The Capital Markets Newspaper Article: Capital Markets Explained

Overview of Capital Markets?

The purpose of capital markets is to match the demand for funds with the supply of funds. These markets fuel economic growth by allocating capital that can be used to create jobs, build infrastructure and finance innovative ideas. The role of the Financial Services Regulatory Authority (FSRA) is to ensure the protection of investors and monitoring the activities of capital market participants, based on principles of good market conduct and prudential regulation.

How do Capital Markets work?

Capital Markets are made up of debt and equity markets, within these markets there are market participants made up of buyers, sellers and financial intermediaries.

Equity markets enable the issuance and trading of equity shares, such as stocks, which are ownership stakes in a company's assets and earnings. Debt markets enable the issuance and trading of debt, such as corporate and government bonds, which are loans for a defined period of time that pay a variable or predetermined interest rate.

Capital markets consist of primary and secondary markets. Primary markets create new securities. In primary markets, governments and companies raise cash by selling newly issued securities to buyers. Secondary markets enable the buying and selling of previously issued securities. Most of the activity in the capital markets takes place in these markets.

Financial intermediaries are financial institutions that identify and connect buyers' and sellers' needs in real time or over time, and help determine a market price, so that transactions can occur and funds can be allocated efficiently.

Who buys and sells and why?

A variety of buyers and sellers come to the capital markets with different needs and objectives. Financial intermediaries play an important role in facilitating transactions in which there isn't a ready seller to match with a buyer, or vice versa. Or when there are different characteristics of assets involved, such as different sizes. In these cases, the intermediary acts as a market maker, using its own capital or holding the assets until a buyer or seller can be found. This enables the buyer or seller to transact at that moment, regardless of market conditions.

Buyers and sellers include but not limited to; entrepreneurs, investors, companies, pension funds and governments.

Entrepreneurs tend to raise funds from private sources, such as their own savings or borrowing, or that of friends and family members and co-founders. As the company grows and needs greater amount of capital, the entrepreneur can come to the capital markets to raise funds and potentially do an initial public offering (IPO).

Investors can be individual investors or institutional investors. Individual investors buy and sell securities for their own account, such as to invest their savings to plan for retirement. Institutional investors, such as mutual funds or other assets managers manage portfolios of assets to generate a return, often on behalf of individual investors investing their savings.

A company is “public” if its stock is traded on a public stock exchange. Listing on a public exchange by issuing stock is a way to raise funds in the capital markets. Companies can also go to the capital markets to borrow money from investors in the form of bonds, for which investors receive interest payments from the company.

A pension funds pays benefits based on contributions and investments from employers and employees. Endowments, funded by donations are used to help fund a not-for-profit institutions operations.

Governments include central banks, federal agencies, municipalities, multinational institutions, state-owned enterprises and sovereign wealth funds. The capital markets, in particular debt markets, are an important source of funds for these institutions to raise money for large projects, such as bridges, hospitals and roads. Sovereign wealth funds are investment funds owned by a country that invest to benefit that country's economy and people.

How do capital markets affect you?

The money raised through the capital markets fuels economic growth by enabling the creation of jobs, the building of infrastructure and the funding of innovative ideas. Start-ups tap the capital markets to grow their businesses and bring new products and services to the marketplace. State and local governments use the proceeds of municipal bonds to construct roads, schools, hospitals and other public facilities.