



FINA 1303

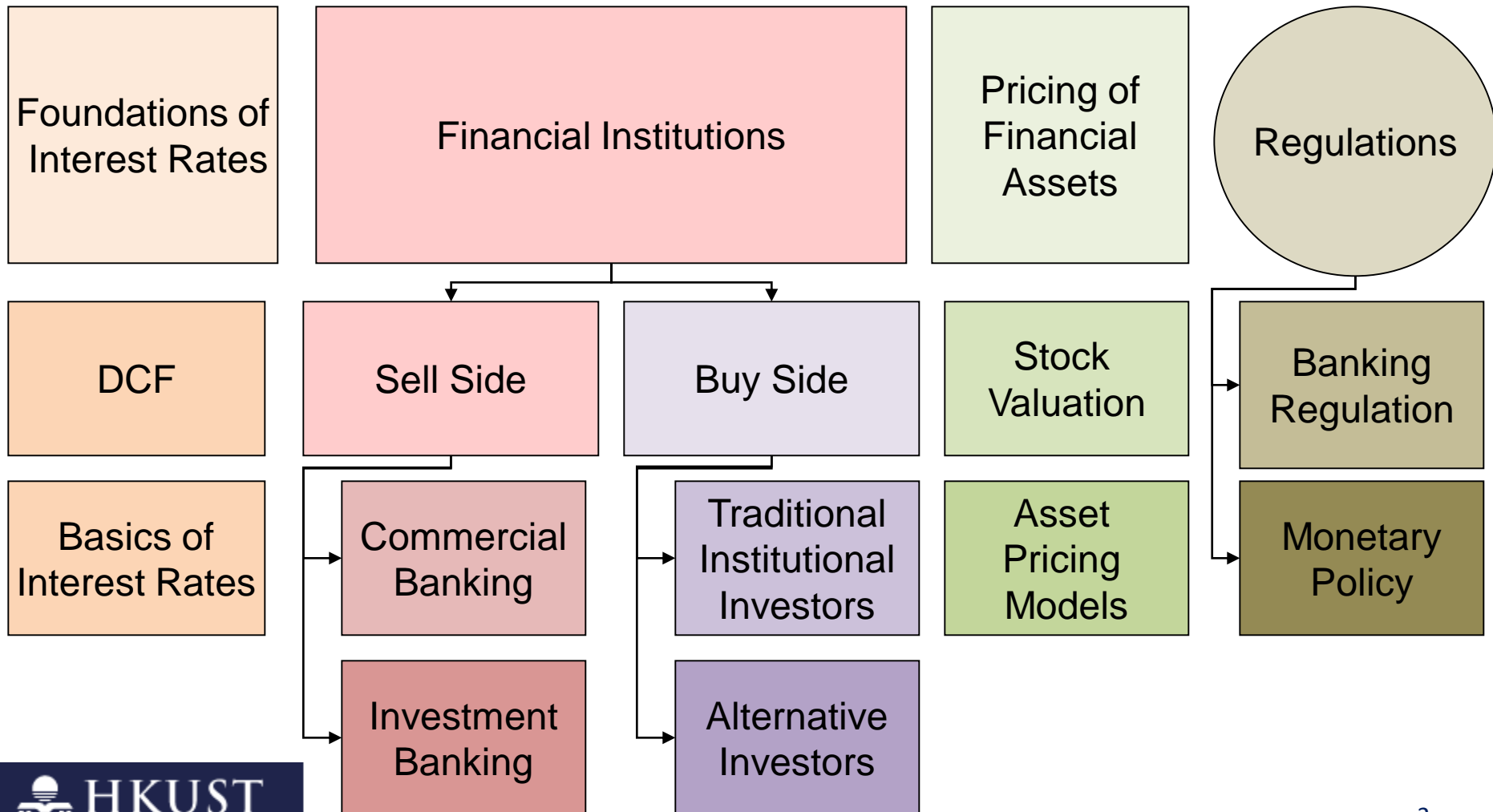
THE SELL-SIDE: INVESTMENT BANKS

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Course Map

Overview



Course map

Overview

Financial Institutions

Sell Side

Investment
Banking

1. **What are Investment Banks?**
2. What do Investments Banks do?
3. Investment Banks vs. Commercial Banks

Main Street v. Wall Street



What are Investment Banks?

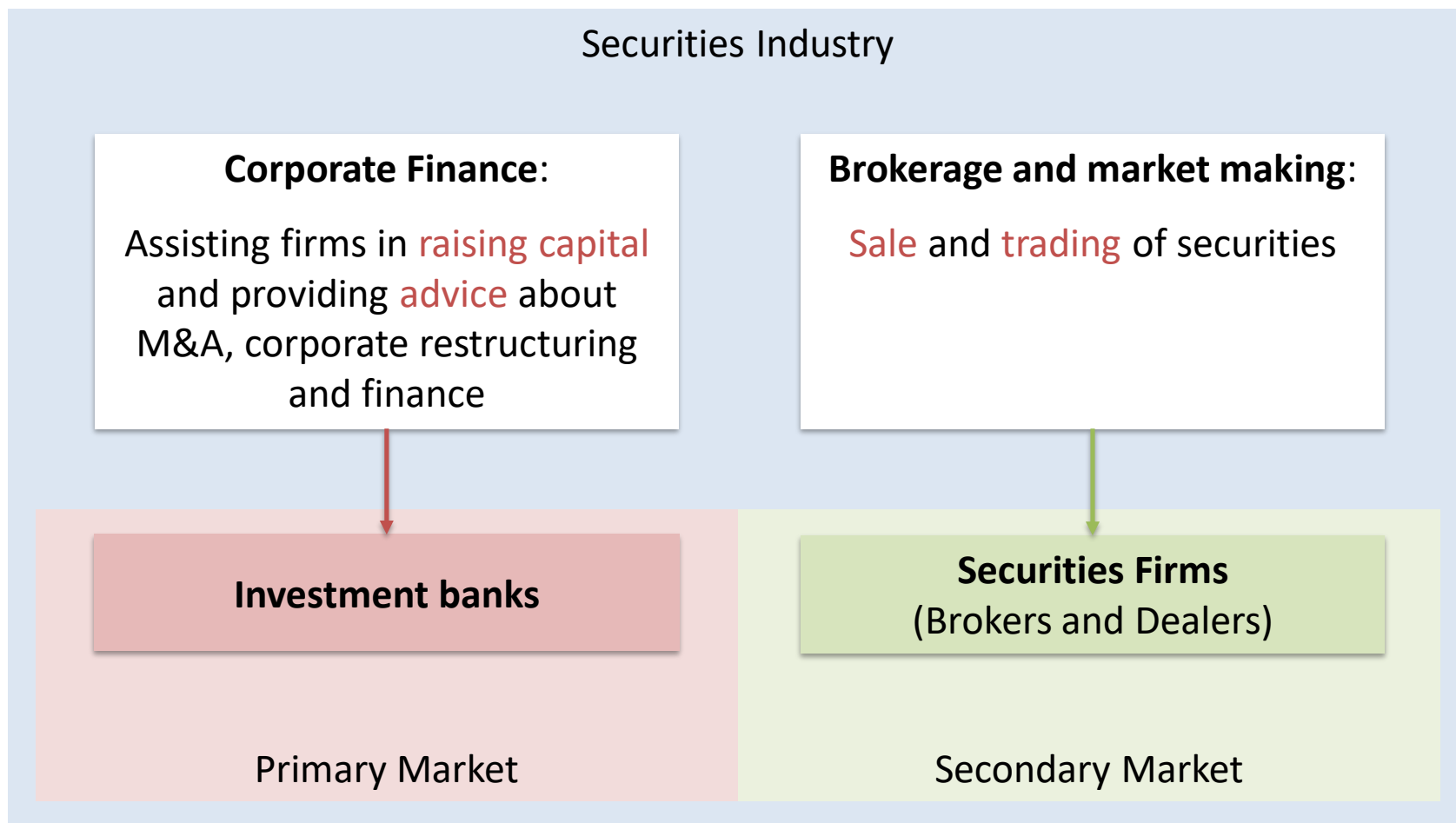
Class Discussion

- What is investment banking? What do Investment Banks do?

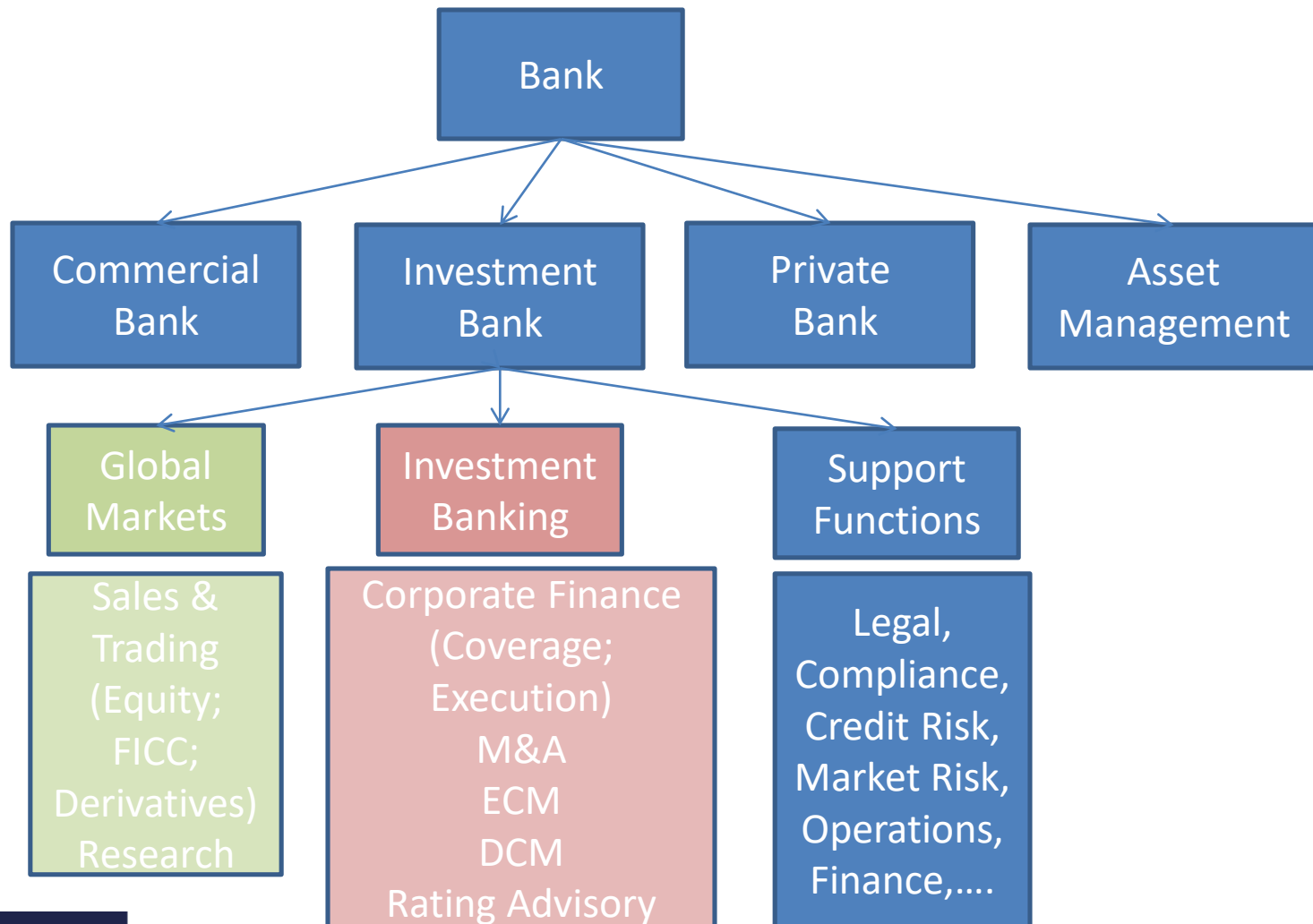
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Securities Firms & Investment Banks



