Financial Law of Kazakhstan

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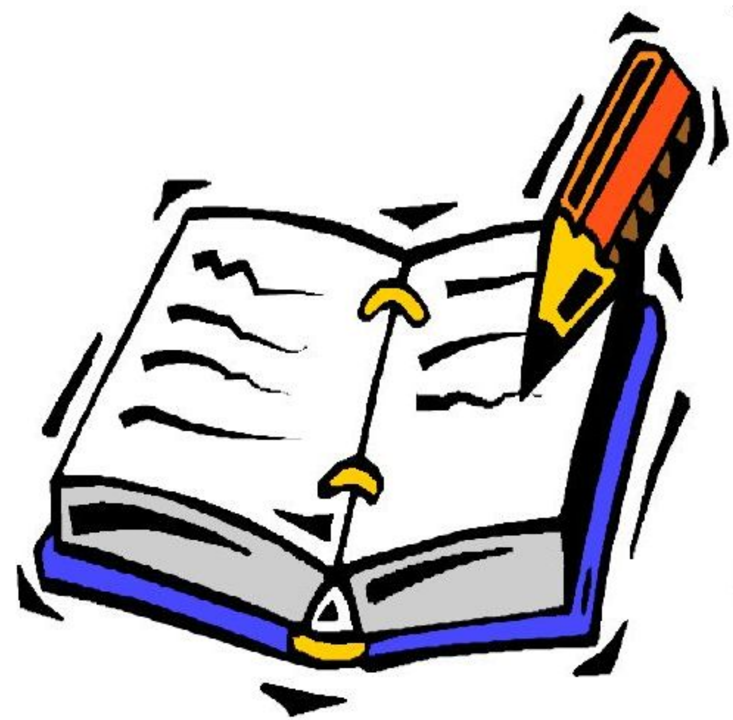
Home assignment

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**

Financial Instruments

Financial Instruments:

- Money
- Securities
- Derivatives

Derivatives

Derivative financial Instrument:

- Swap
- Option
- Futures
- Forward

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.

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

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

Derivatives

Option: example

You buys 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 month if:

Price - 113

Price - 118

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.

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

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

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