

Global Banking and Capital Markets – Course Syllabus



Course FINC-GB.3387.00

Fall—2014

Room—3-90

Professor Frederick C. Militello, Jr.

Department of Finance

Course Description

This course is focused on the competitive dynamics and performance of the global banking industry and financial markets. The course emphasizes case studies, group work and interactive class discussions. With an emphasis on industry and financial market developments the course addresses organizational strategy, capital market products and market developments—covering the US, Europe, and the emerging markets. It also looks at the risks and opportunities of doing business in today's financial markets and the challenges presented by both regulators and market participants. Throughout the course, relevant current events are examined and used to illustrate and reinforce discussion points.

This course, on its own or coupled with the Finance Department's offering of Investment Banking, will serve students well—whether seeking advancement or employment in the banking industry, understanding financing opportunities for entrepreneurial initiatives or working for organizations seeking more effective relationships with their bankers and/or other financial services providers.

Course Outline

Class One—September 20, 2014¹

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

¹ Note: The first two 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.

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Participants, Markets and Strategies

This opening session explores financial market evolution, the financial crisis of 2007-08, and the roles and responsibilities of financial institutions. Topics discussed include:

- How have global financial markets evolved and what factors have been key drivers in this evolutionary process?
- What are the roles and responsibilities of financial organizations?
- What do we mean by corporate, investment and universal banking?
- How have market developments—including regulations—shaped these businesses and their activities?
- What is systemic risk?
- How was such risk demonstrated in the actions and activities discussed in the UBS case?
- What is the “shadow” banking system?

Reading Assignment for Class One:

“GB” Chapter 12-14

Case Assignment:

NYU Classes *UBS—the Crisis Years*

Class Two—September 27, 2014

Risk and Regulation

This session further 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 businesses, behaviors and practices. Topics discussed include:

- What do we mean by the “winning” strategies of global banking?
- Where is the focus of these strategies given the emergence of a new regulatory architecture?
- What have been some of the specific regulatory initiatives, e.g., the Dodd-Frank Act, The Volcker Rule, Basel III; and, their impact on a new architecture of global finance?
- Case up-date: How have they manifested themselves by the strategic initiatives undertaken by UBS—and other universal banks—since the financial crisis?
- What aspects of systemic risk are likely to continue to shape the thinking of regulators and regulatory reform?

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Reading assignment for Class Two:

“GB” Chapter 15

Case Assignment:

“NYU Classes” *UBS—the Aftermath*

Session Three – October 11, 2014

The Global Capital Markets

Financial Market Integration/Indicators

The session is designed to further 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:²

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

Reading Assignment:

“GB” Chapter 1

Class Four—October 18, 2014

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. Topics discussed include:

² This case is to be completed and discussed in class. It will be posted on “NYU Classes” prior to the session—please have a copy for your reference and please review the case before coming to class.

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- The risks of loan origination.
- Loan markets (1)—the key players and their strategies.
- Loan markets (2)—bilateral, multilateral and syndicated loan facilities.
- Loan markets (3)—their role in emerging and developed financial markets.
- Project finance—the role of bank, government and PE infrastructure financing.

Reading Assignment for Class Four:

“GB” Chapter 2 & 3

Case Assignment:

“NYU Classes” *BlackRock’s Infrastructure Debt Initiative: Addressing the Market Opportunity*

Class Five – October 25, 2014

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 loan markets and their evolution—securitized markets.
- Types of securities issuance, e.g., public versus private placements, domestic, foreign and international bonds.
- Bond markets in emerging and developed markets.
- The meaning and determinants of comparative advantage.
- The role and use of derivatives in the realization of comparative advantage financing.
- Credit derivatives.
- The mechanics of structuring synthetic debt—focus on interest rate derivatives

Reading Assignment for Class Five:

“GB” Chapter 4 & 6

Please catch-up on your readings and assignments. Prepare questions for your return that you would like to have reviewed/discussed.

Class Six—November 1, 2014

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. Topics discussed include:

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

Reading Assignment for Class Six:

“GB” Chapter 4 & 6 (review)

Case Assignment:

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

Class Seven—November 8, 2014

&

Class Eight—November 15, 2014

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

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. Topics discussed include:

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- The underlying issues of equity issuance—from the involvement of the CEO to the increasing role of investor activism.
- The equity markets (domestic, foreign and global).
- The equity markets (primary and secondary markets).
- Initial Public Offerings (IPOs) and follow-on Issues—recent deals and trends.
- Equity issuance and privatizations.
- The use and role of equity derivatives.

