# Financial Markets and Products

## Prof. Alberto Banfi

***COURSE AIMS AND INTENDED LEARNING OUTCOMES***

The course aims to provide the student with in-depth knowledge about financial instruments and the markets in which they are issued and traded. The technical characteristics of financial instruments and the methods for valuing the instruments are studied along with issuing techniques and the organisational structure of, and the means for running, the markets in which the instruments are traded. Upon completing the course, the student is expected to be familiar with technical characteristics the evaluation methods of the main types of financial instruments, to interpret the expected developments in the regulatory framework of markets, and also to be able to distinguish the different trading techniques adopted in the regulated markets, with particular reference to the equity markets.

Instructional objectives of the course

Students should:

– be familiar with the technical characteristics of the main types of financial instruments (and specifically those traded in regulated markets);

– know the relationships between primary- and secondary-market transactions;

– understand the main theoretical elements of the organisational form of markets;

– be familiar with the means for issuing and placing financial instruments: auctions for public securities, issues through placement and underwriting consortiums, and various types of capital increases (paid, bonus and mixed);

– know the process of organising and running consortiums for placing financial instruments, being able to identify the main criteria for the allotment and assumption of the securities offered;

– know how to calculate the theoretical option value of equity securities and various configurations of option rights for capital increases;

– know the essential characteristics of public sale offers, public subscription offers and procedures for admission of the securities to listing on the securities exchange through detailed analysis of the parties involved in such process, with the related timing for implementation;

– understand recent developments in regulated markets and their current structure;

– be aware of the institutions involved in the organisation, management and oversight of markets;

– understand the requisites for shares to be admitted to stock market trading and to the market segments;

– understand the details of how to transmit trading bids to the markets and how prices are formed in regulated markets;

– know how to read and interpret the main market statistics (indexes, trading, quoted companies, etc.).

***COURSE CONTENT***

1. *The functions and structure of financial markets*

 The securities market and financial intermediation: theoretical fundamentals. Primary and secondary markets: main organisational forms. Overview of the development of market and intermediary regulation, market organisation, and the structure of the main market control bodies. Financial instruments: demand and supply.

2. *Financial instruments: technical characteristics and means for issuance*

 The technical characteristics of debt instruments: government securities, ordinary bonds and various types of structured bonds and bonds with options. Valuation and references to yield, term and duration. Means for issuing debt instruments: auctions and placements through consortiums. The characteristics of shares and their valuation. The principal financial derivatives traded in regulated markets in Italy. Funds management instruments.

3. *The organisation of regulated markets*

 The organisational systems of markets regulated in Italy: cash markets and derivative markets. Market management companies. The MTA Market and other markets managed by Borsa Italiana SpA. The means for admission to a trading in secondary markets.

4. *Market operational techniques*

 Trading in regulated markets. The procedure for transmitting orders. Means for price setting and the various types of prices. Settlement of contracts and guarantees for their correct execution. The structure and organisation of market institutions: from trading to post-trading. The trend of market frameworks: the international picture.

5. *Capital increases and the offer of equities*

 Capital increases, the impact of market prices and option rights. Public sale offers, public subscription offers, and IPOs: origination, placement and distribution of securities.

***READING LIST***

Required reading

A. Banfi (compiled by), *I mercati e gli strumenti finanziari,* Isedi, Turin, 2020 (eighth edition).

A. Banfi-M. Biasin-M. Borroni-M. Oriani, *Economia degli intermediari finanziari,* Isedi, Turin, 2022, Chapters 9, 10 and 11.

Recommended reading

CONSOB, *Relazione per l'anno 2022,* Rome, 2023.

For details of the bibliography and material useful for taking the exam, please refer to the specific notice on Blackboard.

***TEACHING METHOD***

Traditional classroom lessons supplemented by slides and other support material.

The slides used during lessons can be downloaded by students from the lecturer’s webpage and on Blackboard.

During the course, the students will be supplied with additional material relating to specific aspects of the subjects being studied.

The course will be supplemented by presentations made by professionals in the field.

***ASSESSMENT METHOD AND CRITERIA***

The exam is a written test consisting of an adequate number of open-ended questions and/or exercises (from a minimum of 5-6 to a maximum of 10-12) based on which the lecturer is able to verify the student’s preparation. Depending on the number of students attending the exam, the test may include different sets of questions and/or exercises with the same degree of diffculty.

It is also possible to arrange specific exam procedures in favor of regularly attending students (only in case of exam sessions agreed with the students): in this case the number of open-ended questions and/or exercises may be higher than in regular exam sessions and these may also be supplemented with closed-ended questions (about a dozen) mainly on issues specifically and accurately covered during lectures.

The final grade, expressed in thirtieth, will take into account the accuracy and quality of the answers (80%), as well as the appropriate use of specific terminology (20%).

***NOTES AND PREREQUISITES***

Intended learning outcomes before starting the course

Students are expected to:

– be able to calculate the various types of return on money market instruments and fixed income securities;

– know how to determine the term structure of interest rates and the possible configurations of the yield curve;

– have acquired the main regulatory references regarding markets, and market and supervisory institutions;

– distinguish the types of intermediaries admitted to trading.

Further information can be found on the lecturer's webpage at http://docenti.unicatt.it/web/searchByName.do?language=ENG, or on the Faculty notice board.