

NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS
The Financial Services Industry
FINC-GB.2334
Summer 2018
Professor Joseph Sevely
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Goals of the Course

The Financial Service industry is going through a massive secular evolution which we will discuss and study this semester. This course provides a broad overview of the financial service industry and 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 products and services in a boutique framework. It focuses on three big questions: (1) Why and what kind of services are provided in this business? (2) Who develops and provides those services? (3) How are they likely to be executed or modified 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; proprietary investing; managing the assets of others, both institutions and individuals and a bit of 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 the balance between growth and risk; 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

Required readings will be posted for each class. We will be using two books: "The Business of Investment Banking: A Comprehensive Overview" (2012 Edition) by K. Thomas Liaw, ISBN 978-1-118-00449-4. It is also available as an ebook. Also, we will use "Financial Markets and Institutions" (9th Edition) by Federic S. Mishkin and Stanley G. Eakins, ISBN 978-0134519265. It is also available as an ebook and the publisher, Pearson, is making custom copies available to this class that only include the chapters we will cover at a reduced cost.

We will also discuss several case studies during the semester. Some are formal cases that can be obtained from www.hbr.org. Other cases are examples that will be discussed in class but do not include formal case material. You should review the material on NYU Classes to make sure you are prepared for each class.

In addition, students are expected to stay current with financial news throughout the course. The Wall Street Journal, The Financial Times, The Economist and Bloomberg.com are all good sources of information. We will discuss current events during the class and articles or links may be posted on NYU Classes.

NYU Classes

“NYU Classes” 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” and “Resources” tabs in preparing for each class.

Grading

The final grade will be based on three take home assignments, a midterm and final and a group project. In addition, class attendance and participation will count toward your grade. The following weighting will be used to calculate your grade:

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|------------------------------|-----|
| Attendance and Participation | 10% |
| Three Take Home Assignments | 15% |
| Midterm | 30% |
| Group Project | 15% |
| Final Exam | 30% |

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.

Group Project

Students are encouraged to form their own groups but if they need help the professor will assign them to a group. The group project is to select a significant capital markets or advisory transaction that has been completed and describe and analyze the transaction. Each group will select their own transaction to analyze but will need approval from the professor. The final submission is limited to 10 pages.

Students with Disabilities

Students who have a disability and are seeking reasonable accommodations should contact the Henry and Lucy Moses Center for Students with Disabilities. You should inform the professor early in the semester of your approved accommodations and they will be happily provided. Please see www.nyu.edu/csd for more information.

Schedule of Classes

Monday, July 2 - Overview of the Financial Services Industry

- Key Players
 - Issuers
 - Investors
 - Intermediaries
- Overview of Intermediaries
 - Banks (Commercial, Investment, Universal)
 - Insurance Companies
 - Investment Managers
- Major Forces Driving Change
 - Globalization
 - Technology
 - Regulation
- Advisor vs Transactor
- The Role of Leverage
- Business Ethics

Resources:

Mishkin, Chapter 2

Liaw, Chapters 3-4

Monday, July 9 – Company Capital Structure

- Debt, Equity and Hybrids
- Working with Intermediaries: The Treasurer's Perspective
 - Banking Relationships
 - Issuing Securities
 - Hedging
 - Pensions and Investments
 - Transaction Processing and Operating Services
 - Case Study: Polaroid
- Strategic Transactions: The CEO/CFO Perspective

Resources:

Polaroid Corporation, 1996, Case Number UV0007 at www.hbr.org

Raising Capital

Wednesday, July 11 - Investment Grade Public and Private Debt, Syndicated Lending and Leveraged Finance

- Issuer Categories: Government, Agency, Municipal, Corporate, Structured
- Types of Transactions
 - Fixed vs Floating
 - Tenor
 - Competitive vs Negotiated
 - Private, Public, Rule 144A
 - Shelf Registration
- Credit- Counterparties, Covenants and Ratings
- Role of the Rating Agencies
- Critical Review of Rating Agencies
- Outlook for Future of Rating Agencies
- Fixed income Research Analyst
- Importance of Credit Analysis
- Evolution of Bank Loan to Syndicated Loan
- Development and Role of High Yield Market
- Distressed Debt and Vulture Financing
- Leveraged Lending
- Case Study: DuPont
- The CLO Market

Resources:

Mishkin, Chapter 12

Liaw, Chapter 9

DuPont Corporation: Sale of Performance Coatings, Case Number UV6790, www.hbr.org

