INSIDE CAPITAL MARKETS

Welcome to *Inside Capital Markets™*! This course is part of PSI's *Inside Financial Services®* curriculum.

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You may be eligible for Continuing Professional Education credit for this course if you are a CPA licensed in the United States. This course offers 1 CPE credit by the National Association of State Board of Accountancy (NASBA). Refer to the associated CPE information pdf for more information on the continuing education credits for this course.

Welcome

The primary purpose of a financial institution's capital markets business is to help large customers buy and sell securities.

Topics covered in this course include:

- Customers
- Providers
- Financial markets and instruments
- Products and services
- Executives
- Industry challenges

Course Overview

This 50 minute course is designed for professionals serving the financial services industry, and it provides a fundamental understanding of the capital markets segment of the financial services industry.

Upon completing this course, you will be able to:

- Name capital markets customers
- Identify different types of capital markets providers
- Define financial markets and instruments

- Recall capital markets products and services
- Recognize important executives within capital markets
- Identify the challenges facing the capital markets industry

This course is part of the *Inside Financial Services*® training curriculum. Other courses in this curriculum include:

- *Introduction to Financial Services*
- *Inside Retail Banking*
- *Inside Investment Management*
- *Inside Corporate Finance*
- *Inside Transaction Banking*
- *Inside Risk Management*
- *Inside Financial Services Regulation*
- *Making Money in Financial Services*

CUSTOMERS

Financial institutions provide capital markets services primarily to:

- Institutional investors
  - Institutional investors are financial institutions and other organizations with large investment portfolios to manage
  - Institutional investors include public and private pension funds, mutual funds, hedge funds, life insurance companies and sovereign wealth funds
  - Follow this link to the Inside Financial Services Wiki to learn more about institutional investors
- Other financial institutions
  - Capital markets services are offered primarily by large financial institutions
  - As a result, smaller financial institutions turn to these large institutions for capital markets services
- Large corporations

What Customers Value

Customers use a financial institution's capital markets services primarily to buy and sell (or **trade**) securities.

When evaluating providers, customers will look at a financial institution's:

- Price

- Technological innovation
- Specialization around specific types of markets and/or instruments
- Ability to complete trade requests quickly
- Customer experience, such as the ability to submit trades through digital platforms

PROVIDERS

The primary providers of capital markets services include:

- Large banks
    - The capital markets industry is dominated by a small number of large banks
    - Today, the US banks JPMorganChase, Goldman Sachs, Bank of America Merrill Lynch, Citigroup and Morgan Stanley are generally considered the global leaders in capital markets
    - Other large banks are important providers in specific regions, such as:
        - Deutsche Bank, UBS, Barclays and BNP Paribas in Europe
        - Mizuho Securities, Citic Securities and China Securities in Asia
- Execution venues
    - Execution venues are where trade orders submitted by buyers and sellers are matched and completed (or **executed**)
    - Execution venues (also referred to as **execution sources** and **trading venues**) include:
        - Exchanges
            - Exchanges are central markets in which financial institutions meet to trade specific securities
            - Exchanges were originally created as physical locations where representatives of member firms (called floor brokers) would meet to trade securities listed on the exchange
            - Today, most exchanges have replaced floor brokers with electronic communication networks that automatically match buy and sell requests submitted by member firms
        - Alternative trading systems (ATS)
            - Alternative trading systems are communication networks linking member firms together for trade execution
            - Alternative trading systems must be approved by regulators to operate, and alternative trading systems compete directly with organized exchanges
            - Most alternative trading systems were originally created by groups of large banks active in trading to:
                - Lower trade execution costs by bypassing exchanges
                - Leverage advances in technology to execute trades more quickly and efficiently

