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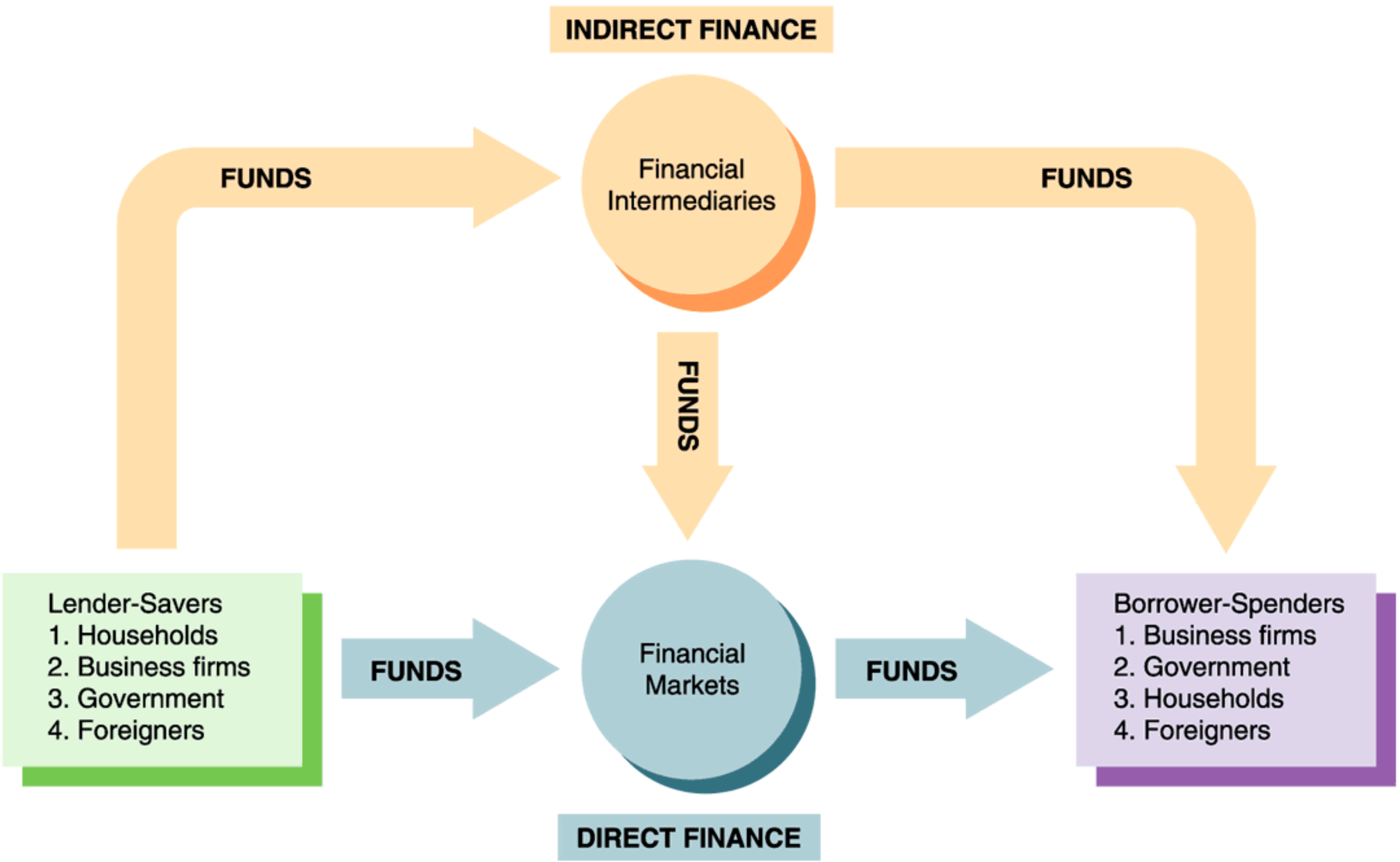
NEW YORK INSTITUTE OF FINANCE

Introduction

FUNCTION OF FINANCIAL MARKETS



Source: Prentice Hall

FUNCTION OF FINANCIAL INTERMEDIARIES

Financial Intermediaries:

