

# ***Analysis of the Australian Stock Market: Organization, Players, Challenges, and Opportunities***

**Ruoxin Liu<sup>1,a,\*</sup>**

*<sup>1</sup>Business School, The University of Sydney, Sydney, Australia  
a. rliu2548@uni.sydney.edu.au*

*\*corresponding author*

**Abstract:** The Australian stock market is discussed in this report because of its importance as a financial hub. In Australia, the primary market operator is the Australian Securities Exchange Ltd (ASX), which is increasingly utilizing technology to develop novel approaches to maximizing shareholder value. Several aspects of the Australian stock market and its participants are discussed using the existing literature as a basis for this paper. The report provides context for ASX's technology deployment. Secondly, it draws attention to the ASX's significant participants. The article's third section discusses the opportunities and threats that participants in the Australian stock market face. Problems have arisen in the regulation and operations of the Australian stock market due to recent changes, such as the transfer of regulatory authority to ASIC, the introduction of new rules regarding the disclosure of information regarding securities lending and short sales, and the introduction of novel market integrity rules. Investing in Australia's financial markets makes sense for several reasons, including the country's rapidly growing domestic market, sophisticated corporate infrastructure, pension-friendly government, and highly educated, multilingual workforce.

**Keywords:** Australian stock market, organization, players, challenges, opportunities

## **1. Introduction**

The stock market's growth is a vital part of the expansion of the banking system, both of which are essential to a flourishing economy. The stock market is helpful because it facilitates the following four functions: risk transfer, the reduction of transaction costs, liquidity provision, and price discovery. As a result of their efforts to generate and disseminate business information, information costs are reduced, and markets become efficient. Stock markets have been shown to reduce the cost of mobilizing savings to invest in the most productive technologies. Australia's stock market is a central and widely watched financial hub [1]. Companies in Australia rely heavily on these funds, and many Australian families put their retirement savings into them. The Australian Securities Exchange Ltd (ASX) is the primary market operator in Australia, and it is increasingly employing technology to develop novel approaches to maximizing shareholder value.

ASX is proud of its heritage as an early and decisive innovator of new technology. It remains committed to embracing innovative solutions that improve the experience of its customers, boost the growth of its listed companies, generate profits for its investors, and strengthen the Australian economy. Companies in the resource, finance, and technology sectors are among the most prominent listed on the ASX. It opens as the first primary financial market every day [2]. In addition to

being the largest interest rate derivatives market in Asia, it is also a global leader in capital raising and ranks in the top 10 largest securities exchanges worldwide. In addition, ASX's network and data center are linked to the world's most important financial centers. The success of the Australian Liquidity Centre at the ASX in Sydney can be attributed to the facility's speed, dependability, cutting-edge technology, and diverse user base.

Australia's stock market felt the effects of the global COVID-19 pandemic. Since early 2020, when the COVID19 outbreak began, the Australian economy and stock market have been suffering [3]. While some industries are hit particularly hard by the crisis, others continue to thrive. Despite a 10% drop in value due to the ongoing COVID-19 pandemic and the war in Ukraine, the Australian financial market is experiencing unusually high levels of trading activity. No matter the outcome of the Russia-Ukraine conflict, the ASX sharemarkets have always reacted to crises such as wars, assassinations, terrorist attacks, financial problems, and even the occasional pandemic [4]. In the aftermath of most events, the stock market experiences a sharp decline before recovering.

This paper uses the existing literature to discuss several aspects of the Australian stock market and its players. The report gives a detailed background on the use of the technology of ASX. Second, it highlights the players in the ASX. The third part of the article discusses the challenges and opportunities faced by the players in the Australian stock market.

## 2. Players in the Australian Stock Markets

Two primary responsibilities form the backbone of the structure of the Australian stock market. First, the primary market functions that enable companies to raise capital by offering shares for sale to the public. Second, the primary market functions wherein buyers and sellers can transact at market prices, allowing investors to buy and sell shares freely.