        - Support the needs of institutional investors, who often want to trade large blocks of securities without influencing the market price
    - In recent years, many exchanges have launched (or acquired) alternative trading systems to compete with bank-owned systems
    - The percentage of trading taking place on alternative trading systems has grown over the years, driven by the ability of these platforms to offer:
        - Faster and more efficient trading
        - More flexibility in how trade orders can be presented
        - Lower trading fees
    - Alternative trading systems are also referred to as **alternative trading platforms** and **multilateral trading facilities (MTFs)**
- Clearinghouses
    - Clearinghouses review trade information provided by buyers, sellers and execution venues to confirm the details of each trade. This is referred to as **securities clearing** (and is covered later in this course)
    - Clearinghouses work with (and are often owned by) the execution venues at which trades are executed

Financial Markets and Instruments

Financial markets involve the issuing and trading of securities. **Securities** are financial instruments or "investment contracts" that represent:

- An ownership interest in an issuer
- A creditor relationship with an issuer, or
- The right to ownership in an issuer

Securities are generally organized into asset classes (covered later in this course). **Derivatives** (also covered later in this course) are derived from other securities and are themselves considered securities.

The markets for trading all types of securities are collectively referred to as the **financial markets**.

Financial markets bring issuers, buyers and sellers of securities together, allowing:

- Issuers to obtain capital to fund ongoing operations, organic growth and acquisitions
- Investors to generate income (through dividends and interest payments) by buying and holding securities
- Investors and traders to create profits by trading securities (by buying low and selling high)

Financial markets are segmented across several dimensions, including:

- Money markets vs. capital markets
- Primary markets vs. secondary markets
- Asset classes
- Geographies

Money Markets vs. Capital Markets

Money markets are financial markets in which securities with original **maturities of less than one year** are traded.

Issuers use money markets primarily to generate short-term funds for ongoing operations. Money market instruments are generally unsecured, so only high-quality issuers are able to use the money market. Money market issuers include government agencies, financial institutions and large corporations.

Technically, **capital markets** are financial markets in which securities with **maturities greater than one year** are traded (as opposed to money markets). However, the term "capital markets" is often used:

- Interchangeably with the term “financial markets” to indicate all markets
- By financial institutions to describe services related to financial markets (as in this course)

Primary Markets vs. Secondary Markets

A **primary market** is a financial market in which businesses, financial institutions and government agencies issue new securities. The primary market allows these issuers to access investors to raise capital to support their ongoing operations.

In a **secondary market** investors actively buy and sell existing securities, resulting in an extremely high level of activity (as compared to the primary markets). Investors, who are the source of supply and demand for specific securities, are the primary driving force in the secondary markets:

- Investors purchase securities for the anticipated capital gains to be earned by selling the securities at a later date at a higher price and/or for the ongoing income stream generated by dividends and interest payments
- Investors sell securities to realize capital gains and to obtain liquidity (cash) for other obligations or opportunities

When financial institutions talk about their “capital markets business”, they are generally referring to services that support investors in the secondary market. Services that support clients in the primary market are generally part of a financial institution’s investment banking business (which is covered in the *Inside Corporate Finance* course).

Asset Classes

An **asset class** is a group of securities that have similar characteristics, behave similarly in the marketplace and are all subject to the same laws and regulations.

The primary asset classes are:

- Equities
  - Equities are securities that represent an ownership interest in the issuer
  - Equities include:
    - Common stock
    - Related derivatives, such as stock futures and stock options
- Fixed income instruments
  - Fixed income instruments are securities that provide investors with a fixed return, usually in the form of interest payments
  - Fixed income instruments include:
    - Government and corporate bonds
    - Asset-backed securities
    - Mortgage-backed securities
    - Money market instruments
    - Related derivatives such as interest rate swaps and credit default swaps
- Commodities
  - Commodities are raw materials, agricultural products and other "hard assets"
  - While there is some trading of physical commodities, most commodities trading (including foreign exchange trading) is through futures and other derivatives based on underlying commodities

Asset classes are not strictly defined, and the scope and definition of individual asset classes varies between industry participants.

Derivatives are not a separate asset class. Derivatives are considered part of the same asset class as the underlying asset on which they are based.

