Professor Frederick C. Militello, Jr.
Global Banking and Capital Markets (B40.3387.00)
Spring Session 2005¹
First Class – February 12, 2005

Course Summary/Description

Global Banking and Capital Markets delves into the trends and developments impacting the practices of today’s global banking industry and global capital markets. Students will be exposed to the forces that have shaped the industry for the past number of decades and the impact they have had on the current practices and composition of the industry. Heavily emphasized in the course are such areas as global banking trends and strategies, fund-raising alternatives, asset distribution and securities/derivatives activities in the developed capital markets of the world. The course looks at the evolution of global banking practices as well as the strategies it takes for banks – and the customers they serve – to be “winners” in these continuing competitive and consolidating markets.

Course Overview and Learning Objectives

The global banking industry continues to face increased competition, consolidation and regulatory uncertainty. For most financial institutions, the issue is not just a question of what it will take to “win” in such an environment, but what will it take to survive and profitably compete. To understand the competitive dynamics of global banking, students will be exposed to the most important areas of business practice and product innovation today necessary to compete successfully in global banking and capital markets. The course is designed to go beyond the lines of distinction made between commercial and investment banking and seeks to present an integrated and universal view of the global banking arena – its opportunities, risks and rewards. By the end of the course, students will have a clear picture of the global banking industry, the customers it seeks to serve, the winning elements that translate into a competitive advantage, and the importance of such functions as origination, distribution and trading in reshaping the future direction of the industry and its underlying profitability. We will also delve into emerging trends in banking including those in the fields of mergers and acquisitions (restructuring techniques), structured financing, credit derivatives and asset securitization.

¹ Please note, this outline is subject to change – check for posted announcements.
Course Requirements and Expectations

This course incorporates lectures, take-home cases and in-class dialogues. The program encourages participation and active discussion. There is required reading and case/assignments for the course (noted in the course outline). There is a required final examination. A heavy emphasis is placed on subjects covered during the class sessions and from the assigned/highlighted readings. Students are encouraged to attend class. All grades are based on student academic performance; specifically, class participation (10%), case studies/assignments (40%), final examination (50%). The text required for this course is Global Banking (second edition) by Roy Smith and Ingo Walter and can be purchased at the NYU professional bookstore.

Please note, class dates for specific subjects, required cases/assignments and the final examination are indicated below. Any changes to these dates will be announced in class (and always check Blackboard). There are four cases/assignments required for the course. Each case/assignment requires a short “paper.” Each paper, approximately three-pages in length – will focus on integrating class discussions with “key lessons/applications learned” from the case/assignment. The cases/assignments will either be posted to Blackboard or handed out in class. Any additional readings or materials required to complete the case studies will be posted on Blackboard. Also, class exhibits and power point presentations will also be posted to Blackboard.²

About Your Professor

For more than twenty-five years, Professor Frederick Militello has been an advisor to financial executives from both corporations and financial institutions around the world. With an emphasis on leadership development, ethical financial practices and strategic financial thinking, Frederick is currently responsible for Finquest’s corporate and bank consulting activities as well as conducting business strategy workshops for the senior bankers of his firm’s most important banking clients.

He has been a Managing Director for the Chase Manhattan Bank responsible for their Merchant Banking and Treasury Consulting activities out of both New York and London. Over the years, he has advised corporations on a multitude of financial transactions and financial strategies designed to enhance their competitive positions in global capital markets while ensuring their conformity to both legal and ethical standards.

For the past dozen years he has dedicated himself to the advancement of financial knowledge working through such organizations as the Financial Executives International, Management Center Europe, the American Management Association and the Society of Management Accountants of Canada in bringing the latest financial management thinking to financial executives around the world. He is a highly dynamic and sought

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after speaker on financial leadership and has authored many articles and books such as *Leverage Competencies: What Financial Executives Need to Lead*, published by Financial Times/Prentice Hall, 2002. He is also a faculty member at the Leonard N. Stern School of Business, New York University and the Rotterdam School of Management, Erasmus University.

Frederick has held financial executive positions for such firms as USS Corporation, Mobil Oil Corporation, Business International Corporation and Bank of Boston International. In 1969 he was awarded the Wall Street Journal Student Achievement Award in Economics. He holds a B.A. and M.A. in economics and M.I.A. degree in international finance and economics from Columbia University’s School of International Affairs.

