

# Investment Banking: A Study on Roles and Responsibilities in Global Context

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**Abstract**—Investment banking is a specific division of banking related to the creation of capital for other companies. It underwrites new debt and equity securities for all types of corporations and also provides guidance to issuers regarding the issue and placement of stock. Revenues and opportunities are dependent upon companies looking to transact in the capital markets, generally fuelled by economic growth. The merger and acquisition activities tend to be the most lucrative for firms in terms of revenues; however they are also the most likely transactions to be sidelined at the first hint of economic trouble. For starting a new business or maintaining any mergers and acquisitions investment banking support for financial standards and to commit for a better future. Investment banking is helps to start a new business which can provide employment and economical crisis in the global market and to develop the importance of small and medium enterprises on the technological up gradation. The major intention of investment banks is to develop the economy of the country.

In this paper we have made an attempt to study the concept of investment banking roles and responsibilities in global context. The Secondary sources of the subject have been consulted for the development of the concept.

**Keywords:** - Creation, Regarding, Lucrative, Transactions, Crisis

## 1. INTRODUCTION

**Investment banking** refers to services rendered by financial institutions, called investment banks, whereby these banks help other entities, including private companies and governments, raise money from the equity and bond market. Apart from assisting companies, and governments, raise money from the equity and bond market, investment banks are also involved in a number of other financial and banking businesses. Other businesses investment banks are involved in include asset management, prime brokerage, underwriting services, and giving mergers and acquisitions advice to companies. The two main lines of business in investment banking are called the sell side and the buy side. The "sell side" involves trading securities for cash or for other securities, or the promotion of securities. The "buy side" involves the provision of advice to institutions concerned with buying investment services. Private equity funds, mutual funds, life insurance companies, unit trusts, and hedge funds

are the most common types of buy side entities. An investment bank can also be split into private and public functions with an information barrier which separates the two to prevent information from crossing. The private areas of the bank deal with private insider information that may not be publicly disclosed, while the public areas such as stock analysis deal with public information. The following are the largest full-service global investment banks; full-service investment banks usually provide both advisory and financing banking services, as well as sales, market making, and research on a broad array of financial products, including equities, credit, rates, currency, commodities, and their derivatives

- Goldman Sachs
- Barclays Capital
- UBS
- The Royal Bank of Scotland Group
- TD Securities
- Wells Fargo
- Morgan Stanley
- JPMorgan Chase
- Bank of America Merrill Lynch
- Deutsche Bank
- Citigroup
- Credit Suisse
- Lazard
- Jefferies Group
- BMO Capital Markets
- HSBC
- Nomura Holdings

## 2. INTRODUCTION

A financial intermediary that performs a variety of services. Investment banks specialize in large and complex financial transactions such as underwriting, acting as an intermediary between a securities issuer and the investing public, facilitating mergers and other corporate reorganizations, and acting as a broker or financial adviser for institutional clients.

### 3. DESCRIPTION OF INVESTMENT BANKING

The advisory divisions of investment banks are paid a fee for their services, while the trading divisions experience profit or loss based on their market performance. Professionals who work for investment banks may have careers as financial advisers, traders or salespeople. An investment banker career can be very lucrative, but it typically comes with long hours and significant stress.

Investment banks' clients include corporations, pension funds, other financial institutions, governments and hedge funds. Size is an asset for investment banks. The more connections the bank has within the market, the more likely it is to profit by matching buyers and sellers, especially for unique transactions. The largest investment banks have clients around the globe.

Investment banks help corporations issue new shares of stock in an initial public offering or follow-on offering. They also help corporations obtain debt financing by finding investors for corporate bonds. The investment bank's role begins with pre-underwriting counseling and continues after the distribution of securities in the form of advice. The investment bank will also examine the company's financial statements for accuracy and publish a prospectus that explains the offering to investors before the securities are made available for purchase.

#### NATURE OF THE STUDY

- To study the concepts of investment banking current global scenario.
- To study the major strategies implemented in investment banking.
- To generalize the factors that could be helpful for the development of the customers.
- To identify the benefits of investment banks in current global scenario.
- To study the effective utilization of investment banks by the people.

### 4. SCOPE OF THE STUDY

This study will develop the general factors and improving strategies of investment banks and to develop various programmes to be manipulated and facilitating towards the customer. It will rapidly increase the effective utilization of resources by the people and to develop for the study.