Derivatives are used by investors and traders to:

- Hedge against existing risks (such as an increase in commodity prices or foreign exchange rates)
- Speculate on market changes (such as a decrease in equity prices)

There are four basic types of derivatives:

- Options and futures are highly standardized
  - Most options and futures are listed and traded on exchanges
- Swaps and forward contracts are customized to meet the specific need of an issuer and/or investor

- These derivatives are not traded on exchanges, so they are considered **over-the-counter (OTC) derivatives**

Follow this link to the *Inside Financial Services Wiki* if you would like to learn more about asset classes and specific types of securities.

PRODUCTS AND SERVICES

The primary responsibilities of a financial institution's capital markets business are:

- Trade execution services
- Securities clearing
- Trade settlement
- Market making
- Proprietary trading

Other services closely related to these primary responsibilities include:

- Electronic trading
- Quantitative trading
- Prime brokerage

Let's take a closer look at each of these…

Trade Execution Services

Trade execution is the process in which a financial institution completes (or **executes**) a client's request to buy or sell securities. To do this, financial institutions serve as either:

- Brokers
  - Brokers execute trades by finding counterparties willing to complete the other side of trades
  - Brokers earn revenue in trade execution by charging fees for the trade orders they execute on behalf of clients
  - Consequently, revenue and profitability in this area is driven primarily by the amount of trade orders coming into an institution (referred to as **order flow**)
- Dealers
  - Dealers execute trades by buying (and selling) securities from (and to) other investors for (and from) their own trading accounts
  - Dealers generate profitability through trading gains (by buying low and selling high)

Follow this link to the *Inside Financial Services Wiki* if you would like to learn more about the trade execution process.

To attract order flow, financial institutions offer clients a variety of related services in addition to trade execution, including:

- Access to real-time market data and proprietary research
- Electronic trading (covered later in this course)
- Information technology tools, such as order management systems
- Quantitative trading (covered later in this course)

Securities Clearing

> Securities clearing is the process in which the parties involved in a securities trade confirm the details of the trade.

In securities clearing the buyer, seller and execution venue forward information associated with a trade to the appropriate clearinghouse that works with the exchange or other execution venue at which the trade was executed.

The clearinghouse reviews the information provided. If it matches, the trade information is forwarded to the appropriate depository for trade settlement.

Many clearinghouses act as **central counterparties** to reduce counterparty risk in trade settlement. In the central counterparty clearing model, each trade is broken into two separate legs, with the central counterparty (CCP) acting as the buyer to every seller and the seller to every buyer. This removes the counterparty risk the buyer and seller have with each other.

To reduce the counterparty risk members have with the CCP, CCPs are closely regulated and required to hold significant amounts of capital. To cover its counterparty risk, the CCP nets each member's positions and requires members to post collateral to cover open positions.

Trade Settlement

Trade settlement is the process in which a buyer and a seller of securities actually exchange securities and payment. Trade settlement occurs after trade execution and securities clearing.

Trade settlement begins when a clearinghouse sends the details of an executed and cleared trade to the appropriate depository. The depository then forwards a **trade confirmation** containing the trade details to the buyer and seller (or their agents). If this trade confirmation matches the buyer's and seller's trade information, they send a **trade affirmation** back to the depository to finalize settlement. This affirmation is a legal contract to settle the trade.

On the scheduled settlement date:

- The ownership of the securities is transferred from the seller's account to the buyer's account
- The funds for the transaction are debited from the buyer's account and credited to the seller's account
- Final settlement information is forwarded to the buyer and seller

The time it takes to settle a trade is known as the **settlement period**.

Follow this link to the *Inside Financial Services Wiki* if you would like to learn more about the trade settlement process.

Market Making

In market making, a financial institution (referred to as the **market maker**) stands willing to always buy and sell certain securities in the secondary market.

Market makers risk their own capital to provide traders with an execution venue for over-the-counter (OTC) markets. This is known as **providing liquidity** to the market.

Market makers provide quotes to the market indicating the current prices at which they are willing to:

- Buy securities (known as **bid prices**)
- Sell securities from their own inventory (known as **ask prices** or **offer prices**)

Although market making was traditionally provided by large banks, today most market making is provided by high-frequency trading firms (covered later in this course).

