CAPITAL MARKETS: THE KEY TO COMMERCE

THE STORY OF CAPITAL MARKETS

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The U.S. Chamber of Commerce is the world’s largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

Since its inception, the U.S. Chamber’s Center for Capital Markets Competitiveness (CCMC) aims to maintain and advance America’s global leadership in capital formation by supporting capital markets that are the most fair, efficient, and innovative in the world.
Businesses big and small navigate financial obstacles every day and work to find solutions across the financial services industry.

The global financial system is diverse and vast, consisting of many distinct types of financial institutions and products. Learn more about our group of various businesses and how the capital markets help them succeed. In our stories, see how these companies rely on the products and services of the financial services industry to provide access to the capital and liquidity they need for their businesses. Capital markets are the key to commerce.
Regional Bank

Regional banks specialize in consumer and commercial products within one region of a country, such as a state or within a group of states. A regional bank is smaller than a bank that operates nationally or internationally.

According to the 2013 survey How Main Street Businesses Use Financial Services, companies rely on regional banks to provide cash management, long- and short-term loans, trade financing, and the ability to hedge. Regional banks provide services and products similar to those offered by global banks, but on a smaller scale.
Derivatives Stabilize Crop Prices

Jimmy is getting everything ready for this year’s corn crop on the family farm. Things are a bit different now than they were in his father's day—Jimmy has learned that commodity prices are volatile, and when he harvests his crop in the fall, the market price of corn will be unpredictable. He needs to be sure that he can turn a profit to keep the farm in the family.

To ensure a return on his investment, Jimmy joined a local co-operative along with other farmers in the area. Working with the regional bank his father used, the co-operative purchases a derivatives contract on an exchange to guarantee its members a minimum price for their corn at harvest. High-five, Jimmy!
Insurance

Insurance enables businesses and individuals to protect themselves against potential losses and financial hardship. An insurance provider agrees to take on risks on behalf of a company or individual by issuing an insurance policy. In return, the business or individual pays a premium for the insurance. The policy covers a person or business for losses that may result, providing the policyholder with security should the worst happen.

The insurance industry is one of the largest capital markets investors in the world. Insurance companies can be direct investors in companies through the purchase of corporate bonds or equity securities, or they can invest in entities that support businesses, such as commercial real estate.
Short-Term Loans Purchase Equipment

Michelle received some bad news yesterday—she found out that her delivery truck was involved in an accident and the insurance money she will receive won’t be enough to buy a new one. Her customers are waiting for flowers. She needs a new delivery truck immediately!

Michelle always looks on the bright side. This isn’t such a bad thing—picking out a new truck will be fun. She decides to use the insurance money for a new van and took out a short-term loan from her local bank so she can have the van outfitted with a brand new refrigerated compartment. C’est si bon!
Exchanges

An exchange is an organized marketplace where securities, commodities, currencies, futures, and options contracts are traded—bought and sold. Exchanges bring together brokers and dealers who buy and sell these instruments.

**Stock Exchanges** provide services for stock brokers and traders to buy or sell stocks, bonds, and other public company securities. Stock exchanges function as continuous auction markets where buyers and sellers trade securities at a central location.

**Commodities Exchanges** bring buyers and sellers together through their electronic trading platforms. Most commodity markets across the world trade in agricultural products and other raw materials like cotton and milk. But a wide range of global benchmark products are traded on commodities exchanges, including futures and options based on interest rates, currencies, oil and gas, metals, weather, and real estate. Commodities are traded through the sale of various financial instruments that can be bought and sold through a clearinghouse or over-the-counter (OTC) where the buyer and seller directly transact with one another.
Hedging Keeps Energy Prices Stable

Big Machine Manufacturing Company needs fuel to run its factories. Knowing that the price of energy will fluctuate over the year, Suzie, the corporate treasurer, wants to protect against big swings in the cost of the fuel needed for production.

