

Answers to finance questions

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Answers to Finance Questions Key Activities performed by Investment Banks

The main function of investment banks is facilitating the flow of capital acting as the link between capital seekers and capital providers. They provide a platform for investors to meet issuers and facilitate funds transfer through debt and equity instruments. The following are the key activities performed by investment banks.

a) Raising capital from the public

This involves investment banks offering securities on behalf of the issuing company or organization. Investment banks can make an initial or subsequent offer to the public in order to raise capital from the public.

Members of the public are the investors in public offerings

b) Raising capital from private investors

This is where investment banks sell debt and equity securities to private organizations and institutions

c) Mergers and Acquisitions

Investment banks are involved in mergers and acquisitions by determining the best terms for both the sellers and buyers, facilitating the process and, in some cases financing the acquisitions.

d) Securitization

Investment banks are involved in converting assets into securities on to which capital allocations can be made for issuers and investors.

e) Debt and Equity Trading

Investment banks facilitate trading of debt and equity securities in the stock market by acting as agents.

f) Risk and Wealth Management

Investment banks undertake to determine the levels of risk in different

financial instruments and manage them so as to receive the best possible returns.

g) Public Finance

Through investment banks, governments are able to raise capital for their expenditure on capital projects

h) Alternative Investments

i) Investment banks offer to trade in other financial instruments other than the conventional debt and equity securities.

j) Merchant Banking where the investment banks seek to use their own funds to finance purchase of equity or debt on behalf of client and later cede the investments at huge profit margins.

Changes in Investment Banks Activities in the Last Few Decades

Since the Glass-Steagall Act that clearly defined the functions of investment banks, there has been several changes that have occurred in investment bank activities over the last few decades. These changes have been occasioned by market forces and regulatory requirements. Since the repeal of the Glass-Steagall Act in 1999, there has been increased competition in the investment banks sector due to more entry of more investment banks from commercial banks that opened investment banking wings. According to Santos, regulation are imposed to reduce risk, improve transparency as well as improve leverage (Santos, 1999). Some of these changes experienced include merchant banking, asset and portfolio management, research and security analysis, providing consultancy services during mergers, acquisitions and take-overs and banking for global funds transactions.

Types of Non-Depository Financial Institutions

The following are the types of non-depository financial institutions;

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- a) Insurance companies
- b) Venture capital firms
- c) Government sponsored enterprises
- d) Building societies
- e) Pension funds
- f) Securities trading organizations
- g) Mutual funds

Money Market Mutual Funds

A money market mutual fund is where by many investors, both huge and small bring their funds together and invest them in short term securities. They are normally open-end funds where investors can purchase and sell their securities at will. These funds are professionally managed so as to reduce risks since the securities traded are highly liquid (Saunders, Cornett, & McGraw, 2006).

References

- Santos, J. A. (1999). Bank capital and equity investment regulations. *Journal of Banking and Finance*, 23(7), 1095-1120.
- Saunders, A., Cornett, M. M., & McGraw, P. A. (2006). *Financial Institutions Management: A risk management Approach* (Vol. 8). New York: McGraw Hill.