Proprietary Trading

Proprietary trading is securities trading involving a financial institution's own capital. In other words, it is trading on a financial institution's own behalf (and not for clients).

Proprietary traders within financial institutions are very active traders, often holding positions for short periods of time (sometimes only seconds) as they attempt to earn trading profits on short-term market fluctuations. To identify trading opportunities, these traders rely heavily on sophisticated trading analytics and data distribution systems integrated into their trading workstations.

Today, financial institutions are increasingly complementing (or replacing) their proprietary traders with algorithmic trading systems (covered later in this course).

Proprietary trading gains have historically been an important source of revenue for many large banks, but it is also a risky business. Proprietary trading involves using the institution's own capital

and can expose the institution to large amounts of market risk. As the global financial crisis unfolded in 2007 and 2008, many large banks lost tens of billions of dollars in their proprietary trading operations.

As a result, many new regulations have been introduced to restrict proprietary trading by commercial banks. These regulations have led banks to significantly reduce their proprietary trading operations and focus more on traditional capital markets services (or other areas of financial services), which have lower levels of risk and therefore require less regulatory capital.

Electronic Trading

Electronic trading is the trading of securities through online trading platforms.

Electronic trading originally began as a way for financial institutions to lower trading costs, but it has become a self-perpetuating cycle:

- As financial institutions use electronic trading to lower trading costs...
- ...fees are lowered to capture order flow
- ...which lowers the profitability of each trade, creating pressure to lower trading costs further

The growth of alternative trading systems has also fueled the growth in electronic trading, introducing new trading options and more execution venues.

Most equities and foreign exchange trading today is electronic, and the investments in IT needed to compete effectively in electronic trading has allowed leading players to grow their market share in these markets. The use of electronic trading continues to grow quickly in other asset classes, including bond trading.

Electronic trading systems continue to become more powerful, driven by:

- New developments in financial theory, mathematics and physics
- Improvements in the quality and complexity of market data and quantitative research
- Continued advancements in computing power and artificial intelligence

These developments have also enabled the growth of quantitative trading.

Quantitative Trading

Quantitative trading involves trading strategies that use mathematical calculations, statistical modeling, artificial intelligence, powerful computers and large data sets to identify trading opportunities.

Quantitative models are able to monitor, analyze and process massive amounts of data quickly to support trading decisions, something human traders cannot do on their own:

- In some cases quantitative models simply provide investors or traders with recommendations
- However, quantitative models are increasingly used to support **algorithmic trading** in which trade orders are generated automatically without human intervention

Quantitative trading algorithms are developed by financial analysts, mathematicians, scientists and others who are referred to as quantitative analysts (or **quants**).

Most quantitative trading is conducted by hedge funds and mutual funds (referred to as **quant funds**), although its use by other institutional investors is growing. In recent years large banks have also invested heavily in quantitative trading to support their capital markets activities.

High-Frequency Trading

High-frequency trading is a form of algorithmic trading that uses high-powered hardware and networking components to take advantage of price differences across different execution venues. High-frequency trading is conducted primarily by specialized trading firms.

High-frequency trading relies on speed and volume. High-frequency trading systems can execute trades in milliseconds (thousandths of a second), and generate thousands of small trade orders every second.

High-frequency trading has come under scrutiny as some investors and regulators question the advantage given to trading firms which invest in faster technology. In addition, there have been several high profile examples in recent years of market disruptions (or "flash crashes") caused by (or at least accelerated by) high-frequency trading.

However, proponents argue high-frequency trading firms add liquidity to markets and have become the new market makers. It is estimated that 50% or more of trading on many exchanges is now conducted by high-frequency traders.

Prime Brokerage

Prime brokerage refers to a range of services provided to hedge fund managers. These services include:

- Capital introduction, which is brokering relationships between hedge fund managers and investors
- Direct financing
- Structuring complex financial transactions
- Securities lending

- Trade execution
- Securities clearing
- Accounting, trade settlement, reporting and other back-office services

Follow this link to the *Inside Financial Services Wiki* to learn more about prime brokerage services.