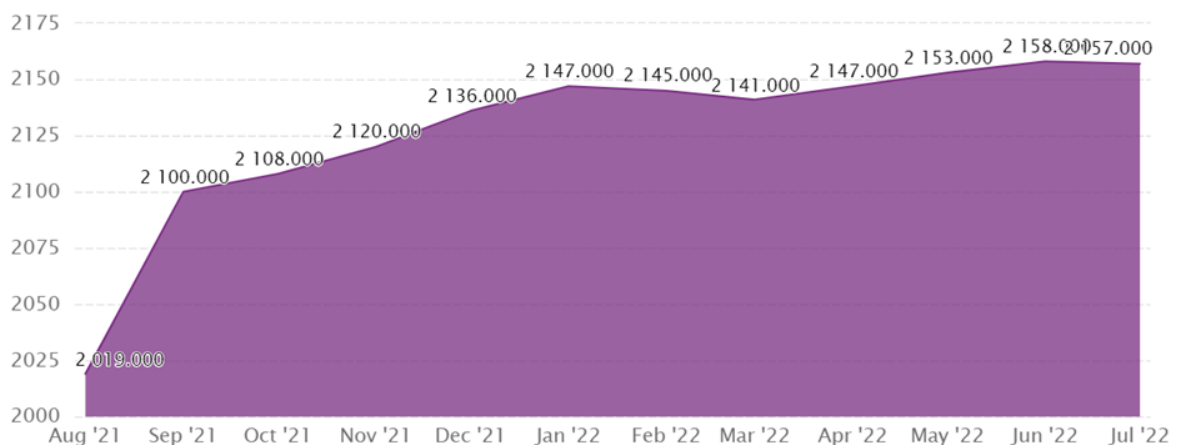


Figure 1: ASX number of listed companies.

Market participants, issuers, custodians, advisers, retail and institutional investors, execution venues, data centers, technology, and data vendors, share registries, and other administrators and supervisors are the significant actors in Australia's equity market. Participants in the cash equity market can be found all along its so-called "value chain," which includes clearing, listing, trading, order management, data information services, settlement, and supervision [5]. Minor participants in Australia's stock market include depository institutions, custodians, brokers, merchant bankers, and institutional investors. As time goes on, the lines between the various financial institutions blur, but the leading institutions that make up the financial system are still often used to characterize its

structure. The figure below shows the number of listed companies on ASX from 2000 (CEICdata.com, 2019). The following link contains the listed companies on ASX as of 2022.

Therefore, the four most significant changes to the financial system's foundation are highlighted. The first is the growing importance of banks, holding half of all financial assets in their accounts. Second, securitization has become increasingly significant. Third, due in part to adjustments in pension and other retirement income arrangements, the proportion of assets held in managed funds such as superannuation has grown significantly. Finally, the fourth is the shrinking influence of non-bank financial institutions like credit unions, finance companies, building societies, and merchant banks.

To keep market players informed, ASX submits thousands of different company announcements each year. They cover a wide range, with an increase in published announcements, from data about firms listed and their bonds to corporate governance and regulatory filings. In 2020–21, they broke their previous annual record with 147,077 announcements. This was a culmination of the rising publishing rate that we have seen over the past few years and was 7% higher than the prior year. A company announcement, however, lives on after it is published. The essential classification of corporate actions, such as dividend payments, grant offers, capital reorganisations, and capital returns, would typically be reviewed and captured by ASX, market participants, and intermediaries after its release.

In order to resolve these problems, ASX created the Corporate Actions STP solution in collaboration with businesses, government agencies, and individuals who utilize this data, such as custodians, traders, and investors. From issuer announcement to information delivery to the market, the solution is intended to digitise the notification process and establish a reliable source for corporate event data. Investors can make more insightful and timely investment decisions if they receive event data more quickly and in a comprehensive, standardized format. An effective and globally standardized notification service benefits custodians, participants, information providers, and other market stakeholders by giving them straight-through processing to enhance their back-office functions and customer service.

Even during busy times, their straight-through listed now enables smooth event capture and management for about 93% of the declared line business event volume. The manual workload of our teams that support businesses is significantly reduced as a result. Given that ASX handles nearly 5,000 line business events for mentioned and cited securities annually. These teams can now respond to more complicated events more quickly as a result. ASX considers electronic delivery of meeting materials, annual reports, and other information on ASX matters to be the most effective method for shareholders. Electronic communication is quick, cost-efficient, and environmentally friendly. 540,000 Australians only made indirect investments in 2014, meaning they bought unlisted managed funds. According to the qualitative study, many retail investors know very little about managed funds. Managed funds didn't make sense conceptually for investors who wish to understand about and get associated in their own investing. In light of this, the trend towards investing directly is consistent with how much control investors have expressed they would like to have over their portfolios.

