

## ICAG BUSINESS LESSONS (WEEK 8)

### Good morning

This is week 8 of the year 2022 in the Gregorian calendar. 44 weeks remain until the end of the year.

### MONDAY MOTIVATION

“Whatever the mind of a man can conceive and believe, it can be achieved”

*Napoleon Hill*

### FUN FACT OF THE WEEK

Just that you know! The brain enters an “incubation period” when we are in relaxed state which allows our subconscious mind to bring things to our attention, according to scientists. Which is why when we do things, like take showers, we experience greater problem-solving ability and creativity.

### FINANCIAL AND INVESTMENT QUOTE OF THE WEEK

“To be a successful business owner and investor, you have to be emotionally neutral to winning and losing. Winning and losing are just part of the game.”

*Robert Kiyosaki*

### FINANCE AND INVESTMENT CONCEPT OF THE WEEK: FINANCIAL MARKETS AND FINANCIAL INTERMEDIARIES.

#### FINANCIAL MARKETS

A financial market can be considered as any marketplace where buyers and sellers engage in the trade of assets such as equities, debt instruments (e.g., bonds), currencies, and derivatives.

Financial markets are characterized by transparent pricing and basic regulations on trading, costs, and fees.

Investors have access to a number of financial markets and exchanges that represent a vast array of financial products.

There are two main types of financial instruments traded on the financial market:

**underlying stock:** bonds, commodities (energy, metals, food), currencies, equities(shares)

**derivatives:** claims that promise some payment or delivery in the future contingent on another financial instrument (usually on the behaviour of the underlying stock)

Financial markets can be classified into **Capital markets** and **Money Markets**.

## CAPITAL MARKETS

These are markets for trading in long-term financial instruments such as equities and debentures/bonds.

Capital markets are composed of equity markets and bond markets.

### Capital Market Classifications

- a. **Primary markets:** The primary market is frequently referred to as the "new issues" market in which transactions strictly occur directly between the bond issuers and the bond buyers.  
In essence, the primary market yields the creation of brand-new debt securities that have not previously been offered to the public.
- b. **Secondary markets:** In the secondary market, securities that have already been sold in the primary market are then bought and sold at later dates.  
Investors can purchase these bonds from a broker, who acts as an intermediary between the buying and selling parties.  
These secondary market issues may be packaged in the form of pension funds, mutual funds, and life insurance policies—among many other product structures.

**Equity markets:** Equity markets are the meeting point for buyers and sellers of stocks. The securities traded in the equity market can either be public stocks, which are those listed on the stock exchange, or privately traded stocks. Often, private stocks are traded through dealers, which is the definition of an over-the-counter market.

**Bond markets:** these are markets where bonds; debt instruments issued by governments, government agencies and corporate companies, are sold. Bonds are issued with the intention of raising capital to finance operations. Most bonds are issued for a fixed period for they to reach maturity. After maturity, it is redeemed by the issuer at their face value. Interest is paid to the bondholders by the issuer, annually, semi-annually or quarterly at a fixed interest rate.

### Examples of Bonds

**Zero-coupon bonds:** These are bonds issued with no coupon payments. In this case, investors receive par value at the maturity date but receive no interest payments until then i.e. The bond has a coupon rate of zero. These bonds are issued at prices considerably below par value, and the investor's return comes solely from the difference between issue price and the payment of par value at maturity.

**Corporate Bonds:** These are bonds issued by corporations in view of borrowing money. Corporate bonds sell in units of \$1,000 par value but are quoted as a percentage of par value.

**Callable and Puttable Bonds:** Callable bonds may be redeemed early or extended at a call date, at the discretion of the borrower(issuer), while Puttable bonds may be redeemed early or extended at a put date, at the discretion of the lender(bondholder).

**Convertible bonds:** They give bondholders an option to exchange each bond for a specified number of shares of common stock of a firm. The conversion ratio gives the number of shares for which each bond may be exchanged.

**Floating-rate bonds:** make interest payments that are tied to some measure of current market rates. For example, the rate might be adjusted annually to the current T-bill rate plus 2%. If the one-year T-bill rate at the adjustment date is 5%, the bond's coupon rate over the next year would then be 7%. This arrangement means that the bond always pays approximately current market rates.