Monday, July 16 - Raising Public Equity

- Why go public?
- Preparing for the IPO
- Role of the Investment Banker
- Origination, Underwriting, Distribution and After-Market Support
- Stock Demand vs. Allocation
- Case Study: Facebook IPO
- Primary, Secondary and Seasoned Offerings
- Privatizations

Resources:

Mishkin, Chapter 13

Liaw, Chapter 8

Facebook, Inc.: The Initial Public Offering, Case Number W12453, www.hbr.org

The Asset Managers

Wednesday, July 18 - Asset Management and Private Wealth Management

- The Asset Management Business
- Relevance to the Investment Banking Firm
- Insurance Company Asset Management Function
- Key Asset Management Trends
 - Globalization of Asset Management
 - Equity Manager Trend to Indexed Products
 - Debt Manager Trend to Solutions
 - Role of Pension and Retirement Markets
- Types of Fund Managers
 - Institutional vs Retail
 - Boutique and Multi-Boutique Models
 - Scale Model
 - Robo Advisors

- Factors Encouraging Asset Management Growth
- Rationale for Private Wealth Management
- Changing Client Needs in Private Wealth Management
- Brokerage vs Investment Advisor

Resources:

Mishkin, Chapter 20

Liaw, Chapter 15

Monday, July 23

(First Half of Class) – MIDTERM

Second Half of Class - Private Equity and Hedge Funds

- Evolution of Private Equity Business
- Business Objective and Organization of the Private Equity Firm
- The PE Fund: Structure, Operation, Participants, Investment Objectives
- Case Study: Lion Capital and the Blackstone Group
- Evolution of the Hedge Fund Industry
- Business Objectives and Organization of the Hedge Fund Firm
- The Hedge Fund: Structure, Operation, Participants, Investment Objectives
- The Prime Broker and Prime Brokerage Business

Resources:

Mishkin, Chapter 22

Liaw, Chapter 6

Lion Capital and the Blackstone Group: The Orangina Deal, Case Number 9-807-005, www.hbr.org

Advisory Businesses

Wednesday, July 25 - Mergers, Acquisitions and Strategic Advisory

- The CEO Attraction: Client and Investment Bank
- Role of the Investment Banking Team
 - Divestiture Assignment
 - Buy Side/Sell Side Assignment
 - Hostile Transaction
 - Defense Strategy
 - Activism
- Case Study: Exxon/Mobil
- Other Investment Banking Advisory Businesses
 - Bankruptcy/Reorganization
 - Project Financing
 - Privatizations

Resources:

Liaw, Chapter 7

Insurance Companies

Monday July 30 – Insurance Companies and Operations

- Types of Insurers
- How Insurance Works
- Key Insurance Functions: Production, Rate Making, Underwriting, Claims Settlement, Asset Management
- Insurance vs Reinsurance
- Key Industry Trends
- Alternative Risk Transfer and Insurance Linked Securities

Resources:

Mishkin, Chapter 21

Secondary Markets, Hedging and Complex Products

Wednesday August 1 - Secondary Market Sales and Trading

- Functional Roles and Client Interface
- Capital Allocation and Risk Management
- Conflicts of Interest
- Physical Geography and Back Office Coordination
- Financing Dealer Positions

- Proprietary Trading vs. Market Liquidity
- Case Study: Merrill Lynch, Howie Rubin and Mortgage Strips

Resources:

Liaw, Chapter 12

Monday August 6– Convertible Securities and Structured Products

- The Hybrid
 - Debt Plus Equity Option in a Single Security
 - Client Rationale
- Changing Nature of Convertibles
- Asset Backed and Mortgage Backed Securities
- Other Structured Finance Products
- The Role of Structured Finance in the Financial Crisis
- Risks of Structured Products
- Future of Structured Products

Resources:

Liaw, Chapter 10

Wednesday August 8– Derivatives, Foreign Exchange and Financial Engineering

- Types of Derivatives
- Hedging vs Speculation
- Embedded Leverage
- Foreign Exchange Spot, Forwards and Currency Swaps
- Collateral
- Case Study: Bankers Trust and Leveraged Derivatives
- Financial Engineering: Solution to Complex Client Needs vs Unnecessary Complexity to Boost Earnings
- Credit Enhancement
- Subprime – What Went Wrong?
- CDOs and CDS
- Case Study: AIG Financial Products

Resources:

Liaw, Chapter 14

Monday August 13

FINAL EXAM