

Investment Banking

A Proposal by J. Michael Payte to Structure and Present a Graduate Course for CERAM's Global Finance Program on **Investment Banking** which would include studying the structure of the International Equity and Fixed Income Markets, Investment Banking interface with major users of the International Capital Markets: Banks and Financial Institutions, Corporations, Government Agencies, Sovereigns, Supra Nationals (i.e. World Bank, EBRD, etc), Institutional Investor Segments: Fund Managers, Hedge Funds, Mutual Funds, Pension Funds, etc., Venture Capital/Private Equity, Mergers & Acquisition Analysis, Intermediation and Risk Taking/Risk Management, Legal and Regulatory Compliance and Back Office/Operations. This course would include developing analytical skills for funding and investment decision-making, it would also include contemporary ethics examples. The following course would be structured on the basis of an estimated 30 hours of course time with 10 sessions of 3 hours each. It would be a combination of team based case projects analyzing international financing/investment options and alternatives, a mid-term and final examination. Course grading would be 25% class participation, 25% case studies, and 50% split evenly between mid-term and final examinations. There would be a strong emphasis on building an awareness and understanding of current market conditions and interconnection with the stock, bond and foreign exchange markets, news and economic events with the first 15 minutes of each class focusing on this interaction through required active class participation.

The following is a summary of suggested class learning modules. In each module, the essential roles of the participants in each market would also be examined such as the Investment Banker, Capital Markets Specialists, Analysts, Syndicate, Traders, Sales and Back Office functions. In addition, the course would provide a survey of the differences in nature of an Investment Bank, an International Bank and the Universal Bank as well as the impact of compliance and regulation in the different markets:

1. Essentials of the Equity/Stock Market:

- The new issue market/Initial Public Offerings (IPOs)
- Publicly Traded Markets: Factors affecting the secondary trading market, stock exchanges, market indices, liquidity and volatility issues
- Corporate effects on stock pricing, price/earnings ratios, book value, valuation based on expectations vs historical reporting
- External and international economic effects on stock market values, liquidity and volatility
- Fundamentals of stock market technical analysis
- Private Equity/Venture Capital and Direct Investment

2. Essentials of the Fixed Income/Bond Market

- Differences between stocks/equity and bonds/credit markets
- Fundamentals and mathematics of the credit, fixed income/bond market
- Corporate credit and economic impacts on bond markets, interest rates, yields and credit pricing spreads, Investment Grade vs Non Investment Grade (High Yield/Junk Bonds)
- Fundamentals of the workings of the credit markets
- Convertible Bonds and Asset Backed Securities
- Trading, Positioning, Underwriting and Distribution
- Rating Agencies

3. Fundamentals of derivatives, futures, options

- Basics of hedging credit, currency and interest rate risks
- Difference between hedging and speculation
- Devising and analyzing a borrowing and hedging strategy
- Hedge Funds vs Fund Managers/Mutual Funds

4. Fundamentals of the Foreign Exchange Markets

- How the spot and forward foreign exchange markets work
- Basics of currency and cross border risks
- Cross border funding and hedging

5. Essentials and interrelationship between and among Issuers/Borrowers, Intermediaries/Underwriters and Investors for the equity and bond markets

- Individual investors
- Institutional Investors, banks, mutual funds, investment managers, pension funds, insurance companies, and hedge funds
- Devising and analyzing an investment strategy

6. Funding/Investment Decision Making Skills

- Sources of funding/Investor decision-making
- Credit Borrowing vs. Issuing Equity
- Analysis of funding options: bank borrowing, cross currency, private placements, private equity, public stock/bond market, high yield market, floating rate vs. fixed rate borrowing, equity vs. convertible securities

7. Fundamentals of the insurance industry

- Insurance for the individual, investments and annuities
- Corporate insurance
- Reinsurance
- Insurance companies as major investors

8. Mergers & Acquisitions

- Purchasers/Sellers
- Comparative Market Analysis
- Financial Analytical Tools
- Due Diligence

9. Legal/Regulatory Compliance, Risk Management and Back Office

- Ethics, insider trading, corporate governance, fiduciary responsibilities
- Compliance and Regulatory Environment
- Credit, Market, Operations/Processing Risk Management
- Documentation, Transaction Processing, Financial Control and Reporting

10. Final Case Presentations, Review of Other Relevant Subjects and Final Examination

- Final Examination

This proposed course could include the roles, functions, responsibilities and liabilities of the Investment Banker, Analysts, Issuers, the Underwriting/Intermediation, Syndication and Distribution functions, the Investors, the Regulators, Derivatives, Foreign Exchange, the major Exchanges and Secondary trading/market liquidity for both the Equity and Fixed Income Markets

This course would include the mathematics of the financial markets, market terminology, sources of information, how new securities issues are structured, underwritten and distributed, the application of derivatives to the capital markets including structured financial instruments, the securities exchanges (secondary market liquidity), the roles and functions of investors (individuals, pension funds, insurance companies, mutual funds, hedge funds, funds of funds), the regulators (FSA-UK, SEC-USA, EU & Asian regulation), the central banks, foreign exchange, legal system, risk/rewards and ethics.

The course would be a combination of inter-active class lecture including market practitioners as guest speakers and significant emphasis on team solving and presentation of market related case studies.

The Equity Securities Market review would include:

- Equity shareholding and convertible securities
- The major stock exchanges and secondary market liquidity
- The major stock market indices
- Investors
- Analysts
- Regulation
- Understanding market differences between Europe, Asia and the US
- Legalities/Illegalities and Ethics

The Fixed Income Securities Market review would include:

- The fixed income bond markets in the major currencies including The EuroBond Market, Euro €, US\$, and Japanese ¥ denominated securities;
- The convertible bond and asset backed securities market
- Floating Rate Notes
- Ratings and the Rating Agencies
- Structured Financial Instruments
- Foreign Exchange
- Regulation
- Understanding market differences between Europe, Asia and the US
- Legalities/Illegalities and Ethics

It is felt that all graduate business students would significantly benefit from a course of this nature and content whether or not they had a career goal of entering into the financial markets. This course would be a follow on to similar previous courses structured for other graduate business schools as well as the practitioner community through various international seminars on the international securities and derivatives markets as well as over 25 years of personal experience in banking, corporate finance consulting, international capital markets and derivatives.

Text books and reference materials to be provided.