Working with a couple of banks, the company uses over-the-counter derivatives to hedge natural gas prices. Because Big Machine’s credit is good, the banks do not require the company to post cash margin to secure mark-to-market fluctuations in the value of natural gas. The price of the overall transaction takes risk into account. This structure gives the company price certainty and ensures it doesn’t have to put up cash while the derivatives contract is outstanding. Super savvy, Suzie!
Money Market Mutual Funds and Commercial Paper

Money Market Mutual Funds (MMMFs) are a type of mutual fund that invests in securities including the highest rated short-term debt such as commercial paper, short-term bonds, and U.S. Treasuries that mature within 13 months. MMMFs provide safe investments for businesses, institutional investors, and individuals but generally offer higher returns as compared to traditional bank deposits.

MMMFs are also major purchasers of commercial paper, a flexible short-term funding mechanism for businesses to get necessary funding on a timely basis. In 2011, commercial paper provided about $1 trillion in short-term financing, and money market funds purchased more than one-third of outstanding commercial paper.
Commercial Paper to “Deck the Halls”

Last July, the purchasing manager for Stacy’s department store needed to order extra holiday inventory including the new line of Plush Buddiez stuffed animals. Plush Buddiez animals are going to be a big holiday seller. Of course the majority of Plush Buddiez would not be sold until December, and the finance department didn’t have enough cash reserves to cover the cost.

Paul, the chief financial officer, considered his options to purchase Plush Buddiez before wholesale inventory ran dry and determined that issuing commercial paper was the most cost effective way to raise the short-term capital. An investment bank helped him place the commercial paper with a money market fund, and within 24 hours Stacy’s was able to purchase the holiday inventory. Perfect planning, Paul!
Community and Local Banks

Community and local banks serve individuals and small businesses, focusing on local merchants and families. Community banks constitute 96.8% of all banks and are a primary source of small business funding. Products, services, and lending decisions are tailored on a personal level. Community banks provide services and products similar to larger institutions including:

- Electronic banking and ATM networks
- Mortgages
- Credit and debit cards
- Checking, savings, and investment products
- Small business and agricultural lending
Line of Credit Finances Business Expansion

Jimmy has had quite a year! Now he wants to expand his business and open a farm-to-table restaurant. Jimmy wants to convert his large house on the farm into a restaurant so that his customers can eat a farm-fresh meal in the house his father helped build.

But Jimmy needs extra cash to fund the renovation and cover the startup costs, including purchasing restaurant-grade equipment. Working with his local bank, Jimmy is able to secure a line of credit to finance his new restaurant. Now everyone can enjoy Grandma’s famous corn bread!
Credit Card Company

Credit cards allow individuals and businesses to borrow money from their banks to make purchases. These cards are issued by banks and allow the cardholder to borrow funds for a small fee in the form of interest on the unpaid balance at the end of a billing cycle.

Financial institutions such as banks can also issue credit cards, often partnering with a card company. These institutions receive revenue from their credit card business, which includes income from account fees, interest charges, and payment processing fees assessed on merchants. Rates and fees are based on the cardholders’ credit or their ability to repay the credit card company based on their income and outstanding debts.
Credit Cards Purchase Inventory

It is one month before Valentine’s Day, Michelle’s biggest sales day of the year. Michelle needs to preorder roses for the romantic holiday. Using last year’s sales figures, she estimates that she will need to purchase 500 dozen red roses and a variety of other flowers. But she doesn’t have enough cash on hand to pre purchase her Valentine’s Day inventory. Zut alors!

Lucky for Michelle, a strong credit history enabled her to increase her credit limit on her personal credit card. When February 14 rolls around, she will have the profits to pay down her credit card balance. Bon chance, Michelle!
Money Market Mutual Funds

A money market mutual fund (MMMF) is a fund that invests in the money market.

Because companies can have daily cash fluctuations, MMMFs provide necessary liquidity and enable businesses to earn a dividend while being able to access funds quickly to pay expenses.

