

Global Banking and Capital Markets – Course Syllabus



Course FINC-GB.3387.00

Spring—2013

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Department of Finance

Course Description

This course is focused on the determinants of competitive dynamics and performance in the global banking industry. It primarily covers commercial and investment banks: the capital markets in which they operate; the related products they offer and the risk-taking activities they undertake—both for themselves and their customers. It addresses organizational strategy, structure and geographic dimensions—covering the US, Europe, and emerging markets; with a special emphasis on the risks of doing business in capital markets/products and the challenges they present to both regulators and market participants. Throughout the course, relevant current events are examined and used to illustrate teaching/discussion points.

Course Outline

Class One—February 16, 2013

The Global Financial Crisis, Regulatory Repercussions and the State of Banking and Capital Markets Today

Participants, Markets and Strategies

This opening session establishes the framework for the course. It explores financial market evolution, the financial crisis of 2007-08, the global capital markets, the roles of financial institutions and banking strategies. Together we discuss:

- How have financial markets evolved and what factors have been key drivers in this evolutionary process?
- What do we mean by commercial, investment, merchant and universal banking?
- What are the businesses of each?
- How have regulations shaped these definitions and activities?

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- What are the various roles of markets, e.g., primary, secondary, etc.; and, market participants, e.g., principals, intermediaries, etc.?
- What are the capital markets and the “shadow” banking system?
- How are banks, and other financial organizations, positioning themselves in these markets?
- What do we mean by the “winning” strategies of global banking?
- Where are these strategies headed given the emergence of a new financial architecture—an initial view?

Reading Assignment for Class One:

“GB” Chapter 1 and 12

“RWS” Prologue

Class Two—February 23, 2013

Risk and Regulation

This session explores how sound banking practices—when ignored, abused or misinterpreted—lead to the breakdown of financial organizations and global financial markets; and, the regulation of industry behaviors and practices. We discuss:

- What is systemic risk?
- How did it display itself in the financial crisis of 2007-2008?
- What are the drivers of systemic risk that are likely to continue to shape the thinking of regulators and the realities of practitioners?
- What have been some of the specific regulatory initiatives, e.g., the Dodd-Frank Act, Basel III and their impact on a new architecture of global finance?
- How have these regulatory considerations influenced the organizational structure, behavior and practices of financial organizations and markets?
- What is their current status and likely evolution?

Reading assignment for Class Two:

“GB” Chapters 13-15

“RWS” Chapters 1 & 2, 4-7

A Common Framework

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Note: These two opening classes are designed to provide a common framework for discussion and reference. As we move forward and discuss strategies and market practices we shall relate back to this framework. Also, we use this framework—as the course progresses—to help formulate a vision of what the new financial order (and playing field) will look like and how it is likely to impact the future of capital markets and related practices.

Case Assignment:

For discussion on February 23, 2013

“BB” UBS AG 2008

Session Three – March 2, 2013

The Global Capital Markets

Financial Market Integration/Indicators

The session is designed to introduce participants to the global capital markets. The focus is on explaining the development of the components of these (and other) financial markets and their interrelationships.

In this session we learn how to “read” the markets for funding/investment opportunities. We view the world from the perspective of both issuers and investors; and, we explore some of the capital market indicators—for example, the term structure of interest rates, credit spreads, the level of interest rates (real and nominal), the implied level of volatility in the markets) and how they impact various opportunities for capital funding and investment activities. We apply these indicators to an in-class case study of market integration and discuss the future of such transactions in a world of increased regulation.

Case Assignment:

“BB” CNP SA – Meeting Borrower/Investor Needs: Structuring a Capital-Market Transaction in Global Financial Markets

Note: This case is to be completed and discussed in class. It will be posted on “BB” prior to the session—please have a copy for your reference and please review the case before coming to class.

Reading Assignment:

Catch-up/read ahead

Class Four—March 9, 2013

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This session is designed to expose participants to the practices of the loan markets and how they relate to the facilitation of derivative and capital market transactions.

Together we explore:

- The risks of loan origination.
- Loan markets (1)—the key players and their strategies.
- Loan markets (2)—bilateral, multilateral and other types of loan facilities.
- Loan markets (3)—their role in emerging and developed financial markets.
- The practices, structure and players of syndicated loan facilities.
- The evolution of syndicated loans to asset securitization—including ABS, CMOs and CDOs.
- Credit derivatives—the fundamentals.
- Loan market developments and market trends.

