

Global Banking and Capital Markets – Course Syllabus



Course FINC-GB.3387.60

Summer—2013

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Department of Finance

Course Description

This course focuses on the determinants of competitive dynamics and performance in the global banking industry and the capital markets in which they do business in. It delves into the channels and flows of financial intermediation—in terms of providing both funding and investment choices to large corporates, middle-market enterprises, high net worth individuals, financial institutions and governments. It takes a global view of the banking business. Accordingly, it explores the capital markets of the world and their relative value contribution in supporting business activity and economic growth through a myriad of highly integrated financial products and solutions. The course places participants in the shoes of what it means to be a global banker and/or banking customer in perhaps the most tumultuous of times addressing such matters as the re-regulation and restructuring of the financial services industry—in the US, Europe, and emerging markets.

Course Outline

Class One—Monday, May 15, 2013

Financial Crisis: Banks, Bankers and Everyone Else

This opening session establishes the framework for the course. It explores:

- Banking and its business evolution—where we came from
- The financial crisis of 2007-08—where we were derailed
- The future of banking; expectations, behaviors and markets—where we are headed

Within this framework—based on experience, observation, recent events, articles read and assigned case study—topics to be discussed include:

1. The “mysterious” banker—entering the twilight zone
2. What it “really” means to be a banker

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3. David Ricardo and Walter Bagehot—what they knew way before Volcker
4. The financial crisis of 2007-2008
5. The role and impact “bankers” and others played in the crisis
6. The facts and fallacies of the financial crisis—causes and “cures”
7. The emergence of new playing fields and rules of the “game”

Case Study:

“BB” UBS AG 2008

Reading Assignment:

“BB” *Paper Fortunes*—“Armageddon” and “The Mortgage Crisis”

“GB” Chapters: 12-15

These “GB” chapters will be referred to in subsequent assignments/discussions. They are useful for more than one class discussion so it is best to read them right up-front.

Each week always remain on top of relevant articles that appear in the *Financial Times* or *Wall Street Journal*. Also, very good news releases on www.bloomberg.com.

Class Two—Monday, May 20, 2013

A Walk down Lombard Street and Across the Globe

This session establishes the framework for understanding the global capital markets in which banks operate—for both their needs and those of their customers. The discussion focuses on:

- The evolution of capital markets—what’s in/what’s out
- The meaning and causes of “systemic” risk
- Systemic risk and the so-called “shadow” markets
- How banks and markets feed off systemic risk—the good and bad news
- Business opportunities in and out of the shadows
- Structuring complex or structured financial transactions—where the shadow and the light come together
- Trends in global capital/financial markets—developed vs. emerging, type of funding/investing, relative depth of markets

Reading Assignment:

“GB” Chapter 1

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“BB” MGI: “2012 Survey of Global Financial Markets”

Class Three—Wednesday, May 22, 2013

Structuring a Deal in the Global Capital Markets

Students participate in structuring a deal that requires the refinancing of a bridge loan used for purposes of an acquisition. The deal involves the use of the debt capital markets and the inclusion of an arbitrage trade. The case illustrates how the markets facilitate a coincidence of wants through understanding both the needs of the borrower and the investor—and of course executed through a team of savvy global bankers. The case also demonstrates how the deal incorporates many of the business components necessary to be successful in today’s banking environment—the so-called “winning strategies.”

Case Study:

“BB” CNP SA: Creating Shared Value through the Capital Markets

Class Four—Monday, May 27, 2013

The Re-regulation of Global Banking

We have discussed the financial crisis of 2007-2008 and its on-going ramifications. Also, we have looked into what we mean by banking versus entrepreneurship—the legacy of Ricardo and Bagehot. And let’s not forget our discussion regarding market inter-connectivity and systemic risk. But where does this all take us in terms of the re-regulation of the banking/financial services industry?

This session explores:

- The Dodd-Frank Act, Vickers and Volcker, Basel III—their impact on a new architecture of global finance
- Assessing re-regulation in light of the financial crisis—would regulations have made a difference or not?
- Regulatory influences on the organizational structure, behaviors and practices of financial organizations and markets
- Formulating banking strategy—in a world of open versus defined regulatory space
- The potential regulation of shadow banking activities—ramifications for global liquidity
- The current status and likely evolution of today’s regulatory initiatives

Reading assignment:

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“GB” Chapters 13-15—this should be a review as these chapters were earlier assigned

Check out www.bis.org. There is very good material here on all of the Basel Accords—including comparative examples. I will also post some additional readings as current events impact both Basel III and the Volcker-Rule. We need to keep our eyes also focused on developments in Europe, e.g., the FSA (Bank of England) and the ECB.

