

**NEW YORK UNIVERSITY**  
**STERN SCHOOL OF BUSINESS**

**The Financial Service Industry**

**FINC-UG 45 001, Spring, 2019**

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**Goals of the Course**

The financial services industry touches all of our lives and has been going through a continuous transformation since the deregulation that began in the early 1970's. That evolution has accelerated in recent years as more and more pressure has been brought to bear by various stakeholders in the industry who have divergent goals and agendas. Those invested stakeholders include clients, investors, employees, regulators/politicians and the public at large. Overlaying all of this change has been rapid technological advancement that has had a direct impact on how the industry delivers its services, meets expected equity returns and manages the risk inherent in that delivery. This Course is an Advanced Finance Elective where THINKING not MEMORIZING is what it is all about.

This course provides a broad overview of the financial service industry and of the forces that are continuing to change it worldwide. That change/evolution has resulted in a confederation of sometimes integrated products and services in a multi-product firm, or as individual stand-alone businesses either within an integrated financial firm, or as represented by boutique, limited product firm.. The course focuses on four big questions: (1) Why and what kind of services are provided by participants in the industry? (2) Who develop, provides and regulates those services? (3) How are they likely to be executed or modified in the future? (4) What skills (both technical and "soft") are required for an individual to succeed in the industry? 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 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 versed in the functioning of the industry, be able to understand the financial press and associated economic commentary, be aware of the types of skills necessary to thrive in this industry and have a new perspective on the global financial system.

## Required Readings

Required readings – e.g., current articles will be distributed in class or linked on NYU Classes. . 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 Wall Street Journal, 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 in the world.**

## 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", "Assignments" and "Resources" tabs in preparing for each class.**

## Grading

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

First Exam                      50%

Final Exam                      50%

The answers to the exams will be posted for one week following the exam and students are invited to compare their answers to the answer key. If they feel that their exam was scored incorrectly they may submit it to me for a full review. You have one week from receipt of a grade to do this. No exceptions.

I also reserve the right to add up to 10 points to the student's total grade 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 approximately 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**

#### **Feb. 5 - 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

## *The Asset Managers*

### **Feb. 7 & 12 - 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

### **Feb. 14 & 19 – Asset Management and Private Wealth Management**

- The Asset Management business
- Relevance to the Investment Banking firm
- Insurance
- Fund Managers
  - Fidelity
  - Vanguard
  - BlackRock
- Structure of Asset Management division
- Globalization of Asset Management
- Factors encouraging its growth
- Conflicts and Synergies
- 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

## Classic Investment Banking

### Advisory Businesses

#### **Feb. 21, 26 & 28 - 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
- Divestiture assignment
- Buy side/Sell side assignment
- Hostile Transaction
- Defense Strategy
- Activism
- 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

### Raising Capital

#### **March 5, 7 & 12 - Raising Public 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

#### **March 14 – FIRST EXAM**

## **March 26, 28 -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

## **April 2, 4 - 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

### **Capital Allocation, Trading, Technology**

## **April 9, 11 & 16- 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/Icebreaker
- Colocation/latency

## Specialty Products

### **April 18, 23 & 25 – Convertible Securities and Structured Products**

- The Hybrid
  - Debt plus equity option in a single security
  - Client rational
- The logic of convertible security
  - Optionality
  - Cross-over product
- Changing nature of convertibles
- 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

### **April 30, May 2 & 7 – 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/REMICS
- Subprime – what went wrong?
- Current state of the mortgage product

#### 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 – Credit Enhancement
  - Revolving periods
  - The annual percentage rate
  - Ethical product or not?
- Payments/ FINTECH – It’s all about to change
- Cashless world?

### **May 9 – Course Review and some final thoughts for you**

### **May 15 – May 21 – Final Exam Period**