Frederick is very active in community affairs having held positions as Chairman of the Durham Historic Preservation Commission, Director of the Durham Land Preservation Trust, and Director for the Children’s Media Project (CMP). He is married, has three daughters, and resides on their family horse farm in up-state New York.

The professor can be reached at the following email addresses: fmilitello@finquestpartners.com, fmilitel@stern.nyu.edu.

**Course Syllabus**

The following outline should serve as a guideline for class discussions, with indicative dates noted for each session including the final examination.

**Global Banking Competition**

**February 12 & 19, 2005**

The first sessions of the course will seek to develop a common foundation for understanding the competitive dynamics and market performance of the global banking industry.

Global banking has not always been as fiercely competitive as it is today. Moreover, the forces of competition have not applied equally, or in the same time frame, for all participants. In some countries (and regions of the world) the process of industry consolidation is already moving full speed ahead – with calls for re-regulation already being heard. But in other countries, significant industry shakeouts, and related social implications, are still in the offing. Accordingly, these first two sessions will seek to give participants a common framework for understanding where we are today in the world of global banking competition – e.g., a look at the players, the markets and industry dynamics and the key profitability and regulatory issues today facing the global banking industry. Here are some of the topics we will cover:

- Global banking deregulation – its genesis and new directions;
• Corporate disintermediation – responding to the challenge;
• The global institutionalization of savings – local savers as global investors (“speculators”).
• Industry consolidation – the who’s, why’s, when’s and where’s;
• Bank capital and regulatory guidelines – a healthier industry with “excess capital” as the new “problem” of the day.
• Standards of industry profitability and performance – what the investor market looks for in a winning strategy; and,
• Reintermediation, reregulation and reengineering - the “three R’s” and the future of global banking.

Readings:
Text reading – Chapter 1 & 13
Review the Basle Capital Adequacy Regulations with the aim of discussing their implications on various bank business activities, e.g., lending, derivatives, etc. See www.bis.org. More specifically, you can link directly into their Basel II materials by going directly to www.bis.org/pub/bcbsca.htm. There is quite a bit of material here – so browse around a bit. There is one paper that might be a good summary of Basel II, namely; “Implementation of Basel II: Practical Considerations,” at www.bis/publ/bcbs109pdf.

Case/Assignment:
- Case/assignment #1 due February 26, 2005 – See assignment #1 posted on Blackboard.

February 19 & 26, 2005
To appreciate global banking competition, we must first focus on the key businesses of the industry and how they add shareholder value. What matters today is a bank’s ability: to provide necessary/low cost capital to its capital-raising customers; to structure a wide-array of investment vehicles with alternative risk/return profiles for its capital-investing customers; and, to be in a position to provide market liquidity, allowing all customers – including the bank itself – to transfer risk from one risk dimension to another. But how does a bank do this successfully in today’s increasingly competitive global marketplace? Should a bank focus on scale, scope or both in order to survive and “win.”

In this session we will develop a “conceptual” model for comparing the competitive elements of a “winning” global banking strategy and how they relate to the importance of a bank’s origination, distribution and trading capabilities. Using various strategic modeling approaches (including those of Michael Porter on competitive strategy), we will focus on:

• A bank’s choices for growth – scale, scope, “blue oceans”;
• A bank’s capital, asset quality and overall credit rating;
• A bank’s corporate/retail customer franchise;
• A bank’s access to institutional and high net worth investors;
• A bank’s approach to trading, risk and market-making;
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- A bank’s management – its values, business focus, etc.;
- A bank’s organization – how it shares information, facilitates partnering, fosters organizational learning, etc.;
- A bank’s commitment and approaches to technology and information.

Readings:
Text reading – Chapters 14 & 15
Also, for a good background on the global financial service sectors – and how it’s been faring – see www.bis.org/publ/ar2004e.htm. And the most recent quarterly BIS report at www.bis.org/publ/r_qt0412.htm with a focus on reading the international banking market section.
If possible, take a look at some of the earlier works of Michael Porter; most specifically, Competitive Advantage Creating and Sustaining Superior Performance, Free Press, 1985. An interesting article, building upon Porter’s work – but challenging its strategy choice assumptions – is “Blue Ocean Strategy,” Harvard Business Review, October 2004. You can download a reprint by going to custserv@hbsp.hbs.harvard.edu and requesting reprint number RO410D.

