





UNITED CAPITAL GROUP LTD  
(Reg.: 171326)

# CAPITAL MARKET

Capital markets provide for the buying and selling of long term debt or equity backed securities.

- 21st century **capital markets** are mainly hosted on computer based **Electronic trading systems**; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public.
- Physically **the systems are hosted all over the world**, though they tend to be concentrated in financial centers like London, New York, and Hong Kong.



## DERIVATIVES MARKET

The term derivative comes from how the price of these contracts is derived from the price of financial contracts

- Derivatives are financial contracts whose value is linked to the price of an underlying commodity, asset, rate, index or the occurrence or magnitude of an event
- Derivatives markets have been in existence for as long, and even longer than that for securities, it has been the growth in the past 25 years that has made them one of the pillars of financial systems
- It is true not only of developed, but also developing economies





UNITED CAPITAL GROUP LTD  
(Reg.: 171326)

- Derivatives are traded in two kinds of markets:
  - Exchanges and OTC markets
- Exchange-traded derivative contracts (ETD) are those derivatives instruments that are traded via specialized derivatives exchanges or other exchanges
  - Interest rate & index products
- Over-the-counter (OTC) derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary
  - The london market – international OTC for gold and silver



# OVER THE COUNTER MARKET

- Tailor-made derivatives, doesn't trade on a futures exchange but trades on over-the-counter market
- Over-the-counter (OTC) or off-exchange trading is to trade financial instruments such as stocks, bonds, commodities or derivatives directly between two parties
- Products traded on the futures exchange market must be well standardised for transparent trading
- Non-standard products are traded in the over-the-counter (OTC) derivatives markets
- OTC derivatives have less standard structure and are traded bilaterally (between two parties)





UNITED CAPITAL GROUP LTD  
(Reg.: 171326)

## THE OTC MARKET ALLOWS FLEXIBILITY

- Unlike exchange-traded derivatives, OTC derivatives are not traded on an exchange, but are rather negotiated between two parties, one typically an investment bank and the other a corporate, which has an economic utility to be addressed by the instrument
- For example, a manufacturing company may have receivables in US Dollars but incurs costs in Ringgit.
  - A declining US Dollar may prompt the company to hedge its risks against further decline

