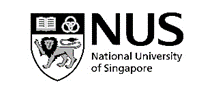
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STANDARD CHARTERED PLC: RIDING THE MARKET DURING CORPORATE RESTRUCTURING[[1]](#endnote-1)

Weina Zhang, Ruth S. K. Tan, and Zsuzsa R. Huszár wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On January 9, 2014, Standard Chartered PLC (StanChart) announced its plan to restructure as part of its new corporate strategy, which had been outlined on November 11, 2013, during the company’s “Investor Day.” The restructuring would integrate StanChart’s two businesses, wholesale banking and consumer banking, into one business as of April 1, 2014. The integrated business would have three new customer segments to be serviced by five global product groups. The three customer segments were corporate and institutional clients (CIC), commercial and private banking clients (CPC), and retail customers (RC). CIC accounted for approximately 60 per cent of StanChart’s income in 2012, CPC accounted for another 10 per cent, and RC accounted for the remaining 30 per cent. The five global product groups were financial markets, corporate finance, transaction banking, wealth products, and retail products.[[2]](#endnote-2)

On the day of the announcement, the trading volume of the StanChart stocks surged four times to approximately 19 million shares. Nevertheless, the share price closed slightly lower at £12.3040,[[3]](#endnote-3) down from £12.5772 recorded the day before (see Exhibit 1).

At the same time, the five StanChart corporate bonds were also actively traded. The bond rated the highest (SCBFF3764769) by Standard & Poor’s (S&P), a major U.S. credit rating agency, had a rating of BBB with a 6.4 per cent semi-annual coupon rate. The other four bonds were rated one notch lower, at BBB−. The bond SCBFF3764769 closed at US$112.972[[4]](#endnote-4) on January 9, 2014, slightly lower than the closing of $113.650 on the prior day (see Exhibit 1).

StanChart’s restructuring announcement was not a total surprise, given the sluggish performance of the financial industry after the 2008 global financial crisis. Several international banks listed on the London Stock Exchange, such as Hong Kong and Shanghai Banking Corporation (HSBC), Royal Bank of Scotland (RBS), and Barclays, had also announced major restructuring plans after the crisis. For example, on December 24, 2013, RBS increased its target for job cuts at its investment banking business to 3,800.[[5]](#endnote-5) RBS’s chief executive officer (CEO), Stephen Hester, had already cut 34,000 jobs since arriving at RBS in 2009.[[6]](#endnote-6) Barclays had undertaken a similar strategy. On February 12, 2013, the newly appointed CEO of Barclays, Anthony Jenkins, announced that Barclays would cut 3,700 jobs as part of a strategic overhaul and would focus on operations in the United Kingdom, the United States, and Africa.[[7]](#endnote-7) HSBC also cut jobs, announcing on May 13, 2013, that it planned to cut an additional 14,000 jobs to focus on high-growth markets in Asia.[[8]](#endnote-8)

In 2012, amid the struggle of various financial institutions in coping with the consequence of the 2008 global financial crisis, U.S. lawmakers started to investigate these international banks. On June 28, 2012, Barclays was fined £290 million for attempting to manipulate the London Interbank Offered Rate (LIBOR) in 2005.[[9]](#endnote-9) On July 11, 2012, HSBC was accused of falling short in its compliance practices and facilitating money laundering for drug barons in Mexico.[[10]](#endnote-10)

StanChart was also investigated. On August 14, 2012, it agreed to pay a fine of $340 million to the New York State Department of Financial Services (DFS) for having violated U.S. sanctions against Iran.[[11]](#endnote-11) In December 2012, it was reported that in addition to the payment to the DFS, StanChart had to pay a further penalty of $327 million, comprising $95 million to the U.S. Attorney’s Office for the Southern District of New York, Department of Justice; $132 million to the Office of Foreign Assets Control, Department of the Treasury; and $100 million to the Federal Reserve System.[[12]](#endnote-12) Hence, StanChart had to pay a total penalty of $667 million ($340 million + $327 million). In 2015, how would a rational investor have taken advantage of the corporate restructuring event at StanChart?

**RESTRUCTURING STANCHART**

**Background**

StanChart was a British multinational banking and financial services company headquartered in London, England.[[13]](#endnote-13) It was formed in 1969 from the merger of two banks: the Standard Bank of British South Africa (founded in 1862) and the Chartered Bank of India, Australia and China (founded in 1853).[[14]](#endnote-14) StanChart was first listed on the London Stock Exchange in 1969.[[15]](#endnote-15) It also had secondary listings on the Hong Kong Stock Exchange and the National Stock Exchange of India.[[16]](#endnote-16) In 2014, StanChart had a network of more than 1,700 offices across more than 70 markets with a total employment of 88,000 people.[[17]](#endnote-17)

In the post global financial crisis period from 2008 to 2013, StanChart had experienced significant growth (see Exhibit 2 and 3). It gained from its Asian focus, as emerging markets grew faster than the U.S. and European economies (see Exhibit 4).[[18]](#endnote-18) StanChart had performed better than its three competitors before July 2013, with StanChart’s stock price peaking on March 5, 2013, at £17.0631 (see Exhibits 5 and 6).