Bank v. Investment Bank v. Investment Banking



Securities Brokers & Dealers

Securities **Brokers**

- **Full Service Brokers** offer clients **research and investment advice**, but usually charge a higher commission on trades.
- **Discount Brokers** provide facilities to buy/sell securities but offer no advice

Merrill Lynch is the largest full service brokerage house in the US

Securities **Dealers**

- Hold **inventories** of securities on their own account
- Provide **liquidity** to the market by standing by ready to buy or sell securities (market maker)

Charles Schwab is the best known discount broker

Source: Mishkin/Eakins

Quick Quiz!

- Corporate finance is:
 - Primary market
 - Secondary market
- Full service brokers offer
 - Only brokerage service
 - Also offer advice
- Which provides liquidity?
 - Broker
 - Dealer



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1. What are Investment Banks?
- 2. Investment Banks vs. Commercial Banks**
3. What do Investments Banks do?

What is the difference between investment banks and commercial banks?

- Merchant banks and investment banks
- Origins of US investment banks
- Basic frameworks for financial services organization

From Merchant to Investment Banks



Investment Banks

- Investment banks were essentially created in the U.S. by the passage of the **Glass-Steagall Act (1933)**. Prior to this, investment banking activities were part of large, money-center commercial banks
- The lines between investment banks and commercial banks again begins to blur as legal separation between investment banks and commercial banks is no longer required
- Following the Citi-Travellers merger in 1998, the **Gramm-Leach-Bliley Act (1999)** effectively repealed Glass-Steagall

Source: Mishkin/Eakins

Investment vs. Commercial Banks: Is there a difference?

Morgan Stanley

HSBC 

JPMorgan 


citi

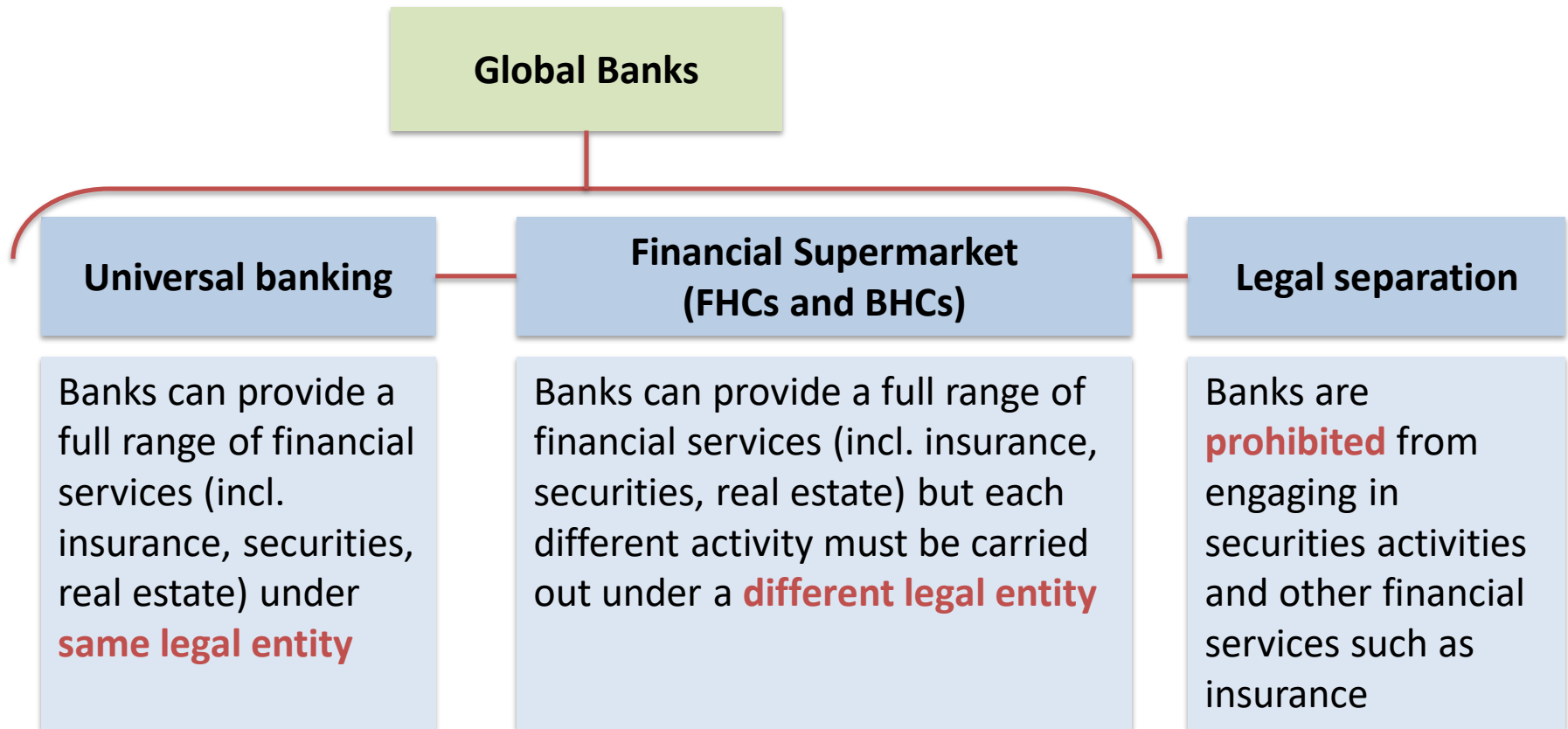
 UBS

Goldman
Sachs


BNP PARIBAS

Deutsche Bank 

Basic framework for Banking & Securities



Summary (KLOs)

- Differentiating securities firms & investment banks
- Understanding corporate finance
- Commercial banking v. investment banking
- brokers and dealers
- Regulation of investment banks:
 - Glass-Steagall Act
 - Gramm-Leach-Bliley Act
 - Basic framework

Test Your Understanding

- Core investment banking activities such as corporate finance advisory and IPOs underwriting take place in the
 - Primary market
 - Secondary market
- Which legislation gave birth to the first investment banks (e.g. Morgan Stanley)?
 - Gramm Leach Bliley Act
 - ERISA
 - Glass Steagall Act



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Financial Institutions

Sell Side

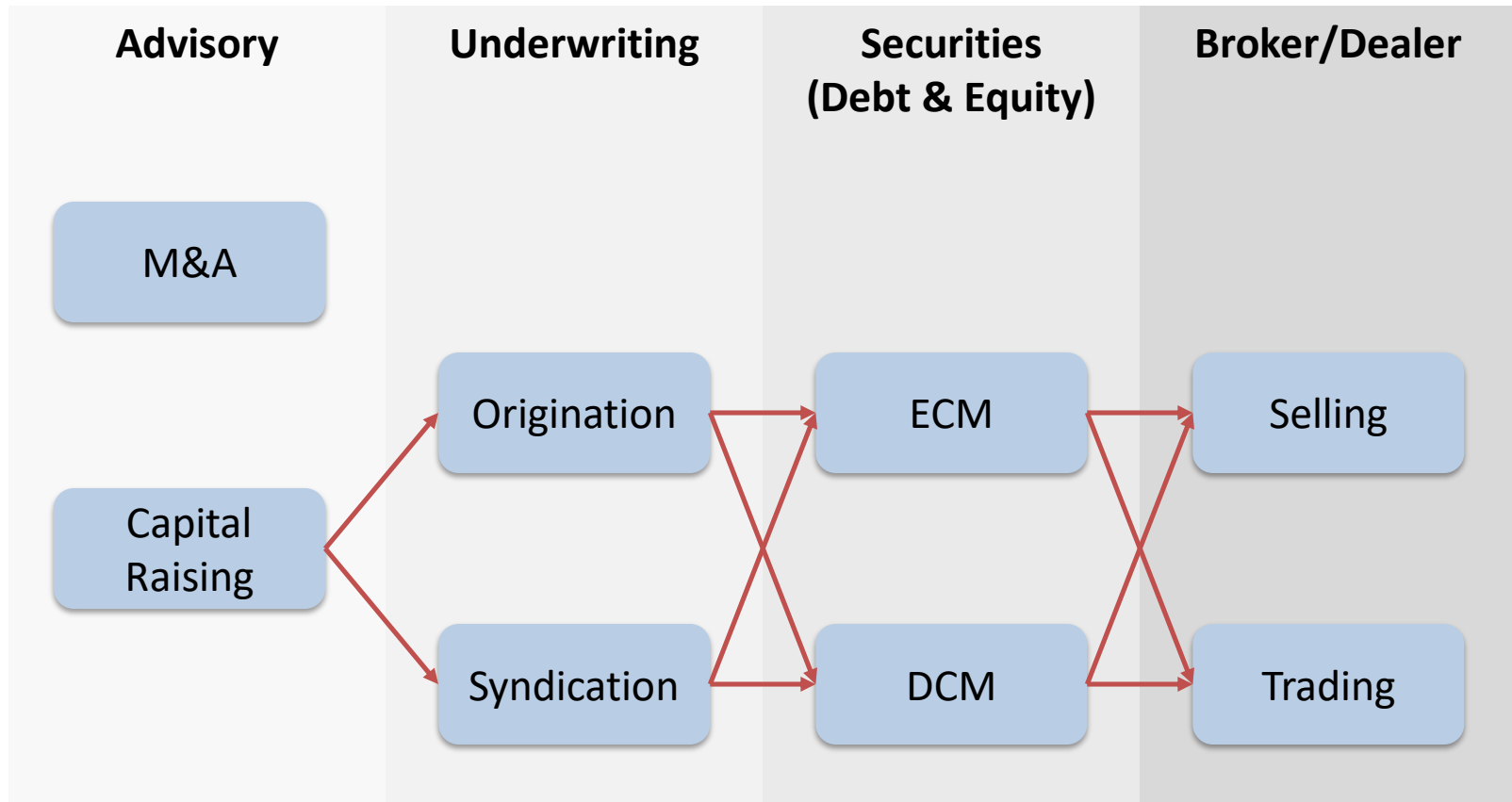
Investment
Banking

1. What are Investment Banks?
2. Investment Banks vs. Commercial Banks
- 3. What do Investments Banks do?**

What do investment banks actually do?