Class Five—Wednesday, May 29, 2013

The Business of Global Lending

Students assess alternative bank/debt financing solutions and compare them to various business circumstances. We incorporate two case studies into our discussion exploring the process of credit intermediation along a spectrum of cost/flexibility trade-offs—both outside and within regulated and shadow markets. The discussion covers the elements of financial structure (tenor, amortization, pre-payment, seniority, call protection and covenants) relative to the cost of various debt financing alternatives. Differences in market practices are also covered—including how they are influenced by regulatory and governmental initiatives. The following will be discussed:

- Revolving credit facilities
- Terms loans—an alphabet soup
- Senior notes
- Subordinated notes
- Mezzanine capital

Case Studies:

“BB” Needs Analysis Framework—Debt Financing Alternatives

“BB” Dresser-Rand LBO Financing

Reading Assignment:

“GB” Chapter: 2

Class Six—Monday, June 3, 2013

The Global Securitization of Credit

This session focuses on the evolution of bank loan products—from the practices of bilateral lending to that of the securitization of credit. It looks at both the origination and distribution of

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financial asset risk and how the securitization of bank credit went from being a “winning” strategy of banking to one that took down the global financial system. As we venture into the world of synthetic debt obligations (SCDOs) we also explore the credit default swap (CDS) and its role in the global lending business. Here are some of the class topics:

- The foundations—understanding the risks of loan origination
- Three business models for credit intermediation
- Bilateral lending and multilateral lending arrangements—the evolution of syndicated loan practices
- The practices, structure and players of syndicated loan facilities
- The securitization of credit—differences in market practices
- From loan syndications to asset securitizations—the various roles of banking enterprises in facilitating ABS, MBOs, CDOs—both single asset class and structured deals
- Credit derivatives—their mechanics and various roles
- The SCDO—fully and partially-funded structures

Class Seven—Wednesday, June 5, 2013

Raising Capital in the Global Capital Markets (1)

The Global Debt Capital Markets

The session focuses on raising capital through the utilization of the global debt capital markets; and, the syndicated loan markets. It utilizes a case study as the foundation for the class discussion. The case 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 rate and foreign currency) to facilitate the borrowing in markets of comparative advantage—while managing risk exposure. Topics covered include:

In this session we explore:

- The importance of market timing—windows of opportunity
- The role of bank credit in global 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 global investor appetites

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Case Study:

Phillip Morris Companies, Inc. (A) (B) (C)—available through bookstore/course packet

Class Eight—Monday, June 10, 2013

Raising Capital in the Global Capital Markets (2)

The Role of Derivative Markets

Through a case study discussion, and class examples, this session demonstrates some of the more specific workings of derivative instruments. Its focus is on how derivatives contribute to the achievement of optimal funding—from the perspective of market appetite. Topics covered include:

- Kicking things off—the WB/IBM foreign currency swap
- A look at the global derivatives market—players and instruments
- The meaning and determinants of comparative advantage
- The role and use of derivatives in the realization of comparative advantage financing
- The importance of derivatives to the primary and secondary capital markets and the process of risk transference—arbitrage and speculation
- The mechanics of structuring synthetic debt/investments

Reading assignment:

“BB” Chapter 6

Case Study:

“BB” FNMA A\$1 Billion Bonds

Class Nine—Wednesday, June 12, 2013

Raising Capital in the Global Capital Markets (3)

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. Specifically, we discuss:

- The equity markets (domestic, foreign and global)—a survey of practices and key players

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- The equity markets—primary and secondary markets
- Initial Public Offerings (IPOs)
- Trends in developed and emerging markets
- Equity issuance, derivatives and privatizations—examples in creative financial structuring

Reading Assignment:

“GB” Chapter 5, 8

Case Studies:

“BB” Deutsche Telecom 1 & 2

“BB” The Sale of Jenapharm

Class Ten—Monday, June 17, 2013

Putting Capital to Work

Global Mergers and Acquisitions: Markets and Choices

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
- Getting the business—buy and sell side opportunities
- Getting deals done—financial and strategic buyers
- 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.
- Some thoughts and “empirical” evidence on the effectiveness of M&A activities—the role of organizational cultures
- Recent landmark deals—done or pending

Case Studies:

“BB” The Acquisition of Martell

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“BB” The Steel War: Mittal vs. Arcelor

Reading Assignment:

“GB” Chapter 7 & 10

Class Eleven—Wednesday, June 19, 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 business 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)
- Regulation and business model responses
- The strategic positioning of financial organizations in the new global financial 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”

Reading Assignment:

“GB” Chapters 16 & 17

Case Assignment:

“BB” Citigroup 1998-2009

Class Twelve—Monday, June 24, 2013

In-Class Final Examination/Open Book

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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 bursar.

Pedagogy

The course is conducted over twelve classes—including the final examination. Classes begin on May 15, 2013 and end on June 24, 2013—the final examination.

The course is discussion and case-oriented, and accordingly emphasizes classroom participation; requiring students to apply principles developed in class to actual global financial product and market 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.

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.

This course can be taken together with—before or after—the Investment Banking course offering by the Finance Department.

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.”

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

Final Examination

There will be an in-class final examination on June 24, 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. Blue books will not be used.

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.

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Professor

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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 has also developed financial policies and strategies for the leading corporations in the world and has worked on numerous integration teams for newly initiated mergers and acquisitions.

He is also an adjunct GBS professor of finance – global markets and strategies at New York University’s Leonard N. Stern School of Business. He teaches both Global Banking and Capital Markets; and, Investment Banking.

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.
- 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

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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, has three daughters, two grandchildren 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.