Reading Assignment for Class Four:

“GB” Chapter 2

“RWS” Chapters 15, 16

Class Five – March 16, 2013

Raising Capital in the Global Capital Markets (1)

The Debt Capital Markets

The session focuses on raising capital through the utilization of the global debt capital markets and the syndicated loan markets. The first part of the session focuses on some of the specifics of the debt capital markets and possible debt capital-raising structures. It also discusses the role of syndicated lending as a bridge to the capital markets; and, the use of derivatives (interest and currency) to facilitate the borrowing in markets of comparative advantage—while managing risk exposure. In this session, we discuss:

- The meaning and determinants of comparative advantage.
- Types of securities issuance, e.g., public versus private placements, domestic, foreign and international bonds.
- Bond markets in emerging and developed markets.
- Comparing the debt and loan markets—factors favoring each.
- The role and use of derivatives in the realization of comparative advantage financing.
- The mechanics of structuring synthetic debt.

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- The risks (and regulatory reforms) of the debt, derivative and loan markets and related participant activities/practices.

Reading Assignment for Class Five:

“GB” Chapter 4

March 23, 2013—Spring Break

Class Six—March 30, 2013

Raising Capital in the Global Capital Markets (2)

The Workings of Debt and Derivative Instruments

Through a case study discussion, this session demonstrates some of the more specific workings of various capital market instruments. It also looks at various market practices related to raising capital and their impact on the role of financial intermediaries, investors and borrowers. In this session we will explore:

- The importance of market timing—windows of opportunity.
- The role of bank credit in capital market transactions.
- The role of shelf registrations.
- Factors leading to negotiated transactions.
- Factors leading to “bought” deals.
- Various debt instruments – with an emphasis on how their structures are designed to influence investor appetites.

Reading Assignment for Class Six:

“GB” Chapter 6

“RWS” Chapter 13

Case Assignment:

For discussion on March 30, 2013

HB Cases: Phillip Morris Companies, Inc. (A) (B) (C)

Class Seven – April 6, 2013

&

Class Eight—April 13, 2013

Raising Capital in the Global Capital Markets (3 & 4)

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The Global Equities Markets

This session focuses on the raising of capital through the global equities markets. Included in this discussion, is the use of certain hybrid structures designed to provide borrowers/investors with both the benefits of equity and debt. This session also looks at the use of equity derivatives as part of the increased management of equity issuance programs including those related to privatizations and related goals of increased employee stock-ownership participation. Specifically, we will discuss:

- The equity markets (domestic, foreign and global).
- The equity markets (primary and secondary markets).
- Initial Public Offerings (IPOs) and follow-on Issues.
- Trends in developed and emerging markets.
- Types of equity issuance/distribution.
- The role of regulation in equity markets.
- The use of hybrid security structures.
- Equity issuance and privatizations.
- Equity as a tool of capital-raising flexibility.
- The use and role of equity derivatives

Reading Assignment for Class Seven:

“GB” Chapter 5, 8

Case Study Assignment for Class Eight:

“BB” *Deutsche Telecom 1 & 2*

Class Nine – April 20, 2013 & Ten—April 27, 2013

Putting Capital to Work (1 & 2)

Mergers and Acquisitions

Perhaps no other area has gone through such dramatic changes in thinking and practice than that of mergers and acquisitions (M&A). No-doubt M&A has been a huge driver of capital market activities—especially those involving business portfolio management and organizational restructuring. Also, the business of M&A has gone through dramatic changes in terms of participants and the sources of capital that fund such transactions. Accordingly, we discuss in the session:

- Trends in M&A activity—in both developed and emerging markets.

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- Getting the business—buy and sell side opportunities.
- Getting deals done—financial and strategic buyers.
- Hedge funds and private equity firms.
- The business drivers of M&A activities—valuing and realizing synergies.
- Changing mind-sets in M&A activity, e.g., diversification, core competency and adjacency strategies.
- Capital market transactions that compliment M&A strategic objectives, e.g., corporate spin-offs, exchangeable debt offerings, etc.
- The funding of M&A activities through loan syndications, debt and equity capital markets.
- The role of private equity firms and investment funds.
- Some thoughts and “empirical” evidence on the effectiveness of M&A activities.
- The connection between M&A activities and the “winning” strategies.
- Recent landmark deals.

Reading Assignment for Class Nine:

“GB” Chapter 7 & 10

“RWS” Chapter 12

Case Assignment:

For discussion on April 27, 2013

“BB” *The Acquisition of Martell*

“BB” *The Steel War: Mittal versus Arcelor*

Class Eleven—May 4, 2013

Financial Industry Restructuring and Competitive Challenges

This session is designed to take us back to our first reflections together. We take a new look at the global banking and capital market arenas and make a final assessment of their future.