- Engage in process of indirect finance
- More important source of finance than securities markets
- Needed because of ability to reduce transactions costs and asymmetric information

FINANCIAL INTERMEDIARIES

TABLE 1 Primary Assets and Liabilities of Financial Intermediaries

Type of Intermediary	Primary Liabilities (Sources of Funds)	Primary Assets (Uses of Funds)
Depository Institutions (Banks)		
Commercial banks	Deposits	Business and consumer loans, mortgages, U.S. government securities and municipal bonds
Savings and loan associations	Deposits	Mortgages
Mutual savings banks	Deposits	Mortgages
Credit unions	Deposits	Consumer loans
Contractual Savings Institutions		
Life insurance companies	Premiums from policies	Corporate bonds and mortgages
Fire and casualty insurance companies	Premiums from policies	Municipal bonds, corporate bonds and stock, U.S. government securities
Pension funds, government retirement funds	Employer and employee contributions	Corporate bonds and stock
Investment Intermediaries		
Finance companies	Commercial paper, stocks, bonds	Consumer and business loans
Mutual funds	Shares	Stocks, bonds
Money market mutual funds	Shares	Money market instruments

Source: Federal Reserve Flow of Funds Accounts.

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Module 1

The Major Capital Markets

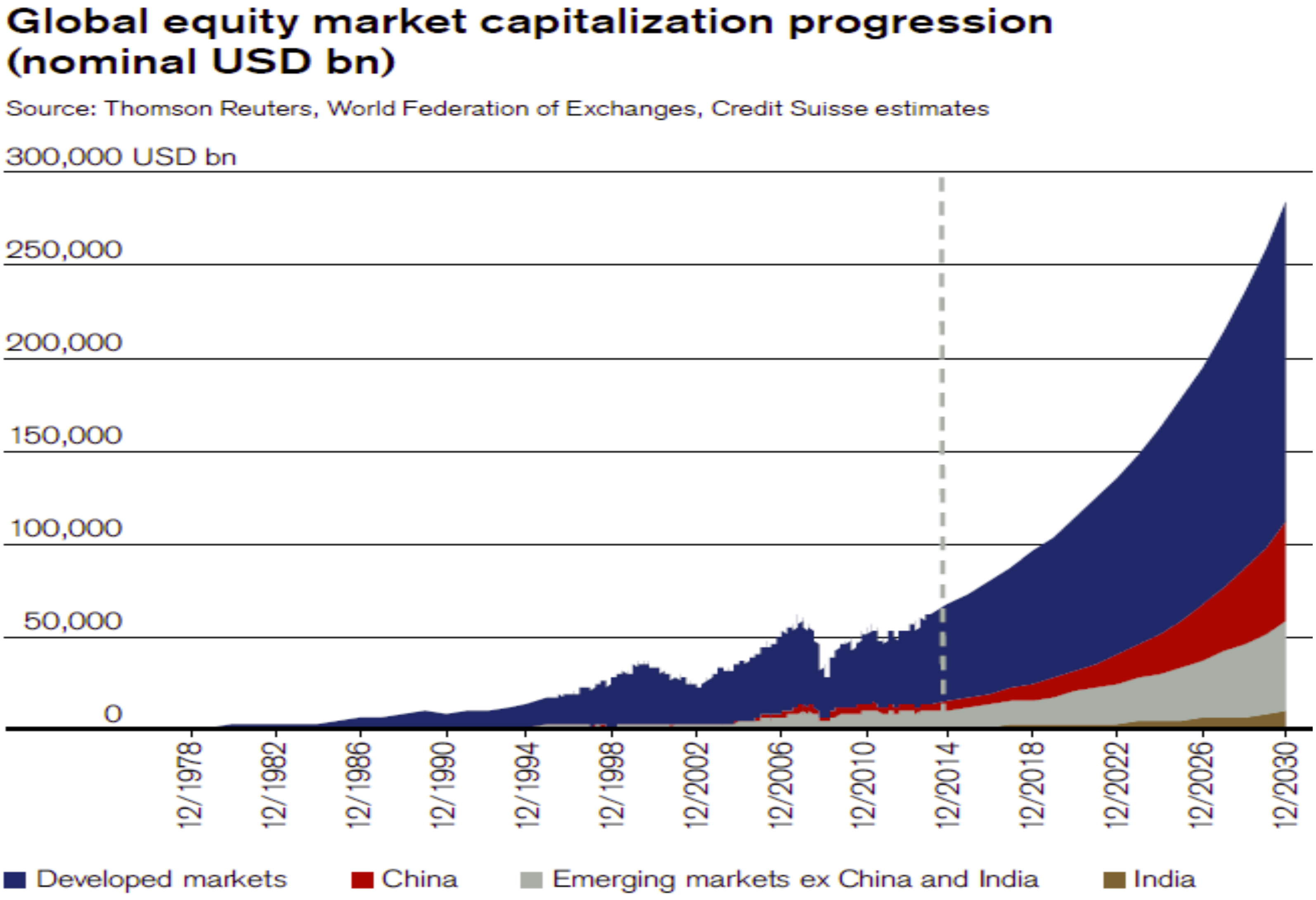
WHY CAPITAL MARKETS?