Small investors became less aware that managed funds offered them a relatively inexpensive entry point to investing as they lost their previous market visibility. According to the age distribution of investors, 30% of those who only held indirect investment opportunities in 2014 were under the age of 35.

## 2.1. Institutions in the ASX

The Australian Stock Exchange relies heavily on institutional investors as both a stakeholder and a customer (ASX). Nearly 9 million adult Australians have investments beyond their superannuation and primary residence, proving Australia remains an investor-friendly nation. There has been an

uptick in new investors, and more than half of existing investors now hold direct share positions. Women now account for nearly half of all new investors, and almost a quarter of all investors started investing in the past two years. Institutional investors and traders can benefit from options because they provide additional strategies for adjusting exposure to underlying share portfolios, thereby increasing yield and reducing risk. Recently, ASX has begun providing free, individualized education on the management of market risk in Australian equity portfolios to institutional investors and providing a market and trading platforms (via brokers) for trading options. Portfolio managers, performance measurement experts, risk managers, stock analysts, C-suite executives, and senior portfolio strategists should read this. In total, there are 19.4 million adults in Australia, per the ABS. Almost half of Australians, or 9 million people, have investments beyond their retirement savings and primary residence (ASX, 2020). There are 2.6 million former investors who have stopped contributing to their accounts, and another 7.8 million people who have never invested money other than in their retirement accounts or their primary residence. The graph below shows the distribution of investors in Australia.

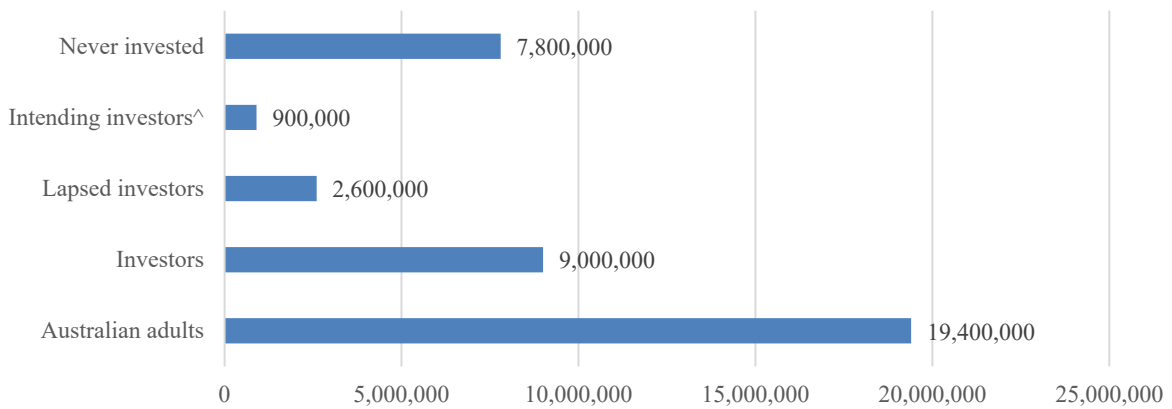


Figure 2: Number of investors in ASX.

A diverse group of investors holds the total value of Australian stocks and bonds, roughly half located outside of Australia. The fact that Australians only make up a small fraction of international investors is consistent with the portfolio diversification strategy employed by global investors. Most of the rest is held by institutions, while individual investors only hold a small portion of the total. This is because many people invest their money through intermediaries like pension plans and mutual funds. Most investors, however, claim to have holdings worth less than \$100,000. The table below shows the distribution of investors' portfolios in ASX.