- Products and Services of investment banks
- Actors in investment banks

Products and Services of Investment Banks

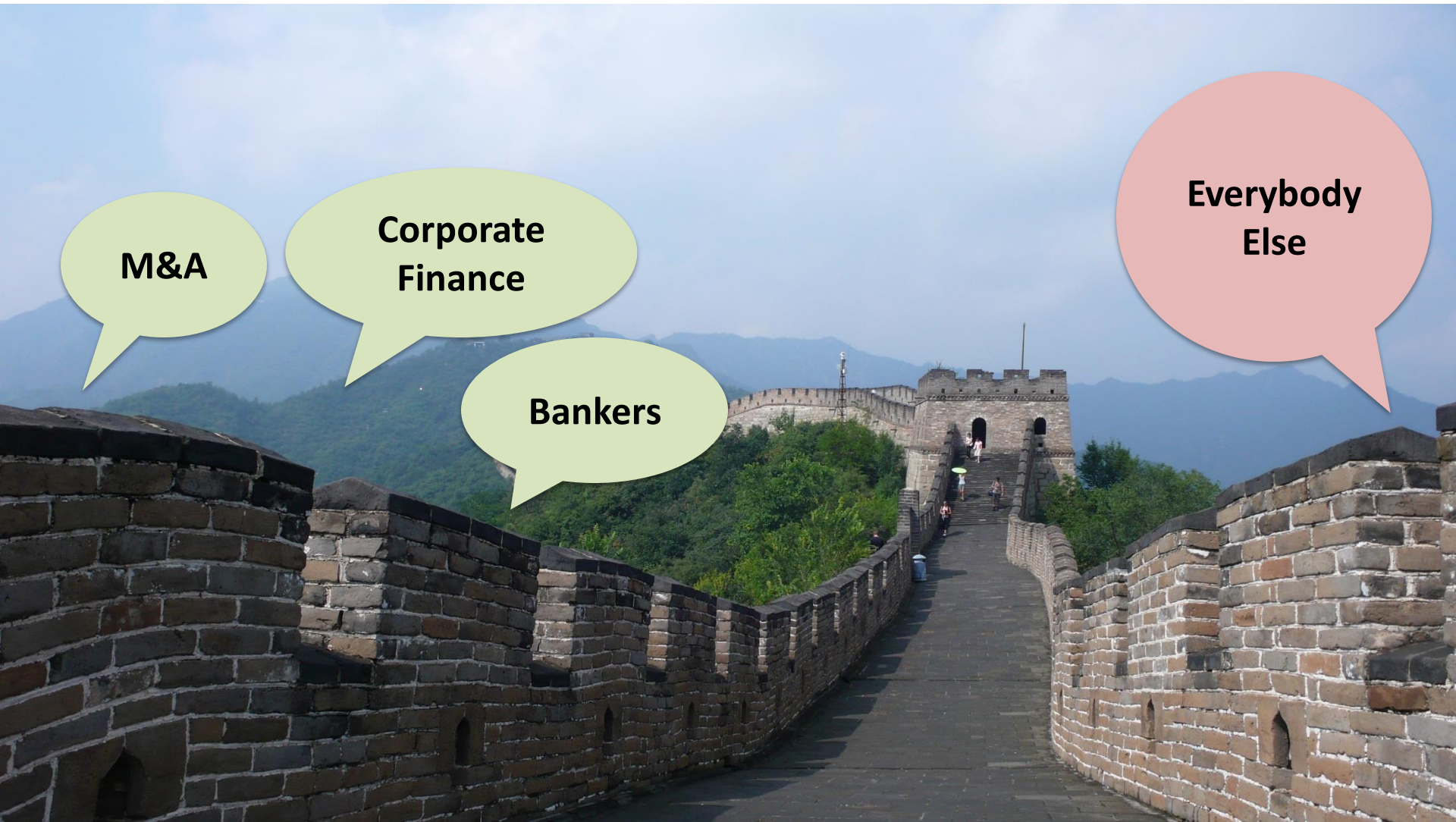


Trading: Client vs. Risk-driven revenues

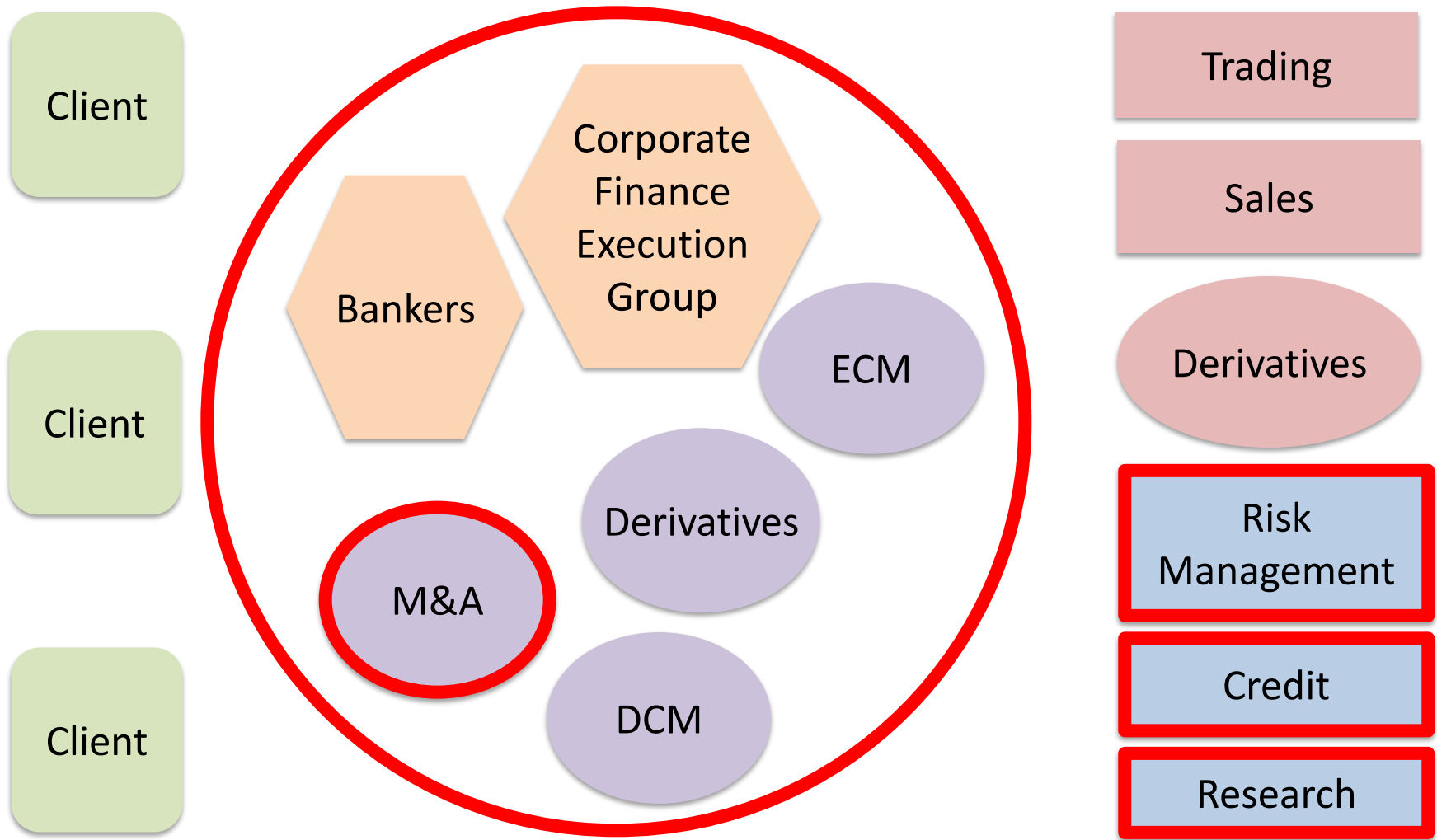
Measuring
client value
remains
more an art
than a
science

- **“Flow” trading => Client-driven revenues** = fees and commissions, markups and spreads as measured through sales and production credits
- **“Prop” trading => Risk-driven revenues** = dedicated proprietary trading that is delinked from customer business, and substantial residual revenue between sales and production credits
- For most players, **capital markets are primarily a client business, not a proprietary trading business** => client franchise building and delivery are critical
- The “Volcker rule” (part of Dodd-Frank Act) prohibits “prop” trading in banks in the US but is in the process of being repelled

Chinese Walls & Information Barriers



Chinese Walls & Information Barriers



What do Investments Banks do?

Investment banks in Asia: recent trends, issues, implications?

