

NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

The Financial Service Industry

FINC -UB 45, Fall 2021

Professor James S. Finch

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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 is a survey course. It provides a broad overview of the financial services 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 within a multi-product firm. It has also resulted in individual stand-alone businesses within those same integrated financial firms, or in boutique, stand-alone, limited product firms. The course focuses on four big questions: (1) Why and what

kind of services are provided by participants in the industry? (2) Who develops, 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!

Brightspace

“Brightspace” 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 “Content” tabs in preparing for each class. The content of the course is listed in the "Modules" space under the "Content" tab in Brightspace.**

Grading

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

First Exam	40%
Final Exam	40%
Module Completion Quizzes	20%

Exams will be given during class periods and total Exam time will be limited accordingly. There will be a quiz on each Module given outside of class hours. You will be given 24 hours to complete each quiz. The answers to the exams/quizzes 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 first submit the issue to the TF for review. If a satisfactory result is not

obtained, they may then submit the issue to me for a full review. I reserve the right in such situations to review the entire exam/quiz for regrading. 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. That said, my ability to change the course grade of a student as a result of these additional points will be limited by Stern's grade curving guidelines which caps the absolute number of "A"s and "A-"s in a class.

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.

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 for more information.

Student Accessibility

If you will require academic accommodation of any kind during this course, you must notify me at the beginning of the course (or as soon as your need arises) and provide a letter from the Moses Center for Student Accessibility (212-998-4980, mosescsa@nyu.edu) verifying your registration and outlining the accommodations they recommend. For more information, visit the CSA website:

<https://www.nyu.edu/students/communities-and-groups/student-accessibility.html>

Student Wellness

Classes can get stressful. I encourage you to reach out if you need help. The NYU Wellness Exchange offers mental health support. You can reach them 24/7 at 212 443 9999, or via the “NYU Wellness Exchange” app. There are also drop in hours and appointments. Find out more at:

<http://www.nyu.edu/students/health-and-wellness/counseling-services.html>

Name Pronunciation and Pronouns

NYU Stern students now have the ability to include their pronouns and name pronunciation in Albert. I encourage you to share your name pronunciation and pronouns this way. Please utilize this link for additional information: [Pronouns & Name Pronunciation](#)

Religious Observances and Other Absences

NYU’s Calendar Policy on Religious Holidays states that members of any religious group may, without penalty, absent themselves from classes when required in compliance with their religious obligations. You must notify me in advance of religious holidays or observances that might coincide with exams, assignments, or class times to schedule mutually acceptable alternatives. Students may also contact religiousaccommodations@nyu.edu for assistance.

NYU Stern is committed to ensuring an equitable educational experience for all students regardless of identity or circumstances and strives to recognize the obligations its students have outside of Stern. Please review all class dates at the start

of the semester and review all course requirements to identify any foreseeable conflicts with exams, course assignments, projects, or other items required for participation and attendance. If you are aware of a potential conflict, please contact me as soon as possible to discuss any potential conflicts to determine whether/how they can be accommodated.

***If full attendance is required:**

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Except for religious observances or other absences that may be required in compliance with nondiscrimination law, this class otherwise requires attendance and participation and cannot accommodate conflicts. Please review all class dates at the start of the semester and review all course requirements to identify any foreseeable conflicts with exams, course assignments, projects, or other items required for participation and attendance. If you are aware of a potential conflict, it is strongly recommended that you do not take this class.

Inclusion Statement

This course strives to support and cultivate diversity of thought, perspectives, and experiences. The intent is to present materials and activities that will challenge your current perspectives with a goal of understanding how others might see situations differently. By participating in this course, it is the expectation that everyone commits to making this an inclusive learning environment for all.

Schedule of Classes

Sept. 2, & 7- 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

Sept. 9, 14 & 16 - 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

Sept. 21 & 23 – 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

Sept. 28, 30 & Oct. 5 - 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

Oct. 7, 14 & 19- 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

Oct. 21 – MIDTERM EXAM

Oct. 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

Nov. 2, 4 & 9 - 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

Nov. 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

Nov. 18, 23 & 30– 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

Dec. 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?

Dec. 9– Course Review and some final thoughts for you

Dec. 14 - 22 – FINAL EXAM PERIOD

Suggested Reading List

All of the suggested readings can be found on Amazon.com for purchase or in the NYU or Public Libraries.

Readings for the Serious Student of Investment Banking

Professor Finch's Best Reads

Title	Author	Subject
Wall Street Street history	Charles Geisst	Wall

The Great Game history	John Steele Gordon	Wall Street
Where Are the Customer's Yachts? Street history	Fred Schwed	Wall
Barbarians at the Gate RJR/Nabisco	Bryan Burrough, John Helyar	LBO of
The Predators Ball Milken and junk bonds	Connie Bruck	Mike
Liar's Poker Lewis	Michael Salomon in the '80s	
When Genius Failed Term Capital	Roger Lowenstein	Long
Paper Fortunes Wall Street history	Roy C. Smith	Modern
Blue Blood and Mutiny Stanley history	Patricia Beard	Morgan
The House of Morgan Morgan: The Firm	Ron Chernow	J P
House of Cards Stearns collapse	William D. Cohan	Bear
The Last Tycoons Freres history	William D. Cohan	Lazard
The Partnership Sachs history	Charles D. Ellis	Goldman
The House of Rothschild over 200 years	Niall Ferguson	Rothschild
Accidental Investment Banker an investment bank	Jonathan A. Knee	Life inside

Tearing Down the Walls Weill and Citigroup	Monica Langley	Sandy
Take on the Street views	Arthur Levitt	Regulator's
F.I.A.S.C.O Partnoy	Frank Derivatives Business	
Infectious Greed title suggests.	Frank Partnoy	Just what the
Confessions of a Wall Street Analyst research scandal – 1999	Dan Reingold	Equity
Den of Thieves trading scandal of 1980's	James Stewart	Insider
Morgan The Man	Jean Strouse	J P Morgan:
Fool's Gold derivatives	Gillian Tett	Credit
In Fed WE Trust Federal Reserve	David Wessel	The
Too Big To Fail Financial Crisis - 2008	Andrew Sorkin	The
The Greatest Trade Ever Paulson's Hedge Fund	Gregory Zuckerman	John
The Big Short Collapse/ Hedge Fund Managers	Michael Lewis	Mortgage
Crash of the Titans Merrill & Fall of B of A	Greg Farrell	Collapse of
Money and Power Sachs ruling the world	William Cohan	Goldman

More Money Than God Hedge Funds	Sebastian Mallaby	History of
King of Capital Schwarzman & Blackstone	David Carey, John Morris	Steve
Reckless Endangerment Fannie Mae/Freddie Mac	Morgenson & Rosner	Downfall of
The New Tycoons Private Equity Industry	Jason Kelly	The
Dark Pools trading and strategy	Scott Patterson	Dark pools
The Quants Quantitative methods	Scott Patterson	The rise of
Young Money Analyst two years	Kevin Roose	Eight
Flash Boys Trading	Michael Lewis	Flash
What Happened to Goldman Sacks of the partnership culture	Steven Mandes	The decline
Open Secret LIBOR Scandal	Erin Arvedlund	The