The Mount Vema Market

Capital Market

The Mount Vema **Capital Market** is the financial market where long-term debt (over a year) or equity-baked securities are bought and sold, in contrast to a **money market** where short-term debt is bought and sold. The Capital market channel the wealth of savers to those who can put it to long-term productive use, such as companies or the government making long-term investments.

Transactions on the Mount Vema capital market is managed by entities within the financial sector as well as the treasury departments of His Mount Vema Majesty's Government and corporations, but some can be accessed directly by the public.

Accessing the Mount Vema Financial Market

Anyone, anywhere in the world with an internet connection can create an account with the Mount Vema Stock Exchange (The Gollexi) and use it to buy bonds in the primary market, though this is only a tiny fraction of the total volume of bonds sold. Various private companies provide browser-based platforms that allow individuals to buy Mount Vema shares and sometimes even bonds in the secondary markets. There are many of such systems, most serving only small parts of the overall capital market. Entities hosting the systems include stock exchanges, investment banks, and government departments. Physically, the systems are hosted all over the world.

Primary Market and Secondary Market

A capital market can be either Primary Market or Secondary Market.

Primary Market

In the Primary Market new stock and bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital market is the governments and business enterprises (companies).

The Government issues only bonds, whereas companies often issue both equity and bonds. The main entities purchasing the bonds or stock include pension funds, hedge funds, sovereign wealth funds (such as the Royal Mount Vema Reserve Bank), and less commonly wealthy individuals and investment banks trading on their own behalf.

Secondary Market

In the Secondary Market, existing securities are sold and bought among investors or traders, on the Mount Vema Stock Exchange (at the Gollexi), on another exchange, over-the-counter, or elsewhere.

A second important division of the secondary market is where equity securities, also known as shares, enables investors to acquire ownership of companies, and the bond market where investors become creditors.

Money Market

The Mount Vema Money Market is used for the raising of short-term finance, sometimes for loans that are expected to be paid back as early as overnight. In contrast, the "capital markets" are used for the raising of long-term finance, such as the purchase of shares/equities, or for loans that are not expected to be fully paid back for at least a year.

Funds borrowed from money markets are typically used for general operating expenses, to provide liquid assets for brief periods. For example, a company may have inbound payments from customers that have not yet cleared, but need immediate cash to pay its employees. When a company borrows from the primary capital market, often the purpose is to invest in additional physical capital goods, which will be used to help increase its income. It can take many months or years before the investment generates sufficient return to pay back its cost, and hence the finance is long term.

Together, money markets and capital markets form the financial market. The capital market is concerned with long-term finance. In the widest sense, it consists of a series of channels through which the savings of the community are made available for industrial and commercial enterprises and public authorities.

Capital Market and Bank Loans

Bank lending is not classified as a capital market transaction, even when loans are extended for a period longer than a year. This is due to the fact that regular bank loans are not **securitized** (i.e. they do not take the form of a resaleable security like a share or bond that can be traded on the markets).

In other words, a securitization is the financial practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans or credit card debt obligations (or other non-debt assets which generate receivables) and selling their related cash flows to third party investors as securities, which may be described as bonds, pass-through securities, or collateralized debt obligations (CDOs). Investors are repaid from the principal and interest cash flows collected from the underlying debt and redistributed through the capital structure of the new financing. Securities backed by mortgage receivables are called mortgage-backed securities (MBS), while those backed by other types of receivables are asset-backed securities (ABS).

Also, lending from banks is more heavily regulated than capital market lending. Bank depositors tend to be more risk-averse than capital market investors. These differences all act to limit institutional lending as a source of finance. Another additional difference is that bank loans are more accessible for small and medium-sized companies, and that they can create money as they lend.

Government and Primary Market

When the government wants to raise long-term finance, it often sells bonds in the capital markets, mainly through investment banks to organize the sale of their bonds.

The leading bank would underwrite the bonds, and would often head up a syndicate of brokers, some of whom might be based in other investment banks. The syndicate would then sell to various investors.

However, the government may also if it wishes to do so, bypass investment banks and make its bonds directly available for purchase online, by selling most of it by computerized auction.

Companies and Primary Market

When a company wants to raise money for long-term investment, one of its first decisions is whether to do so by issuing bonds or shares. If it chooses shares, it avoids increasing its debt, and in some cases the new shareholders may also provide non-monetary help, such as expertise or useful contacts. On the other hand, a new issue of shares will dilute the ownership rights of the existing shareholders, and if they gain a controlling interest, the new shareholders may even replace senior managers. From an investor's point of view, shares offer the potential for higher returns and capital gains if the company does well. Conversely, bonds are safer if the company does poorly, as they are less prone to severe falls in price, and in the event of bankruptcy, bond owners may be paid something, while shareholders will receive nothing.