- Group 8
- Video link
- <https://www.youtube.com/watch?v=iQxnpEcAjpM>
- Article link
- <https://www.salesforce.com/blog/apac-corporate-investment-banking-digital-trends/>

Test Your Understanding

- Financial institutions like Schwab which simply execute clients orders are an example of:
 - Full service brokers
 - Discount brokers
 - Investment banking boutiques
- What is the purpose of Chinese Walls?
 - Preventing insider trading
 - Preventing leakage of price sensitive information
 - Both of the above
 - None of the above



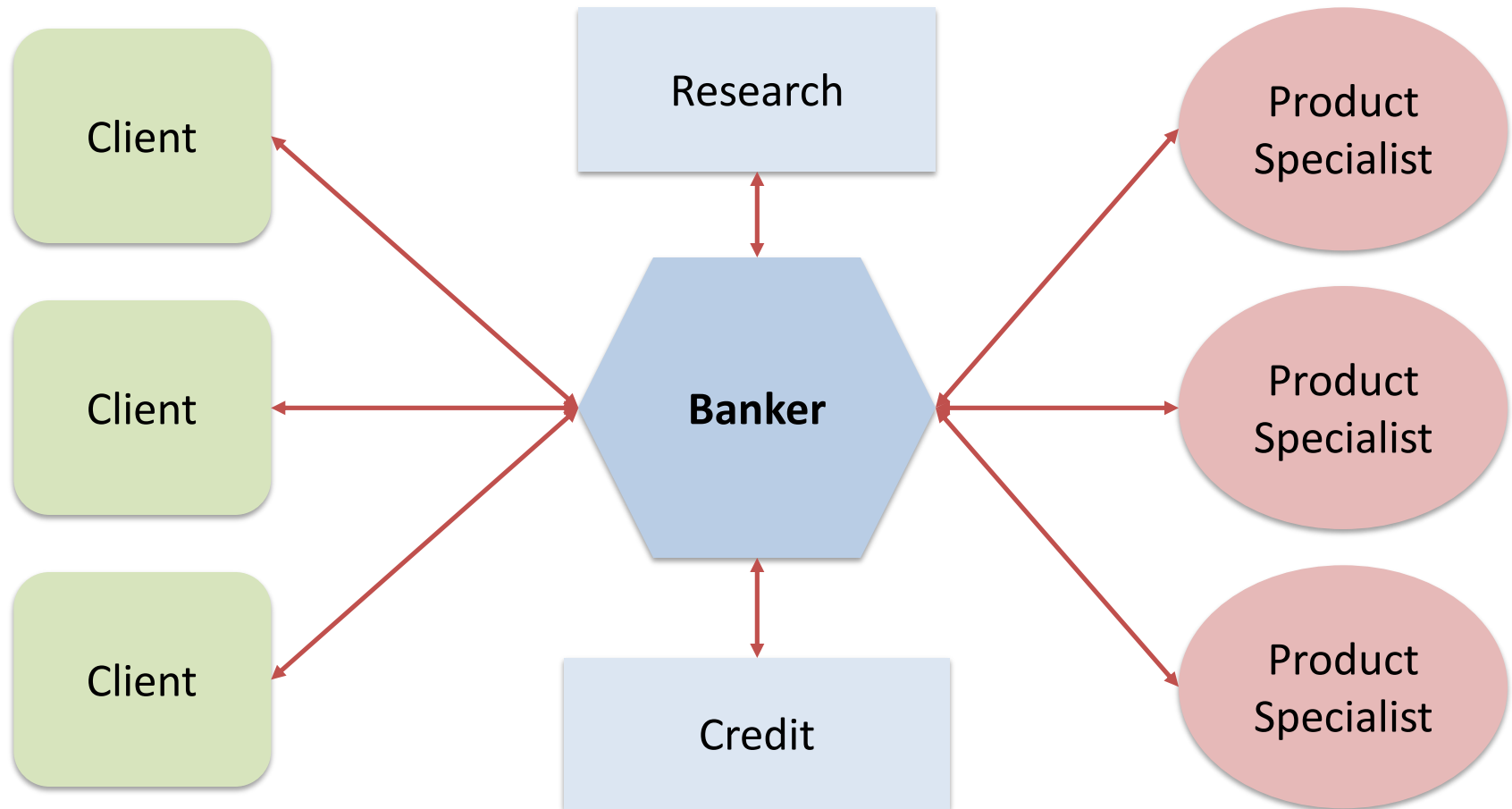
Summary (KLOs)

- Understanding the core services of IBs
- Flow trading vs. Prop trading
- information barriers (Chinese Wall) - purpose

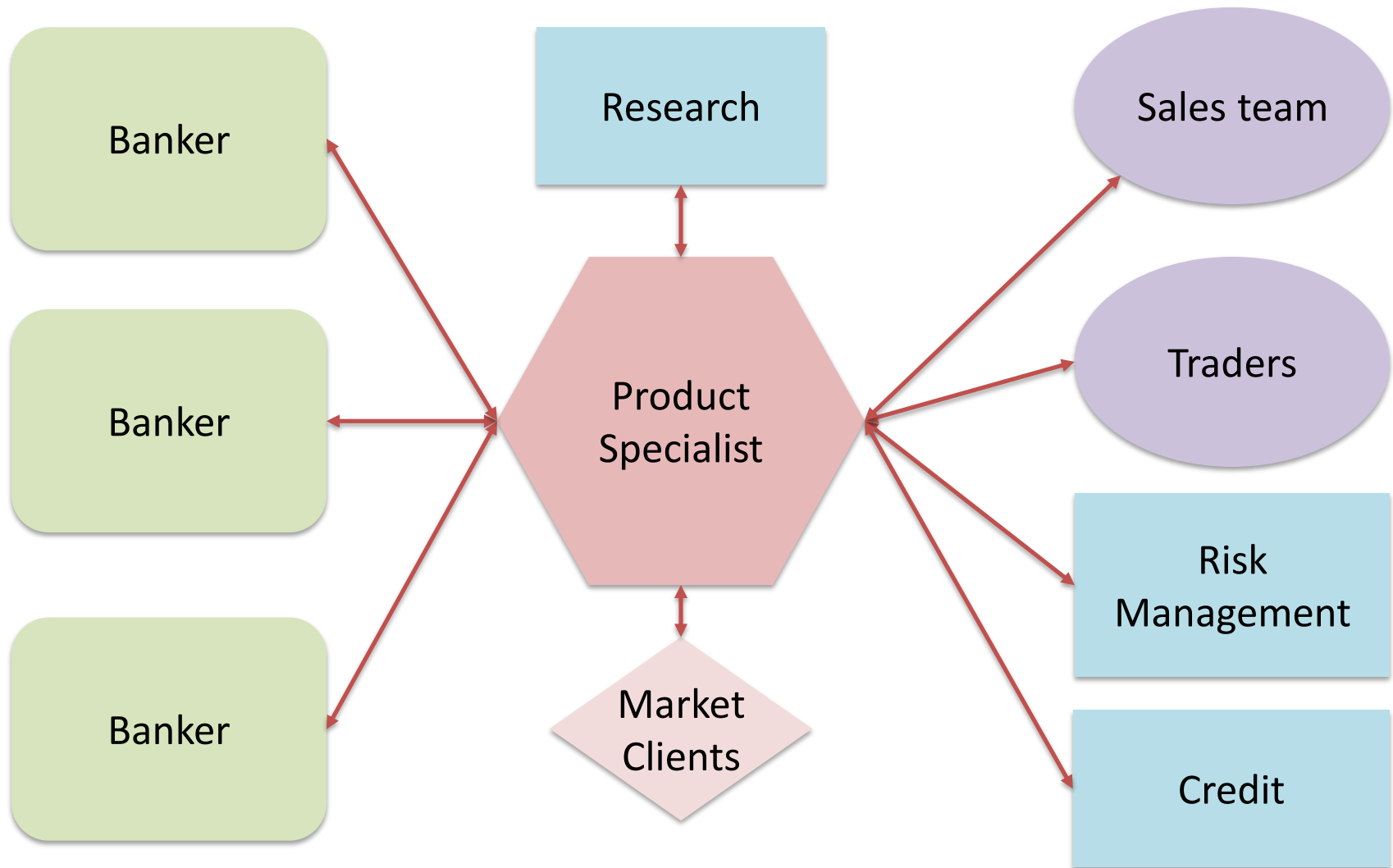
Actors in I-Banks

- Relationship Banker
- Product Specialists
- Corporate Finance & IB
- Sales
- Trading
- Other Key Players : Research, Credit, Risk Management, ALCO

Relationship Banker



Product Specialists



Product Specialists

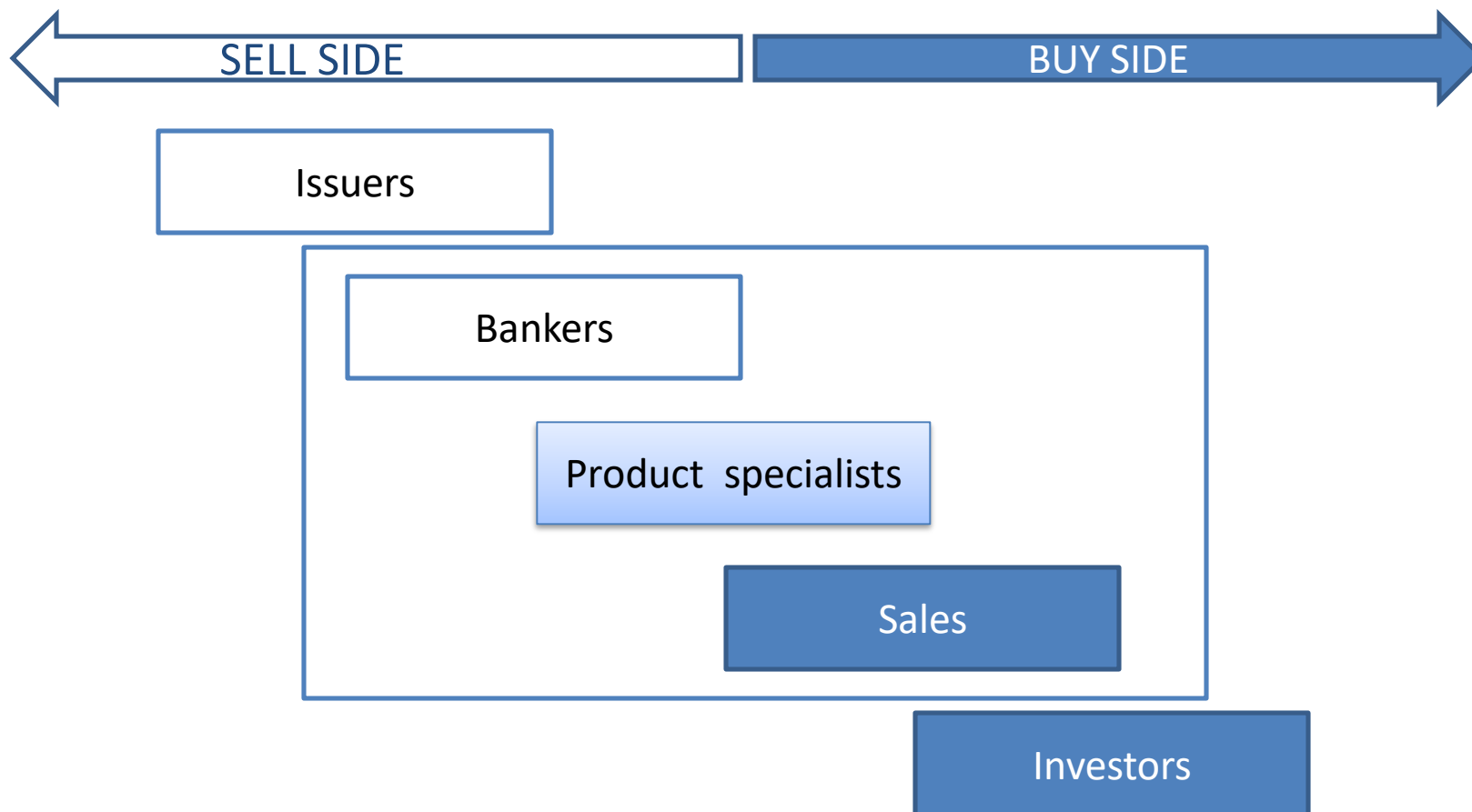
Investment Banks:

