit orders in order of transitory shocks violence, and second awareness of the order flow, can reduces the price sensitivity of traders and consequently leads to larger price movements in response to demand shocks. When the transparency of order flow is low, the first effect is dominant and more information about the orders leads to price fluctuationreductions. Once transparency about information order flow is high, the second effect dominates and thus more information about the flow of order leads to more pricefluctuations. In other words, in identical circumstances, any increase in price will reduce the transparency of personal information. And, it is for this reason that different traders have different information about the flow of orders that have led to restrictions on the latter effect (Department of Economic Studies and Market development, 2008).

Based on the results of research conducted on the relationship between transparency and efficiency, increase in transparency cannot be regarded as the main factor of market efficiency. However, OTC market studies show that the more transparency can contribute to moremarket liquidity because of more participation of the investors. It also seems efficiency impacts heavily depend on information structure. In case there is little fundamental information on transactions, more transparency will not necessarily improve performance (133-14, return) Tehran Stock Exchange, May 131). Even in some cases, more transparency acts as a deterrent to market makers acting in compliance situations. In fact, in a market with a high degree of transparency of information,some investors request reduction in certain types of information.

Liquidity

Considering liquidity in the market is important. Lack of market liquidity as one of the key elements in developing markets, adversely affects price formation and discovery of useful features, which are the main features of work markets (Sadeghi Sharif and Fadaiyannejhad, 2010). However, what the investor wants fromthe financial market is enough liquidity in the market. Liquidity refers to the ability of the market to absorb large volumes of transactions without causing volatility in prices. Among features of markets with high liquidity, alow distance between proposed purchase and sale price which consequently transactions will be conducted in a cost effective manner.Liquidity in the secondary market reduce investors' costs by reducing range of fluctuations and transaction costs and provides access to different investors with different trading strategies. As Daemkar (1999) remarks, cash markets with transaction costs reduce by allowing investors to enter and exit without creating the least disruption and decline in the value of financial asset. The more the market liquidity, the more likely it is to adapt an increase in the optimal order. Since investors turn to the markets that have higher liquidity, consequently this subject is considered to be an important in the growth and development of markets. Liquidity in the financial markets is influenced by several factors. Also, the influence of these factors varies in different markets. Based on the studies conducted factors such as concentration of ownership, the level of free floating share, external intermediaries, market access, trade through Internet, capital account liberalization, trade and infrastructure costs, tools and products, additional adaptation, participation of retail investors, stock exchange restructuring, cooperative governance,quality of listed companies, increasing the trading hours of meetings and market manager is effective in increasing liquidity. In a general classification factors affect liquidity can be divided into macro and microstructure market factors. Microstructure deals with analysis of the market impact of trading mechanisms can have an influence on the price formation process. Among the application of financial knowledge remark regulation, design and definition of appropriate transaction mechanisms (Tehran Stock Exchange, May 14). Lack of market liquidity as one of the key elements of development will have adverse effects on the formation and price discovery as the primary features of markets. According to Easingwood (1986), liquidity requires sufficient free float share ofliquidity in order to actively transact by investors especially legalinvestors. The free float share is the part of company that is not controlled by the government and the company's shareholder.In other words, the proportion of a company's stock traded on the market and management purposes which is not controlled by the shareholder in the transaction process is called free float share.It can be concluded from the studies that enhanced liquidity leads to increase in investor confidence and therefore continued growth and more stability of the market.Improved liquidity and the possibility of rapid changes in share price, leads to exchange attraction to companies listed in the exchange for investors. Companies can also use this as a tool to attract new partners and joint investment.The free float share is one of effective variables on increasing liquidity, market depth and efficiency. Liquidityrequires a higher level of free float share for companies. Studies show increase in the free-flight share reduces the possibility to price manipulation, liquidity risk and intrinsic valuemanipulation gets close to fair price. Many exchanges for their index indicate the exact position of the market, involve the free float shares in the index calculation formulas. Many exchanges keep pace with market growth, in order to increase efficiency and access of investors to capital markets, look for technology-based solutions. The aim of this work is to facilitate the flow of investment to markets. Exchanges try to organize and use resources more accessible to market participants above traditional broker- dealer server systems. Furthermore, with the globalization of markets and increasing in competition exchanges in order to absorb order from other countries the exchanges should be able to consolidate its position and build an efficient way for investors to access to the markets. The aim of technological development of the secondary market is to take advantage of improved market access and using different trading models. However, new technologiesare the reason for the development of market structures such as increased capacity, and complex transaction models etc. All of these factors increase market liquidity. Direct access to the market, development ofinterface technology, and remote access are among the mechanisms used (Alipour and Sadeghissharef, 2009). The increasing demand of customers and market participants to access global markets, also lead to continuous innovation in access to the means of the market. New legislation, for example, online trading and electronic trading systems can be important in exchange efficiency among the effects of their use, including:

