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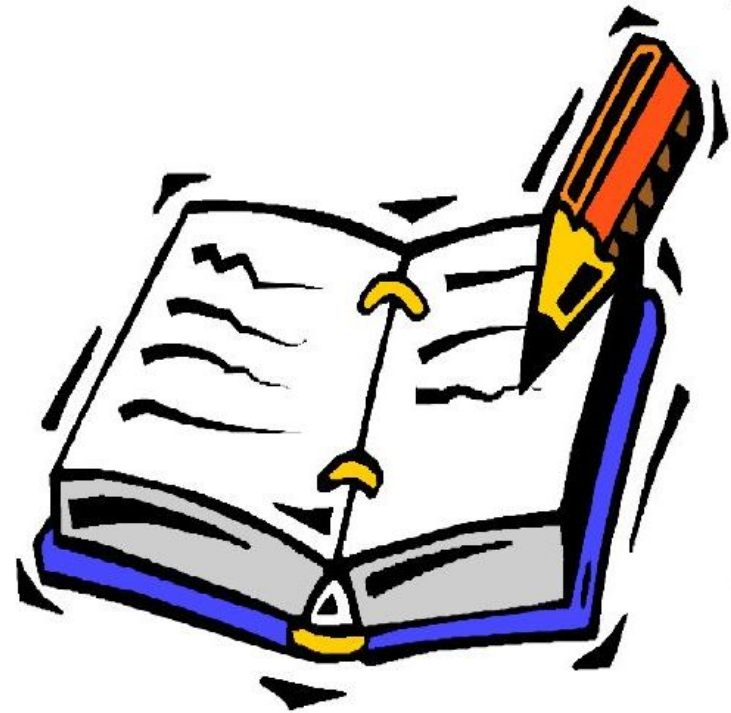
# Financial Law of Kazakhstan

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# Home assignment

1. **Civil Code,**  
Chapter 3, articles 128-1 – 139-1.
  1. **Statute “On Securities Market”.**  
(Закон РК «О рынке ценных бумаг»)
- Please see these Statutes on the L-Drive, folder “Acts”



# Plan

- I. **Financial Instruments**
- II. **Derivatives**
- III. **Shares**
- IV. **Bonds**



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# Financial Instruments

## Financial Instruments:

- ❑ Money
  - ❑ Securities
  - ❑ Derivatives
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# Derivatives

## Derivative financial Instrument:

- ❑ Swap
  - ❑ Option
  - ❑ Futures
  - ❑ Forward
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# Derivatives

**SWAP** – is a derivative financial instrument where counterparties exchange cash flows.

- ❑ Cash flows to be exchanged are based on interest rates, currencies, equities, commodities, other base/underlying assets.
  - ❑ Cash flows are calculated over notional principal amount fixed in the agreement.
  - ❑ Notional amount is usually not exchanged between counterparties
  - ❑ Types of swaps: interest rate swaps, currency swaps, credit swaps, commodity swaps, equity swaps, other.
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# Derivatives

## SWAP: example

Party A swaps 1 000 USD at LIBOR + 0.03% against 1 000 USD (S&P to the 1 000 USD notional).

Term is 1 year

In 1 year LIBOR is 5.97%, S&P increased 10%

Party A will pay to Party B:  $1000 * (5.97\% + .03\%) = 60\ 000$

Party B will pay to party A:  $5\% * 1000 = 50\ 000$

What if S&P falls at 5%

Then Party A will pay additional 50 000 to Party B

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# Derivatives

**Option** – is a contract which gives the *buyer* (the owner) the right, but not the obligation, to buy or sell an underlying asset or instrument at a specified strike price on or before a specified date. The *seller* has the corresponding obligation to fulfill the transaction – that is to sell or buy – if the buyer (owner) "exercises" the option.

- ❑ Call option – the right to buy
  - ❑ Put option – the right to sell
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# Derivatives

## Option: example

You buy a call option (a right to buy):

Underlying asset – 1000 barrels of oil

Strike price – 115 USD per barrel

Exercise day – in three months

Today price of oil – 113 USD

Will you exercise your option in 3 months if:

Price - 113

Price - 118

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# Derivatives

- Futures** – is a standardized contract between two parties to buy or sell a specified asset of standardized quantity and quality for a price agreed upon today (the *futures price*) with delivery and payment occurring at a specified future date, the *delivery date*. The contracts are negotiated at a futures exchange, which acts as an intermediary between the two parties.
- ❑ Unlike an option, both parties of a futures contract must fulfill the contract on the delivery date.
  - ❑ The seller delivers the underlying asset to the buyer, or, if it is a cash-settled futures contract, then cash is transferred from the futures trader who sustained a loss to the one who made a profit.
  - ❑ To exit the commitment prior to the settlement date, the holder of a futures position can close out its contract obligations by taking the opposite position on another futures contract on the same asset and settlement date.

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# Derivatives

**Forward** – is a non-standardized contract between two parties to buy or to sell an asset at a specified future time at a price agreed upon today

- Unlike futures, forward contracts are concluded on OTC market
  - Underlying assets of a deal are not standardized
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# Securities

- Equity - stock
- Bonds

**Stock** represents the residual assets of the company that would be due to stockholders after discharge of debt

- Common vs preferred
  - Dividends
  - Management of a company
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# Securities

- ❑ Equity - stock
- ❑ Bonds

**Bonds** is a debt instrument issued by the bond issuer to the holders (investors)

- ❑ Interest payments vs zero coupon bond
  - ❑ Maturity
  - ❑ Obligation of an issue to pay principal amount
  - ❑ Secured vs unsecured
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