

Tashkent State University of Economics



Finance and taxes department

**Uzbek financial markets**

**DR. MUKHAMMAD RADJABOV**

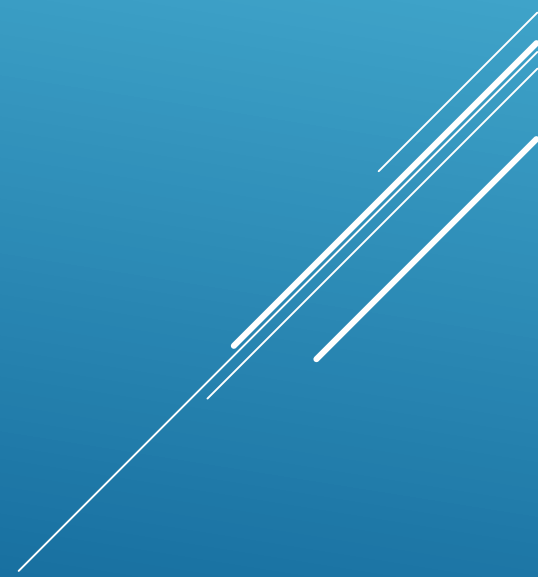
# Lecture 14. Derivatives

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# SWAP (EXCHANGE AGREEMENT)

Swap is a bilateral agreement on the receipt of cash flows at a specified time.

## Swap Types:

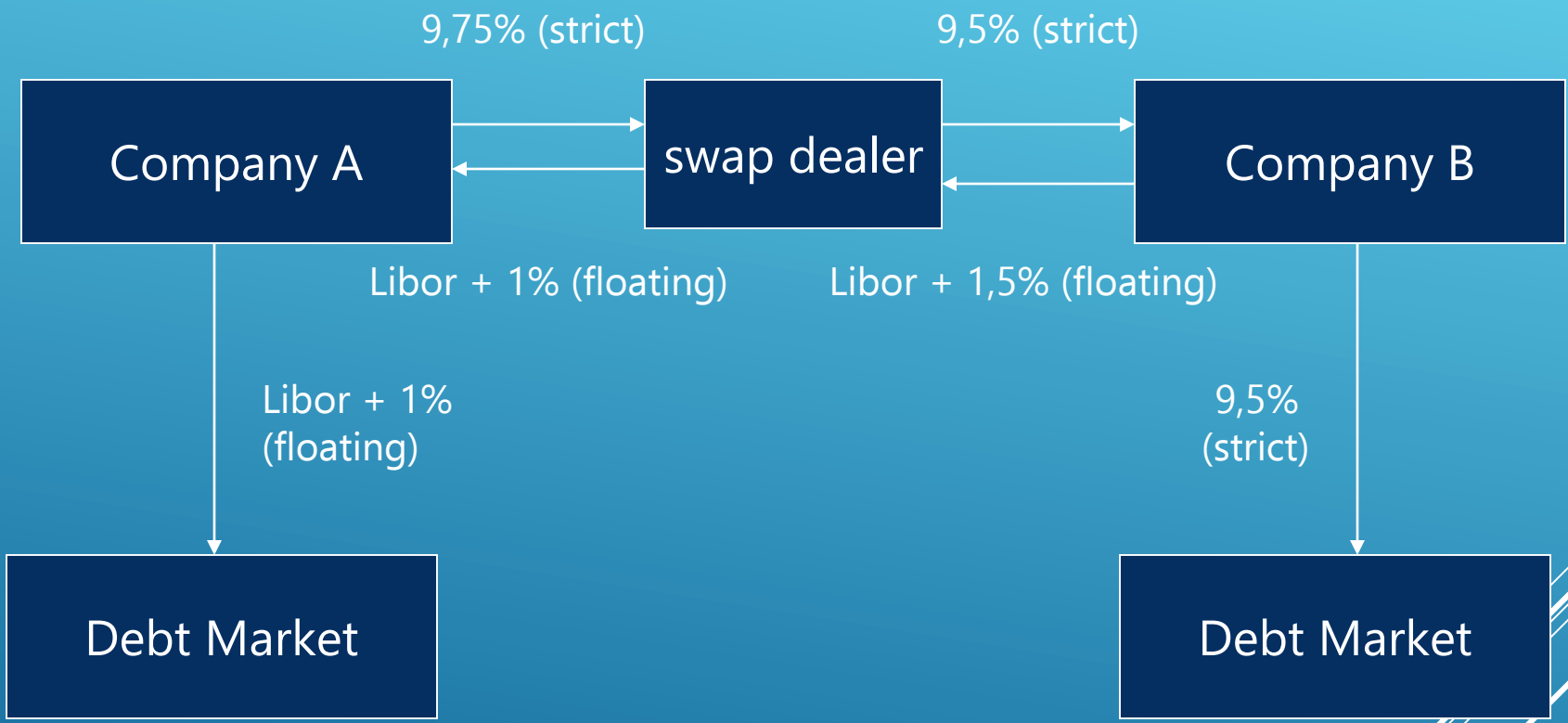
- ▶ interest rate swaps
  - ▶ currency swap
  - ▶ brand swap
  - ▶ other types
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# INTEREST RATE SWAP

Typically, interest rates vary between debt and floating rate (floating rate).

