

**B40.3188 - New Frontiers in International Capital Markets**

Summer 2007

Tommaso Albanese

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**Course Description:**

The objective of the course is to survey three recent developments in international capital markets that have dramatically changed the scope of applications for the related financial products.

A. Leveraged finance: a revolution in roles.

The leveraged finance market has in recent years evolved dramatically from commercial bank lending to a vibrant, liquid capital market driven by institutional investors. The banking industry consolidation and the increased bank return hurdles have made commercial banks more cautious in their use of capital for lending. Instead, credit investment players have mushroomed in search of aggressive returns. A key driver of this innovation are the leverage buyout firms, who have borrowed most of the capital available. New dynamics are now governing the debt market.

B. Infrastructure financing: a new relationship between public and private capital.

For decades infrastructure financing has been the domain of government policies, project finance lending banks and quasi-government development agencies. In the last few years the private capital has been jumping into it. This phenomenon originated in Western Europe where cash strapped governments have been willing to monetize assets and annuities connected to public services such as roads, airports, and hospitals. The traditional syndicated project finance business has been gradually surpassed by specialized institutional investors buying hybrid secured financings, booked as quasi government asset-backed securities. Taking advantage of the current extremely favourable market conditions, infrastructure funds are now using the private equity model to buy the whole public asset, leverage it up, and generate high returns on capital.

C. Corporate derivatives: their strategic use in a balance sheet.

As derivative products have matured, investment banks have been at the forefront of the movement to use derivatives as a critical strategic tool for corporate clients. Derivative products are no longer solely a means of treasury management but instead have become a powerful tool of a CFO in order to optimise the capital structure of his company and ultimately it's shareholder value. Derivatives should be included in analysis of the capital structure. The decision on which risk to retain or hedge is as crucial as the one on the debt/ equity mix to determine the optimal capital structure. CFOs and bankers need now to consider how derivatives could provide complex balance sheet solutions.

**Instructor:**

Tommaso Albanese is an Adjunct Professor in Finance. He is a former Managing Director of Morgan Stanley & Co, Co-Head of Global Capital Markets in Europe and Global Head of Corporate Derivatives.

**Pedagogy:**

The course is focused on analysing some recent transactions in international capital markets to provide an understanding of the rationale behind their use rather than providing a manual for their application. As such, the course requires a very good understanding of capital market products and derivatives. The case discussions will provide the core of the course learning while the readings will provide the technical background for the class discussion. The course does not involve routine lectures on material already presented in the readings.

**Texts and Cases:**

A reading packet made of chapters from books and press articles plus the assigned case studies will be made available at the NYU bookstore.

**Case Discussion and Write-Ups:**

There are 8 cases assigned for the course. Students must submit two or three pages write-ups on three cases before class begins on the dates for which they are assigned. The issues to be discussed in each are (a) what is the main question that the case addresses? (b) what techniques, tools of analysis, or methods are used to answer the question? and (c) what are the takeaway points from it? The write-ups will be graded and returned. Students wishing to do so may submit one extra case for extra credit. Cases may be discussed with classmates or in study groups, but each student must submit write-ups individually.

**Examinations and Grading:**

There will be only a final examination. The course grade will be computed as follows: Final exam, 40%, Case write-ups, 40%, Classroom participation 20%.

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**Course Outline**

Week1

Session A Introduction and course overview: Common drivers behind recent developments in international capital markets

Leveraged Finance: Review of recent products and processes

ASSIGNMENT: Press Articles I (2006)

CASE: Dress Rand (tbf)

Session B Leveraged Finance: Analysis of the dynamics surrounding event lending and relationship lending

CASE: Medco Energy International (HBS 2006)

Week 2

Session A Infrastructure Financing: Review of the market opportunity across industries and geographical areas

ASSIGNMENT: Yescombe (2002), Chapter 2 and 3; Press Articles II (2006)

CASE: Cyberport (HBS 2005)

Session B Infrastructure Financing: Structured finance and whole business securitization

ASSIGNMENT: Culp (2006), Chapter 13, 16, 17 and 21

CASE: Freikin SA (HBS 2006)

### Week 3

Session A Infrastructure Financing: Leveraged recaps and infrastructure funds  
ASSIGNMENT: Press Articles III (2006)

Session B Infrastructure Financing: Case discussion  
CASE: Chicago Skyway (tbf)

