Types of bonds

Over the Counter (OTC)

The Bond Market, aka over the counter, is completely different from the stock market. Trading transactions are conducted among investors without time and place specified.

The telephone is a major communication channel. Besides this, dealers can place bids and/or offer requests by pressing the broker box. Investors can contact a dealer to engage in transactions.

Apart from dealers, automatic order matching is available to accommodate retail investors, as well as FIRST, which is a negotiated trading platform for institutional investors. These systems, so far, have failed to meet investors requirements, as bond trading requires negotiations between two parties. Thus, about 90% of bond trading is OTC.

The Dealer as a key player, not a broker

Investors can contact an authorized dealer directly. Dealers of a securities company are able to conduct both debt and equity securities trading, but commercial banks and finance companies can perform only debt securities trading.

Income from spreads, not commissions

A spread, which is the difference between the purchasing price and selling price, is the only source of income for dealers in bond trading, as it is conducted between institutional investors and customers. On the other hand, equity trading is carried out by brokers who charge a commission for each transaction.

In executing a buy transaction with a customer of fixed income instruments, the dealer will buy the securities into its own port for sale to a buyer later, and vice versa in case of a sale. This type of business usually benefits large financial institutions with substantial capital to support such transactions, for example, commercial banks.

Secondary market

After the initial transaction in the primary market is completed, subsequent trading is carried out in the secondary market. Most transactions are conducted Over the Counter (OTC) where investors can place bids or offers towards authorized financial institutions / securities companies.