Example:

- ▶ A company's loan facility: Libor + 1% or substantial 10%
- ▶ A company (cheap) chooses to borrow at a fixed interest rate
- ▶ B company's ability to obtain credit: Stable 9.5% or Libor + 2%
- ▶ B company chooses to borrow at a floating interest rate (low)
  
- ▶ A company is contracting with a Swap Dealer, with Libor + 1% credit:
- ▶ While the dealer is responsible for the loan, A company will pay a full 9.75% (less than 10%) swap dealer. The floating interest rate was changed to the rate  
→
  
- ▶ B company is contracting with a swap dealer with a credit of 9.5% of the total:
- ▶ While the dealer is responsible for the loan, B is a floating Libor + 1.5% swapdealer. Substantial floating interest rate changed.  
→
- ▶ The result is that both companies used the opportunities that they prefer.



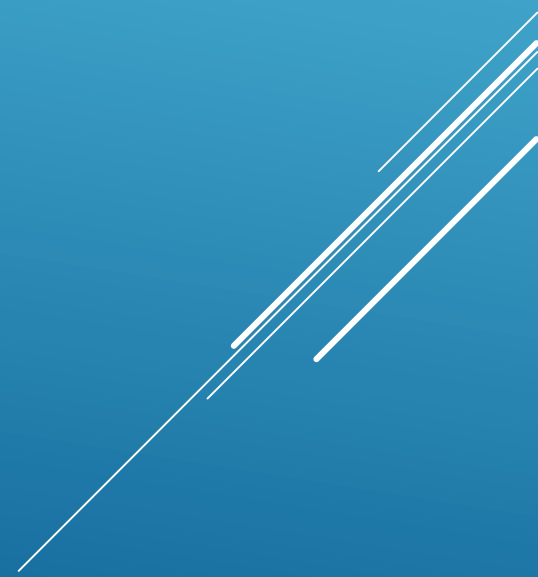
# VARRANTS

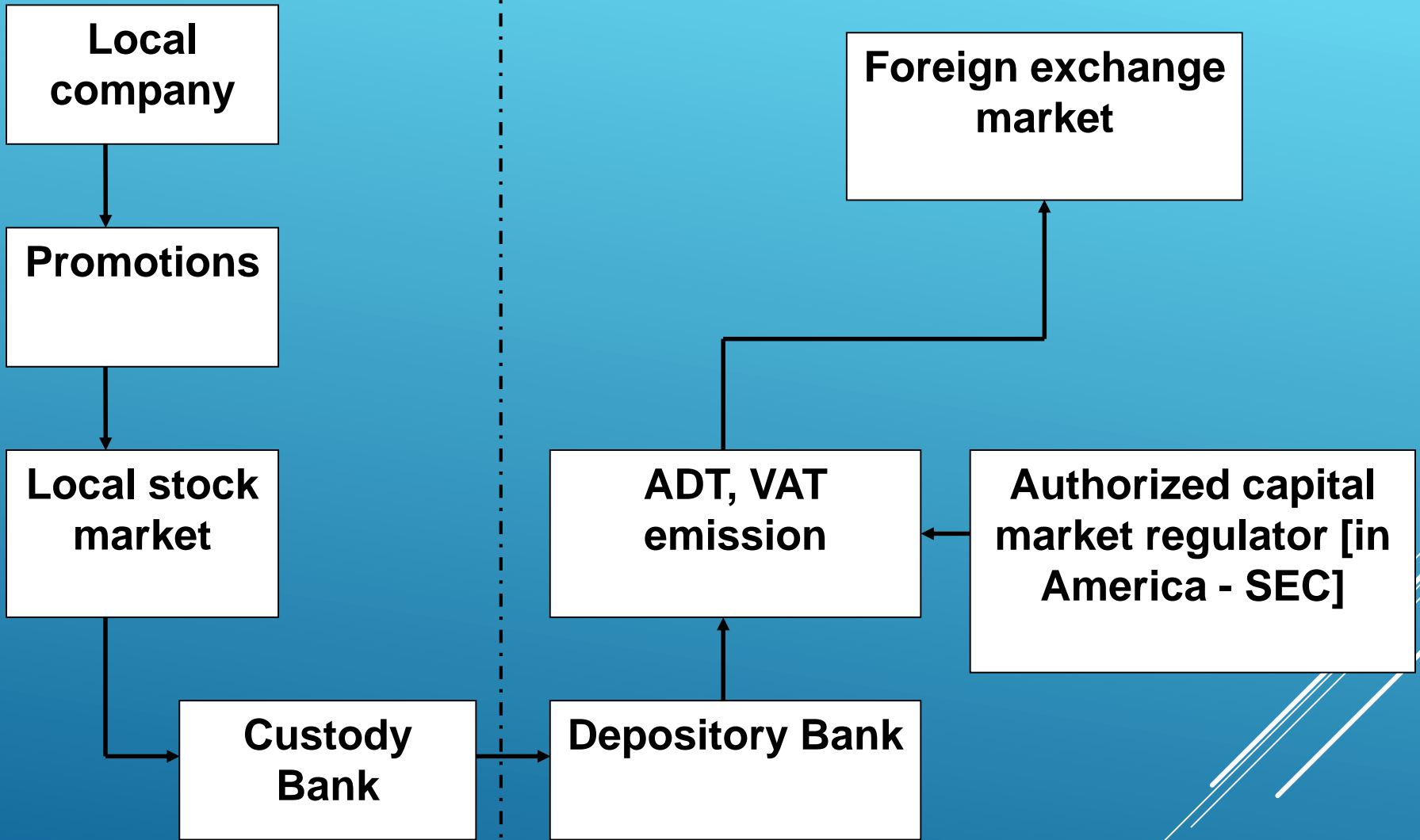
- ▶ As a result of the issuance and placement of new ordinary shares, the share of former shareholders is reduced.
- ▶ If the charter documents contain privileged rights of current shareholders, the Company will initiate new emission shares primarily for the current shareholders.
- ▶ VARRANT is a certified certifier of privileged rights to its shareholders.
- ▶ The vendors are issued by the company's current shareholders (in proportion to their shares).
- ▶ Vardents can be traded on exchanges and on the stock exchange in practice.