### 5. MAJOR PURPOSE OF INVESTMENT BANKING IN GLOBAL SCENARIO

Nearly everyone is familiar with commercial banks such as Wells Fargo and Bank of America. These banks exist to provide saving and lending services to private citizens; including but not limited to mortgage and auto loans, checking and savings

services and retirement accounts. It's likely that most of you deal with at least one commercial bank. An **investment bank** on the other hand exists to provide services to private and public companies. This includes raising capital through the issuance and sale of both securities and bonds, assisting in mergers and acquisitions and providing guidance and advisory services for other corporate financial transactions.

In the beginning the purpose of an investment bank was to help companies raise capital through equity offerings and debt issuance and to advise and assist with mergers and acquisitions. Since then **the role of the investment bank** has evolved and expanded dramatically. These days investment banks are involved with their original purposes, but they are also performing much more diversified activities. These banks now offer brokerage services to both corporate and individual investors, they underwrite and sell new equity issues, they provide financial and security advice to corporate clients and they provide financial research to all types of clients. In addition, they have become involved in creating many of the leveraged instruments that have caused so much financial trauma, they deal with foreign exchange (another leveraged area) and they provide private banking for high net worth individuals.

Though the spotlight has recently been put on the **investment banks** role in creating highly leveraged debt instruments, their primary role is still one of helping corporations to raise capital. When a company needs additional capital it can go about raising it in one of two ways. The investment bank can sell equity in the company in the form of a stock offering or they can offer advice on the issuance of debt, or bonds, by the company. In some cases this issuance of equities or debt is placed privately, in other words the instruments are not offered in the open markets, but are rather sold to private individuals or companies. If this is the case, the investment bank often acts as a broker by bringing together the two involved parties. These private transactions include not only private equity investments and private debt placements, but also merchant banking services, strategic investments and venture capital investments.

As you might imagine, an *investment bank* often has a broad network of contacts within the financial industry. This network extends globally and includes insurance, foreign exchange, legal and corporate contacts. A good investment bank will be able to use this network to provide detailed market knowledge and guidance, legal advice and investment opportunities on a global, countrywide or regional level. For this reason investment banks are highly regarded for helping to create a competitive advantage to the clients they advise.

## 6. ADVANTAGES AND DISADVANTAGES OF INVESTMENT BANKING

A bank account is probably not on your list of hot investment ideas, but the various options a bank offers might fit some of your needs. Banks pay different interest rates on different accounts, and you typically earn more the longer you are willing to let your money sit. While security is an important benefit of a bank account, limited profit potential is one drawback to this type of investment.

## 7. CERTAINTY

When you invest in a bank account, you can determine fairly accurately the amount of money you will have at a specific date in the future. Bank accounts avoid market fluctuations that are typical of other investments, such as stocks, and typically pay fixed interest. This certainty is an advantage when you need a specific amount of money within a short time frame, such as for a down payment on a house, or if you need to preserve your capital for emergencies.

## 8. LOW RETURNS

The interest you earn in a bank account is typically lower than the returns of other investments. When you factor in income taxes on interest, your money might fail to keep up with inflation, or the gradual increase in the prices of goods and services. For example, if you earn 4 percent annually in a savings account, pay one-third of that in taxes and inflation is 3 percent a year, your money's purchasing power will erode.

## 9. FEES

Banks sometimes charge fees that can exceed the interest rate on your account and eat away at your investment. Some fees might come standard with a particular account, such as a maintenance fee or ATM fees. A bank could impose other charges or possibly lower your interest rate if you fail to meet certain requirements, such as a minimum balance. Always read the fine print to understand your account's terms.

## 10. FUNCTIONS OF INVESTMENT BANKING

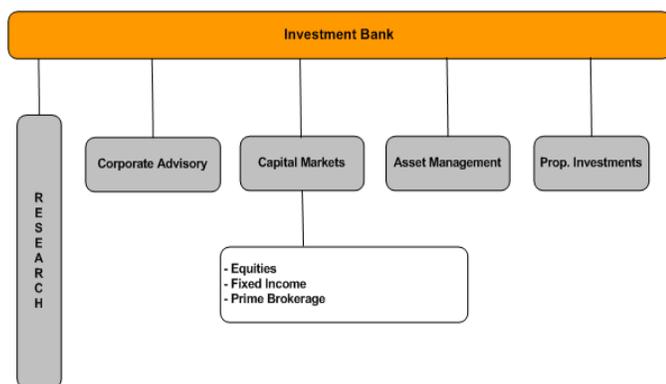


Fig. 1: Functions of investment banking

- 1) Investment banking is all about meeting client's objectives
- 2) Advise companies about the most efficient ways to raise money
- 3) Create securities that meet both clients' and investors' objectives
- 4) Serve as a liaison between companies who want to raise money and investors that want to invest money
- 5) Serve as an advisor in mergers & acquisitions (M&A) transactions
- 6) Market makers (facilitate trading) for vast array of securities – SALES & TRADING
- 7) Provide research on companies they cover for clients – RESEARCH