### Week 4

Session A Corporate Derivatives: Risk, risk management and capital structure  
ASSIGNMENT: Culp (2002), Chapter 9, 10, and 11

Session B Corporate Derivatives: Enterprise risk management and strategic corporate finance tools  
ASSIGNMENT: Grinblatt-Titman (2002), Chapter 21  
CASE: United Grain Growers (2002)

### Week 5

Session A Corporate Derivatives: Inclusion in a risk-based capital structure model  
ASSIGNMENT: Shimpi (2001), Chapter 3

Session B Corporate Derivatives: Case discussion  
CASE: Sainsbury's (tbf)

### Week 6

Session A Corporate Derivatives: Complex balance sheet solutions using derivatives  
CASE: Suez/Northumbrian Water (tbf)

Session B Final Exam

All assignment and case material will be available in the reading packet (see bibliography).

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**Bibliography**

**Assignments:**

**Press Articles I:** “The New Order of Leveraged Finance” (Christopher O’Leary, Bank Loan Report, 11/06/2006, 4 pages), “Leveraged finance comes of age: ...” (Euroweek, 03/18/2005, 6 pages), “LBOs speed up evolution of debt: ...” (Euroweek, 3/24/2006, 6 pages), “Top-Heavy Debt Structures ...” (Bank Loan Report, 5/098/2006, 2 pages), and “[European] Loan Market Becomes More American: ...” (investment Dealers’ Digest, 9/15/2006, 2 pages).

E. R. Yescombe, *Principles of Project Finance* (San Diego: Academic Press, 2002), “Chapter 2: What is Project Finance?”, and “Chapter 3: The Project Finance Market”.

**Press Articles II:** “Infrastructure – a new asset class? ...” (Euromoney, 6/01/2006, 9 pages), and “PPP aims to build on its promises: ...” (Philip Moore, Euromoney, 12/01/2005, 5 pages)

Christopher Culp, *Structured Finance and Insurance* (New York: John Wiley & Sons, Inc., 2006), “Chapter 13: The Structuring Process”, “Chapter 16: Securitization”, “Chapter 17: Cash Collateralized Debt Obligations”, and “Chapter 21: Project and Principal Finance”.

**Press Article III:** “LBO sponsors look to ABS financing solutions: ...” (Louise Bowman, Euromoney, 10/1/2006, 4 pages), “High-stakes game for many players ...” (Peter Thal, The Financial Times, 10/25/2006, 2 pages), and “Stable cashflow is the key requirement ...” (Chris Hughes, The Financial Times, 10/25/2006, 2 pages).

Christopher Culp, *The ART of Risk Management* (New York: John Wiley & Sons, Inc., 2002), “Chapter 9: A vocabulary of Risk”, “Chapter 10: Risk Management as a Process”, and “Chapter 11: Risk Management and Capital Structure”.

Mark Grinblatt and Sheridan Titman, *Financial Markets and Corporate Strategy* (Second Edition, New York: McGraw Hill, 2002), “Chapter 21: Risk Management and Corporate Strategy”

Prakash Shimpi, *Integrating Corporate Risk Management* (New York: TEXERE LLC, 2001), “Chapter 3: Integrating Risk Management and Capital Management”

**Cases:**

“Dresser Rand LBO Financing”, to be finalized

“Medco Energy International”, Bellen Villalonga, Raphael Amit, Chris Hartman, Case 9-207-021, Published Aug 17, 2006, **Harvard Business School Publishing** (20 pages)

“Fraikin SA”, W. Carl Kester, Vincent Dessain, Monika Stachowiak-Joulain, Case 9-206-090, Published Feb 6, 2006, **Harvard Business School Publishing** (14 pages)

“Cyberport: Realization of an IT Park through a Public-Private Partnership”, Ali Farhoomand, Jeroen van der Berg, Case HKU429, Published Oct 21, 2005, **University of Honk Kong** (15 pages)

“Chicago Skyway”, to be finalized

“Enterprise Risk Management: The Case of United Grain Growers”, Scott Harrington, Greg Hiehaus, Kenneth Risko, **Journal of Applied Corporate Finance** 14, No 4 (Winter 2002) (20 pages)

“Sainsbury’s Balance Sheet Restructuring”, to be finalized

“Suez/Northumbrian Water”, to be finalized