- Reducing the cost of transactions: This due to reduction in extra costs is because of shortening of the transaction process (so that an increase in the volume of transactions has not led to a significant increase in the level of costs).
- Increase the liquidity volume: Electronic systems create the possibility of different people deal with each other regardless of the distance they have, that leads to more involvement of investors and increase liquidity in the financial markets.
- More competition: Presence of electronic trading on financial markets has removed many of the barriers to trade in this market, for example, today an investor can just push a button to transact the securities without having to go to a LIFFE or Globex, Eurex, have a futures contract on extra intermediaries or special participant; this would create a global competition in the field of financial markets.
- Increase transparency: Because the electronic transactions lead to a flow of information in the world and is in an electronic form, enabling more accurate price discovery and transparency has increased.
- Reduction of the difference between buying and selling, which is because of an increase in transparency, liquidity and competition in the financial market.

The public offer of shares prepares the ground to buy and easy to sell the property easily, this feature increases the attractiveness of securities for investors. Improved liquidity and the possibility of rapid changes in share prices, leads to more attraction of shares of companies accepted in the exchange list for investors. Companies can also use this as a tool to attract new partners and joint investments (Ross, 1989; Easingwood and Storey, 1991; Creswell, 2007; Mack, 2005).

Once sufficient information about a company's stock price will be listed in the public domain, analysts, investors and financial intermediaries who are willing to invest in shares in the company, examine share price, financial condition, market conditions and the condition of the product, put comments through recommendations to buy or sell shares. The information isimportantbecause they reflect the viewpoint of the company and its stock market and that the company can consider it in planning for their future.

Methodology

In this study, we investigated the liquidity and transparency isinformation aboutquality of stock service. According to Miles and Huberman (1994, as cited in Marvasti, 2004), a qualitative approach is an appropriate method for this study.

As the research aims at investigating the relationship between liquidity and transparency on the quality of information on the effects of stock and security services, to achieve the goal, in addition to the generalized, a closely related subject is required. To find out full and detailed information, considering research issue qualitative research is used. In sample selection, data collection, analysis, and conclusion will be used to answer research questions. In this researchconsidering the topic and the variables two types of information will be used.

1- Secondary data from various sources of information that may be collected through library research.

2- The primary data for this study was collected from the interview technique, which is used to verify the effectiveness of data collected.

It should be noted that the field and library methods were used as data collection methods.

The research population of this study includes comprehensive marketing system Committee in stock. Statistical analysis unit of this research is thebrokerage firms of Tehran Stock Exchange and itssample is chosen from the population. Components to determine the sample population in this study included population size and diversity. Because the researcher has gained knowledge from research and achieved recognition in Iranian stock, sampling methods based on objective and theoretical saturation is usedto illuminate the sample size. Under the terms of references as well as increased reliability and validity of the research, interviews with all relevant departments who are engaged in the activity will be carried out.

Research Model

Given that the liquidity and transparency of information can make a positive impact on improving Stock Exchange services and in case of the proper planning of the implementation of competitive advantage and clear information sustainable development, the stock market boost can be achieved. In view of the above, the following model is offered:

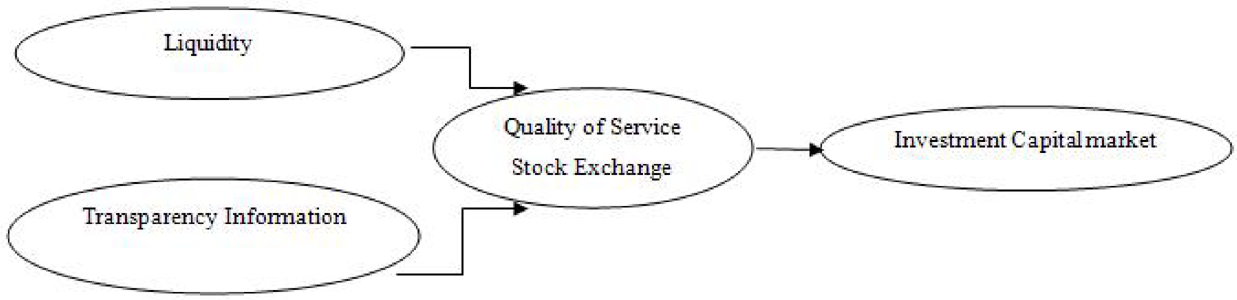

Figure 1. The model used to study the relationship between liquidity, transparency, and investment.

