



**FBE 525 “Financial Institutions Management, Strategy, and Valuation” (Section 15394R)**  
**Syllabus – Fall 2014 – Mondays**  
**Professor: J. Kimball Dietrich**  
**Office: ACC 301G (3<sup>rd</sup> Floor Accounting Office Suite)**  
**Office Phone: 213-740-6539**  
**E-mail: kdietrich@marshall.usc.edu**

**Lecture/Classes**

Mondays 6:30-9:30pm ACC 312

**Office Hours**

Monday/Wednesdays 3:00-4:00pm in ACC 301G

**COURSE DESCRIPTION**

“Financial Institution Management, Strategy, and Valuation” is a corporate financial management course focusing on financial service firms including -- but not limited to -- commercial and investment banks, thrift institutions, insurance companies, exchanges, and securities firms. The course provides an integrated analytical framework for thinking about value-creating strategies in this critical industry, an industry that is undergoing revolutionary restructuring because of the forces of global competition, deregulation, and technological change. The central questions entrepreneurs, managers and deal-makers operating in this industry must ask are “How do financial service firms create value? What are individual firms good at? What are the risks and returns from alternative strategies we can consider in this changing environment?” Interpreting and analyzing technological developments and regulatory changes and their impact on financial firm strategies reinforce the significance of the central questions raised above. This course provides a framework to analyze these questions.

The course addresses a fundamental corporate problem, how to create owners’ wealth, in the context of a financial service firm. The financial services industry has experienced major stress and faces substantial changes in its economic and regulatory environment in the future. The financial services industry is heavily regulated and has been defined in important ways by its historical evolution and will be enormously impacted by future regulatory policies. For these reasons, the course will contain a great deal of emphasis on institutional detail and on regulation. It will rely on close analysis of a number of Harvard cases to embed theoretical issues in a real-world framework. Students are required to conduct a detailed analysis of financial service firms operating in a segment of the financial services industry in a group project. Class discussion will draw substantially on financial institution developments reported in the financial and trade press and on current financial reports of financial institutions. Finally, students in the course will be provided with several opportunities to meet with industry participants in informal settings in an effort to provide them the chance to apply analytical skills developed in the course to live situations in the financial services industry.

## **PREREQUISITES AND CONCENTRATION CREDIT**

The course requires the MBA core courses in accounting, statistics, and economics, and finance or their equivalent in other programs. Students should be comfortable with basic analysis of accounting statements, standard basic economics and financial models, and basic statistical concepts. FBE 525 counts toward earning the "Financial Analysis" certificate in the MBA finance concentration.

## **EDUCATIONAL OBJECTIVE**

The goal of this course is to provide students with an integrating framework to use in understanding the future evolution of the financial services industry. This framework and the exposure provided by the course to the regulatory, financial market, and competitive context within which financial firms operate, will enable students to evaluate financial service firm strategies from the vantage of owners' wealth creation, to analyze and value financial firms, and assess and manage risks facing those firms.

## **CAREER FOCUS**

"Financial Institution Management, Strategy, And Valuation" is excellent training for students who plan careers in financial service firms, especially those with ambitions for top management or strategy positions in firms like commercial or investment banks, asset management firms, insurance companies, or securities firms, as well as in innovative financial service firm start-ups or spin-offs. It is designed for students who plan to provide management consulting, technical advice, marketing strategies, or auditing or accounting services to financial service firms. The course content will be extremely valuable to students who plan to offer advice in mergers and acquisitions or investments involving financial service firms.

## **REQUIRED AND RECOMMENDED READINGS**

The outline below distinguishes between discussion, readings and case preparation. Cases are required reading and students must be prepared to discuss them in class.

## **TEACHING PHILOSOPHY**

Readings, lectures, and cases present analytical tools and basic institutional information students require for an understanding of financial service firms. Students are expected to read assignments before scheduled classroom discussions and take the initiative in clarifying difficult issues or concepts with the instructor inside or outside of class. The class discussion for the course proceeds on three tracks: (1) lecture discussions outline fundamental concepts and techniques necessary for the analysis; (2) case analysis and class discussions develop students' critical thinking about issues facing the financial services industry; and (3) a group term project applies concepts of the course to contemporary financial service firm strategic problems.