EXECUTIVES

While every financial institution has a different organizational structure, important executives in capital markets typically include:

- EVP, Capital Markets
- SVP, Equities
- SVP, Fixed Income, Currencies and Commodities
- SVP, Structured Products
- Chief Risk Officer

EVP, Capital Markets

The EVP (or Senior Managing Director) of Capital Markets is responsible for the overall profitability and growth of the financial institution's capital markets line of business. Other common names for this group include Securities, Global Securities, Markets, Global Markets as well as Sales and Trading.

This executive typically has responsibility for all of the services and most of the activities related to capital markets, including:

- Business strategy and development
- Sales and distribution
- Marketing
- Client service
- Operations
- Human resources
- Compliance with securities trading regulations

In commercial banks, the EVP of Capital Markets usually reports directly to the President of Corporate Banking. In investment banks, the EVP of Capital Markets usually reports directly to the Chief Executive Officer.

The Capital Markets group is organized into various trading desks, with each desk typically focusing on a specific asset class. Most financial institutions separate their capital markets business into:

- Equities
- Fixed Income, Currencies and Commodities
- Structured Products

In addition to trading desks organized around asset classes, banks often organize these trading desks around geographical regions. For example, a large global bank may have a US Equities trading desk, a European Equities trading desk, an Asia-Pacific Equities trading desk and an Emerging Markets Equities trading desk.

SVP, Equities

The SVP (or Managing Director) of Equities is responsible for the overall profitability and growth of the financial institution's Equities Trading Desk. The Equities Trading Desk trades equities and related derivatives, such as stock futures and stock options.

This executive typically has overall responsibility for sales and trading activities related to equities trading, including:

- Trade execution
- Proprietary trading
- Market making
- Risk management services
- Electronic trading

The SVP of Equities usually reports directly to the EVP of Capital Markets.

SVP, Fixed Income, Currencies and Commodities

The SVP (or Managing Director) of Fixed Income, Currencies and Commodities (FICC) is responsible for the overall profitability and growth of the financial institution's FICC Trading Desk. The FICC Trading Desk trades:

- Fixed income instruments
- Money market instruments
- Commodities, including foreign exchange

This executive typically has overall responsibility for capital markets activities related to these asset classes, including:

- Trade execution
- Proprietary trading
- Market making
- Risk management services
- Electronic trading

The SVP of FICC usually reports directly to the EVP of Capital Markets.

SVP, Structured Products

The SVP (or Managing Director) of Structured Products is responsible for the overall profitability and growth of the financial institution's Structured Products Trading Desk. The Structured Products Trading Desk creates and trades over-the-counter (OTC) derivatives.

This executive typically has overall responsibility for activities related to structured finance products, including:

- Trade execution
- Proprietary trading
- Market making
- Distribution
- Risk management services
- Electronic trading

The SVP of Structured Products usually reports directly to the EVP of Capital Markets.

Chief Risk Officer

The Chief Risk Officer (CRO) is responsible for a financial institution's market risk management, which is the largest risk facing capital markets operations. **Market risk** is the risk that changes in market conditions (such as changes in interest rates or securities prices) will negatively impact a financial institution's profitability.

The Chief Risk Officer heads the Risk Management department. Most Chief Risk Officers are growing in influence within their organizations as financial institutions look to improve risk governance and standardize risk management. In some financial institutions, the CRO is considered a peer of the Chief Executive Officer and Chief Financial Officer as the most important senior executives.

Risk management is covered in more detail in the *Inside Risk Management* course and the *Inside Financial Services Wiki*.

