Course FINC-GB.3387.00
Global Banking and Capital Markets
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(Revised 2/2012)

Course Description
This course is focused on the determinants of competitive dynamics and performance in the global banking industry. It primarily covers commercial and investment banks: the capital markets in which they operate; the related products they offer and the risk-taking activities they undertake—both for themselves and their customers. It addresses organizational strategy, structure and geographic dimensions—covering the US, Europe, and emerging markets; with a special emphasis on the risks of doing business in capital markets/products and the challenges they present to both regulators and market participants. Throughout the course, relevant current events are examined and used to illustrate teaching/discussion points.

Course Outline

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

Participants, Markets and Strategies

This opening session establishes the framework for the course. It explores what it means to be a “winning” financial organization. It explores fundamental banking strategies and how they contribute to the workings of sound financial institutions and global capital markets. We discuss:

- Who are the major players in today’s global capital markets—changes and trends?
- What do we mean by commercial, investment, merchant and universal banking?
- What are the businesses of each?
- How have regulations shaped these definitions and undertaken activities?
- What are the various roles of market participants, e.g., principals, intermediaries, counterparties?
- How have the players—and their roles—changed since the financial crisis of 2007-2009?
- What are the capital markets and the “shadow” banking system?
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- How have banks positioned themselves in these markets?
- What do we mean by the “winning” strategies of global banking?
- Where are these strategies headed given the emergence of a new financial architecture—an initial view?
- What major emerging financial trends should we be vigilant of as we move forward in the course?

**Reading Assignment** “GB” Chapter 12

For reference it might be useful to review:


**Risk and Regulation**

This session explores how sound banking practices—who ignored, abused or misinterpreted—lead to the breakdown of financial organizations and global markets; and, the re-regulation of almost every aspect of industry behavior and practice. We discuss:

- What are the systemic drivers of risk that are likely to continue to shape the thinking of regulators and the realities of practitioners?
- What are the specific risks of banking practices—in loan, debt, equity and derivative markets—and how do they manifest themselves?
- How have such practices impacted the thinking of global regulators and their reengineering of the world’s financial system?
- What have been some of the specific regulatory initiatives, e.g., the Dodd-Frank Act, Basel III and the new architecture of global finance?
- What is their current status and likely evolution?
- How have these regulatory considerations begun to influence the organizational structure, behavior and practices of financial organizations and markets?

**Reading assignment** “GB” Chapters 13-15

“RWS” Prologue, Chapters 1 & 2, 4-7

**A Common Framework**

These two opening classes are designed to provide a common framework for discussion and reference. As we move forward and discuss organizational 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.

Case Assignment:
“BB” UBS AG 2008

The Global Capital Markets

Financial Market Integration/Indicators

The session is designed to introduce participants to the global capital markets. Its focus is on explaining the development of the components of these (and other) financial markets and their interrelationships. It focuses on the key players and practices of each capital market component—in the context of their overall development and general practices.

In this session we learn how to “read” the markets for funding 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 raising capital. We apply these indicators, and the “winning” strategies, to an in-class case study of market integration and discuss the future of such transactions in a world of increased regulation; and, perhaps increased market fragmentation.

Case Assignment:
To be completed/discussed in class.


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

From this foundation we begin to delve into the various markets including the loan markets, bond markets, and equity markets; and, of course the derivative markets which cut across the entire spectrum of fund-raising/investment activities.

Reading Assignment:
Catch-up on your readings (or read ahead)
This session begins where most bankers begin their journey into global financial markets; namely, the evolution and practices of the key foundation markets. Together we explore:

- The evolution of Eurocurrency, money markets and global capital markets.
- The primary and secondary markets—their respective roles and opportunities.
- Money market instruments—and their role in bank/corporate funding.
- Loan practices—bilateral, multilateral and other types of loan facilities.
- Syndicated loan market practices and their bridge to capital market opportunities.
- The structure and players of syndicated loan facilities.
- The politics of loan syndications.
- The risks of loan origination and the practices of loan/asset securitization.
- The advent and workings of credit derivatives—introduction.
- Developments and market trends.

**Reading Assignment** “GB” Chapters 1 & 2

“RWS” Chapter 16

**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 unwanted liability risk exposure. In this session, we discuss:

- The meaning and determinants of comparative advantage.
- Public versus private placements.
- Domestic, foreign and international bond markets.
- Comparing the debt and loan markets—factors favoring each.
- Funding trends in developed and emerging markets (bank financing versus debt issuance.
- The role and use of derivatives in the realization of comparative advantage financing.
- The mechanics of structuring synthetic debt.
- The plethora of debt financing structures—including those with warrants.
- The risks (and regulatory reforms) of the debt, derivative and loan markets and related participant activities/practices.
Reading Assignment
“GB” Chapter 4
“RWS” Chapter 15

Raising Capital in the Global Capital Markets (2)

The Workings of Debt and Derivative Instruments

This session shifts gears and demonstrates some of the more specific workings of various capital market instruments, including:

- Interest rate swaps (including money market swaps)
- Foreign currency swaps
- Various debt instruments – with an emphasis on how their structures are designed to influence (satisfy investor appetites) markets of comparative advantage.
- The use of credit derivatives—examples.