- M&A
- Equity Capital Markets
- Debt Capital Markets
- Securitization (ABS, MBS)
- Derivatives
- FX and MM
- Syndicated Loans & Asset Sales
- Project & Structured Finance

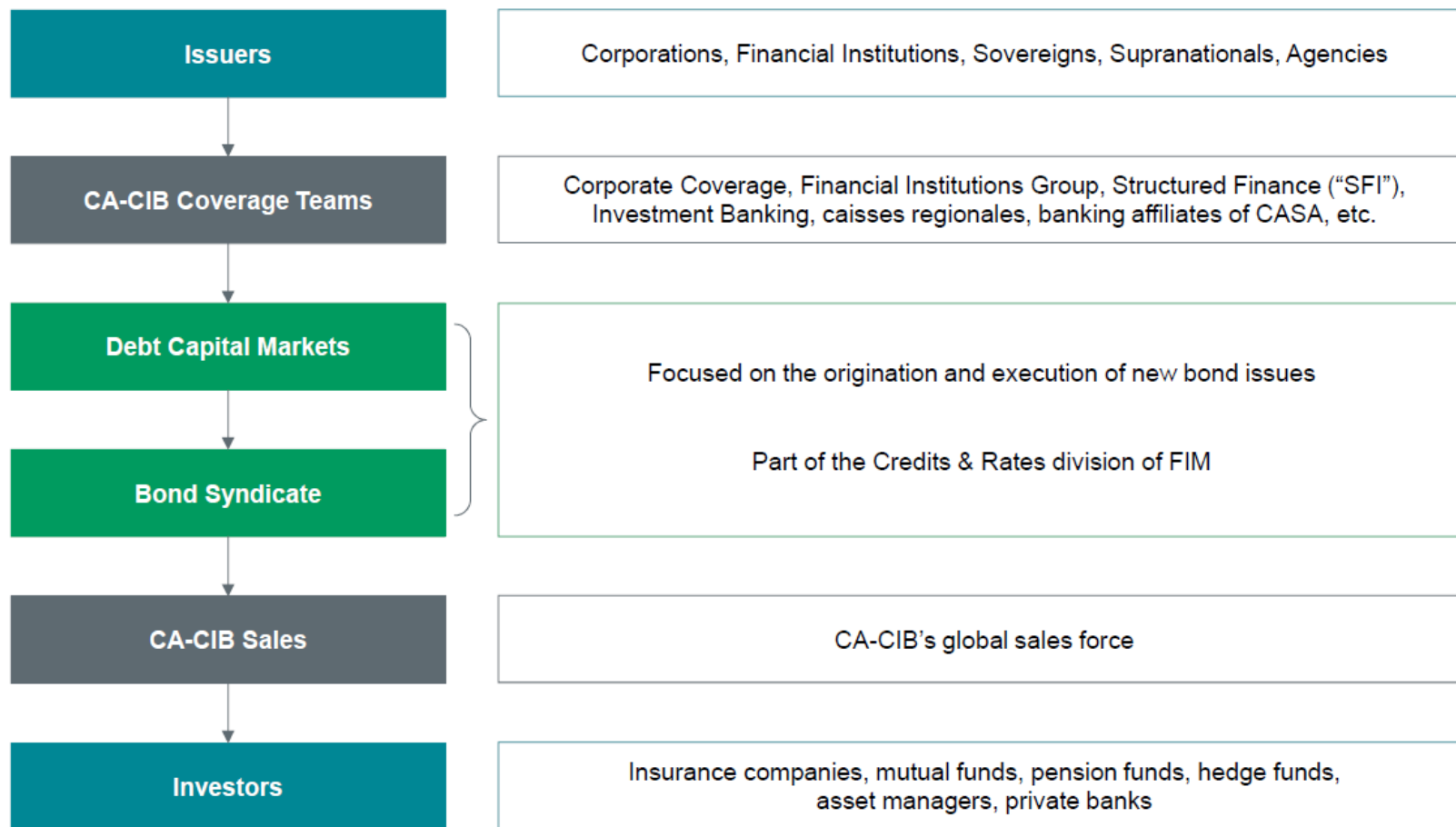
Commercial Banks

- Debt Capital Markets
- Securitization (ABS, MBS)
- Derivatives
- FX and MM
- Syndicated Loans & Asset Sales
- Project & Structured Finance
- Cash Management
- Trade Finance

Deal dynamics



Deal dynamics at CA-CIB



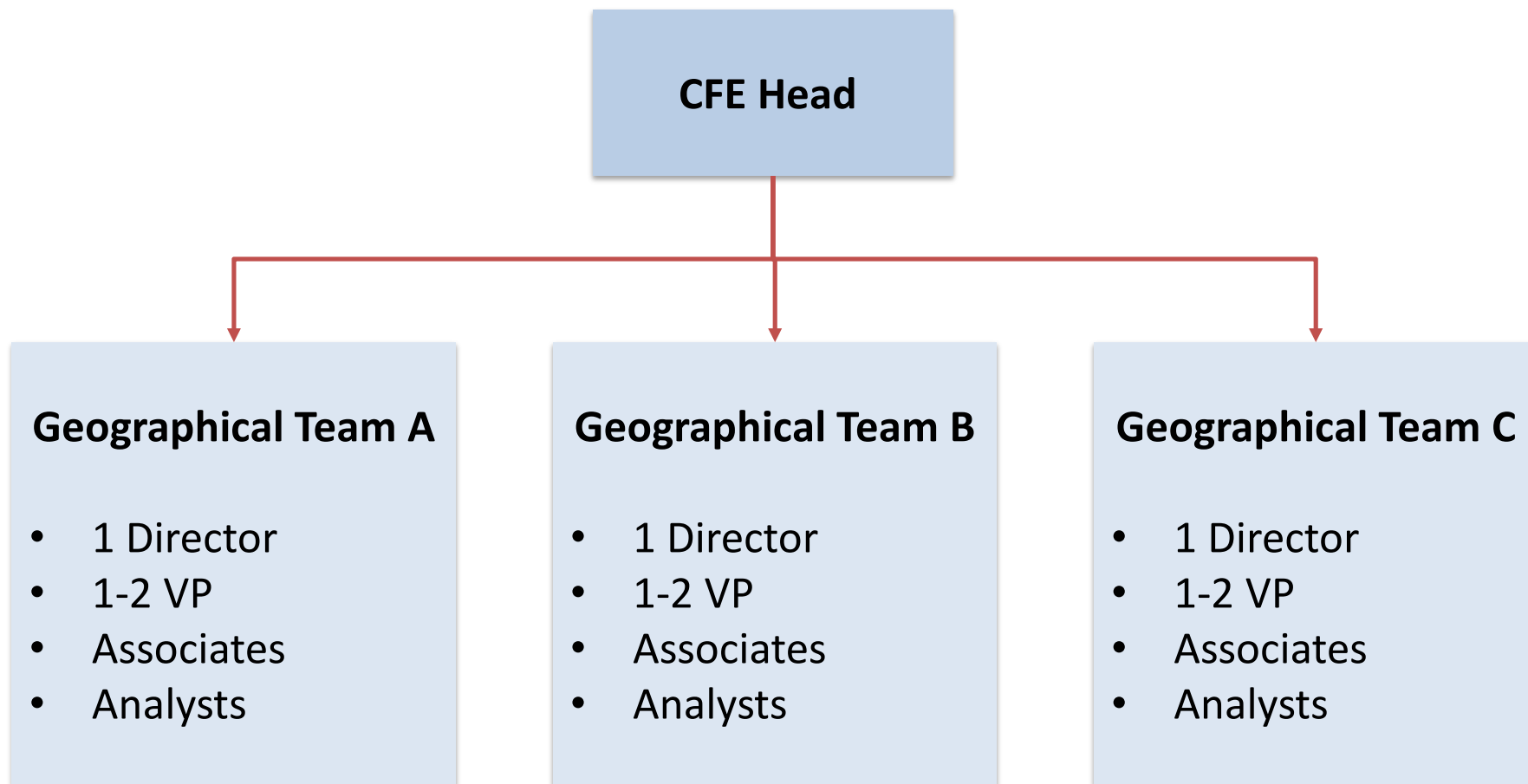
Source: CA-CIB – Ben Lamberg

The role of actors in deal development

“Bankers”	“Origination”	“Underwriting”	“Sales”
Coverage Teams	Debt Capital Markets	Syndicate	Sales
<ul style="list-style-type: none"> ■ Liaise with corporations, financial institutions and public sector entities regarding <ul style="list-style-type: none"> ● Lending products (utilising CA-CIB's balance sheet) and other bank products ● Capital markets products ● Interest rate and currency swaps ● Treasury products / cash management ● M&A advisory 	<ul style="list-style-type: none"> ■ Works alongside the Coverage Teams and directly with the banks customers to <ul style="list-style-type: none"> ● Originate debt capital markets trades ● “Pitch” new issues ● Develop ideas (e.g. liability management) ● Promote our DCM track record and capabilities ● Win mandates ● Structure new issues that are aligned with investors' needs 	<ul style="list-style-type: none"> ■ Execute bond transactions originated by DCM, acting as the liaison between DCM and Sales ■ Provide regular market colour and feedback to DCM ■ Provide pricing for new issues, at pitch stage and during execution 	<ul style="list-style-type: none"> ■ Liaise with a variety of institutional investors in the context of selling bonds, both primary issues (for DCM) and secondary flows (for Trading) ■ Regularly reflect investor sentiment to Syndicate

Source: CA-CIB – Ben Lamberg

Corporate Finance Execution (CFE)



The rise of electronic trading: will human traders disappear?