Case/Assignments:
- February 26th – case/assignment #1 to be submitted.
- Also, for the 26th review financial publications such as Euromoney and the Financial Times for advertisements that illustrate how banks today try to competitively differentiate themselves in the market. Copy these onto overhead transparencies for class discussion.
- Case/assignment #2 due March 12, 2005 – See assignment #2 posted on Blackboard.

The Businesses of Global Banking: From Competitive Strategy to Business Practices

March 12, 2005
Starting with a review of the markets, the next sessions of the course will delve into the specific business areas of wholesale banking. These sessions will seek to trace the evolution of each business practice to where it stands today in terms of its product/service offerings, innovations, customer focus, risk and pricing practices, etc.

Moreover, we will look at the important interrelationships between these business practice areas and how they, in their totality, contribute to the “winning” strategies of global banking.

3 Due to a previous business commitment of the professor, there will be no class on March 5, 2005; however, instead of an in-class final – usually given on the last day of classes – students will be given a take-home examination and a full class will be held on May 7, 2005. There may also be a guest “lecturer” on May 12th, Mr. Charles A. Sheffield, a former investment banker with C.J. Lawrence and who has previously taught this course with Professor Militello on many occasions. Mr. Sheffield is a senior partner with FinQuest Partners LLC responsible for the firm’s corporate finance and related capital market activities.
Throughout the next sessions we will be discussing the relationships between business practice and global capital markets. However, there are some basic concepts and theories that should be reviewed before we move forward – and these will be the focus of this “review” session:

- The money markets – e.g., commercial paper, certificates of deposit, the off-shore deposit/loan market and key indices such as Libor.
- The capital markets – e.g., domestic, foreign and off-shore and the growing importance of the Euro-zone.
- The key market indicators – e.g., credit spreads, implied volatility, term structure of interest rates and their implications for security structuring.
- The fundamental market practices – e.g., comparative advantage, arbitrage, speculation and the implications for global financial market integration.

Readings:
Text reading – Chapters 2
Review these topics in any basic text on international financial management and visit such sites as www.bba.org.uk. The latter site is especially instructive for understanding the mechanics of such indices as Libor. Also, review the relevant data sections (interest rates, foreign exchange rates, swap rates) from the “Companies and Markets” section of the latest editions of the Financial Times.
Finally, for an up-date on derivative and capital market activities see, “Triennial & Semiannual Survey on Positions in the Global OTC Derivatives Market and Concentration Measures,” that can be found at www.bis.org/publ/r_fx04.pdf
And more up-dates at, www.bis.org/publ/ar2004e.htm especially section on financial markets.
And still more up-dates at, www.bis.org/publ/r_qt0412.htm especially sections on international debt markets and derivative markets.

Case/Assignment:
- Case/assignment #2 to be submitted.

**Global Business Area One - Trading**
**Providing Choice through Market Liquidity**

**March 26^4^ & April 2, 2005**
Trading, for global banking institutions, has become a critical source of profitability and non-interest income – the latter being an important component of the “winning” strategies. But there are many approaches to trading and many controversies surrounding each of these. Moreover, the business of trading has largely become tied to the businesses of risk management and capital markets – with OTC derivatives playing a leading role in almost everything we do today as global bankers and corporate financial decision-makers. The next two sessions will look at the business of trading from the perspective of

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^4^ There is no class on March 19, 2005 due to school Spring break.
its contribution to providing global liquidity, capital market integration and financial product innovation. In short, we will look at the practices, risks and rewards of the global trading business (in the context of capital market transactions) and how it seeks to add value for both the bank and its banking customers.

Here are some of the topics we will investigate in class:

- Trading as a business – business philosophies and approaches to risk;
- Trading philosophies – “speculation” versus various forms of arbitrage.
- Trading and capital markets – the role of swaps in the primary and secondary capital markets.
- Trading as an opportunity – reading the screens, interpreting quotes, the meaning of “spreads,” etc.;
- Understanding yields and yield conventions in the global capital markets;
- Trading and the global derivatives markets – options and swaps;
- Structured financings – their role in providing arbitrage opportunities through the trading of market volatility, etc.
- How trading “adds value” – for the bank, for its customers, for the global market – an in-depth look at examples from the embedded options and swaps markets; and,
- How trading contributes to the “winning” strategies – the positives and the negatives.