Reading Assignment
“GB” Chapter 6
“RWS” Chapter 13

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

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. Specifically, we will discuss:

- The equity markets (domestic, foreign and global).
- The equity markets (primary and secondary markets).
- Initial Public Offerings (IPOs) and follow-on Issues.
- Trends in developed and emerging markets.
- Types of equity issuance/distribution.
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- The role of regulation in equity markets.
- The use of hybrid security structures.
- Equity issuance and privatizations.
- Equity as a tool of capital-raising flexibility.
- The use and role of equity derivatives

Reading Assignment “GB” Chapter 5 & 8
Case Study Assignment “BB” Deutsche Telecom 1 & 2
“BB” The Sale of Jenapharm

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, we discuss in the session:

- Trends in M&A activity—in both developed and emerging markets.
- Getting the business—buy and sell side opportunities.
- Getting deals done—financial and strategic buyers.
- Hedge funds and private equity firms.
- The business drivers of M&A activities—valuing and realizing synergies.
- Changing mind-sets in M&A activity, e.g., diversification, core competency and adjacency strategies.
- Capital market transactions that compliment M&A strategic objectives, e.g., corporate spin-offs, exchangeable debt offerings, etc.
- The funding of M&A activities through loan syndications, debt and equity capital markets.
- The role of private equity firms and investment funds.
- Some thoughts and “empirical” evidence on the effectiveness of M&A activities.
- The connection between M&A activities and the “winning” strategies.
- Recent landmark deals.

Reading Assignment “GB” Chapter 7 & 10
“RWS” Chapter 12 & 17
Case Assignment:
For discussion “BB” The Acquisition of Martell
 “BB” The Steel War: Mittal versus Arcelor

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), C-A-P (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
Review “GB” Chapters 16 & 17

“RWS” Chapter 18

Other Readings to be posted to BB

Case Assignment:
“BB” Citigroup 1998-2009
“BB” ABN Amro

Final Examination

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.

Pedagogy

The course is usually conducted over six or twelve classes—including the final examination. The course is case-oriented, and emphasizes classroom participation; requiring students to apply
principles developed in class to actual global commercial and investment banking situations. The case discussions are interspersed with “lectures” to explain the technical aspects of the activities covered by the cases. The course does not involve routine lectures on material presented in the readings; however, all assigned readings and case preparations should be completed prior to the class for which they are assigned. Preliminary cases can be found in the outline—others may be added as the course progresses.

Much of the course material is posted on Blackboard “BB,” where you can download a copy of the outline, reading assignments, cases, and copies of exhibits used in class. Students should carefully read and be prepared to discuss all assigned cases, and will be called-on in class to present their case findings – the cases will also be covered on the final exam. Each student is expected to participate actively in class discussion. Students who do not participate will be graded less favorably than those who do.

**Required Text Books**


Viral Acharya, Thomas Cooley, Matthew Richardson and Ingo Walter (Eds.), *Regulating Wall Street* (New York: John Wiley, 2011)—Denoted in outline as “RWS.”

Besides assigned readings in the required texts, there will be other readings, case study questions and up-dates posted to “BB.”

**Final Examination**

There will be an in-class final examination, which will cover the entire course. The open-book exam will focus on the assigned readings, cases, and classroom discussions. Students will have up to three hours to complete the examination. The exam can be completed on lap-tops and printed out for immediate submission.

**Grading**

Final exam grades will be adjusted up-ward by as much as one letter grade based upon the student’s class participation and case study preparedness.

**Instructor**

Frederick C. Militello, Jr. is an adjunct professor of finance. For more than fifteen years, he has taught many courses for Stern including international financial management and global banking
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and capital markets. One-on-one meeting appointments are always possible and are best arranged by email:

fcm@futurechangemanagement.com

Frederick C. Militello, Jr., is CEO/Senior Thought Leader of Future Change Management, LLC. He works with top banking leaders and strategists in a wide-range of organizational and change initiatives. These cover both organizational and global market strategies.

He is also an adjunct GBS professor of finance – global markets and strategies at New York University’s Leonard N. Stern School of Business.

For three decades, he has been a leading practitioner and thought leader to 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 and merchant banking activities.
- Frederick has also held financial positions for US Steel Corporation, Mobil Oil Corporation, the Bank of Boston International and the American Stock Exchange.
- He has also been founder and co-owner of two Wall Street-based financial/educational advisory practices.

Frederick has written many 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;

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 world—both in developed and emerging markets.

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, the Rotterdam School of Management, the Vlerick Gent Leuven School of Management and the Financial Executives International.
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 for almost twenty-five years, has three daughters, one granddaughter 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.