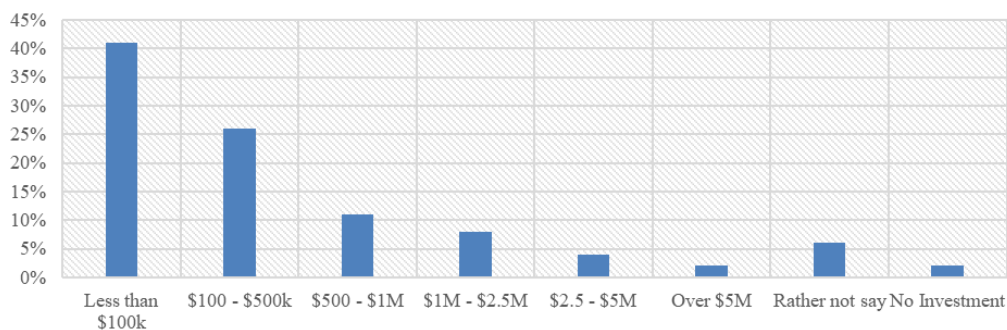


Figure 3: Percentage of investor's portfolio.

For the past century and a half, the value of Australian stocks has risen at a compound annual rate of about 6%, or about 2%, when adjusted for inflation. Although there have been periods of over and underperformance, the long-term performance of the various industrial sectors has been relatively consistent. For several decades following the Great Depression, banking stocks lagged behind the market, while resource stocks rode high in the late 1960s and then crashed during the so-called "Poseidon Bubble."

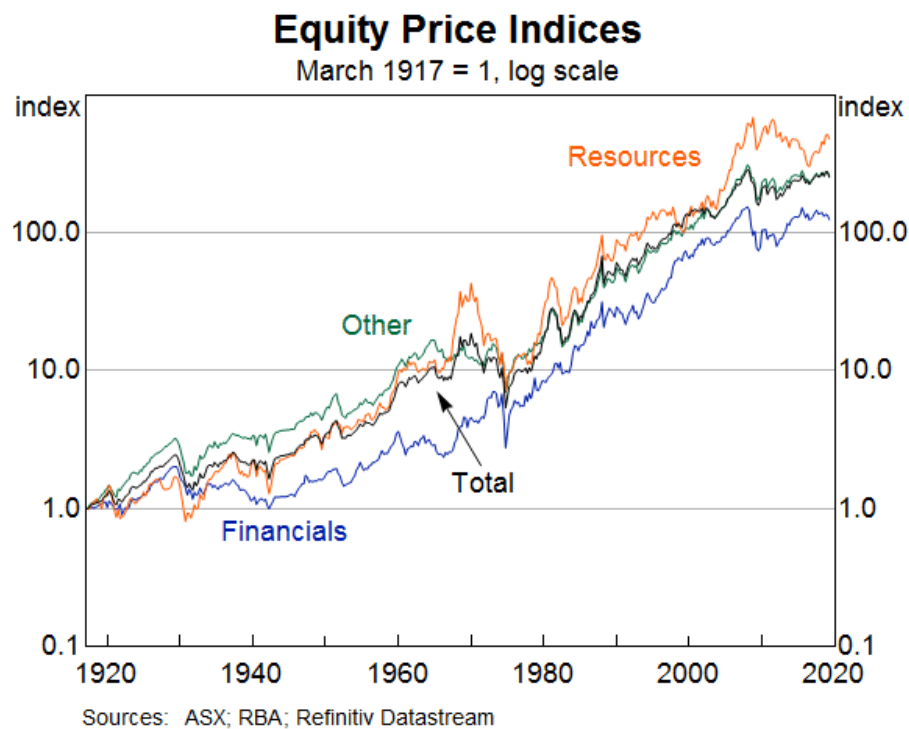


Figure 4: Equity price indices.

## 2.2. Changes in Trading Size of ASX

Major asset category indices' 30-year performance has changed, as seen by ASX. The 2022 chart shows that ASX shares have done well despite market crashes, a pandemic that affected the entire world, a change in governments, natural disasters, and the Great Financial Crisis. With the exception of the GFC and the Coronavirus crash, Australian shares have also experienced some turbulence over the past 30 years, but overall they have fared better than other assets. It's particularly intriguing how quickly our local stocks recovered from the depths of the GFC; this might be attributed to the stimulus measures that were put in place. Australian shares didn't experience a downturn as severe or last as long as US and international shares did, even though this didn't fully offset the losses.