**Treasury notes and Treasury bonds:** Treasury notes maturities ranges up to 10 years, whereas Treasury bonds are issued with maturities ranging from 10 to 30 years. Both are issued in denominations of \$1,000 or more and make semi-annual coupon payments. Aside from their differing maturities at issue date, the only major distinction between T-notes and T-bonds is that in the past, some T-bonds were callable for a given period, usually during the last five years of the bond's life.

## MONEY MARKET

Money markets are markets for trading short-term financial instruments such as bills of exchange, certificates of deposits, etc.

### Main purpose of money markets

Main purpose of money market is to provide:

- Short-term liquidity to entities needing money; and
- Short-term investment opportunities for entities with surplus liquidity.

### Money Market Instruments

- **Coupon-bearing and Discount Instruments**

These are two broad categories of money market instrument, coupon-bearing and discount instruments.

- a. **Coupon-bearing instruments** are instruments or securities on which interest is payable at a stated interest rate (or 'coupon') on a fixed amount of principal. When the instrument or security reaches its maturity date, its holder receives the initial principal plus interest in settlement. Examples of coupon-bearing instruments are certificates of deposits.

Certificates of deposit (CDs): It is a certificate issued by a bank stating that the bank is holding a specified quantity of money as a term deposit, on which interest is being earned at a specified rate. The deposit cannot be removed from the bank until the end of the stated term, but it can be sold in a money market for CDs.

- b. **Discount instruments** are instruments or securities where the borrower undertakes to pay a fixed amount of principal at maturity, and the instrument is issued at a discount to its 'face value'. The difference between the discounted issue price and the eventual redemption price (face value) represents interest on the borrowing. Examples of discount instruments are Treasury bills, bills of exchange and commercial paper.

**Treasury bills:** These are short-term securities issued by government, when the money is needed to meet a short-term financing requirement. Its maturity period is usually with 91 to 365 days.

**Bills of exchange:** It is a written order used primarily in international trade that binds one party to pay a fixed sum of money to another party on demand or at a predetermined date. Bills of exchange are similar to checks and promissory notes—they can be drawn by individuals or banks and are generally transferable by endorsements.

A bill of exchange transaction can involve up to three parties.

The drawee is the party that pays the sum specified by the bill of exchange. The payee is the one who receives that sum.

The drawer is the party that obliges the drawee to pay the payee.

The drawer and the payee are the same entity unless the drawer transfers the bill of exchange to a third-party payee.

## **THIS WEEK IN HISTORY - TOP 20 EVENTS**

**21/02/1961-** Gabon adopts constitution

**21/02/1842-** 1st known sewing machine patented in US, John Greenough, Washington, D.C.

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### **21<sup>st</sup> February is International Mother Tongue Day!**

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**22/02/2017-** US President Donald Trump overturns Obama's directive on Transgender rights to use toilets.

**22/02/1958** – Egypt and Syria join to form the United Arab Republic.

**22/02/1922-** London issues a unilateral declaration of Egyptian independence

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**23/02/1947**– International Organization for Standardization is founded.

**23/02/1905**- First Rotary Club formed by 4 men in the Unity Building, Chicago

**24/02/2020** - Memorial service for NBA star Kobe Bryant held at the Staples Center in Los Angeles

**24/02/2008** – Fidel Castro retires as the President of Cuba due to ill health after nearly fifty years

**24/02/1971**- Algeria nationalizes 51 percent of French oil concessions

**24/02/1966** – coup ousts President Kwame Nkrumah, the first president of Ghana

**24/02/1945**- Egyptian Premier Ahmed Maher Pasha is killed in Parliament after reading a decree

**24/02/1924**- Mahatma Gandhi released from jail

**25/02/1964** – Muhammed Ali (Cassius Clay) wins his first world heavyweight boxing title when Sonny Liston fails to come out for round 7 at the Convention Center, Miami Beach.

**25/02/1932**- Austrian immigrant Adolf Hitler gets German citizenship

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### **DID YOU KNOW?**

Registration for the April 2022 CA Professional Examination is in session and ends on **Monday, 21st March 2022**. Students should visit <https://sms.icag.org> to register.

*Have a fruitful week!*

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