When a company raises finance from the primary market, the process is more likely to involve face-to-face meetings than other capital market transactions. Whether they choose to issue bonds or shares, companies will typically enlist the services of an investment bank to mediate between themselves and the market. A team from the investment bank often meets with the company's senior managers to ensure their plans are sound. The bank then acts as an underwriter, and will arrange for a network of brokers to sell the bonds or shares to investors. This second stage is usually done mostly through computerized systems, though brokers will often phone up their favored clients to advise them of the opportunity. Companies can avoid paying fees to investment banks by using a **Direct Public Offering (DPO)**, which is a method by which a company can offer an investment opportunity directly to the public.

A DPO is similar to an initial public offering (IPO) in that securities, such as stock or debt, are sold to investors. But unlike an IPO, a company uses a DPO to raise capital directly and without a "firm underwriting" from an investment banking firm or broker-dealer. A DPO may have a sponsoring registered and authorized broker, but the broker does not guarantee full subscription of the offering. In a DPO, the broker merely assures compliance with all applicable securities laws and assists with organizing the offering. Following compliance with Mount Vema securities rules, a company can sell its shares directly to anyone, even non-accredited investors, including customers, employees, suppliers, distributors, family, friends, and others.

Secondary Market Trading

Most capital market transactions take place on the secondary market. On the primary market, each security can be sold only once, and the process to create batches of new shares or bonds is often lengthy due to regulatory requirements.

On the secondary markets, there is no limit to the number of times a security can be traded, and the process is usually very quick. With the rise of strategies such as high-frequency-trading, a single security could in theory be traded thousands of times within a single hour.

Transactions on the secondary market do not directly raise finance, but they do make it easier for companies and governments to raise finance on the primary market, as investors know that if they want to get their money back quickly, they will usually be easily able to re-sell their securities.

A variety of different players are active in the secondary markets. Individual investors account for a small proportion of trading, though their share is increasing year-on-year.

When individuals trade on the capital market, it often involves a two-stage transaction. First they place an order with their broker, then the broker executes the trade. If the trade can be done on an exchange, the process is often fully automated. If a dealer needs to manually intervene, this often means a larger fee. Traders in investment banks will often make deals on their bank's behalf, as well as executing trades for their clients. Investment banks will often have a division (or department) called "capital markets": staff in this division try to keep aware of the various opportunities in both the primary and secondary markets, and will advise major clients accordingly.

However, **pension** and **sovereign wealth funds** tend to have the largest holdings, though they tend to buy only the highest grade (safest) types of bonds and shares, and some of them do not trade all that frequently. **Hedge funds** usually make most of the short-term trades in the Mount Vema Stock exchange.

There are several other ways to invest in the Mount Vema secondary market without directly buying shares or bonds. A common method is to invest in **mutual funds** or exchange-traded funds. It is also possible to buy and sell derivatives that are based on the secondary market; one of the most common type of these is **contracts for difference** – these can provide rapid profits, but can also cause buyers to lose more money than they originally invested.

Capital Controls

Mount Vema may impose measures such as transaction taxes, other limits, or outright prohibitions from time to time to regulate flows from its capital market (into and out of its financial system or capital account). These measures may be economy-wide, sector-specific, or industry specific (for example, "strategic" industries).

It may apply to all flows, or may differentiate by type or duration of the flow (debt, equity, direct investment; short-term vs. medium- and long-term), to prevent or limit the buying and selling of the national currency at the market rate, caps on the allowed volume for the international sale or purchase of various financial assets, transaction taxes on currency exchanges, minimum stay requirements, requirements for mandatory approval, or even limits on the amount of money a private citizen is allowed to remove from the country’s financial system.

Capital control is to ensure that capital the market participant trades fairly, and ensures institutions like banks do not take excessive risks, and aims to ensure that effects of the capital markets do not have a negative impact, although Mount Vema uses capital controls sparingly if at all, to allow the market freedom to ensure investors are free to seek maximum returns, and Mount Vema can benefit from investments that will develop its industry and infrastructure, controls will remain an option to ensure a healthy and stable financial system.

Protection of the Capital Market

Protection of the Mount Vema Capital Market

The Mount Vema Securities and Exchange Council (MVSEC) is the regulatory body charged with overseeing the capital market to protect investors against fraud, among other duties.