## GRADING

Course grading will be based on the following:

<b>Class participation and cases</b>	20%
<b>Examinations -</b>	50%
Midterm examination	20%
Final examination	30%
<b>Group project -</b>	30%
Group Presentation	10%
Group Final Write-Up	20%

Class participation will be based on contributions to class discussion and students' efforts in presenting and analyzing cases. In addition, class participation will be based on students' ability to respond to cold-call questions (on a random basis and zero credit when a student is absent) and the quality of questions and volunteered answers.

The group project will be graded on both completeness and reliability of data gathered for the project, the quality of the analysis, and clarity and persuasiveness of the written and oral presentation. Individual team member's grade on the project may be adjusted according to individual team member's contribution to the group effort as determined by a *peer evaluation* form.

## COURSE MATERIALS

Course materials consist of: (1) a course reader available from the USC bookstore; (2) additional readings posted on Blackboard and available for downloading; and (3) weekly releases of "Course Objectives" and "Course PowerPoint Presentations," distributed before class, also on Blackboard.

## OPTIONAL CLASS ACTIVITIES

As discussed on the last page of the syllabus, I will organize a few events or classes to deepen students' exposure to financial institution management in the real world. While these events are optional, I strongly recommend participation in as many of these chances to meet industry executives as possible. Some events may have limited places so reservations will be required and non-participation in reserved events reflected in class participation grades.

## OFFICE HOURS

Office hours are scheduled on Monday/Wednesday from 3:00pm to 4:00pm. I will be available after class on Mondays to answer questions or set up special appointments.

# FBE 525 -- FINANCIAL INSTITUTION MANAGEMENT, STRATEGY, AND VALUATION

## COURSE OUTLINE AND ASSIGNMENTS

Dates	Topic and Applications	Readings/Assignments
<b>Week 1</b>	<b>Part 1: VALUE AND VALUATION</b>	
	<b>(a) Introduction to Financial Services Industry and the Value Creation Matrix</b>	
<i>August 25</i>	Discussion: Course Introduction, Overview of Financial Services (including Insurance Services overview), Value Creation, Valuation Issues in Financial Service Firms, the Crisis and the Future	Dietrich, <i>Financial Services and Financial Institutions</i> , Chapter 2*; Class Handouts (1)
<b>Week 2</b>	<b>(b) Application of Performance Analysis</b>	
<i>September 8</i>	Discussion: Analysis of Valuation of Financial Firms <i>Prepare Case:</i> Tip of the Iceberg: JP Morgan Chase and Bear Stearns (A) [HBS Case 9-309-001]*	Koller <i>et al</i> , <i>Valuation (4th edition)</i> , Chapter 25*; Download and review: <i>Intro to PVFSI</i> , **, <i>PV-FSI</i> **, <i>PV-LIC</i> **, <i>PV-WFC</i> **
<b>Week 3</b>	<b>(c) Valuation of Financial Firms</b>	
<i>September 15</i>	Discussion: Credit services, merger issues <i>Prepare Case:</i> Provident Life and Accident Insurance: The Acquisition of Paul Revere [HBS Case 9-202-044]*	
<b>Week 4</b>	<b>Part 2: FINANCIAL SERVICES:</b>	
	<b>(a) Credit Services</b>	
<i>September 22</i>	Discussion: Securities services introduction <i>Prepare Case:</i> Chase's Strategy for Syndicating Hong Kong Disneyland Loan (A) [HBS Case 9-201-072]*	
<b>Week 5</b>	<b>(b) Securities Services (Investment Banking)</b>	
<i>September 29</i>	<i>Prepare Cases:</i> Provident Financial Corporation [9-707-446]*, Securities Trading: Front, Middle and Back Office [HBS Case 9-110-070]*, and Investment Banking at Thomas Weisel Partners [HBS Case 9-206-091]*	
<b>Week 6</b>	<b>(c) Securities Services (Trading)</b>	
<i>October 6</i>	Discussion: Issues in options and securities trading <i>Prepare Case:</i> The International Securities Exchange: New Ground in Options Markets [HBS Case 9-203-063]*	
<b>Week 7</b>	<b>(c) Securities Services (Trading, continued)</b>	
<i>October 13</i>	Discussion: Transaction processing <i>Prepare Cases:</i> Euronext.liffe and the Over-the-Counter Derivatives Market (A) [HBS Case 9-706-515]* and Brooksley Born and the OTC Derivatives Market [9-311-044]*	TAKE-HOME MIDTERM DISTRIBUTED

Readings in the Course Reader are denoted \* and readings available on Blackboard denoted with \*\*.

