



Welcome to the Monthly Public Awareness column with the Reserve Bank of Fiji. This month's article will give you an understanding of the Capital Markets in Fiji. We hope that you will find the article interesting and informative.

“Invest in your future, invest in the Capital Markets”

Under the Capital Markets Decree (2009) the Reserve Bank of Fiji is responsible for the regulation and development of Fiji's Capital Markets.

What is the Capital Markets?

The Capital Markets is the market where debt and equity securities are traded (bought and sold). Debt securities traded in our Capital Markets include bonds and convertible notes and equity securities include shares of listed companies and units issued by the unit trust companies.

The Reserve Bank has the responsibility for developing our Capital Markets and to regulate and supervise all the participants (investors and intermediaries) and activities that take place within the markets. The Reserve Bank also regulates the banking, insurance and foreign exchange industries in Fiji but these industries are more developed than our Capital Markets sector.

Markets that make up the Capital Markets

The word “market” refers to a public place or platform where buyers and sellers make transactions, directly or through licensed intermediaries.

There are three different types of markets operating within the capital markets industry in Fiji and each market operates on either the primary or secondary level or both:

- i. *Equity Market* - in this market, the South Pacific Stock Exchange (SPSE) provides a market, called a stock market, for trading of shares of companies listed on the stock exchange. There is also an over-the-counter (OTC) registry for companies that are not listed on the stock exchange, provided by Kontiki Stock Brokers.
- ii. *Debt Market* - includes bonds and hybrid products such as convertible notes and other interest bearing products issued by Government and companies; and

- iii. *Managed Funds Market* – this includes the unit trust market provided by the Unit Trust of Fiji, Fijian Holdings Unit Trust and Fijian Holdings Property Trust.

Each of these markets operate under two main broad level categories:

1. *The Primary Market* – At this level, companies raise funds directly from investors by issuing shares, bonds and other securities such as convertible notes. Here, debt and equity securities are created and bought by investors for the first time, this is referred to as an Initial Public Offering (IPO). Investors who buy shares in a company are referred to as shareholders of the business.

2. *The Secondary Market* – Once a company has undertaken its IPO and issued securities (shares, bonds or convertible notes) investors can trade (buy more or sell) their shares, bonds and other securities with other investors on the secondary market by using a licensed broker. In Fiji, the South Pacific Stock Exchange (SPSE) provides a secondary market for companies listed on the stock exchange. For public companies that are not listed on the stock exchange, investors can trade their shares directly with the company or by using an over-the-counter (OTC) facility if one is provided. Companies like Fiji Gas, Data Bureau and Yatu Lau are examples of companies that trade their shares on the OTC provided by licensed broking firm Kontiki Stockbrokers. Both the SPSE and the Kontiki OTC are regulated by the Reserve Bank of Fiji.

For example:

	EQUITY	DEBT	MANAGED FUNDS
PRIMARY MARKET	Companies offer shares to the public for the first time through an IPO in the primary market.	Companies can borrow money directly from investors through issue of debt securities (bonds , convertible notes) in the primary market.	New investors can buy units directly from the Unit Trust companies.
SECONDARY MARKET	Companies shares bought in the primary market can be traded here through the stock exchange or OTC.	Company debt securities issued in the primary market can be traded here through the stock exchange or the registry provided by the RBF.	Unit holders can sell their units back to the Unit Trust company.

How do Capital Markets Work?

Capital markets provide both new and existing companies access to capital to pay for a company's growth and provide an opportunity for investors to be part of the company as shareholders. As companies increase in size, so will their demand for funds. Capital markets can help meet a company's need for more funds by also providing them with access to capital. In doing so, the capital markets channel the flow of funds from saving entities (investors) to borrowing entities (companies). Capital markets provide a system which enables companies to raise funds directly from investors. The funds raised are long-term funds that are usually borrowed for more than one year and in most instances are used for capital expenditure of the company.

For example, Company X needs money (or what is often called "capital") to fund the expansion of its business. Currently, Company X does not make enough profits to fund the expansion, and so it needs to borrow some money to do this. Company X can obtain the capital it needs to expand the business in two main ways:

1. *Borrow indirectly from investors through a commercial bank.* Company X can borrow directly from a commercial bank. The money the bank will lend to Company X are monies belonging to customers who deposit their money at that bank so Company X is in fact, borrowing indirectly from the bank's customers;
2. *Borrow directly from investors in the Capital Markets.* Company X can also borrow directly from investors by:
 - Issuing "equity securities", such as shares, to investors who become shareholders in the company. These investors include ordinary "mums and dads". The cost of this method to the business is the dividends that are paid to shareholders out of profits; or
 - Issuing "debt securities", such as bonds or convertible notes, to investors. These investors become lenders to the business. The cost of this method to the business is the interest that is paid to holders of the debt securities.

The Unit Trust Market provides "mum and dad" investors, ordinary investors like you and I, the opportunity to easily diversify our investment portfolios across a variety of different investments. This is achieved through the pooling of your funds with other investors. These funds are then invested in a variety of products, companies and sectors by a licensed fund manager. The returns paid to the fund manager from the investments they have made are distributed to unit holders as dividends.

The Unit Trust of Fiji (UTOF) and Fijian Holdings Unit Trust (FHUT) investment portfolios include investments in listed companies, unlisted companies, bonds, term deposits and other local and overseas managed funds. By investing in a managed fund like UTOF and FHUT, unit holders get an opportunity to invest in a portfolio of investments that we could otherwise not afford.

Benefits of the Capital Markets

A thriving and efficient capital markets can be a major contributor to equitable and sustainable economic growth in any country. Developed and efficient capital markets assists in the creation and expansion of businesses by channeling savings, or surplus funds, from savers to businesses that require funds for development and growth. This in turn creates employment and increases wealth including job creation through the creation of new businesses and expansion of existing businesses, economic growth and technological innovation.

The capital markets channel investors' funds to their most productive uses by providing a range of products that:

- allow Fiji companies to obtain the capital they require from savers at home and abroad;
- make it easier for savers to achieve their financial goals and accumulate wealth through investing; and
- help savers and companies better manage the risks they face.

Investing in the capital markets

Members of the public who wish to participate and invest in the capital markets must ensure that they deal only with licensed companies and individuals. The Reserve Bank licenses all participants and intermediaries in the capital markets so members of the public are advised to verify that the person that they are dealing with has been approved by the Reserve Bank before parting with any of their funds.

For more information about the Capital Markets, licensed intermediaries and product details please contact the Reserve Bank of Fiji Capital Markets Unit.

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