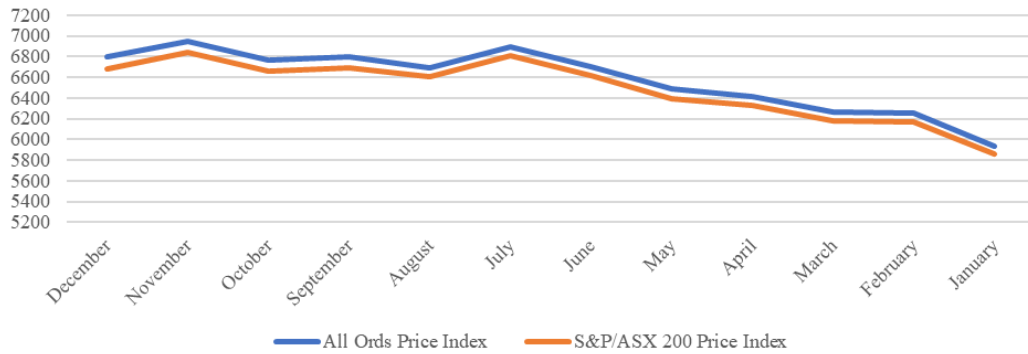


Figure 5: All Ords price index and S&P price index 2019.

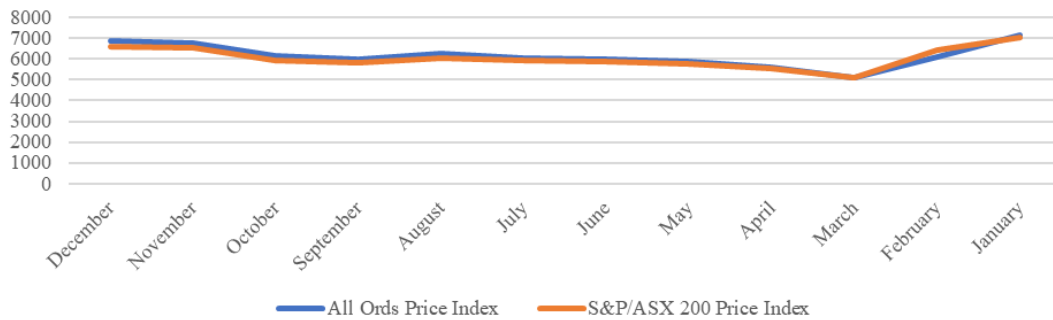


Figure 6: All Ords price index and S&P price index 2020.

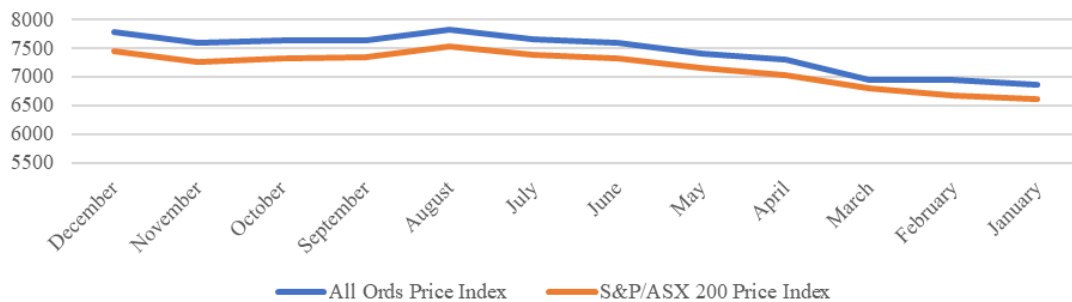


Figure 7: All Ords price index and S&P price index 2021.

The yearly trading values from 2016 are included below.

Table 1. Trading values from 2016 to 2021.

Year	All Ords Price Index	S&P/ASX 200 Price Index	Dom. Equity Mkt cap \$m
2016	5379.417	5307.392	1646638
2017	5859.058	5802.425	1815546
2018	6092.417	5996.117	1909455
2019	6581.65	6487.842	2044749
2020	6154.492	6045.658	1971956
2021	7429.783	7154.65	2461322