Specifically, we explore—using the tools of competitive strategy analysis—the following areas:

- A concluding look at the competitive dynamics of the industry—utilizing various strategy models, e.g., the five forces (porter), C-A-P (Walter).
- The strategic positioning of financial organizations in the new global order.
- Getting one’s strategy right—back to the “winning” strategies.
- The future of risk-taking activities.
- The future of capital-raising activities.
- The future of bank-funding/lending activities.
- The future of what it means to be a “banker.”

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Reading Assignment:

“GB” Chapters 16 & 17

“RWS” Chapter 18

Case Assignment:

“BB” Citigroup 1998-2009

Class Twelve—May 11, 2012

Final Examination

Course Information

Course 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 conducted over twelve classes—including the final examination. Classes begin on February 16, 2013 and end on May 11, 2013—the final examination. There is no class on March 23, 2013 (school holiday).

The course is discussion and case-oriented, and accordingly emphasizes classroom participation; requiring students to apply principles developed in class to actual global commercial and investment banking situations. The course does not involve routine lectures on material presented in the readings; however, all assigned readings and case preparations should be completed prior to the class for which they are assigned. Preliminary cases can be found in the outline—others may be added as the course progresses.

Much of the course material is posted on Blackboard “BB,” where you can download a copy of the outline, reading assignments, cases, and copies of exhibits used in class.

Required Text Books

Roy C. Smith, Ingo Walter and Gayle DeLong, *Global Banking*, Third Edition (New York: Oxford University Press, 2012)—Denoted in outline as “GB.”

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Viral Acharya, Thomas Cooley, Matthew Richardson and Ingo Walter (Eds.), *Regulating Wall Street* (New York: John Wiley, 2011)—Denoted in outline as “RWS.”

Besides assigned readings in the required texts, there will be other readings, case study discussion questions and other up-dates posted to “BB.”

Final Examination

There will be an in-class final examination on May 11, 2013, which will cover the entire course. The open-book exam will focus on the assigned readings, cases, and classroom discussions. Students will have up to three hours to complete the examination. The exam can be completed on lap-tops and printed and/or emailed for immediate submission.

Grading

Final exam grades will be adjusted by as much as one letter grade based upon the student’s class participation and case study preparedness.

Professor

Frederick C. Militello, Jr. is an adjunct professor of finance. For more than twenty years, he has taught many courses for Stern including international financial management and global banking and capital markets. One-on-one meeting appointments are always possible and are best arranged by email:

fmilitel@stern.nyu.edu

Frederick C. Militello, Jr., is CEO/Senior Thought Leader of Future Change Management, LLC. He works with top banking leaders and strategists in a wide-range of organizational and change initiatives. These cover both organizational and global market strategies.

He is also an adjunct GBS professor of finance – global markets and strategies at New York University’s Leonard N. Stern School of Business.

For three decades, he has been a leading practitioner and thought leader to financial executives around the world. Specifically:

- He has held numerous senior executive positions such as vice president, division executive and managing director for the Chase Manhattan Bank responsible for their global corporate consulting and merchant banking activities.
- Frederick has also held financial positions for US Steel Corporation, Mobil Oil Corporation, the Bank of Boston International and the American Stock Exchange.

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- He has also been founder and co-owner of two Wall Street-based financial/educational advisory practices.

Frederick has written many books in the fields of finance and banking including:

. *Leverage Competencies: What Financial Executives Need to Lead;*

. *The Empowered Organization: Redefining the Roles and Practices of Finance;*

. *Integrity-Based Financial Leadership and Ethical Behavior;*

. *Reassessing Corporate Banking Relationships: Issues, Practices and New Directions;*

. *Foreign Exchange Risk Management: A Survey of Corporate Practices.*

Over the years, his corporate clients have included some of the world's largest corporations including Apple Computer, McDonald's, Monsanto, Sandoz, Gillette, etc., and well-known financial organizations around the world—both in developed and emerging markets.

He has been a speaker and Chair Person for educational organizations including the Belgian-American Chamber of Commerce, Management Centre Europe, the American Management Association, the Rotterdam School of Management, the Vlerick Gent Leuven School of Management and the Financial Executives International.

As a scholar he was awarded the Wall Street Journal Student Achievement Award in Economics and is a professional member of the World Future Society and Strategic Planning Society.

Educated in New York, Frederick studied at Pace and Columbia Universities earning advanced degrees in economics and international economics.

He has sat on boards for numerous not-for-profit organizations such as the Children's Media Project and the Durham Historic Preservation Commission (Chair). He is married for almost twenty-five years, has three daughters, one granddaughter and lives on their family-run horse farm. He has a passion for cooking and is a graduate of the Culinary Institute of America—Boot Camp Program.