

## Module 4

## The Role of Global Capital Markets

A Summary  
(Now you know the markets)

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### What would we do without (global) markets?

Global markets have undeniably had a positive impact on global economic growth, by providing:

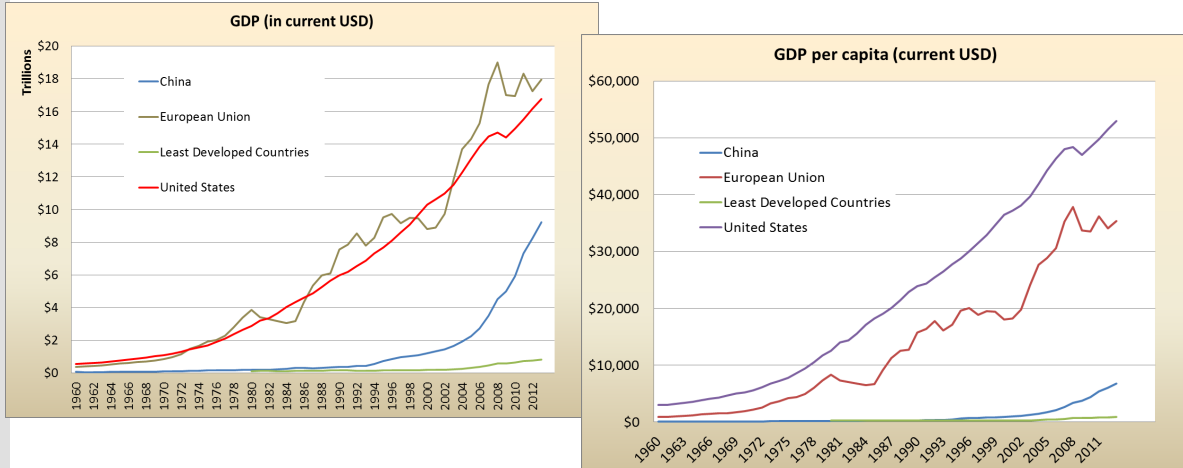
- ✓ Effective low-cost flow of funds
- ✓ Efficient allocation of scarce capital
- ✓ Transparent price discovery
- ✓ Diversification of risk.

But it has also exposed economies, (financial) corporations, and the public to new sources of risk:

- ✗ Volatility spillovers and contagion
- ✗ Failure in cross-border regulation
- ✗ Failure in risk evaluation
- ✗ Conflicts of interest
- ✗ Increased complexity.



## Global growth?



## The core markets and their regulators

### Securities regulated **Equity markets**

(Focus on retail investor protection).

### Securities regulated **Debt markets**

(Focus on monetary policy).

### Central/Reserve bank regulated

### **Foreign Exchange markets**

(Focus on financial stability, monetary policy).

### Unregulated commodity markets

(Buyer beware).

### Self-regulated derivatives markets

(Self interest of exchanges).



## A new take on regulation

Before 2008, the optimality of free markets was paramount – with minimal regulation and only focused on inefficiencies due to externalities and imperfect information.

After 2008, unregulated or self-regulated capital markets are no longer deemed compatible with financial stability, and regulation should be restructured accordingly.

## A duty of care...

In the wake of market crises, CFOs and finance professionals should reflect on their duties...

*Promote the integrity and viability of the  
global capital markets for the ultimate benefit of society.*

2014 Code of Ethics Principle of the CFA Institute



## Source list

Slide 3:

Left: GDP (in current USD, trillions) over time graph. Prepared by Paul Kofman from data sourced from GDP (current US\$) The World Bank (<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries>). © The University of Melbourne.

Right: GDP (in current USD) over time graph. Prepared by Paul Kofman from data sourced from GDP per capita (current US\$) The World Bank (<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD/countries?display=default>). © The University of Melbourne.

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