Data Analysis

Principal components of analysis of the selected approach are objective and research questions, Based on the research objective analyzing approach in this study it will be used after the data collection. The data samples are collected, then the analysis is performed, and finally the data are analyzed based on authority references. Also, based on the research type, which is a case study, deductive method is used and the data were analyzed by using pattern matching method and comparison theory. In qualitative research, the researcher ultimately uses a subjective interpretation of the data collected, and to increase the reliability of the study, interpretation methods should be mentioned. The following codes are defined in the framework of theories.Positive (+)shows that the theory with data collected from Tehran Stock Exchange are supported, negative (-) shows that the theory with data collected from Tehran Stock Exchange are not supported, - / + says that data collected from Tehran Stock Exchange are supported partially.

Liquidity and Transparency

Based on data collected from interviews conducted all believed that increased liquidity and transparency, increases service quality of The Stock Exchange of Tehran. Items 1, 3, 4, 5, 6, 7, 8, 11 believed thatincreased control over the Tehran Stock Exchange market, increase the quality of services in Tehran Stock Exchange. And all interviewees believed that disclosure of listed companies in Tehran Stock Exchange, by Tehran Stock Exchange increase service quality and investment in the stock. Also, all items believed that creating confidence in investors by Tehran Stock Exchange does increase in service quality of Tehran Stock Exchange and increasequality of service and increase investment in the stock. The following table summarizes the data obtained from each participant on how to improve service quality by increasing the liquidity and transparency in Tehran Stock Exchange.

Table 1. Data for each participant about service quality improvement.

Item 11	Item 10	Item 9	Item 8	Item 7	Item 6	Item 5	Item 4	Item 3	Item 2	Item 1	Interview items / Liquidity and Transparency
+	-	-	+	+	+	+	+	-	-	+	Increased monitoring and control
+	+	+	+	+	+	+	+	+	+	+	Disclosure of corporate information from the Stock Exchange
+	+	+	+	+	+	+	+	+	+	+	Creating Investors' confidence and trust in the Tehran Stock Exchange

+means it is expressed by interviewee,-means it is not expressed by the interviewee.

Results

Data collected from Tehran Stock Exchange suggests that the liquidity and transparency of the investment funded by Tehran Stock Exchange leads to increase service quality of Tehran Stock Exchange and the service quality improvesit to increases investing in the stock market and the attraction of new customers. The analysis of the data collected about the liquidity and transparency sothat three factors were important in increasing service quality. The analysis of the data collected about the liquidity and transparency also show that firms listed on the stock market has a significant effect in attracting customers. This causes the client to receive full details of companies to choose the best type of investment that stems from high quality service of Tehran Stock Exchange.

According to data collected from interviews, building trust and confidencehavethe greatest impact on improving services and increasing investment in Tehran's Stock Exchange.

Conclusions and Suggestions for Future Research

The main objective of this study was to investigate liquidity and transparency in increasing service quality and also increasing investment in the Tehran Stock Exchange and to attract customers of other financial markets to the capital market. The results of the study show that the results of expert professionals and staffs in Tehran Stock Exchange was interviewed until data saturation, showed liquidity and transparency factor can be considered as an integrated financial market and the factors that largely affect the improvement of the quality of the Tehran Stock Exchange. This study also demonstrated that more activity and focus on the Tehran Stock Exchangecan increase the service quality in order to increase the domestic and foreign investment.

According to the results of the study, the researcher sees itself to make suggestions for future researchers on the present study:

1. Identifying the factors affecting the productivity and efficiency of the Tehran Stock Exchange.
2. Ranking factors, affecting the productivity and efficiency of the Tehran Stock Exchange.
3. Investigating ways to attract customers to other financial markets, towards the capital market of listed companies in Tehran Stock Exchange.
4. Evaluation of strategies to attract customers and foreign companies in Tehran Stock Exchange.

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