MMMFs allow businesses to efficiently and affordably manage their cash by permitting quick and easy access to their funds. MMMFs are able to do this because they invest funds in short-term instruments such as U.S. Treasuries, government obligations, repurchase agreements, commercial paper, and bank certificates of deposit. The short-term maturity and credit quality of the fund’s portfolio provide corporate investors with an attractive alternative to banks at affordable rates and low investment risk.
Money Market Funds Keep Money Active

It is 4:29 p.m. and Suzie receives a large payment for an order of 500 bulldozers from a major construction firm. Unfortunately, the primary bank that she typically uses for these deposits stops receiving funds at 4:30 p.m., so she looks for other options to direct the funds to keep the money active, rather than have it sit in the other company’s account.

Suzie decides to invest the cash in a money market mutual fund—a safe, convenient, liquid investment vehicle—because it accepts investments beyond 4:30 p.m. The fund will pay a modest yield until she redeems fund shares to make payments to the company’s suppliers. Smart, Suzie!
Global Bank

Global banks operate internationally through branches or subsidiaries. They provide a full range of financial products and services to consumers and businesses of all sizes, including the following:

- ATM networks
- Securities brokerage
- Investment banking services to help issue equity and issue debt, including corporate bonds
- Insurance
- Deposits
- Loans
- Leases
- Mortgages
- Credit cards
- Trade Finance
- Mutual fund and pension fund management

In many cases, large multinational companies rely on established global banks to act as an intermediary when raising capital to fund operations or expansion. For example, the investment banking services offered by many global banks are necessary for companies to sell their corporate bonds or issue stock. The bank (or banks) helps the company sell their stock or debt to investors.

The United States is home to a number of global banks which are mostly registered as Bank Holding Companies or Financial Holding Companies.
Corporate Bonds for a Technology Upgrade

Stacy’s management wants to stay on the cutting edge of retail. Its old cash registers have become obsolete and don’t connect to the store’s new computer system. Stacy’s management decides to invest in a handheld point-of-sale system for all stores and plans to integrate the new hardware within the next six months. But the cost to equip all of Stacy’s stores around the country with new technology will be very high.

Working with a recognized global bank, Paul decides to issue a round of corporate bonds to fund the upgrade. For a nominal fee, the bank helps the company price and sell the bonds to the public market. In no time, Stacy’s will be upgraded to the newest sales systems. Very professional, Paul!
Investment Bank

An investment bank is a financial institution that assists businesses and governments in raising financial capital. Investment banks underwrite securities or act as the client’s agent to issue stocks or bonds for public sale (or both). An investment bank may also help businesses involved in mergers and acquisitions, support initial public offerings (IPOs), provide services such as quoting, buying, and selling commodities, and conduct trading of derivatives and equity securities.
Going Public Funds Company Relocation

Production costs are rising for Big Machine Manufacturing Company. The company decides that expanding the business to a port state will help reduce transport costs. Lower labor costs and fewer regulations will also help mitigate the costs of business and increase overall profits.

To finance the expansion and relocation, the company will need to raise cash. Suzie believes that taking the company public could help raise the funds needed to move. Working with the finance team, she reaches out to an investment bank to underwrite the public offering and determine what type of security to issue, the price, and when to launch the offering. Big Machine Manufacturing Company decides to sell common stock to finance the move. Stupendous, Suzie!
Asset Management

Asset management is an activity where an asset manager, typically a financial services firm, provides professional investment management services to various types of funds in which retail and institutional investors invest. Investment goals can include long-term growth for retirement or meeting immediate liquidity needs. Asset managers are responsible for actively managing fund assets in accordance with the fund’s portfolio strategy to meet investment goals. These services include deploying, investing, reallocating, and disposing of assets on a cost-effective basis.

Asset Management Products Include:

- Mutual funds, such as bond funds, equity funds, index Funds, Money Market Mutual Funds, private equity, and venture capital funds
- Hedge funds
- Exchange traded funds (ETFs)
- Separately managed funds
Short-Term Loan to Fund Expansion

Michelle’s business is blooming in the heart of Paris. She has been approached by the developer of a building across the Seine, who would like her to open a second shop. She is certain that once the store is up and running it will be profitable, but she doesn’t have the extra cash to purchase new display cases or pay the first month’s rent.

Michelle turns to her local bank to secure a short-term loan. Within nine months she has successfully opened a second location and has begun to invest the proceeds in a mutual fund—ooh la la!