Financial Markets

Module 1_Lesson 3

What are Financial Markets?

- Financial markets refer broadly to any marketplace where the trading of securities occurs.
- There are many kinds of financial markets, including (but not limited to) forex, money, stock, and bond markets.
- **Domestic Market** - A domestic market, also referred to as an internal market or domestic trading, is the supply and demand of goods, services, and securities within a single country.
- **Global Market** - A global capital market is the interlinking of various investment exchanges around the world that enable individuals and entities to buy and sell financial securities on an international level

What is Trading?

- Trading is the process of buying and selling securities
- The procedure of trading consist of two processes i.e
    - Delivery (when securities are sold) and
    - Receipt (when securities are purchased)

What is Banking?

- A bank is a financial institution that is licensed to accept checking and savings deposits and make loans.
- There are several types of banks including:
    - Retail banks,
    - Commercial or corporate banks,
    - Investment banks.

Is Investment Bank same as Commercial Bank?

- Investment banking is a special segment of banking operation that helps individuals or organizations raise capital and provide financial consultancy services to them
- Full-service investment banks offer a wide range of services that include underwriting, M&A, sales and trading, equity research, asset management, commercial banking, and retail banking.

Basis Of Comaprison	Investment Bank	Commercial Bank
Meaning	Investment Bank refers to a financial institution that offers services like underwriting of securities, brokerage services & so on	Commercial bank is a bank that provides services like accepting deposits, lending money, payment on standing order & many more
Offers	Customer specific service	Standardized services
Associated with	Performance of financial market	Nation's economic growth & demand for credit
Banker to	Individuals, government & corporations	All citizens
Income	Fees, commissions, profits on trading activities	Fees & interest income

What is Investment Banking?

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Investment Banking Services

- Underwriting
- Mergers & Acquisition Advisors
- Sales, Trading & Corporate Broking
- Asset Management Services
- Research

- **Underwriting -**
  - Underwriting is a service through which investment banks raise open market capital for corporations and governments.
  - An entity uses the underwriting service of an investment bank when it wants to launch an initial public offering (IPO) in primary market.

- **Mergers & Acquisition Advisors -**
  - Mergers, Acquisitions, Tender Offers, Leverage Buyouts, Consolidations, etc. There are two entities involved in an M&A transaction, one is buy side co. & another sell side. Each side hires its own investment banks as advisors to get the maximum value for its shareholders.

- **Sales, Trading & Corporate Broking -**
  - Facilitate buying & selling of securities & other financial instruments between investment bank & large institutional clients or high net-worth investors.
  - Here the investment banks approach large clients to suggest profitable trading ideas who conduct & complete the trade on behalf of their client

- **Asset Management Services -**
  - Investment banks create an efficient portfolio for their client which yields maximum returns for a certain risk that the client is ready to bear charging a commission which is a percentage the asset under management.

- **Research -**
  - Most investment banks host an in-house research department where analysts work on research of equities & and other securities which helps sales & trading department to come up with high-profit trading ideas.

Who needs these services?

Clients(Who has surplus money & wants to invest in market)
There are three types of clients:
- Institutional Clients(Large institutions)
- Wealth Clients(High network individuals)
- Retail Clients (Regular people who buy stocks, IPOs etc)

Who are Help them to Invest?

1. **Investment Managers** - Investment manager receives mandate from the client, makes decisions on where to invest the money.
2. **Custodian** -
   - They have the Physical custody of the assets.
   - They retain the cash for the client, also hold all the security that has been invested by Investment Manager on the client's behalf.
   - Primary role is Trade booking & settlement, entitlements, reconciliation & reporting.

Other Parties Involved

1. **Sub custodian -** A sub-custodian is an institution that provides custody services, with respect to securities traded in a particular market or jurisdiction, on behalf of another custodian who may not have an operation/office in that jurisdiction.
2. **Agent Bank -** It refers to a bank that is authorised to act on behalf of an individual or an entity. Agent banks cater to the needs of both individuals as well as businesses through a wide range of services.
3. **Broker** - A broker is an individual or firm that acts as an intermediary between an investor and a securities exchange.
4. **Depository -** Depository refers to a facility in which something is deposited for storage or safeguarding or an institution that accepts currency deposits from customers such as a bank or a savings association
5. **Clearing House -** A clearing house is a designated intermediary between a buyer and seller in a financial market. The clearing house validates and finalizes the transaction, ensuring that both the buyer and the seller honor their contractual obligations.

What is the difference between Asset Management & Custodian (Asset servicing) ?

	Asset Management	Custodian
1	Asset management is the service of managing a client's money.	The custodian oversees the flow of money and shares in and out of the client's fund.
2	Manager's role is primarily entrepreneurial	Custodian's role is primarily regulatory
3	It means identifying a client's financial goals and then working to accomplish those goals via portfolio management—buying and managing stocks, bonds and funds	Services provided by a bank custodian are usually the settlement, safekeeping and reporting of customers' marketable securities and cash. A custody relationship is contractual, and the services that are performed for a customer differ.

What is a Asset Servicing

- The term Asset servicing describes a group of tasks and activities provided by a custodian to his clients around the assets he has under custody. These activities are performed within Back-office operations.

What is Investment Transaction

- Investment transaction tasks are divided into three sections: front office, middle office, and back office.
- Each sector is distinct, yet each is critical to ensuring that the bank produces money, manages risk, and works efficiently.
- Front office -
    - Front office generates revenue for the bank and is responsible for:
        - Client service
        - Sales & Trading
        - Research
- Middle office - The goal of the middle office is to ensure that the investment bank doesn’t engage in certain activities that could be detrimental to the bank’s overall health as a firm.
    - It includes:
        - Risk management
        - Financial control
        - Corporate treasury
        - Corporate strategy & compliance
- Back Offfice -
    - Back office has the core custody. It typically includes Operations and technology. It involves:
        - Trade Settlement
        - Entitlements
        - Reconciliation & Reporting

Scope of Back Office operations

- Trade Settlement -
- Entitlement -
- Reconciliation & Reporting

- **Trade Settlement** -
  - Trade settlement is a two-way process which comes in the final stage of the transaction.
  - Once the buyer receives the securities and the seller gets the payment for the same, the trade is said to be settled.
- **Entitlement -**
  - An entitlement offer is an offer to purchase a security or other asset that cannot be transferred to another party.
  - An entitlement offer is offered at a specific price and must be used during a set timeframe.
  - Failing to use the entitlement offer will lead to its withdrawal.
  - An entitlement offer is also known as an open offer or a non-transferable offer.
- **Reconciliation & Reporting** -
  - Reconciliation is a process that compares two sets of records to check that figures are in agreement with each other.
  - It ensures the accuracy and validity of financial information.
  - This is the last step of any trade cycle.