Introduction to debt capital market assignment

Business

That is ownership claims (or the right to any and all residual asset value after all prior claims are met) and prior ranking claims known as debt. Equity is typically a form of permanent capital in the capital framework of a company while debt is typically nonperformance with a variety of forms. This course focuses on Dept with special emphasis on the Debt Capital Markets. A debt instrument is a document that in it's simplest form is a promise to repay an amount of borrowed money plus interest.

Most commercial enterprises source their term debt from either banks or the capital markets. Bank debt is intermediated debt (that is provided by an intermediary) and generally provided to borrowers on either a bilateral or a syndicated basis. Debt Capital Markets provide debt directly as either corporate or securities debt. Bank debt is a loan provided by the borrower's bank(s), which pays interest on a regular basis. A key feature of most debt facilities provided by banks is one of flexibility.

That is often the debt can be borrowed and repaid without penalty and redrawn at a later time, this is known as a revolving facility. Banks can also lend on a single draw basis but often allow borrowers to repay such loans without penalty. A large amount of bank debt is provided bilaterally, that is between one bank and one borrower. Syndicated bank debt or a syndicated loan involves more than one bank lending under common documents having common terms. Typically an agent administers the loan and often acts as the security trustee. Syndicated loans are often for larger transactions and can be secured or unsecured. 7 Overview In its broadest sense a Debt Capital Market is a market for digs-intermediated debt instruments, that is debt instruments other than bank loans. Debt Capital Markets are not created but rather evolve with the characteristics appropriate to the economic and legal environment of the particular Jurisdiction. Securities that can be issued in a Debt Capital Market include bonds or notes issued by single name credits giving rise to a debt claim against the issuing entity and securities instruments which give rise to claims on a homogeneous pool of assets.

Basic Elements of a Capital market The basic elements of a Debt Capital Market are issuers (borrowers) who require debt capital, investors (lenders) who supply debt capital and intermediaries (usually uncial institutions) who typically act as arrangers of Debt transactions. Issuers of Debt Capital Market Instruments Issuers in the Debt Capital Markets include Governments (National, State and in some Jurisdictions local), Financial Institutions, and other corporate entities.

Investors Introduction to Debt Capital Market By adamantly Investors in the Debt Capital Markets include Governments, Financial institutions (Banks, Life Offices, Fund Managers, Insurance companies and others) and a wide range of private sector entities (Charities, Churches, Family offices and others). Investors provide the pools of funds that issuers can access to meet their debt requirements. An Intermediaries role in the creation of Debt Capital Market Instruments Intermediaries bring Issuers and Investors together, facilitating primary market transactions and secondary market liquidity.

The vast bulk of intermediaries are Investment or Commercial Banks. Elements of a Developed Capital Market Once the basic elements of a Debt Capital Market have evolved various other elements will emerge. One of the first needs is secondary market liquidity as holders of debt instruments seek to turn the debt instrument they hold into cash prior to authority. Trading Intermediaries typically facilitate secondary market liquidity and this becomes an important function as the market develops.

Research and information about investing in Debt Capital Market Instruments 18 As a Debt Capital Market becomes more sophisticated a need for information on the various borrowers emerges. This need can be filled in a number of ways; typically it is met by issuers directly (rarely), intermediaries, specialist research firms or debt ratings agencies. Swap and derivative Markets A derivative market is essential to the function of a developed Debt Capital Market. In he context of a debt issue a derivative market allow issuers to meet the demands of a particular investor (group) while achieving its own funding objectives.

Classically this involves issuing debt in a foreign currency and “ swapping” the funds raised into the currency the issuer requires. Swap markets also allow borrowers to alter the character of the interest payment of the debt instrument from a fixed obligations which reset periodically and vice versa. Rating Agencies As noted under research ratings agencies generate research about issuers, they also produce research on sectors and economics among other matter of interest to their lintel.

The original and primary role of a ratings agency was and remains to provide opinions to lenders and other creditors about the credit worthiness of their counterparts be they financial institutions, issuers or governments. Settlement and Clearing Systems As a Debt Capital Market grows in size the need arises for settlement and clearing systems. Settlement systems facilitate the exchange of securities for cash in a way that ensures securities are surrendered to buyers in exchange for clear funds. Examples of settlement systems include Austerely, Oracle and Slipstream.

A participants being the central clearing counterparts. Where a central clearing counterparts is used it faces all parties to a cleared transaction, as such, market participants do not take on each other's credit risk when rather they take the credit risk of the central clearing counterparts – the clearing house. Clearing systems and clearing houses have historically been associated with equity exchanges however exchanges such as the Australian Securities Exchange (ASS) now list, trade, clear and settle Debt securities of various types.

The Relationship between Capital Market and Bank Funding Debt capital markets and banks funding have close relationship. Banks and Capital Market investors both lend to issuers in the capital markets. Banks invest in and are themselves issuers of Debt Capital Market Instruments. Banks are dealers and distributors of Debt Capital Market Instruments. However Banks tend to uniformly lend short term – in line with their deposit base while other investors demonstrate a far broader maturity preference.

In general this will limit a banks purchase of securities to shorter-term instruments or where longer term instruments are acquired these will be held for sale or trading purposes. 19 The roles of financial intermediaries in disintermediation Issuers Investors Agent/Lead Manager Issuing and paying agent Dealer Functional roles in the process of originating and selling a debt capital market instrument Origination Syndicate Research Structuring Sales and Distribution Development of Capital Markets Market for digs-intermediated debt instruments (I. E. Debt other than bilateral bank loans).

Needed for markets to develop: Primary Market and Secondary Market where investors can liquidate their position. Players; Issuers (Borrowers); Investors (Lenders) Intermediaries (Facilitators – Primary and Secondary), Agent/Lead Manager (Assist in Issuing), rating companies, Issuing and Paying agent (Settlement), Dealers Relationship between DC and Bank Funding Both lend to issuers in DC Banks invest in and issue DC Banks are dealers in DC Banks tend to lend short term (in line with deposit base), investors have preference for longer maturities.

Banks usually purchase short term instruments unless the DC longer term instruments are to be used for Sale or Trading purposes. Securities are more liquid. Banks generally aim for a 20% ROE. They are forced to hold 8% capital against all lending or investing in debt instruments (unless its Gobo Debt or Bank Debt) that argil has to come from the difference between where they borrow and where they lend. This makes the hurdle for the lending business very high.