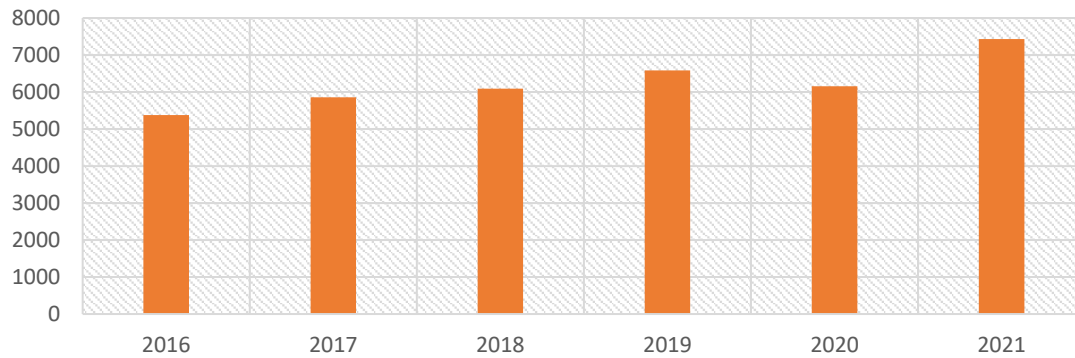


Figure 8: All ords price index.

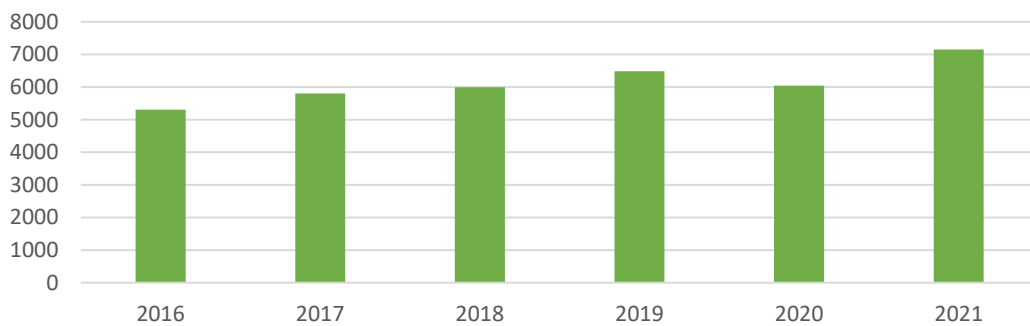


Figure 9: S&P/ASX 200 price index.

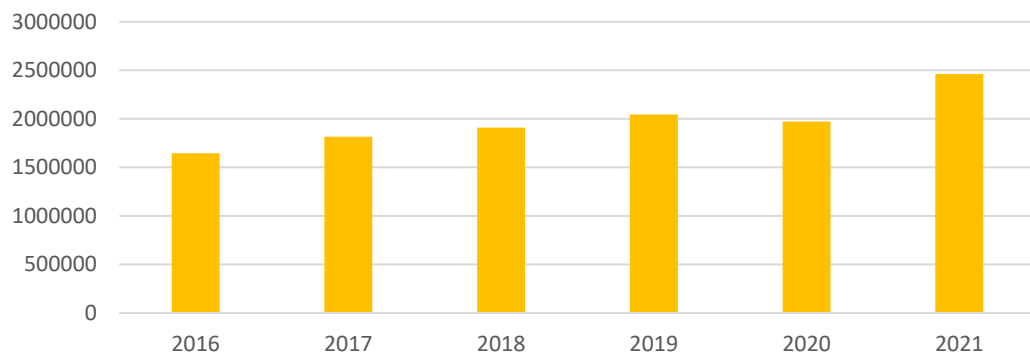


Figure 10: Dom. equity Mkt cap \$m.

The daily trading volume (DTV) is determined as of 5:00 p.m. They exclude off-market transactions that take place after 5 p.m. and are updated at around 5:15 p.m. each trading day. All trades, including those made off-market, that take place during a given month are included in the monthly trading volumes. As a result, the total of the daily trading volume figures for any given month may differ from the total of the monthly trading volume figures. At around 8 p.m. on the fourth trading day of the following month, monthly trading volumes are updated. Although ASX makes every effort to update trading volumes by 5:15 p.m. on each trading day for DTV and by the fourth trading day of the following month for monthly trading volumes, delays occasionally happen. The total market capitalization of Australian companies listed on the ASX increased from 1.32 trillion to 2.31

trillion dollars between January 2010 and June 2022. Although there was an upward trend overall, the growth curve was anything but straight. The two most notable declines occurred between March and September 2011, and the COVID-19 pandemic-related crash in March 2020.