- Because issuers have needs.
- Because investors seek opportunities.
- Because an issuer's need IS an investor's opportunity.
- Because these needs and opportunities change constantly.
- Because issuer and investor must come together to facilitate economic growth and prosperity.

FOUR MAJOR CAPITAL MARKETS

1. Equity (Stock) Market – traditional products
2. Debt (Bond) Market – traditional products
3. Money Market
4. Foreign Exchange Market

GLOBAL EQUITY MARKET CAPITALIZATION

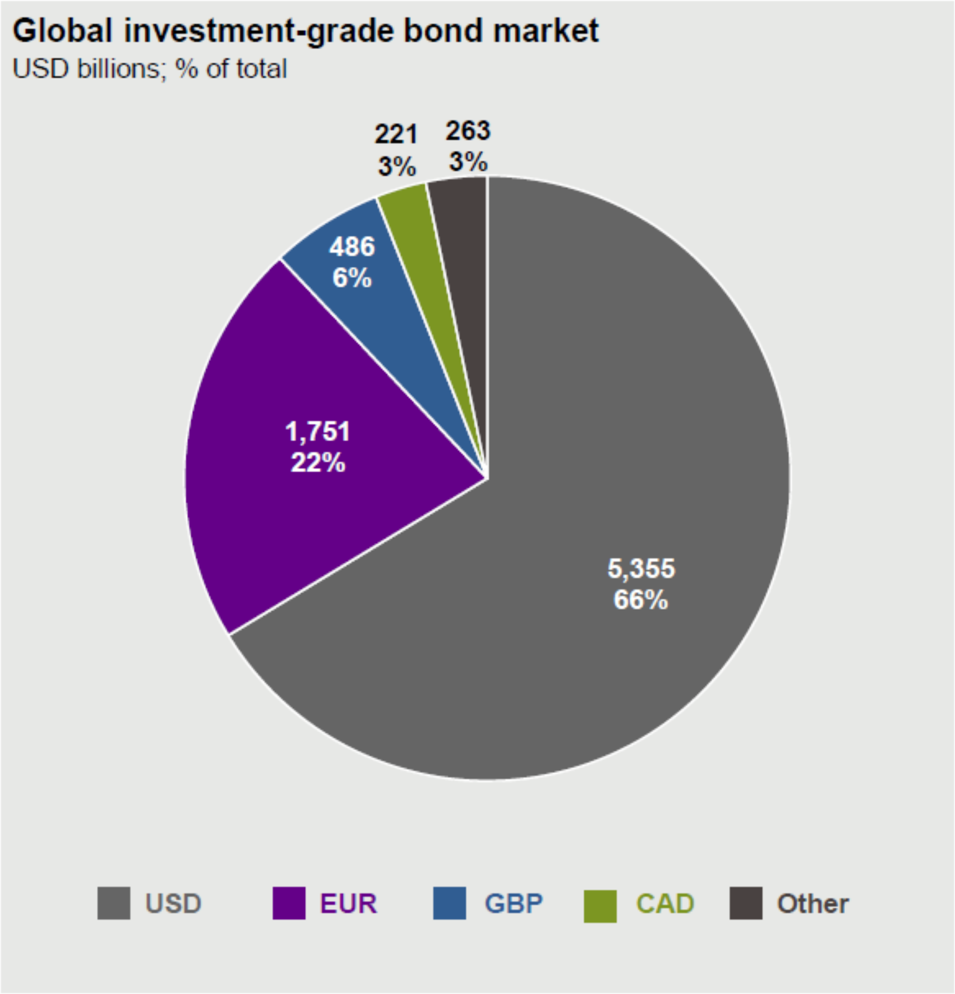


GLOBAL EQUITY MARKET CAPITALIZATION

GLOBAL EQUITY MARKET CAPITALIZATION

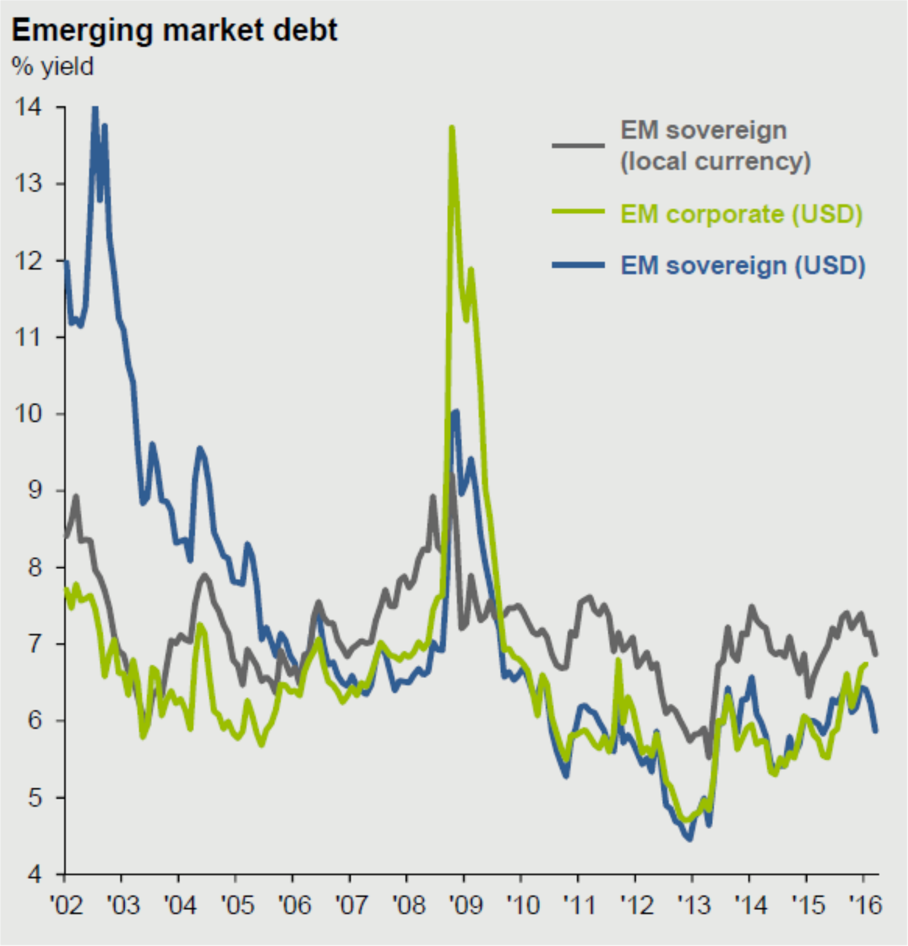
Source: Mapping Worlds, Bloomberg

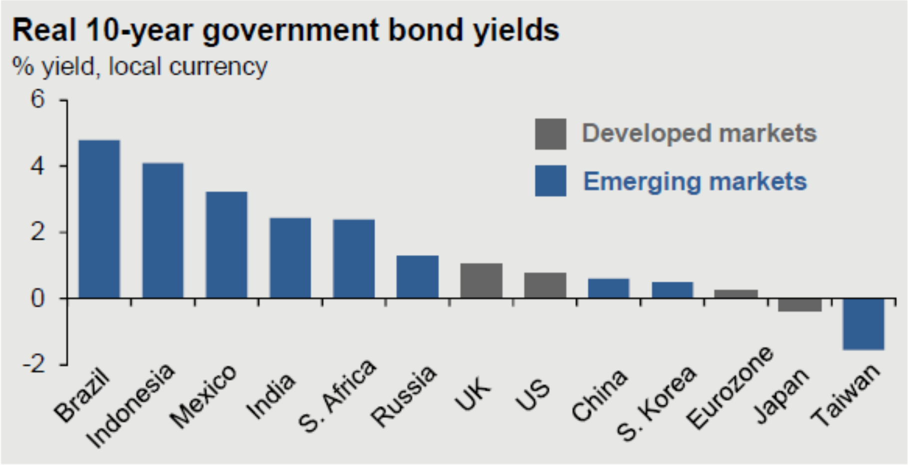
DEVELOPED MARKETS



Markets - Europe. Data as of 31 March 2016.

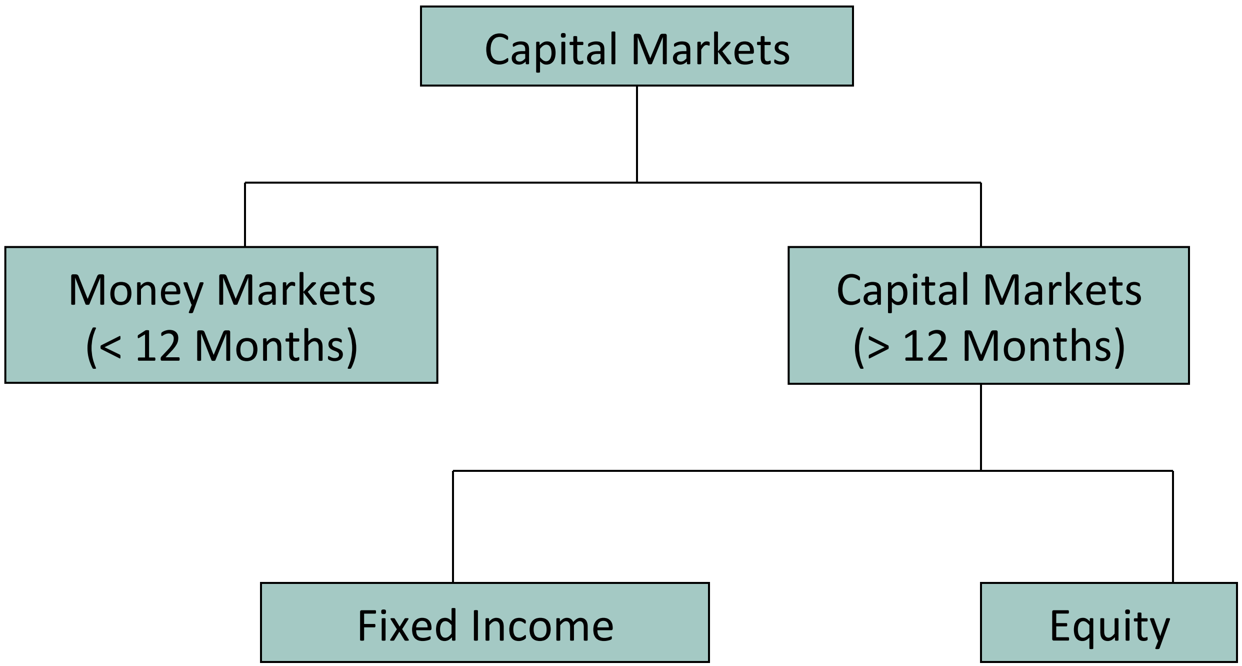
EMERGING MARKETS DEBT





Source: (Left) FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. (Top right) FactSet, J.P. Morgan Asset Management. (Bottom right) J.P. Morgan Economic Research, J.P. Morgan Asset Management. EM sovereign (local currency) is the J.P. Morgan GBI-EM; EM sovereign (USD) is the J.P. Morgan EMBI+; EM corporate (USD) is the J.P. Morgan CEMBI. *Guide to the Markets - Europe*. Data as of 31 March 2016.