## 11. MAJOR CLIENTS INVESTMENT BANKS

- **Corporate:** operating companies in sectors including energy, retail, construction, technology, media, healthcare, food and drink and chemicals - and other financial services organizations.
- **Funds:** investment vehicles which pool investors' assets and follow a particular investment strategy, including pension funds, hedge funds, and private equity funds.
- **Sovereigns:** governments, but also quasi-governmental institutions such as export credit agencies and sovereign wealth funds.
- **High net worth individuals:** usually defined as those with investable assets worth over \$1 million.
- **The bank itself:** some of a bank's trading and investment activities are conducted not for an external client but to make profits for itself, or to protect the bank against risks.

## 12. MAJOR RESPONSIBILITIES

- **Giving advice:** advising clients on buying and selling companies, the structuring of their financial affairs, raising money, economic risk management and the purchase of financial products.
- **Investment management:** advising on and managing the investment of assets for corporate and individuals.
- **Providing financing:** making loans to and purchasing the shares of corporate, and assisting corporate in finding other parties to do so.
- **Trading:** buying and selling shares, debt products, commodities, derivatives and related products on behalf of clients and to make money for the bank.
- **Research:** Monitoring industry trends and economic developments for the bank's own purposes and for clients.

### 13. ACTIVITIES REGULATED BY INVESTMENT BANK

Many aspects of an investment bank's operations are closely monitored by governments and independent regulators, particularly the following areas:

- **Capital adequacy:** Banks must comply with strict rules governing how much capital they hold in reserve and how easy it is to access so that they have an adequate financial cushion to fall back on at all times.
- **Activities undertaken:** Whether certain parts of a bank can undertake particular activities, and how these different parts are separated, is subject to regulation to prevent problems in one area of a bank spreading to other parts.
- **Trading on their own behalf:** In the US, the extent to which banks can trade with the capital they hold is heavily restricted, and some in the industry feel that similar rules should be implemented in Europe too.
- **Insider dealing:** Regulations prevent banks unfairly profiting from information revealed to them by their clients which is not in the public domain.
- **Money laundering:** Banks are closely monitored to ensure that criminals do not use their activities and systems to hide illegal activities.
- **Transparency:** Banks are required to disclose detailed information about their activities and their finances.
- **Pay:** How much, and in what ways, banks are permitted to pay their staff is now subject to scrutiny by regulators in the interests of discouraging excessive risk-taking.

- 4) Transact the deals fairly.
- 5) Communicate with the customers while starting a new business.
- 6) Approve the statements until it clearly identification.
- 7) Avoid ignorance.
- 8) Justify and provide loans as immediate as possible.
- 9) Maintain good relationship with customers.
- 10) Avoid conflicts.

### 15. CONCLUSION

Finally it is clearly shows that might imagine, an *investment bank* often has a broad network of contacts within the financial industry. This network extends globally and includes insurance, foreign exchange, legal and corporate contacts. A good investment bank will be able to use this network to provide detailed market knowledge and guidance, legal advice and investment opportunities on a global, countrywide or regional level. For this reason investment banks are highly regarded for helping to create a competitive advantage to the clients they advise. These private transactions include not only private equity investments and private debt placements, but also merchant banking services, strategic investments and venture capital investments. For starting a new business or maintaining any mergers and acquisitions investment banking support for financial standards and to commit for a better future. Investment banking is helps to start a new business which can provide employment and economical crisis in the global market and to develop the importance of small and medium enterprises on the technological up gradation.

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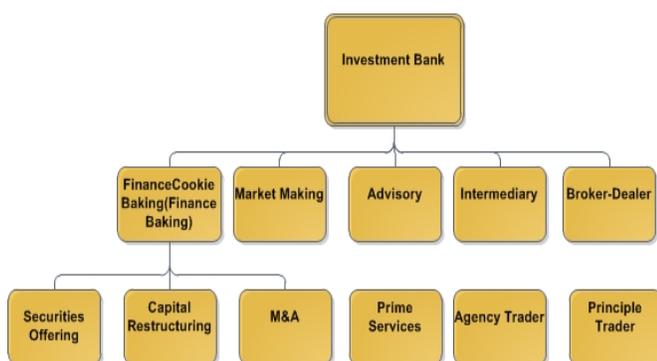


Fig. 2: Activities of investment bank towards mergers and acquisitions

### 14. SUGGESTIONS

- 1) Promote the strategies and implementation of investment banks in the current global economy.
- 2) Facilitate and develop the specifications of interest rates as customer feel good towards investment banks.
- 3) Avoid illegal approvals.