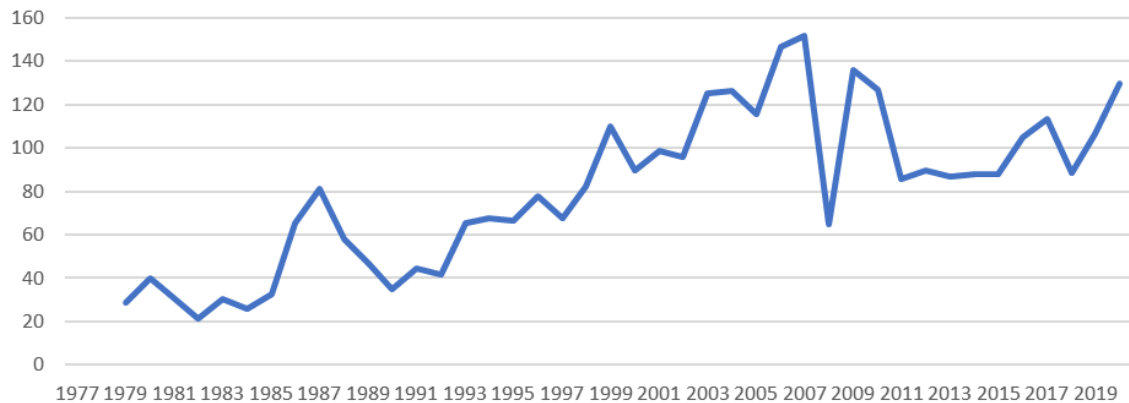


Figure 11: Australia AUS market capitalization of listed domestic companies (% of GDP) CM.MKT.LCAP.GD.ZS.

### 3. Challenges and Opportunities Faced by Players in the Australian Financial Markets

#### 3.1. Challenges

The banking sector is a hot topic for politicians, businesspeople, and the public. The Australian banking system has proven resilient but still faces difficulties in the post-Global Financial Crisis (GFC) era. Policymakers concerned with improving consumers' lot must pay attention to these obstacles. The participants in Australia's financial markets also face various opportunities and threats. Some examples are the deterioration of international economies, falling stock prices worldwide, and sluggish consumer confidence in Australia [6]. New disclosure rules for short selling and securities lending and a revamped set of market integrity rules are just a few examples of the Australian stock market's regulatory and operational challenges.

The ability of the banking system to raise funding on cost-competitive terms in the context of ongoing volatility in offshore markets is one such challenge. It is also about how slowly the domestic securitization market has recovered from the severe disruption it suffered during the crisis. As the crisis has led to consolidation in the banking industry, another challenge is creating a competitive environment that benefits retail banking customers. The third obstacle is implementing the international regulatory response to the GFC proposed by the G20. As a result of the crisis, this action is meant to reinforce the global banking sector. The players face a difficult challenge as they attempt to implement the G20 regulatory reforms without negatively impacting credit flows to Australia's economy or failing to consider the country's specific situation.

The Clearing Participants are subject to both ASIC and ASX regulations. The Australian Securities and Investments Commission (ASIC) receives its funding from the government [6]. Not all its money goes toward essential operations; some of it is designated for particular purposes. The budget for 2012–13 continues the upward trend of this noncore funding as a percentage of total spending seen over the past few years. Giving new and long-term responsibilities raises questions about the security of ASIC's core funding. ASIC's noncore financing is expected to decrease in the 2013-14 fiscal year. Even though this is a positive step in the right direction, it does not appear to be enough to ensure ASIC's adequate financial independence.



Changes to responsible lending laws may also lead to renewed public outcry in the future. The government's goal is to weaken regulations on predatory lending [7]. That was announced six months ago when the outlook for recovery from the coronavirus crisis was very different from how it is today. As a result, there is a possibility that any such changes would do more to create political drama for banks than support this recovery.