INDUSTRY CHALLENGES

The primary challenges facing the capital markets industry today include:

- Market conditions
- Digital disruption
- Regulatory burden
- Changing business models

Market Conditions

Market conditions have a direct impact on the demand for capital markets services:

- When markets are volatile:
  - Trading activity increases as investors and traders look to take advantage of market changes
  - For banks active in capital markets, this increased trading activity:
    - Increases order flow (and trading commissions)
    - Creates more opportunities to generate profitability from proprietary trading
- When markets are quiet:
  - Trading activity decreases
  - Banks active in capital markets see:
    - Decreased order flow
    - Fewer opportunities to generate proprietary trading gains

Digital Disruption

Changing clients, advances in technology, new competitors and new business models are transforming the financial services industry. The convergence of these transformative drivers is often referred to as **digital disruption**.

The most important, disruptive advances in technology for the capital markets industry include:

- Analytics, artificial intelligence and big data
- Cloud computing
- Messaging platforms
- Blockchain
- Robotic process automation

Digital disruption is fueling the growth of financial technology or **fintech**. While the term fintech is used in many different ways, the most common use defines fintech as newer, technology-driven services and solutions within the financial services industry. In capital markets, examples of fintech include:

- New messaging platforms, such as Symphony
- Alternative trading systems
- Advanced quantitative trading models leveraging machine learning and big data

- Alternative data services

This digital disruption is creating challenges for existing capital markets providers as they struggle to meet client expectations and respond to new competitors. However, digital disruption also creates significant opportunities for existing providers to transform their own businesses by leveraging these advances in technology. For example, capital markets providers are:

- Leveraging alternative data and big data management tools to support trading decisions
    - Alternative data is information (primarily unstructured big data) that goes beyond the traditional sources used by traders (such as economic data releases and company earnings reports) to identify trading opportunities
    - Alternative data includes:
        - News releases
        - Social media "chatter" and online searches
        - Geolocation data sold by mobile app providers
        - Spending patterns provided by credit card companies
        - Satellite imagery
    - Much of this data is provided by third-party alternative data vendors
- Investing in high-performance computing resources, advanced mathematics, machine learning and complex trading algorithms to improve quantitative trading
- Expanding electronic trading across asset classes to reduce costs
- Utilizing robotic process automation to automate business processes across trade execution, reconciliation, and trade settlement
- Joining new messaging platforms to reduce costs associated with existing messaging tools
- Exploring blockchain applications to support collateral management, securities clearing and trade settlement

Regulatory Burden

Since the global financial crisis, regulation of the financial services industry has increased significantly. Recent regulations with the biggest impact on capital markets include:

- Capital and liquidity rules
    - As an example of the impact of these regulations, there have been significant changes in bond markets in recent years
    - Historically large banks served as bond dealers, holding large "inventories" of bonds and actively trading bonds with other investors
    - However the amount of regulatory capital now required to hold large bond inventories have made this business less attractive, and large banks have dramatically reduced their bond portfolios
    - This has reduced liquidity in the bond market, making it difficult for smaller investors to trade bonds
    - At the same time asset managers holding large bond portfolios are exerting greater control over the bond market, as their increasing size gives them greater influence over market prices

- Securities trading regulations, including:
    - MiFID II
    - The FX global code
    -
    - Proprietary trading restrictions
    - Algorithmic trading regulations
    - Consolidated Audit Trail (CAT)

Changes in Business Models

For many large global banks, capital markets has historically been a significant source of revenue and profitability. However, difficult market conditions, digital disruption and an increased regulatory burden have reduced industry revenue and profitability. In response, large banks have changed their capital markets business models in recent years:

- Most large banks have employed initiatives to reduce costs in their capital markets operations, including:
    - Rationalizing internal structures, including implementing shared service centers
    - Automating and/or outsourcing business processes, including:
        - Clearing and settlement
        - Reconciliations
        - Collateral management
        - Data management and reporting
    - Simplifying IT infrastructures, including:
        - Standardizing and consolidating data management
        - Migrating IT to the cloud
- Leading global providers are aggressively investing in technology to reduce costs, increase competitive advantage and grow market share at the expense of weaker rivals
- Some historical leaders (primarily large European banks) have retrenched, exiting some businesses/regions and scaling back in others to rebuild capital and stabilize their earnings
- Some banks have shifted their focus away from capital markets to less risky and capital-intensive businesses, such as investment management
- Large commercial banks continue to leverage their strong positions in treasury services to expand their capital markets business with large corporates