- Group 9
- Video link
- <https://www.youtube.com/watch?v=OK0x-kkLUXw>
- Article link
- <https://www.economist.com/briefing/2019/10/05/the-stockmarket-is-now-run-by-computers-algorithms-and-passive-managers>

Summary (KLOs)

- Understanding the actors in IB:
 - relationship banker
 - product specialist
 - Analysts (pitch book, league tables...)
 - Support functions
- Understand deal dynamics
 - From the sell side to the buy side
 - role of actors in deal development

ADDENDUM

From the website of one investment bank, describing their analyst program:

In most divisions during this time you can expect:

- A period of induction and initial training
- Individual rotations in most functional areas
- Exposure to senior management both on the floor and at social functions
- An opportunity to network amongst your peers at numerous cross-divisional events throughout the summer
- Small participant numbers ensure individual attention, a degree of flexibility to meet the individual's interests and strengths and mentoring throughout the Program

A Day In The “Life” Of A CFE Analyst...

- 9.00am Arrival in the office; rush to the coffee machine (left office at midnight the day before, spent the night in a disco and went to bed at 3.30am)
- 9.30am Check on Bloomberg the news and stocks related to Supercore Clients to prepare a few bullet points e-mail to the boss; check personal investments
- 10.00am Work on the pitchbook for the RFP from government XXX
- 11.30am Check the booking, flight schedules, connections for the management of YYY going to Europe (5 countries, 10 meetings,..., 1 week) on a non-deal roadshow
- 12.00pm Get an analyst in a plane this afternoon to deliver the Korean pitchbook (A3 format) to the relationship banker in Seoul before night so that the banker can discuss it privately with the customer, before the official presentation the next day.
- 12.30pm Run to Pacific Coffee grab a sandwich
- 1.00pm The VP drops the executive summary (5th version) on desk with 15 corrections in 5 lines. The new version should not be very different from the first one...
- 2.00pm League table sanitizations for pitch to ZZZ ...i.e. how to show that Silverwomen Gucci is the top Investment Banker in Asia-Pacific for IPO when he has placed a lot of Convertible Bonds in Australia 2 years ago...
- 2.15pm Make sure the analyst got the YYY pitchbook from Graphics and has enough Won in hand to go to Seoul. Problem: find a big bag for the 15 A3 100 pages flashy pitchbooks!

A Day In The “Life” Of A CFE Analyst...

- 3.30pm Conference call with ECM and the London syndication team about the allocations for WWW
- 4.00pm Work on the pitchbook for the RFP from government XXX
- 4.30pm The VP comes back screaming asking for the new executive summary (6th version) as he got caught off-guard by the director, who has been yelled at by the MD
- 4.35pm The VP gets the executive summary
- 5.00pm Meeting with the team covering VVV because Corporate Equity Derivatives has been proposing something to the MD. Nobody understands anything. What the heck I am doing here?
- 5.30pm The analyst on the way to Seoul calls from the airport. There are troubles with a plane in the airport; There will be a 1 hour delay in Seoul. Contact the screaming banker.
- 6.00pm London calls on the non-deal roadshow for the management of YYY with Visa problems. Has to fix the issue with the Shengen consulates in HK.
- 6.30pm Work on the pitchbook for the RFP from government XXX
- 7.00pm Diner with ECM tonight. Time to order the pizza.
- 11.00pm Conference call with ECM and ECM NY for the Capital Commitment Committee related to the IPO of ZZZ on NYSE. Write the minutes and circulate to everybody within 1 hour after the end of the call
- 12.30am End of the conference call.
- 1.00am Minutes written and e-mailed. Log-off and go home.

Number Crunching

- Credit/Financial Analysis & the use of financial ratios
- Forecasting cash flows, pro-forma financial statements & financial modeling
- Capital budgeting & project evaluation
- Market valuation
- CAPM

Pitch Books

- Deal structure & pricing
 - Rationale for the deal
 - Deal structure
 - Pricing information
- Impact of deal on company's financial structure
- Proposed placement strategy & market impact
- Consensus of analysts
- Shareholder analysis
- Comps:
 - Industry comparisons
 - Financial ratios
 - Market cap and stock prices
 - Industry reports
 - Deal comparisons
 - Pricing
 - After issue performance
- League Tables
- Other relevant bank info (market share, analyst ranking & publications,...)

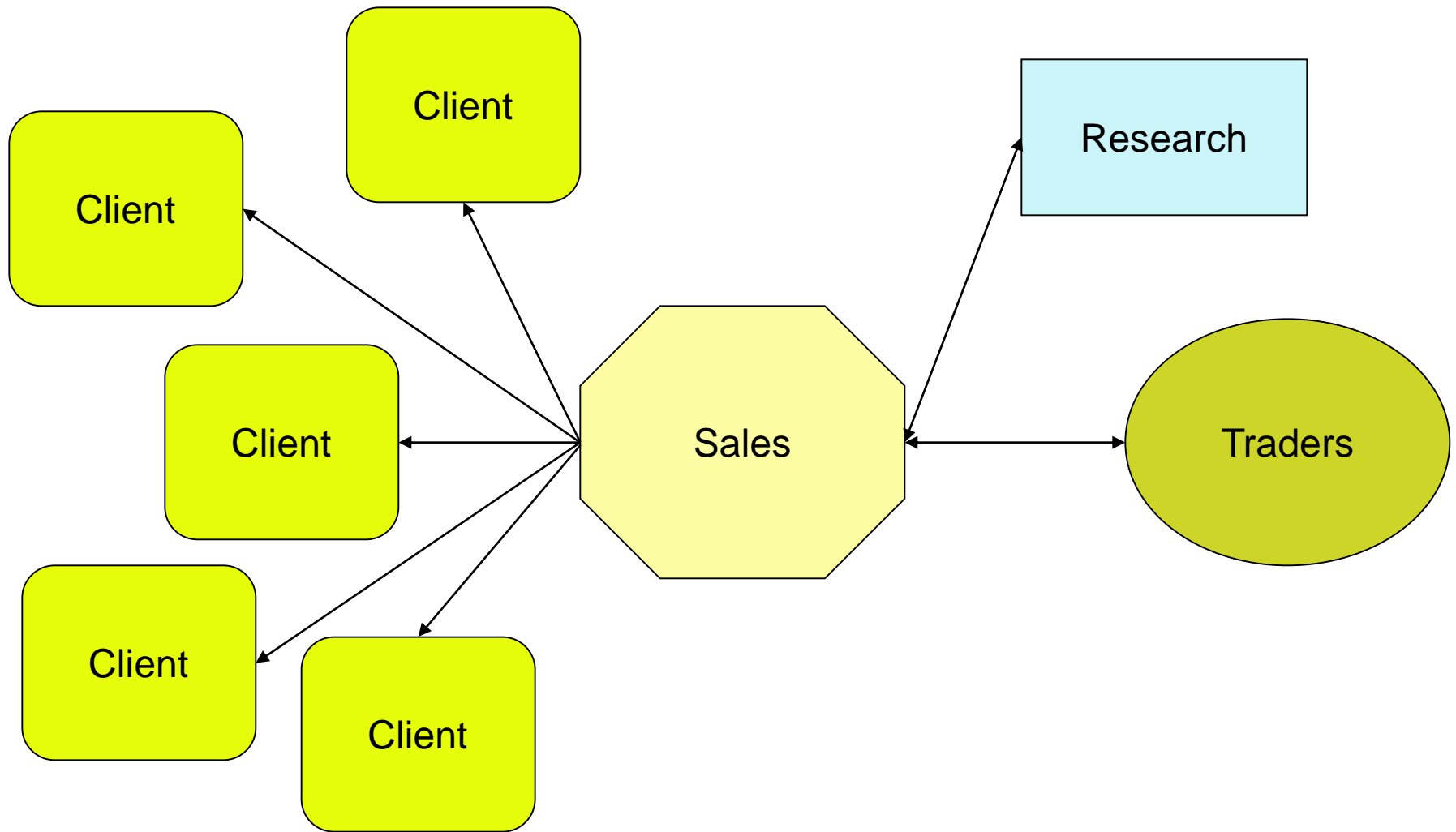
**=>Why iBank Is The Most Suited To Deliver Your Landmark Transaction
Just Give Us The Mandate, and please, NO Co-Lead!**

What do Investments Banks do?

League Tables

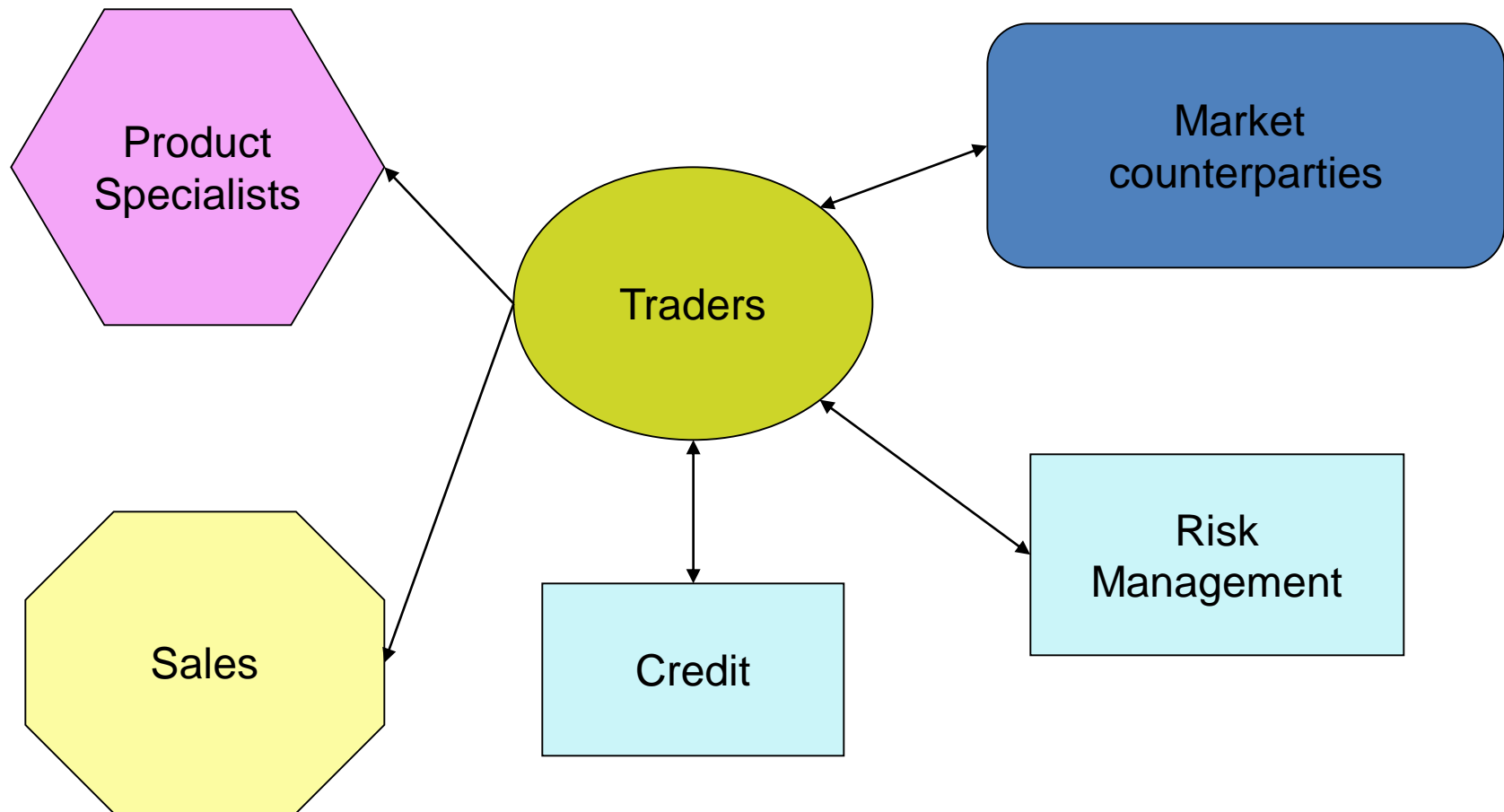
- For marketing purposes
- For internal purposes
- For performance evaluation