### 3.2. Opportunity

Attractive aspects of the Australian financial markets include the country's rapidly developing domestic market, a well-developed corporate infrastructure, a government-mandated retirement savings program, and a highly educated, multilingual labor force. There has been a generally positive response from the Australian stock market to stock-market reforms. The market's size and sophistication have expanded dramatically in recent years on the Australian stock exchange [8]. Since ASX's expansion over the years, issuers have had the option of also making their shares available to investors outside of Australia. It helps foreign investors gain access to Australian listed shares, and initiatives such as the American Depositary Receipt Program and dual and cross-listed shares were developed. Australian issuers have also gained access to international funding sources by listing on international exchanges. Finally, 78 percent of Australians are employed in the service industry. More than sixty percent of workers in some sectors have college degrees or higher [9]. Services in science and technology, finance and insurance, and medicine fall under "high skill." Australia recognizes the importance of women's participation in STEM fields and is taking steps to increase their representation and participation to boost the country's economic growth.

### 4. Conclusion

The primary function of the Australian stock exchange is to facilitate the purchase and sale of shares by investors while also serving as a venue for corporations to issue new shares to the public, thereby increasing their capitalization. Investment banks, Registered Financial Corporations, and public accounting firms are Australia's market's most influential participants. Opportunities include a rapidly expanding domestic demand and a sophisticated corporate infrastructure. At the same time, low-interest rates and excessive risk-taking have led to rising debt, illiquidity, collateral shortages, high asset prices, compressed risk spreads, and reduced term premiums. Increased international economic uncertainty, a downward trend in global financial markets, and subdued consumer confidence pose problems for ASX payers.

The Australian stock market has faced difficulties in regulation and operations due to changes such as regulation being handed over to ASIC, new rules for sharing information on securities lending and short sales, and unique market integrity rules. The rapidly expanding domestic market, advanced corporate infrastructure, pension-friendly government, and highly educated, multilingual workforce are just a few reasons why investing in Australia's financial markets makes sense.

### References

- [1] Thomas, M. (2019). *The Australian Equity Market over the Past Century* | Bulletin – June 2019. Bulletin, [online] (June). Available at: <https://www.rba.gov.au/publications/bulletin/2019/jun/the-australian-equity-market-over-the-past-century.html>.
- [2] ASX (2021). *At the heart of Australia's financial markets*. [online] Australian Securities Exchange. Available at: <https://www2.asx.com.au/about>.
- [3] Johnson, C., Lane, K., & McClure, N. (2022). *Australian Securities Markets are solid the COVID-19 Pandemic* | Bulletin – March Quarter 2022. Bulletin, [online] (March). Available at: <https://www.rba.gov.au/publications/bulletin/2022/mar/australian-securities-markets-through-the-covid-19-pandemic.html#:~:text=The%20COVID%2D19%20pandemic%20led>.

- [4] LUND, M. (2022). *Russia Ukraine War: Australian Sharemarket Impact*. [online] Canstar. Available at: <https://www.canstar.com.au/finance-news/russia-ukraine-war-hits-australian-shares-what-should-investors-do/>.
- [5] RBA (2019). *The Structure of the Australian Financial System | Financial Stability Review – March 2006*. [online] Reserve Bank of Australia. Available at: <https://www.rba.gov.au/publications/fsr/2006/mar/struct-aus-fin-sys.html>.
- [6] Henry, K. (2010). *The Australian banking system: Challenges in the post-global financial crisis environment* |Treasury.gov.au. [online] treasury.gov.au. Available at: <https://treasury.gov.au/speech/the-australian-banking-system-challenges-in-the-post-global-financial-crisis-environment>.
- [7] Calipo, A. & Richardson, C. (2021). *The four challenges facing Australia's solid and profitable banks*. [online] Australian Financial Review. Available at: <https://www.afr.com/companies/financial-services/the-four-challenges-facing-australia-s-strong-and-profitable-banks-20210328-p57esb>.
- [8] Nyasha, S. and Odhiambo, N.M. (2013). *The Australian stock market development: Prospects and challenges*. *Risk Governance and Control: Financial Markets and Institutions*, 3(2), pp.39–48. doi:10.22495/rgcv3i2art3.
- [9] GA (2022). *Talented workforce | Global Business and Talent Attraction Taskforce*. [online] www.globalaustralia.gov.au. Available at: <https://www.globalaustralia.gov.au/why-australia/talented-workforce>
- [10] ASX (2021b). *Historical market statistics*. [online] Australian Securities Exchange. Available at: <https://www2.asx.com.au/about/market-statistics/historical-market-statistics>.