



B40.3387.30 – Global Banking and Capital Markets
(PRELIMINARY)

Spring 2008
Tuesdays 6:00 – 9:00 pm
Room – KMEC

Prof. Ingo Walter
Office - KMC 9-95
Hours: Tu. 4-6 pm

Course Description:

The focus of this course is primarily on determinants of competitive performance in the global financial services industry. It covers a broad range of commercial and investment banking products and activities that are carried out internationally, and addresses the dynamics of competition in international banking, focusing especially on financial structure (ranging from universal banks to specialist financial services firms).

The substantive discussion of competing in various international commercial and investment activities is linked to a geographic dimension, which includes conditions in the financial services sector in the US, Europe, Japan, and emerging markets. In that context, we also focus on various types of risks – including country risk, one of the unique aspects of international finance. We consider both the nature of these risks and how they can be addressed by participants and by governments in a volatile global environment.

Throughout the course, relevant current events are examined and used to illustrate teaching points.

Concluding the course is an assessment of the determinants of competitive strength, market share, profitability, growth and similar dimensions of performance that determine success by individual financial institutions in the global marketplace.

Instructor:

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Assistant: Michael Jules: KMC 9-190, Tel. 998-0381, Fax. 995-4233, e-mail mjules@stern.nyu.edu.

Prerequisites:

Students registering for this course should have had previous courses in basic economics, accounting and financial analysis at the undergraduate or graduate level. Prerequisites can be waived by consent of the instructor.

Pedagogy:

The course is case-oriented, and includes extensive classroom participation requiring students to apply principles developed in class to actual international commercial and investment banking situations. The case discussions are interspersed with lectures to explain the technical aspects of the activities covered by the cases. The course does not involve routine lectures on material presented in the readings, and therefore the class sessions and the readings complement each other. All readings and case preparation should have been completed prior to the class for which they are assigned.

Text and cases:

The text for the course covers both international commercial and investment banking:

Roy C. Smith and Ingo Walter, *Global Banking*, Second Edition (New York: Oxford University Press, 2003). Denoted "GB."

Cases: The following Harvard Business School cases are available from the bookstore.

UBS: Toward the Integrated Firm (HBS N2-506-026)
Long Term Capital Management A (HBS N9-200-007)
Long Term Capital Management C (HBS N9-200-009)
Chase's Strategy for Syndicating the Hong Kong Disneyland Loan (HBS N9-201-072)

Blackboard:

Course materials not included in the course pack are posted on Blackboard at <http://sternclasses.nyu.edu/>, where you can download a copy of this outline, assignments, handouts, etc.

Case Assignments:

Students should carefully read and be prepared to discuss all assigned cases, and will be called-on in class to present their case findings – the cases will also be covered on the mod-term and final exams. In addition, students must turn in six case write-ups (any six), which are due at the start of the class during which they are discussed. No cases will be accepted after they have been discussed in class. Students may work on cases individually or in groups not exceeding five people, and may use any and all available resources (the Web, press reports, analyst reports, etc.) if desired. Case writeups may not exceed three pages (single or double spaced) plus appendixes.

Examinations:

There will be a mid-term examination on 27 March 2007, which will cover the first half of the course, and a final examination on 1 May 2007, which will cover the second half of the course. Both exams will deal with all of the assigned readings, cases, and classroom discussions.

Classroom Participation:

Each student will be expected to participate actively in class discussion. Students who do not participate will be graded less favorably than those who do.

Grading:

Mid-term exam – 35%

Final Exam – 35%

Case writeups – 30%

Classroom participation – up to + 1 letter grade.

COURSE OUTLINE

Session 1 (12 February)

Reconfiguration Dynamics in Global Financial Services

Overview of the course. Evolution of the financial intermediation process in the context of the global competitive environment, technological change and regulatory evolution. Comparisons among major types of players.

ASSIGNMENT: GB, Preface and Chapter 1.

Session 2 (19 February)

Global Debt and Equity Capital Markets

Eurobonds, foreign bonds and euro-denominated fixed-income issues, including swaps and structured transactions. Discussion of global flows of funds into equities and international primary equity markets. Discussion of the exchanges and secondary equity markets, including block trading and proprietary trading.

