

**NEW YORK UNIVERSITY  
STERN SCHOOL OF BUSINESS**

**The Financial Service Industry**

**FINC-UB.0045.01 Spring, 2015**

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**Goals of the Course**

The Financial Service industry is going through a massive secular evolution which you will be fortunate to observe and study this semester. We will see how this industry touches all our lives, so pay attention and learn well.

This course provides a broad overview of investment banking, the financial service industry and of the forces that are continuing to change it worldwide. The traditional business has evolved into an integrated group of product and services as part of a large financial firm or a smaller group of product and services in a boutique framework. It focuses on three big questions: (1) how are things done in this business? (2) why are they done that way? (3) how are they likely to be done in the future? Our approach will be to examine each of the principal businesses in which various financial service firms have been involved, including: raising capital; financial advisory; broker/dealer positions; sales and trading; investing the firm's own capital; managing the assets of others, both institutions and individuals and risk management.

Throughout, there are a number of overarching themes. Among these are: the interplay of politics, regulation, globalization, and technology; the emergence of shadow banking including private equity and hedge funds as both critical clients and potential competitors for the major investment banks; the search for new, high-margin products, and whether that process has reached its limits; and the changing relationships among the different groups within a financial service firm.

By the end of the semester, each student should be well prepared either for an entry-level position in a financial service firm or for a comparable position at a client firm, where he or she needs to interact with financial service firms. All students should find that they are able to understand the financial press and economic commentary with a new perspective of the global financial system.

**Required Readings**

A digital course packet (in lieu of a text) is available at the NYU Bookstore. Other required readings – e.g., current articles- will be distributed in class. For those students who would like to refer to a textbook, David P Stowell's "An Introduction to Investment Banks, Hedge Funds and Private Equity" and K. Thomas Liaw's "The Business of

Investment Banking: A Comprehensive Overview” (2012 Edition) are good reference texts but not required. **Students are expected to keep up with the financial news throughout the course. *The Financial Times*, *The Economist* and *Bloomberg.com* are recommended.**

**Many of my exam questions are taken from current situations, so keep up with what is happening.**

### NYU Classes

“NYU Classes” (formerly known as “Blackboard”) is an integral part of this course, and you are responsible for any information posted there. **In particular, be sure to look under the “Announcements”, “Assignments” and “Course Documents” tabs in preparing for each class.**

### Grading

The final grade will be allocated according to the following formula:

First Exam	40%
Final Exam	60%

The answers to the exams will be posted for a few days following the exam and students are invited to compare their answers to the answer key and if they feel their exams were scored incorrectly they may first submit them to the TA for review and should there still be a disagreement to me for a full review of the exam.

I also reserve the right to add up to 10 points to the student’s total grade on the exams for noteworthy contribution to the class discussion.

Attendance, preparation and class participation are an integral part of this course. In particular, students who have a large number of unexcused absences, who consistently arrive late or who disrupt the class will have their course grade reduced as a result.

At NYU Stern we seek to teach challenging courses that allow students to demonstrate differential mastery of the subject matter. Assigning grades that reward excellence and reflect differences in performance is important to ensuring the integrity of our curriculum.

The grade distribution will follow the Stern guidelines, i.e., no more than 35% of the grades will be “A” or “A-”.

**All students are expected to abide by the NYU Stern Honor Code.**

## **Students with Disabilities**

Students whose class performance may be affected due to a disability should notify the professor early in the semester so arrangements can be made, in consultation with the Henry and Lucy Moses Center for Students with Disabilities, to accommodate their needs.

Please see [www.nyu.edu/csd](http://www.nyu.edu/csd) for more information.

## **Schedule of Classes**

### **Jan. 26, 28 & Feb.2 - Overview of the Financial Services Industry and the function of the Investment Banking Business.**

- The landscape is changing
- A complex DNA
- Financial intermediation
- Trusted advisor: relationship vs. product
- Transformation of the investment banking business; changes cause changes
- The legal/regulatory framework of the financial service industry
- Conflicts vs. business vs. ethics

Readings: Course Packet (“CP”), Articles starting with: JPMorgan

### ***The Asset Managers***

### **Feb. 4, 9 & 11 - Private Equity and Hedge Funds**

- Evolution of Private Equity business
- Business objective and organization of the private equity firm
- GP/LP structure
- The PE fund: structure, operation, participants, investment objectives
- Conflict and opportunities for the investment bank
- Evolution of the hedge fund industry
- Business objective and organization of the hedge fund firm
- The hedge fund: structure, operation, participants, investment objectives
- The prime broker and prime brokerage business
- Conflict and opportunities for the investment bank

Readings: CP, Articles starting with: The Economics of Private Equity Markets; Apollo Rising; Profits for Buyout Firms; The Operators

