FINANCIAL INTERMEDIATION

Savings are transformed into investment in an economy via financial intermediaries (such as brokers and banks) and stock exchanges. The main role of financial intermediation is the reduction of the cost and facilitation of the matching process of borrowers and lenders needs, in terms of amounts and time, and risk preferences.

Financial intermediaries conduct a special type of analysis to run their business and satisfy their customer needs. This analysis encompasses market prediction, portfolio management, risk management, and financial product development.
ORGANIZATIONAL STRUCTURE OF A BANK

A stock exchange fulfils three basic functions:

1) capital raising: allowing small and large companies to raise capital and to have their shares more publicly traded,

2) offering trading services: operating different types of trading systems – such as order driven, quote driven, or trading seats - and disseminating market information,

3) and regulating both capital raising and trading markets: through investment rules, companies listing requirements, exchange rules, and by monitoring members and companies compliance with rules, and resolving conflict of interest and rules violations.
A CLEARING SYSTEM

A clearing system helps financial intermediaries in the clearing and settlement of trades. The following figure depicts a typical flow of a transaction issued by a client and executed by a financial intermediary (broker) after clearing and settlement.

The basic functions of a stock exchange [LSE]

A clearing system [EASDAQ]