# Evaluation of the Regulatory Mechanisms of the Stock Exchange Organization Using ISM-MICMAC Methods[1]

**Hadis Javanmard[2], Ahmad Khodamipour[3], Omid Pourheidari[4]**

## INTRODUCTION

Purpose: Creating a robust framework is essential for optimizing transaction flow in financial markets. This framework should enable all market participants—publishers, brokers, and natural or legal persons active in the stock market—to transact efficiently and with maximum security. Institutions operating in securities markets play a vital role in maintaining this trading framework and regulating its execution. In Iran, the Securities and Exchange Organization (SEO) oversees stock transactions through its subsidiaries, including the Tehran Stock Exchange and the Iran Foreign Exchange Company. This research aims to identify the regulatory mechanisms of the stock exchange market and propose a model for its development using a hybrid approach that incorporates the Interpretive Structural Modeling (ISM) technique and MICMAC analysis.

Methodology: This study utilized Interpretive Structural Modeling (ISM), an interactive learning process that organizes a set of interrelated elements into a comprehensive systematic model. ISM interprets the opinions of experts to structure the relationships between the components of a problem. It establishes a hierarchical framework to identify the direction and intensity of the relationships among the components, prioritizing their influence on each other.

In the initial stage of the research, a literature review identified six regulatory mechanisms of the stock exchange organization, which were validated by eight academic experts specializing in stock exchange operations. Subsequently, opinions from 24 additional field experts were used to develop a model for enhancing the supervisory mechanisms of the stock exchange organization using structural/interpretive modeling.

Results: The findings revealed that the regulatory mechanisms of the stock exchange organization are structured across two levels:

2. Ph.D. Student, Department of Accounting, Faculty of Management and Economics, Shahid Bahonar University of Kerman, Kerman, Iran. Email:Hadis.Javanmard@aem.uk.ac.ir.
3. Professor, Department of Accounting, Shahid Bahonar University of Kerman, Kerman, Iran. Corresponding Author. Email:khodamipour@uk.ac.ir.
4. Professor, Department of Accounting, Shahid Bahonar University of Kerman, Kerman, Iran. Email:Opourheidari@uk.ac.ir.

1. Level 1: The permissible range of stock price volatility emerged as the most influential factor among regulatory mechanisms.
2. Level 2: Factors such as base volume, clarification notices regarding rumors, clarification notices on stock price fluctuations, holding news conferences, and stopping trading symbols were identified at this level.

Through MICMAC analysis, it was determined that:

- The factors of base volume, clarification announcements (regarding rumors and stock price fluctuations), news conferences, and stop trading symbols serve as interface indicators. These indicators exhibit a high influence and dependence, meaning changes to these factors significantly impact other indicators.
- The permissible range of stock price volatility was identified as an independent or influential cluster variable, characterized by high influence but low dependence. It is a critical regulatory mechanism with far-reaching effects on other factors.
- No factors were found in the autonomous cluster, indicating that all regulatory mechanisms are interconnected. This underscores the strong relationships among the indicators in the final model.

## CONCLUSION

The regulation limiting stock price volatility has traditionally been applied to improve market efficiency. However, this approach has often produced unintended consequences, such as reducing market efficiency and adversely impacting key market operators. The findings suggest that uniform volatility limits for all market shares may not be optimal. Instead, regulators should consider varying volatility limits based on the structural characteristics of individual market shares to enhance the effectiveness of this mechanism.

Based on the results of this study, the following recommendations are proposed:

1. Reevaluation of Volatility Limits: The stock exchange organization, as the supervisory body, should reconsider the extent to which volatility limits are imposed—or whether they should exist at all. This reassessment would ensure that other regulatory mechanisms influenced by the volatility limit operate effectively and positively impact investor decision-making.
2. Tailored Volatility Mechanisms: Market regulators should apply differentiated volatility limits based on the characteristics of various market shares to improve efficiency and reduce unintended impacts on market operations.
3. Enhancing Investor Confidence: By optimizing volatility regulation, investors can make more informed decisions regarding stock selection and purchasing, minimizing the risk of unfavorable outcomes and fostering confidence in the market.

These adjustments aim to create a more balanced and efficient regulatory framework, ultimately benefiting both market participants and the broader financial system.

**Keywords:** Supervisory Mechanisms, Permissible Fluctuation Range, Base Volume, Clarification Announcement, News Conference Holding, Stopping the Trading Symbol.

**JEL Classification**: R5, R50, G01.

COPYRIGHTS