# NATIONAL ENERGY COMPANY


- \$ 5 million for the sale of new shares to finance the ICT expansion plan.  
attractive
- MEK announces that a single bidder has been issued for each of their shares (1 share - 1 counterparty).
- In total, more than one million bargains are distributed (number of shares - 1 million).
- For example, the price of one new promotional offer is \$ 10. .
- ( $\$ 10 < \$ 20$  - current market price)
- In that case, the MEK should issue 500,000 shares ( $\$ 10,000 * \$ 500,000 = \$ 5$  million)
- Thus, the number of the required bidders for the purchase of one new share is 2. (Older stock or number of registered warrants / new shares =  $1\text{mln} / 0.5\text{mln} = 2$ ).
- So, the current shareholder needs \$ 10 plus 2 bidders to buy one new one.

# DEPOSITARY RECEIPTS

- ▶ Depository Receipts are a secondary certificate issued by an authorized depository bank in the form of a certificate issued to a foreign issuer.
  - ▶ Types:
    - ▶ I. American depository receipts
    - ▶ Global depository receipts
    - ▶ II. Sponsorships
    - ▶ Non-donated
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# NON-PROPRIETARY (A) DEPOSITORY RECEIPTS

- ▶ Initiative - by the shareholder
  - ▶ The minimum requirements for the documents representing the financial status of the issuer by the Securities Supervisory Authority (SEC) are minimal (soft requirements).
  - ▶ Available by one or more depository banks
  - ▶ Trades are only made on the over-the-counter market.
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# SPONSORSHIPS (A) DEPOSITARY RECEIPTS

- ▶ The issuer is initiated
- ▶ Remittance is made by the single depositary bank
- ▶ Types:
  - ▶ Level 1 (A) Boots:
    - ▶ The minimum package of documents required for registration (similar to non-funded)
    - ▶ traded on the over-the-counter basis.
  - ▶ Level 2 (A) LP:
    - ▶ In accordance with the GAAP standards, various accounting books of the issuer are made by K.K. the market must be submitted to the supervisory authority.
- ▶ Therefore, NASDAQ, NYSE, AMEXs are listed.



Secondary  
securities

# SPONSORSHIPS (A) DEPOSITARY RECEIPTS

Level 3 (A) BP:

Available in NASDAQ, NYSE, AMEX, without any limitations.

Full financial reporting is required to comply with GAAP standards

Level 4 (A) DT (limited):

The financial reporting requirements of the SEC are minimal.

It is done through private placement.

Only in the organized OTC market (NASDAQ, PORTAL).



First securities

# Depository bank

- ▶ Issuance and cancellation of depository receipts
  - ▶ Registration of ADRs and their registration
  - ▶ Granting of foreign companies the right to prepare their documents and submit financial reports to the SEC
  - ▶ Notify shareholders of the stock market about emission.
  - ▶ Leading depository banks in the world:
    - ▶ The Bank of New York (47%)
    - ▶ Morgan Guaranty (28%)
    - ▶ Citibank (24%)
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# CUSTODY BANK

- ▶ Local banks
- ▶ or local depository bank offices
- ▶ or any other foreign bank that can provide such services
- ▶ The main functions of Custody Bank:
  - ▶ Calculation and re-registration of holders of shares, which are the basis for the ADT of the Depository Bank
  - ▶ Participation in dividends
  - ▶ Maintaining the register of shareholders (ADT owners).
  - ▶ Participation in general meetings on behalf of the holders of shares (ADT owners) on the basis of a power of attorney.