Sales

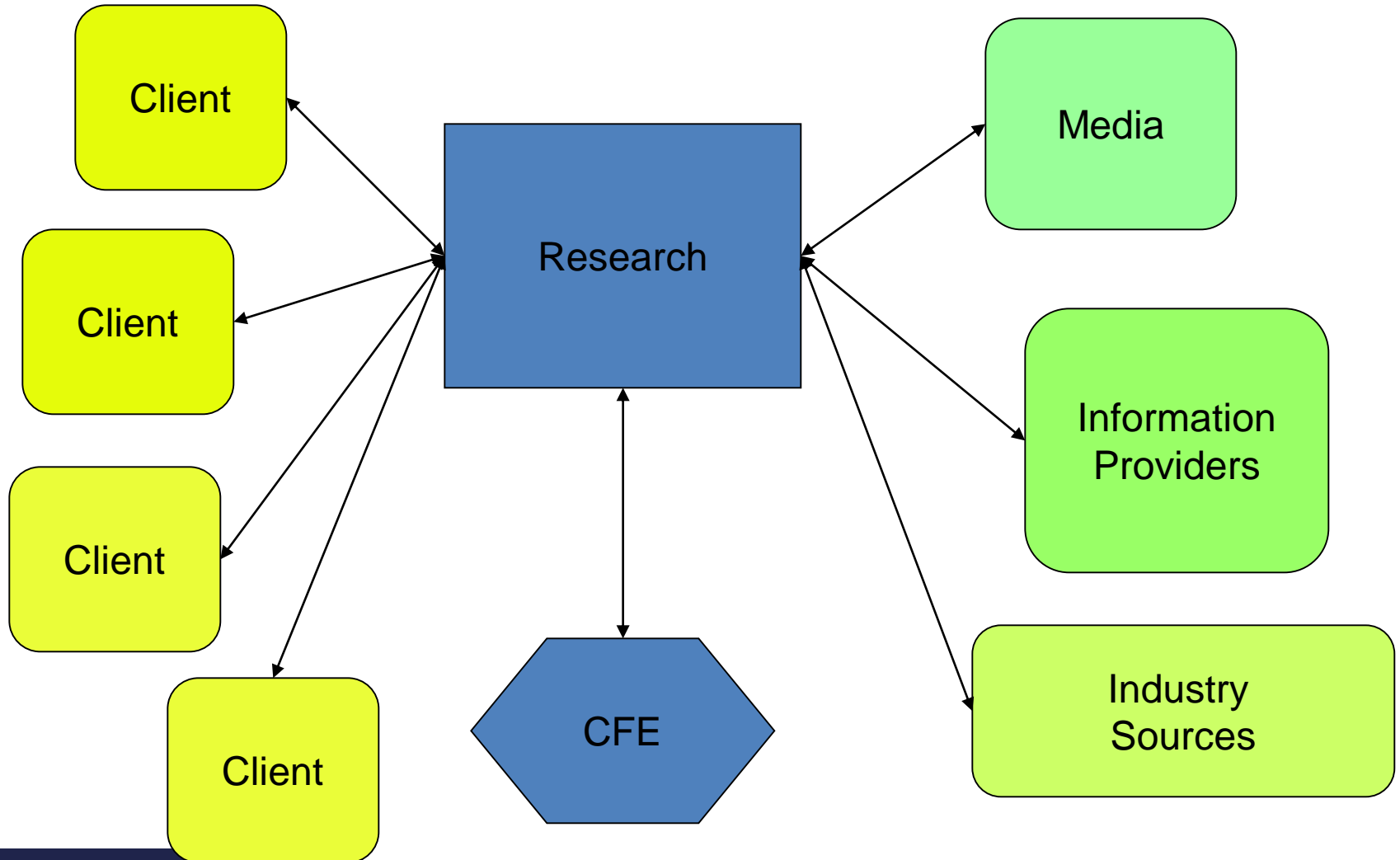


What do Investments Banks do?

