1. Disintermediation. Cutting out the middle-man. In the context of financial flows it involves principals (investors, borrowers, issuers) trying to optimize their welfare by finding the most efficient and creative channels for financial assets or liabilities. On the liability side it has traditionally involves borrowers issuing commercial paper, bonds or MTNs instead of borrowing from banks, so banks have been partially disintermediated. On the asset side it involves savers/investors placing funds directly in financial markets (with or without advice) or with fiduciaries such as fund managers instead of depositing with banks, thus partially disintermediating the banks. This process can continue to include e-brokerage (disintermediating the broker), Electronic Communications Networks and portfolio swapping utilities (disintermediating exchanges), etc.

2. Syndicated commercial paper backstop facility. This is a bank line negotiated by a borrower which can be drawn upon in the event the borrower has insufficient liquidity to redeem commercial paper coming due. The facility reassures commercial paper investors that the liquidity will be on hand to repay CP obligations, and is usually important in obtaining an appropriate rating from S&P, Moody’s etc. In the case of a syndicated backstop, the loan commitment is taken on by a number of banks and structured on a manner similar to an ordinary loan syndication.

3. Foreign Bonds: These are bonds publicly issued outside one’s own country in the capital market of another country in a manner that requires compliance with all the rules and regulations of that country. An American company issuing a bond in the Australian market, in full compliance with registration and other requirements there, is a “foreign” bond. Significance: These were the initial form in which international financing was done, but then the Eurobond market developed, in which bonds are issued as private placements and sold to banks and other institutional investors, thereby avoiding local registration and other requirements. The foreign bond market is still useful (sometimes bonds are packaged together with Eurobond “tranches,” as in FNMA), but the Eurobond market has become by far the largest international bond market.

4. “Hostile” Cross-border M&A: In "hostile" M&A transactions a potential buyer has approached the target about an acquisition. After appropriate review (and a board meeting at least in the case of US and UK corporations) the target declines. If the potential acquirer decides to pursue the target the action "goes hostile" and the target is "in play." Any number of things can happen next, including a self-restructuring, share repurchases or special dividends on the part of the target, the invocation of "poison pills," the entry of a "white knight" to acquire the target company, or a tender offer by the bidder who hopes to acquire the target by securing voting control. Under any scenario, if the original bidder ultimately acquires the target company, the deal goes into the records as a completed "hostile" transaction.
5. Big Bang. This was the event in the UK in 1986 when the London stock exchange (and other British financial markets) were deregulated and restructured – commission rates were made fully negotiable, barriers were removed between brokers and dealers and foreign firms were allowed to become participants in the market. The immediate consequences were profound for Britain – most of the players either merged with others or went out of business, and large foreign investment banks gained market share at their expense. But British markets became much more efficient and prompted markets in other European countries to deregulate their markets. Before long, the effects of Big Bang were felt all over Europe and in many parts of Asia as well.

6. False. The main reason was top-line (revenue) growth made possible through the exploitation of cross-selling synergies across the matrix of Citicorp and Travelers product ranges and distribution channels. Cost savings are always helpful, but in this case were not the driving motive behind the merger.

7. True. DT was controlled by the German Federal Government, which was reluctant to sell it’s stake in a business considered strategic and, even if political objections could be overcome, at an inopportune time in the market and under pressure from the TCI deal, which could result in a lower price. For Italy, having TCI effectively “renationalized” though a merger with DT, and having the German government in a control position of the premier Italian telco, was politically unacceptable. Discussions at the highest level between the Italian Prime Minister and the German Chancellor went nowhere, so the White Knight strategy was off.

8. False. The issuer wanted to receive dollars and pay dollars. This involved a currency swap of US$ for A$ in which the A$ bond sales proceeds were converted to US$ at the spot rate and s eered of US$ for A$ forward transactions covered each interest payment (e.g., semi-annually) and the final principal payment. Sy the issuer got what he wanted and so did the investors, which is A$ payment and A$ receipts of interest and principal. The swap had to be priced in such a way that the resulting all-in cost to FNMA was competitive, while broadening FNMA’s sources of funding.

9. First privatization of DT. TRUE. It was a secondary issue (the seller of the stock was the German government, which was selling shares already issued, therefore not “primary” shares issued for the first time by the company to raise capital). The issue was also an initial public offering – this was the first time the shares had been offered to the public and a public trading market could be created.

10. Second DT. TRUE. By the time of the second issue, the new currency, the Euro, was in use and DT chose to denominate its issue in euros in order to attract investors from all over Europe. The issue was also sold as a “private
placement” similar to Eurobonds all over Europe to banks and institutions, using the Eurobond distribution network, thus the issue was a Euro-euro equity issue.

11. It depends. If investment banking services (advice, underwriting, financial structuring, etc.), research and sales/trading prowess can be sustained at a perceptibly higher level in independent investment banks, and can be convincingly marketed as superior to those of investment banking divisions of commercial or universal banks, independent investment banks stand a good chance of surviving and prospering. This appears to be the strategy followed by Goldman Sachs, among others. Clients in any case can be counted on to flex their muscles and to try to get banks to do unproductive transactions – e.g., making large, low interest loans by promising them pieces of investment banking business. That's business and that’s life in the fast lane. If the perceived quality differential between investment banks and their commercial/universal bank rivals narrows, and if the large banks can deal with the inevitable conflicts of interest that arise, then the cross-subsidization approach stands a reasonable chance of success and firms like Merrill, MSDW and Goldman will be hard-pressed to remain independent. On the other hand, if they can maintain distinction and possible widen it (including the impact of events like the role of JPMorgan Chase and Citigroup in the Enron mess), then the outlook for continues independence is very much brighter.

12. “Integration” is a function of the extent to which prices for the same commodity can be similar in different locations. If a FNMA bond trades at approximately the same price in Zurich, London, Tokyo and NY, then the market for it may be considered integrated across the globe. As a result of deregulation, globalization of markets and a huge flow of funds around the world, bonds, which are traded based on credit quality and maturity, are now often available at approximately the same prices in many different parts of the world. Stocks, on the other hand, being more individual and reflecting conditions of home market economics more extensively, are less likely to be traded around the world at the same prices – German car companies may trade at significantly higher or lower prices than Japanese or American car companies, so equity markets are (still) less integrated than bond markets. But they are getting more integrated all the time as increasing numbers of investors invest cross-border.