### **Feb. 18 – Asset Management**

- The Asset Management business
- Relevance to the Investment Banking firm
- Insurance
- Fund Managers
  - Fidelity

- Vanguard
- Black Rock
- Structure of Asset Management division
- Globalization of Asset Management
- Factors encouraging its growth
- Conflicts and Synergies

Readings: CP, Articles starting with: Game Changer; Abby's Road

### **Classic Investment Banking**

#### **Feb. 23, 25 & Mar. 2 - Raising Public and Private Equity**

- Why go public?
- Role of the investment banker
- Origination, underwriting, distribution and after-market support
- Stock demand vs. allocation
- Structure and justification of the spread
- There must be a better way?
- The Dutch Auction: A taste of Googling
- Primary, secondary and seasoned offerings
- Privatizations
- Rights offering- "cash call"
- SPAC's and PIPE's

Readings: CP, Articles starting with: Overview of the Securities Act; Inside the Deal; Facebook

#### **Mar. 4 & 9 -Investment Grade Public and Private Debt**

- Credit- counterparties, covenants and ratings
- The role of the rating agencies
- Critical review of rating agencies
- Outlook for future of rating agencies
- The fixed income research analyst
- Importance of credit analysis
- Competitive vs. negotiated fixed income deals
- Rule 415: Shelf Registration
- The private placement market
- Rule 144A: Private/Public solution

Readings: CP, Articles starting with: Shelf Registration

#### **Mar. 11 – MIDTERM EXAM**

#### **Mar. 23 & 25 - Syndicated Lending, Leveraged Lending and Leveraged Finance**

- Evolution of bank loan to syndicated loan
- Creative syndicated lending
- High yield- developing a product
- Milken's competitive advantages

- High yield to distressed to vulture financing
  - Leveraged lending-“we can do that”
  - When it all works and when it does not: effect on the investment banking business
- Readings: CP, Articles starting with: Stars of the Junkyard; Bankers of the Apocalypse; Lenders of Last Resort

### *Specialty Products*

#### **Mar. 30 & Apr. 1 – Swaps, Structured Products and Risk Management**

- Options, futures, derivatives- “The Olive Press”
- Swaps: foreign exchange, interest rate and credit
- Indexes: real estate, market, weather, heart attack
- Risk: Who doesn’t want it, who does and why?
- Future of structured product and the financial service industry
- Risk Management - VaR

Readings: CP, Articles starting with: Risk Management

#### **Apr. 6 & 8 – Financial Engineering and Securitization**

- Creation of the mortgage backed industry
- A financial service business needs and investment banking solution
- Creative products for complex problems
  - GNMA’s
  - CMO’s
  - REMIC’s
- Creation of the asset backed industry
- Another financial service business needs an investment banking solution
- Creative products for complex problems
  - Dissecting a receivable
  - SPV’s
  - AAA Ratings
  - Revolving periods
- Collateralized debt obligations- too creative?
- Sub prime- what went wrong

Readings: CP, Articles starting with: Securitization

### *Capital Allocation, Trading, Technology*

#### **Apr. 13, 15 & 20 - Secondary Market Sales and Trading**

- Functional roles and client interface
- Physical geography and back office coordination
- Capital allocation and risk management
- Financing dealer positions
- Proprietary trading vs. market liquidity
- Exchanges, technology and order execution priorities
  - Algorithmic Trading

- Flash Trading
- Dark Pools
- Colocation

Readings: CP, Articles starting with: Flash Boys: A Wall Street Revolt

### *Advisory Businesses*

#### **Apr. 22, 27 & Apr. 29 -Mergers, Acquisitions and Strategic Advisory**

- The CEO attraction: client and investment bank
- Development of the product; a decade at a time
- Role of the investment banking team
  - Buy side assignment
  - Sell side assignment
- The Big Deal
  - Cast of characters
  - Act I, Act II, Act III
  - Audience reaction
  - Critic's reviews
- Other investment banking advisory businesses
  - Bankruptcy/Reorganization
  - Project Financing
  - Privatizations

Readings: CP, Articles starting with: The Battle Over ABN Amro

### *Wealth Management*

#### **May 4 - Private Wealth Management**

- Rational for private wealth management
- The Swiss model
- Margins and synergies invite competition
- From commissions to assets under management
- A multi product service is perfected
- Scale forces efficiency, risk categorization, liability management
- Changing client needs demand advanced skills
- Relevance to the bank

Readings: CP, Articles starting with: Mary Erdoes

### *Management*

#### **May 6 – Structuring a Financial Service Firm**

- Develop a Business Plan
- Risks failed by Financial Service firms
- Business outlook
- Structuring the firm
- The board

- The management
- What is it?

Readings: CP, Articles starting with: Six Years After the Crisis

**May 11 – Last Class**

**May 13 - FINAL EXAM**