Reading Assignment for Class Seven:

“GB” Chapter 5 & 8

Case Study Assignment for Class Eight:

“NYU Classes” *Deutsche Telecom 1 & 2* and/or

“NYU Classes” *Privatization of Aluminum Bahrain*

Class Nine – November 22, 2014 & Ten—December 6, 2014

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, topics discussed include:

- Trends in M&A activity.
- The business drivers of M&A.
- Getting the business—buy and sell side opportunities.
- Getting deals done—financial sponsors and strategic buyers.
- Financing and structuring M&A deals.
- Value drivers—diversification, core competencies and adjacencies.
- Financial tools for realizing value—spin-offs, carve-outs and target stock.
- Evidence on the effectiveness of M&A activities.
- Recent and landmark deals.

Reading Assignment for Class Nine:

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“GB” Chapter 7 & 10

Case Assignment:

For discussion on June 18, 2014

“NYU Classes” *The Steel War: Mittal versus Arcelor*

Class Eleven—December 13, 2014

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), CAP (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.”

Reading Assignment:

“GB” Chapters 16 & 17

Case Assignment:

“NYU Classes” *Citigroup—from financial crisis to Global Strategic Emergence*

Class Twelve—December 20, 2014

Final Examination—to be discussed

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.

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Pedagogy

The course is conducted over six weeks (twelve classes)—including the final examination. Classes begin on September 20, 2014 and end on December 20, 2014. There is no class on October 4th and November 29th (school holidays).

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. All assigned readings and case preparations should be completed prior to the class for which they are assigned. Questions will be posted for case preparations. Cases and reading assignments are noted in the outline. Others will be assigned and noted in class.

Required Text Book/Course Packet

Roy C. Smith, Ingo Walter and Gayle DeLong, *Global Banking*, Third Edition (New York: Oxford University Press, 2012).

There is a course packet covering Phillip Morris Companies, Inc. (A) (B) (C).

Besides assigned readings in the required texts, there will be other readings, case study discussion questions and other up-dates posted to “NYU Classes.” Classes will also be video-taped for student review.

Final Examination

There will be an in-class final examination on December 20, 2014. It will be an open-book examination and use of personal computers is permitted.

Grading

Grades are comprised of class participation, case work, group project work and the final examination. Class participation is important and students are encouraged to attend class. Please advise by email if you cannot attend class. Case work assignments (preparation questions) will be posted each week and the group assignment will be discussed at the first session and then posted to NYU Classes.

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One-on-one meeting appointments (as well as group meetings) are encouraged and always possible; and, are best arranged by email:

fmilitel@stern.nyu.edu

Professor Bio

Frederick C. Militello, Jr., is CEO/Senior Thought Leader of Future Change Management, LLC. He works with top corporate and investment banking leaders and business strategists in a wide-range of organizational and change initiatives. These include enterprise and global market strategies—covering both corporate and investment banking. He has also developed and facilitated financial policies and strategies for many of the world's leading corporations; including M&A integration assignments for some of the largest companies in the world.

He is an adjunct GBS professor of finance at New York University's Leonard N. Stern School of Business. He teaches both Global Banking and Capital Markets; and, Investment Banking. He has been teaching at Stern since 1990.

For three decades, he has been a leading practitioner and thought leader to bankers and 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, financial advisory services and merchant banking activities out of New York and London. At the bank he worked closely with both corporate and external investment bankers to construct leading-edge financial transactions and business approaches that were fundamental to the transformation of banking and the capital markets.
- Both as a banker and independent advisor, 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 globe—both in developed and emerging markets.
- He has worked his way through Wall-Street holding financial positions for US Steel Corporation, Mobil Oil Corporation, the Bank of Boston International and the American Stock Exchange. Starting at the bottom—as a “messenger,” clearing-house “runner,” and foreign exchange position clerk—he moved-up through the ranks to senior management positions for both corporate and international banking departments. He also was employed by Business International Corporation (acquired by the Economist Intelligence Unit) where he started one of the first financial publications for senior financial executives; namely, *Business International Money Report*.

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- He has been founder and co-owner of two Wall Street-based financial/educational advisory practices with an emphasis on corporate and investment banking—organizational structure, business and product line development and a wide-range of senior leadership issues and challenges. In the capacity of a senior thought leader thousands of bankers attended his seminars and workshops on both technical and behavioral competencies.

Frederick has written 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.*

He has just completed a professional paper (to be published in July, 2014) by the Journal of Financial Perspectives: namely, “The Unintended Consequences of Regulations: Lessons learned from the Banking and Alternative Asset Management Businesses.”

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 and a guest professor at the Rotterdam School of Management and the Vlerick Gent Leuven School of Management.

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.