

The capital markets

Capital markets are a certain type of market where financial instruments such as equities (shares in a company) or government and corporate bonds are sold, instead of fruit and vegetables. Companies can use access to capital markets as a channel to finance growth and development, an alternative to traditional bank loans. Capital markets are also used by investors to invest money efficiently in companies and thus obtain information on their performance. Some capital markets are directly linked to a stock exchange, a central place where buying and selling takes place (like a digital auction hall). In so doing, prices are clear and transparent and trading takes place between several parties. This is particularly prevalent for equities.

Regarding **bonds**, most are bought directly from a particular trader, also known as over the counter. This is where stock exchanges can also play an important role. They formalise a price list on which the customer can see what they have to pay for a specific bond. The main task, particularly on the Luxembourg stock exchange, is to list the prices of over 37,000 financial instruments, mainly bonds⁽¹⁾.



- Capital markets provide a type of market in which financial instruments are sold instead of produce like fruit and vegetables
- In 1963, the Luxembourg Stock Exchange was the first in the world to list Eurobonds
- There are currently some \$25 trillion Eurobonds in circulation worldwide, a large number of which are traded on the Luxembourg Stock Exchange
- Clearstream has €7 trillion in deposits, making the Grand Duchy one of the main European settlement and custody centres

As the world has become increasingly globalised, so too have capital markets - in particular capital markets for bonds. In 1963, the Luxembourg Stock Exchange was the first exchange in the world to list Eurobonds - a bond issued by a company in a currency that does not necessarily correspond to the one of the country in which the company is established. **Currently, some \$25 trillion⁽²⁾ worth of Eurobonds are in circulation worldwide**, a large number of which are traded on the Luxembourg Stock Exchange.

While trading is the main element of capital markets, other important processes take place after the buyer and seller have agreed on the price. A more critical area, where Luxembourg also plays an important role, is the actual exchange of cash for bonds or shares, a process known as settlement, and the holding of bonds and shares in a secure manner, known as custody.

Highly regulated institutions carrying out and offering these important activities in Luxembourg, the so-called **Central Securities Depositories** such as Clearstream, have deposits of over €7 trillion⁽²⁾, making the Grand Duchy one of the most important European centres of settlement and custody.

(1) Luxembourg Stock Exchange, General brochure, 2020
(2) Clearstream, April 2019 data