Trading



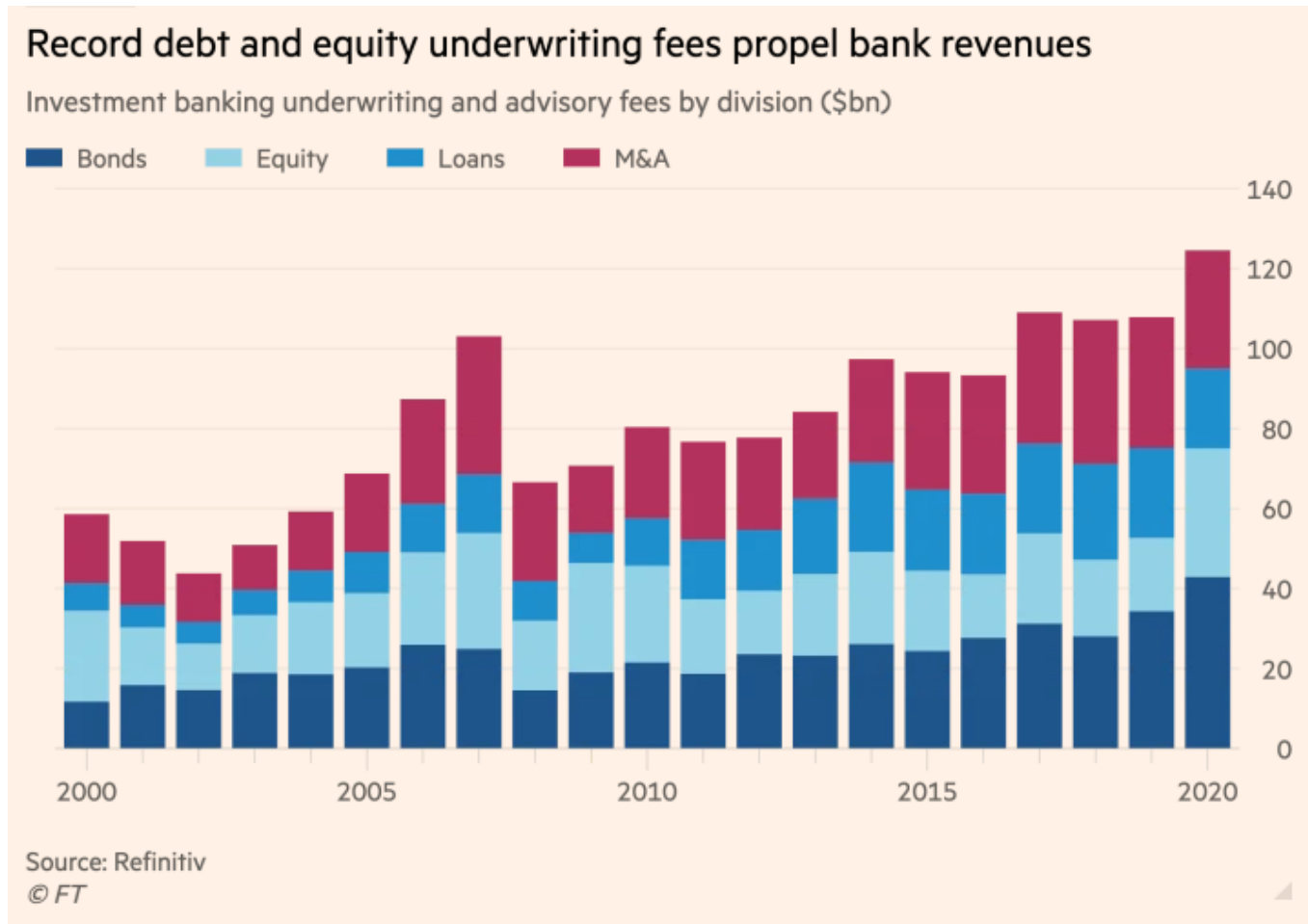
Research



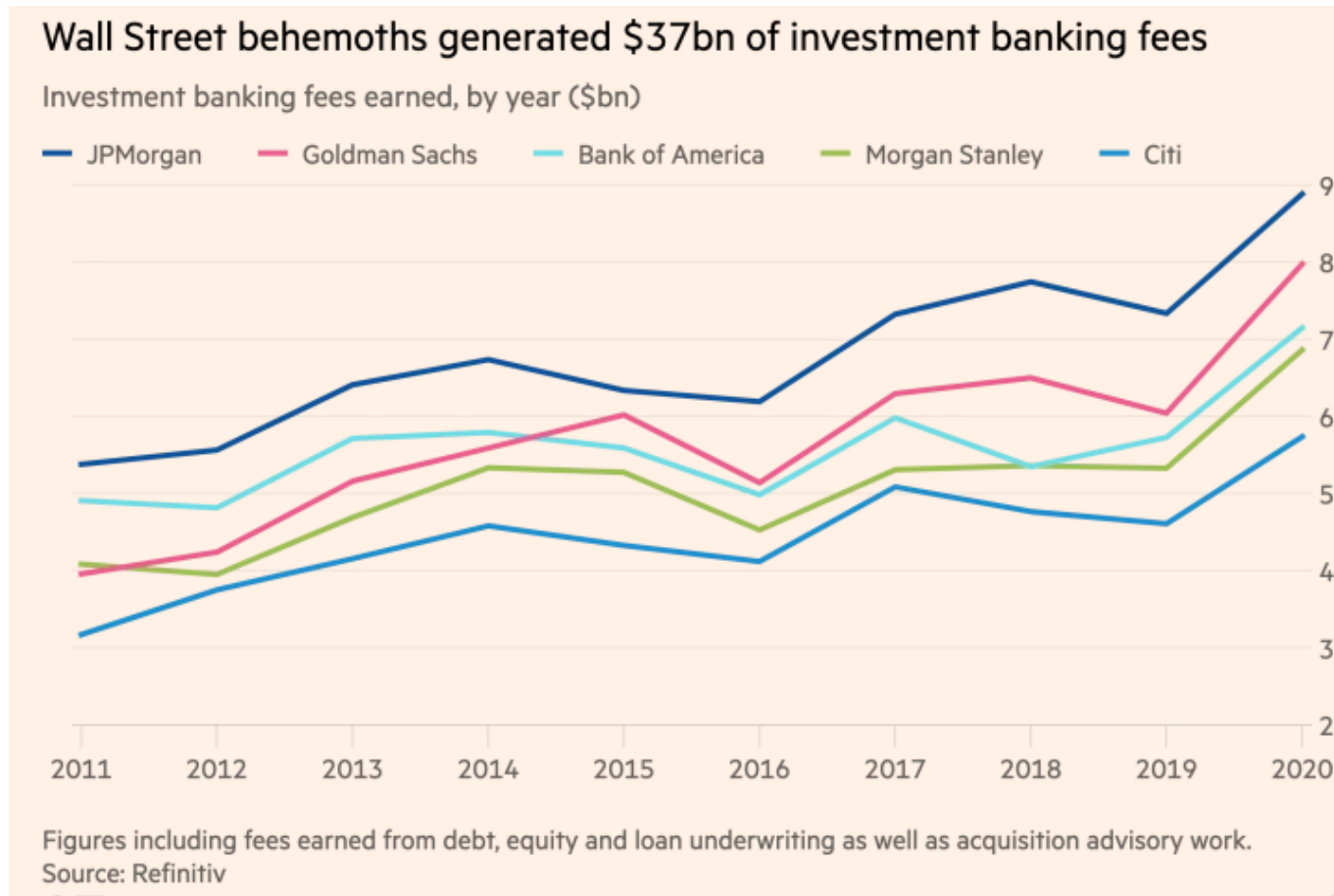
Other Players

- The hidden players
 - Corporate finance execution
 - Credit & Risk Management
 - Research (Credit & Equity)
 - Risk management
 - Others (e.g. systems)
- What do they do?
- Who are they?
- What makes them tick?

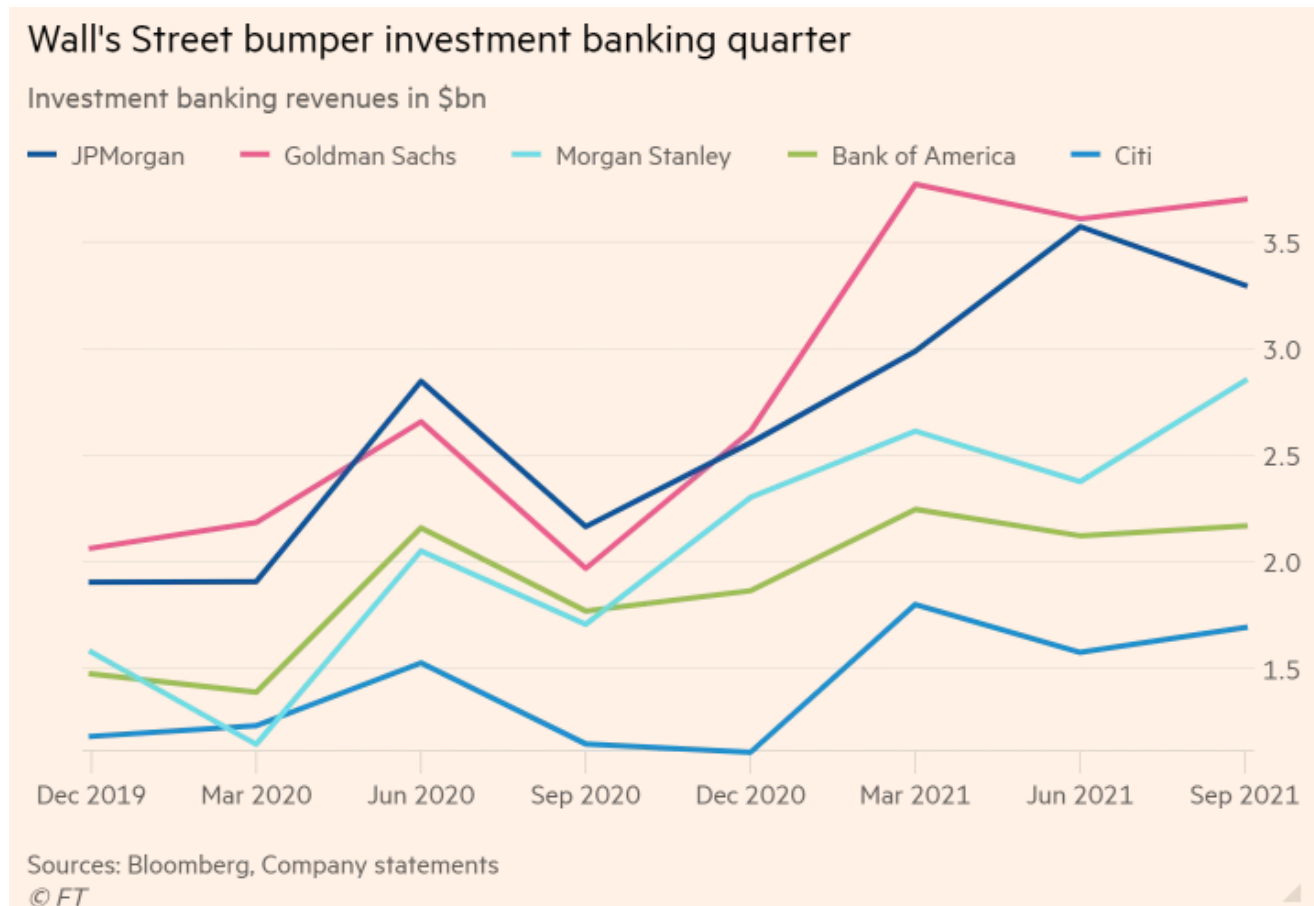
Investment Banking Fees (2000-2020)



Investment Banking Fees (2011-2020)



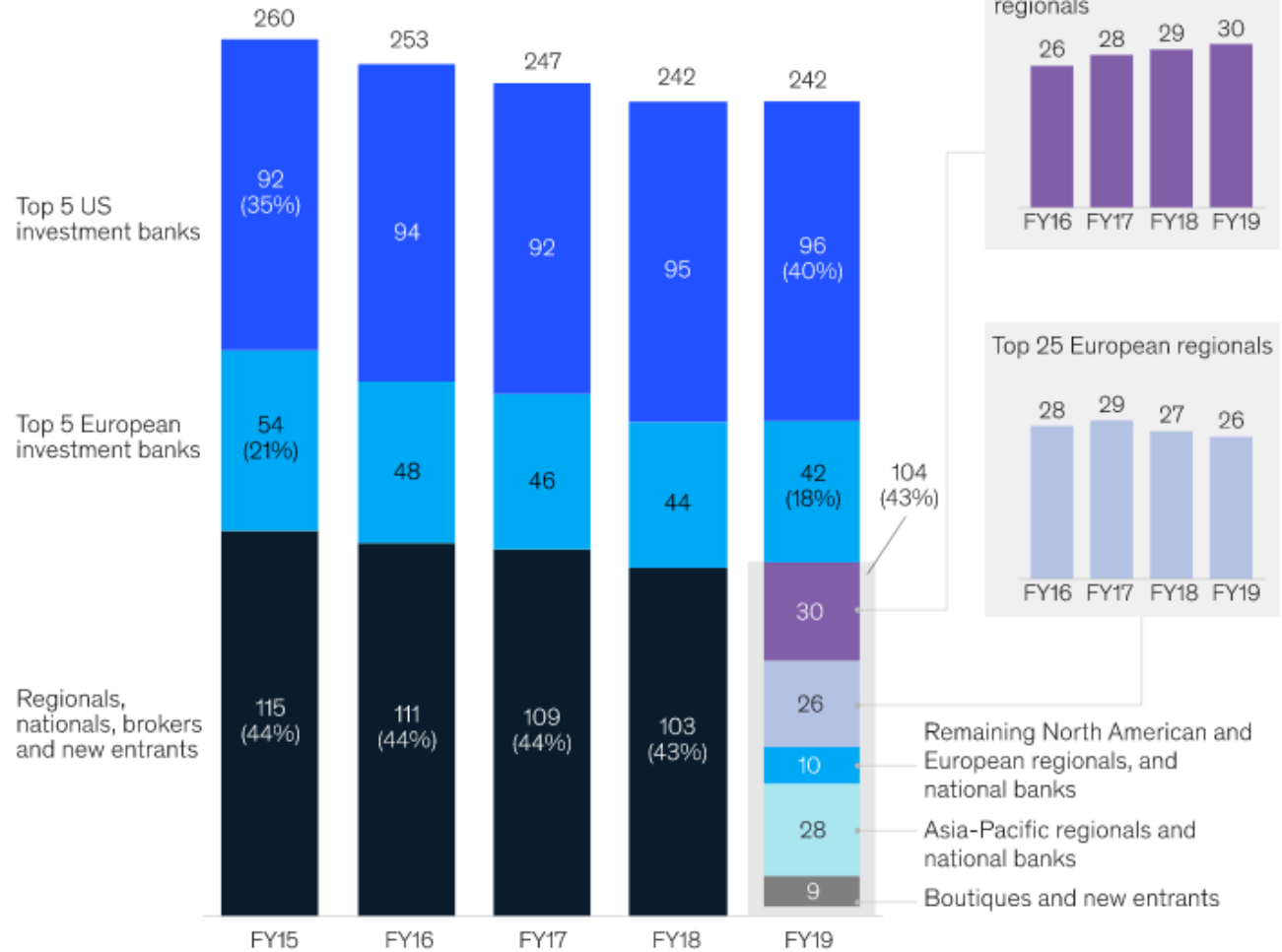
IB results 1Q21



Regional capital markets businesses

Regional capital markets businesses maintained share from 2015 to 2019.

Capital markets and investment banking revenues
\$ billion













Source: McKinsey CIB Insights

What do Investments Banks do?

IPOs in HK

Banks Leading IPOs in Hong Kong, 2021

Bank	Amount	Deals ▼
CICC	 \$4.0b	 41
Haitong	 2.9	 39
CMB	 2.5	 32
CITIC	 2.3	 22
Goldman Sachs	 2.7	 21

Data: Compiled by Bloomberg

Source: BBRG 5 Jan 21