ASSIGNMENT: *GB*, Chapters 2, 3, 4 and 7.

CASES: Federal National Mortgage Association (posted on Blackboard).

Session 3 (26 February)

Syndicated Lending and Project Finance

Wholesale lending and project financing, including analysis of a case based on the early stages of financing the new Hong Kong Disneyland project by JP Morgan Chase. Leveraged finance. Collateralized loan obligations and credit derivatives. Infrastructure financing.

ASSIGNMENT: *GB*, Chapters 5 and 6.

CASE: Chase's Strategy for Syndicating the Hong Kong Disneyland Loan (A)

Session 4 (4 March)

Global M&A Transactions

Discussion of the flow of corporate advisory services and merger and acquisition activities carried out on a cross-border basis. Discussion of alternative systems of corporate governance and its implication for global capital markets and financial performance. Role of advisers in complex cross-border M&A transactions. Privatizations and transactions undertaken by financial sponsors, notably private equity.

ASSIGNMENT: *GB*, Chapter 8.

CASE: The Acquisition of Martell and The Steel War: Mittal vs. Arcelor

Session 5 (11 March)

Risk Dimensions in Global Banking

Consideration of the key sources of risk encountered in global banking and financial market activities – market risk, credit risk, liquidity risk, operational risk, reputational risk and sovereign risk. Discussion of risk linkages and risk integration in the context of value at risk (VaR) and risk-adjusted return on capital (RAROC) models.

ASSIGNMENT: BIS Report, pp. 13-27.

CASE: Long Term Capital Management A (HBS Case No. 9-200-007) and Long Term Capital Management C (HBS N9-200-009)

Session 6 (25 March)

The Special Problem of Sovereign Risk in Global Banking and Finance

Purpose and techniques of country risk assessment, including tracking of country exposures, components of country risk. Applications of country risk in a portfolio context. Pricing country risk and financing emerging market transactions.

ASSIGNMENT: *GB*, Chapter 12

S&P Sovereign Credit Ratings: A Primer

CASE: Republic of Argentina \$85 billion Par Value Debt Exchange Offer, 2005 (posted on Blackboard).

Session 7 (1 April)

MID-TERM EXAMINATION (FIRST HALF OF CLASS)

Second half of class: The global institutional asset management business, including mutual funds and pension funds.

ASSIGNMENT: *GB*, Chapter 10.

Session 8 (8 April)

Global Private Banking

Discussion of the global private banking business and the dynamics of competing for high net worth clients.

ASSIGNMENT: *GB*, Chapter 11.

CASE: UBS: Toward the Integrated Firm (HBS Case No. N2-506-026)

Session 9 (15 April)

Regulation in Global Banking and Financial Markets

Regulatory issues and tradeoffs affecting global banking and financial markets, including the role of the Basel accords as well as regional (e.g., EU) and national regulatory initiatives and their effects on safety and soundness as well as efficiency and competitive performance.

ASSIGNMENT: *GB*, Chapter 13.

Ingo Walter, "Conflicts of Interest and Market Discipline"

CASE: JP Morgan and Banco Español de Crédito

Session 10 (22 April)

Global Financial Sector Restructuring

Major factual developments shaping global banking and finance. Discussion of trends in commercial and investment banking, asset management and insurance at the wholesale and retail level from the 1970s through 2004. Emphasis on the implications for competitive conditions in the industry around the world.

ASSIGNMENT: *GB*, Preface and Chapter 1. *M&A*, Chapter 2.

CASE : Citigroup

Session 11 (29 April)

Understanding Competitive Challenges

Getting the right strategy, and then getting the strategy right. Analysis of techniques for strategic positioning and how they can be applied. Strategic execution and management of change in one of the most competitive segments of the global financial services industry. Discussion of some of the principal issues encountered in strategic implementation.

ASSIGNMENT: GB, Chapters 14 & 15. M&A Chapters 4, 5 and 8.

CASE: Santander's Acquisition of Abbey: Banking Across Borders (distributed in class)

Session 12 (6 May)

Understanding Competitive Challenges (Continued)

FINAL EXAMINATION (SECOND HALF OF CLASS)