CYUs

1. ***Who are the primary clients of a financial institution's Capital Markets group? Select the best answer.***

    - Corporate Finance departments
    - Individual investors
    - Institutional investors

- Corporate Procurement departments
-

2. ***Which capital markets provider includes central markets in which financial institutions meet to trade specific securities? Select the correct answer.***
    - Exchanges
    - Clearinghouses
    - Depositories
    - Investment banks

3. ***Match each description to the financial market by choosing the appropriate market from the drop down menu. Then click Submit to see if you are correct.***

Money markets	Where securities with **maturities greater than one year** are traded.
Capital markets	Where securities with original **maturities of less than one year** are traded.
Primary markets	Where businesses, financial institutions and government agencies issue new securities.
Secondary markets	Where investors actively buy and sell existing securities.

4. ***Which financial institutions are willing to always buy (and sell) certain securities for (and from) their own inventories? Select the best answer.***
    - Execution venues
    - Market makers
    - Clearinghouses
    - Depositories

5. Match each description to the correct executive by choosing the appropriate executive from the drop down menu. Then click Submit to see if you are correct.

SVP, Equities	Responsible for stock futures and stock options trading

SVP, Fixed Income, Currencies and Commodities	Responsible for foreign exchange trading
SVP, Structured Products	Responsible for over-the-counter derivatives trading

6. ***Match each technology advancement to the impact on the capital markets industry by choosing the appropriate technology from the drop down menu. Then click Submit to see if you are correct.***

Big data management tools	Allows traders to leverage alternative data to support trading decisions
Machine learning	Improves quantitative trading models
Robotic process automation	Automates business processes across trade execution and settlement
Blockchain applications	Supports collateral management and trade settlement

FINAL TEST

To successfully complete this course, you must score at least 70% on the test. There are 10 questions in total. When you have answered all the questions in the test, submit it to info@goto-psi.com and it will be graded. Good luck!

Question #1

Which factors are driving some banks to change their business model? Select all that apply.

Market conditions

Digital disruption

Regulatory burdens

IT constraints

Question #2

Which capital markets customers are considered institutional investors? Select the correct answer.

Government agencies

Hedge funds

Small businesses

Large corporations

Question #3

Which are the primary providers of capital markets services? Select the correct answer.

Large banks

Insurance companies

Hedge fund firms

Mutual fund companies

Question #4

In many markets, trades between buyers and sellers are broken into two separate "legs", with the clearinghouse acting as the buyer to every seller and the seller to every buyer. What role does the clearinghouse play in this settlement model? Select the correct answer.

Central counterparty

Central securities depository

Dealer

Broker

Question #5

Which is typically the responsibility of the SVP of equities? Select the correct answer.

Fixed income instruments

Proprietary trading

Internal audit

Human resources

Question #6

What impact do volatile market conditions have on capital markets services? Select the correct answer.

Trading activity decreases

Order flow decreases

Proprietary trading opportunities increase

Quantitative trading becomes less effective

Question #7

Which term refers to the volume of trade orders sent to a financial institution? Select the correct answer.

Order wave

Market wave

Order flow

Market flow

Question #8

What algorithmic trading method uses high-powered computer systems to take advantage of price differences across different execution venues? Select the correct answer.

High-frequency trading

Prime trading

Real-time arbitrage trading

Swap trading

Question #9

Which is the purpose of the financial markets? Select all that apply.

Allows issuers to obtain capital to fund ongoing operations

Allows investors to generate income

Allows traders to create profits

Allows creditors to obtain ownership in an issuer

Question #10

What factor is contributing to the lack of liquidity in the bond market that has occurred in recent years? Select the best answer.

Volatile market conditions

Digital disruption

Changes in capital regulations

Changes in OTC derivatives trading regulations