<b>Week 8</b>	<b>(d) Transaction Processing Services</b>	
<i>October 20</i>	Discussion: Asset Management/Information Review of value creation and valuation in financial services	TAKE-HOME MIDTERM DUE
<b>Week 9</b>	<b>(e) Asset Management and Information</b>	
<i>October 27</i>	<i>Prepare Cases: MasterCard vs. Visa: The Fight for Mobile Payments [Berkeley-Haas B5721]* and Dimensional Fund Advisors, 2002 [HBS Case 9-203-026]*</i>	Download and Review: <i>BIS Principles for the Mgmt and Supervision of Interest Rate Risk**</i>
<b>Week 10</b>	<b>3. Risk Measurement and Management</b>	
<i>November 3</i>	Discussion: Overview of Risks, Classification and Measurement of Risk, Interest-Rate Risk Management	(1) A Note on Duration and Convexity [HBS Note 9-205-025]* (2) Note on Credit Derivatives [HBS Note 9-205-111]*
<b>Week 11</b>	<b>(a) Application of Risk Management</b>	
<i>November 10</i>	Discussion: Credit Risk Measurement and Management <i>Prepare Case: First American Bank: Credit Default Risk [HBS Case 9-203-033]*</i>	Download and Review: (1) <i>Intro to CreditMetrics**</i> , (2) <i>KMV Modeling Default Risk**</i>
<b>Week 12</b>	<b>Part 4: REGULATION AND STRATEGY</b>	
<i>November 17</i>	Discussion: Regulation and Strategic Issues <i>Prepare Case: Morgan Stanley and TRAC-X: The Battle for the CDS Indexes Market [HBS Case 9-203-033]*</i>	
<b>Week 13</b>		
<i>November 24</i>	<i>Prepare Cases: Basel II: Assessing the Default and Loss Characteristics of Project Finance [HBS Case 9-203-035]* and Nexgen: Structuring Collateralized Debt Obligations (CDOs) [HBS Case 9-205-121]*</i>	
<b>Week 14</b>	<b>COURSE SUMMARY AND PRESENTATIONS</b>	
<i>December 1</i>	<i>Prepare Case: New Century Financial Corporation [9-108-034]*</i> <i>Class Presentations of Group Projects</i> Discussion: Course Summary <i>Review case for final exam questions: Merger of Equals: the Integration of Mellon Financial and the Bank of New York (A) and (B) [HBS 9-210-016]* and [HBS 9-210-025]*</i>	Groups Distribute Discussion materials and turn in Write-Up
<i>December 15</i>	<b>FINAL EXAMINATION 7:00-9:00PM</b> Readings in the Course Reader are denoted * and readings available on Blackboard denoted with ** <b>Group Project Presentation –December 1, 2014 , During Class</b>	

The group project requires students to apply and interpret concepts and analytical approaches presented in the course to the analysis and updating of developments for the set of financial service firms presented in course cases, grouped by segments of the financial services industry (e.g. investment banking). Each group will make a presentation at the last class session to update the class on developments relevant to the case discussions for their firms since the case time period and provide an assessment of changes in the financial market or economic environment influencing the specific firms and industry segment covered. Five industry segments are covered in the course: (1) lending, specifically consumer and corporate lending (Chase and Provident, First American Bank); (2) insurance (AIG, Provident Life); (3) investment banking (Thomas Weisel and H. R. Hambrecht); (4) exchanges (ISE and Liffe); (5) asset management firms (DFA and others to be selected). I will work with groups if they want to develop a relevant variant on these topic areas.

**Group Project Write-Up: Updating Strategies and Values of Case Firms in a Financial Services Industry Segment – Due Dec. 1, 2014**

Each group will provide the instructor with a paper (five to ten pages long, double spaced), with attachments consisting of an annotated set of exhibits providing details on sources used, data discussed, and analysis performed to update the firm and financial services industry segment performance and competitive environment. The presentation and write up will assess important changes in case firms' values and performance and significant changes in their strategies, the competitive environment, or other critical factors determining their values and performance. The write-up must be a self-standing document that can be read and understood without reference to other student work, including the class presentation. The write-up should discuss where relevant the impact of alternative market strategies, technological change, competitive conditions, and economic and regulatory issues on the value of the firms and affecting their prospects for future performance. The group should single out the firms or firms most likely to earn above-average or below-average returns and future factors that could change the prospects for them.