STRUCTURE OF THE CAPITAL MARKETS



PRIMARY VS. SECONDARY MARKETS

Primary Markets

- Issuers raise capital
- Where life begins for stocks and bonds
- The Initial Public Offering (IPO)
- Underwriting syndicates
- Investment bankers

PRIMARY VS. SECONDARY MARKETS

Secondary Markets

- Investors buy and sell
- Billions of shares traded daily
- World of exchanges and crossing networks
- Provides liquidity

WHO ISSUES SECURITIES AND WHY

Corporations

- Raise equity capital in order to expand or to offer new products

Governments

- Fund specific projects (such as infrastructure)

WHO INVESTS IN SECURITIES AND WHY?

Individuals

- Ensure a steady income
- Invest to
  - Create funds for the future
  - Create capital for a specific purpose
- Use securities as a money-management tool

Institutions

- Invest pension funds
- Sovereign wealth assets
- Execute stated investment strategies
- Temporarily invest a short-term cash surplus

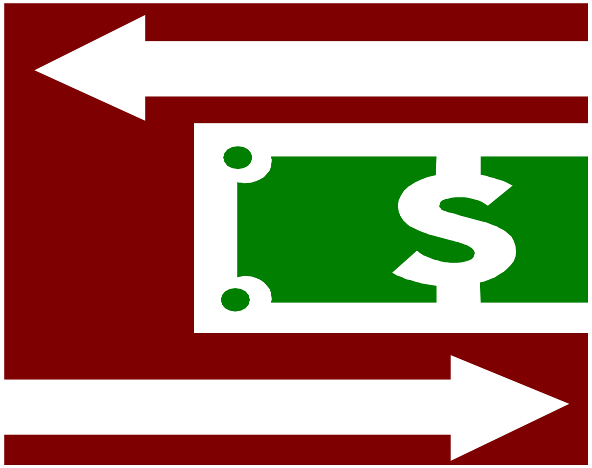
BUY SIDE *VERSUS* SELL SIDE

Buy Side

- Institutions
- Professional Money Managers
- Fee-based compensation
- Assets Under Management

Sell Side

- Investment Banks
- Traders and analysts
- Transaction-driven compensation
- Commissions



OTHER INVESTMENT BANKING BUSINESSES

Leveraged Finance

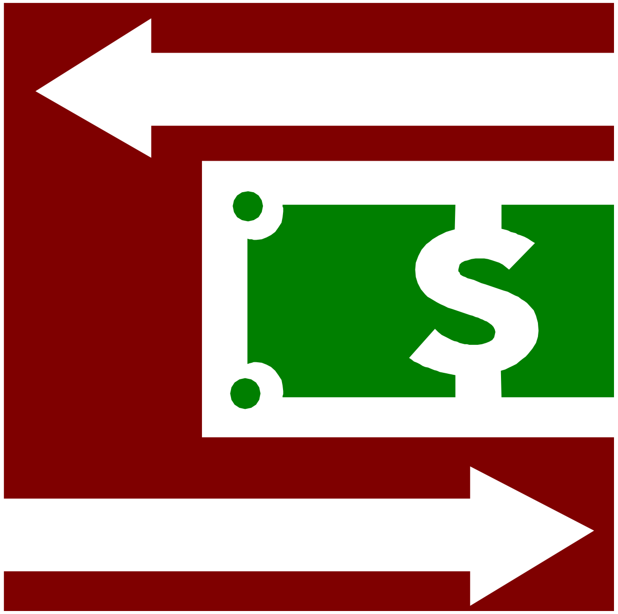
Private Equity

Mergers & Acquisitions

EQUITY UNDERWRITING

The process of ***"going public"*** involves many steps:

- Choosing the investment banker
- Registration statement - full disclosure
- The cooling-off period
- Distributing the security



HOW ARE EQUITIES BROUGHT TO MARKET?

Corporate securities are brought to market & sold to investors through underwriting process, in which an investment bank (or banks) finances & arranges for distribution of issuance.

NOTE: A Later Section Will Further Discuss The Underwriting Process

HOW ARE BONDS BROUGHT TO MARKET?

No bond can be issued without these key players – most the same as for an equity issue:

- Issuer
- Investor
- Underwriter
  - Investment banks
  - Bond Underwriter
  - Underwriter's Counsel
  - Borrower's Counsel
  - Bond Counsel
- Trustee (not required for equities)

Note: A Later Section Will Further Discuss The Underwriting Process