Readings:
Text readings – Chapter 4
A good site to review some of the basics of derivatives and interest rate swaps is www.cma-cfm.freeyellow.com/swaps.html. It also has some exercises (with answers) that you can try out.

Cases/Assignments:
 ■ Case/assignment #3 due April 2, 2005 – See assignment #3 posted on Blackboard.

Global Business Area Two - Providing Debt and Equity Capital

April 9, 16 & 23, 2005
The global capital markets have been marked by rapid change and product innovation. This is especially true of the global debt markets where structuring deals to meet both the requirements of the issuer and end-investor take on paramount importance. Today’s bankers must be consultants/advisors and have a full appreciation of their clients’ preferences and the opportunities afforded by deregulation and global markets of comparative advantage. Moreover, in order to take advantage of these opportunities bankers must take an integrated approach, fully incorporating their knowledge of the workings of today’s arbitrage possibilities and the use of derivatives for both creating/activating those opportunities and transferring their associated risks.

The next sessions of this course will put students in the shoes of the consultative global banker and expose participants to the challenges and business opportunities of global debt and equity-related transactions.
Here are some of the topics we will discuss in class:

- Understanding the global debt/equity business – the players, its opportunities and profitability – how it adds value and contributes to global winning strategies;
- Revisited – the theory and practice of comparative advantage financing – shopping the globe for opportunities;
- The international debt markets – global commercial paper, the medium-term note market, the bond markets (foreign, Euro and global);
- The role of hedge funds.
- The role of the global debt and equity markets in financing M&A activity.
- Innovations in global corporate restructuring techniques, e.g., from security structures like convertibles/exchangeable debt to spin-offs and tracking stock.

Readings:
Text reading – Chapters 3, 7, 8, 11
Also, see Blackboard for additional reading assignments.

Cases/Assignments:
- Case/assignment #4 due April 23, 2005 – See assignment #4 posted on Blackboard.

Global Business Area Three – Providing/Managing Bank Credit

April 23 & 30\(^5\), 2005
The global lending business has undergone tremendous change. Today, banks continue to provide credit along much of the spectrum of the yield curve; however, increasingly the purpose of extending such credit is no longer to grow balance sheets and accumulate loan assets but is instead to generate fee income through loan syndications, assets sales and broader and more capital efficient securitization/distribution techniques.

Moreover, banks themselves have become major contributors to the process of financial disintermediation, providing a wide-array of credit enhancement products and back-up facilities for public security offerings. Accordingly, these two sessions will look at the global lending business as it is practiced today and its relevance to the “winning” global banking strategies for the years to come.

Here are some of the topics we will cover in class:

- The customer priority of credit;

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\(^5\) There may be a guest “lecturer” on May 12th, Mr. Charles A. Sheffield, a former investment banker with C.J. Lawrence and who has previously taught this course with Professor Militello on many occasions. Mr. Sheffield is a senior partner with FinQuest Partners LLC responsible for the firm’s corporate finance and related capital market activities.
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- Traditional global lending facilities – revolvers, term credits, “bridge” financings and multicurrency loan facilities;
- Syndicated lending – the players, practices and asset sales techniques – including the growth of trading loans and secondary loan markets;
- Credit enhancement practices including those applicable to trade finance and public security offerings of repackaged assets, e.g., securitization;
- Back-up facilities and the global commercial paper and medium-term note markets;
- New dimensions of credit risk management – credit derivative product offerings.

Readings:
Text readings – Chapter 5, 12 and return to Chapter 3 for credit derivatives

Bringing it All Together

May 7, 2005
This final session of the course is designed to tie together our class discussions. In this regard it will focus on three objectives:
1. To provide an integrated summary of key practices and concepts covered over our weeks together.
2. To provide students with a summary of trends and strategies likely to be pursued by key players in the capital markets over the coming years.
3. To provide students with an opportunity to ask questions and have a review session prior to submitting their final take-home examination papers.6

Readings:
Text readings – Re-read Chapter 15

End of Course – Take-Home Final Examination

6 The take-home exams will be posted to Blackboard by Monday May 2, 2005. They are due back to the professor no later than Monday May 9, 2005. You may send your answer sheets back to me directly at fmilitello@finquestpartners.com or fax them to my attention at 518 634-7618.