StanChart had been a viable investment option for many institutional investors. One of the key institutional holders, Temasek Holdings (one of the two major sovereign wealth funds in Singapore), had actively advocated for restructuring StanChart to cut down cost and stay competitive.

**Details**

The aim of StanChart’s new corporate strategy was to focus on banking; the people and companies driving investment; trade; and the creation of wealth across Asia, Africa, and the Middle East. As of January 1, 2014, StanChart had already implemented a simplified structure of eight geographical regions to enable greater efficiency and effectiveness. Greater China, the Association of Southeast Asian Nations (ASEAN), Northeast Asia, and South Asia would continue to report to Jaspal Bindra, group executive director and CEO, Asia. Operations in the Middle East, North Africa, and Pakistan (MENAP); Africa; Europe; and the Americas would continue to report to V. Shankar, group executive director and CEO, MENAP, Africa, Europe, and the Americas.[[19]](#endnote-19) Both Bindra and Shankar would continue to report to Peter Sands, the group chief executive. StanChart’s global support and control functions had already been reconfigured to align with the new regional structure and would undergo further changes in response to the reorganization of the business. These functions also would continue to report to Sands.

Sands was one of StanChart’s longest-serving bank chief executives. He had led the bank through the growing Asian lending market. During the recent global financial crisis, the U.K. government had actually turned to him as a key adviser. Sands stated that “the reconfiguration of our business is a critical next step as we implement our refreshed strategy and reinvigorate our growth momentum.”[[20]](#endnote-20) He further commented that the reorganization

would sharpen our focus on distinct customer segments, enabling us to deploy capital, liquidity and investment spend more effectively, and deliver both productivity gains and improvements in the quality of the service and products we offered our customers. Further changes would take place in the support and control functions as they adapted to the reshaping of the business and region.[[21]](#endnote-21)

It was also announced that the newly appointed deputy group chief executive, Mike Rees, would lead the new combined business and would also report to Sands, effective April 1, 2014.[[22]](#endnote-22) Rees had joined StanChart in 1990. From 2002, he was the CEO of wholesale banking. He was appointed to the board of directors as group executive director in August 2009. Rees and Sands would lead StanChart through restructuring.

**POST-RESTRUCTURING**

After the restructuring announcement on January 9, 2014, StanChart’s share and bond prices experienced some volatility but seemed to gain some upward momentum. The share price increased to as high as £13.283 on May 28, 2014. The BBB-rated bond price increased to as high as $115.564 on February 21, 2014.

On March 5, 2014, StanChart released its full financial report for 2013.[[23]](#endnote-23) The operating income was reported to be 1 per cent lower than the prior year, and its emerging-markets-fuelled growth slowed for the first time in a decade.[[24]](#endnote-24)

In July 2014, StanChart’s share price started to decline. Its third quarter earnings were hit hard by a surge in bad loans and by higher regulation and compliance costs reported in October 2014, causing further decline of the stock price.[[25]](#endnote-25)

In November 2014, S&P downgraded StanChart’s long-term debt from AA− to A+ and its short-term debt from A-1+ to A-1.[[26]](#endnote-26) The new rating reflected a higher credit risk assessment of StanChart due to the adverse effects of changes in circumstances and economic conditions.[[27]](#endnote-27) The downgrade was the first downgrade for StanChart since S&P issued the first rating in 1994, 20 years before.[[28]](#endnote-28)

**TRADING OPPORTUNITIES DURING CORPORATE RESTRUCtuRING**

Given that StanChart made its restructuring announcement on January 9, 2014, how would investors take advantage of the news? More specifically, what could investors gain in the following scenarios?

1. If the investor had bought 10,000 StanChart shares and 1,000 BBB-rated StanChart bonds on January 9 and sold them by April 29, 2014, what would be the investor’s expected and actual performance?[[29]](#endnote-29)
2. How would the investment perform if the investor had engaged a long–short trading strategy on StanChart stock and one of its peers from January 9 to April 29, 2014?
3. What if the investor decided to invest over the same period from January 9 to April 29, 2014 in 1,000 units of each of the other four bonds issued by StanChart (see Exhibit 7)?
4. What would be the respective expected and actual performance of the investment if the investor had bought 10,000 StanChart shares and 1,000 BBB-rated StanChart bonds on January 9 and sold them in 6 months (July 13, 2014) and 12 months (January 9, 2015)?

While answering the above four questions, students should also consider other practical trading-related issues, such as the shorting costs and additional securities’ lending income from the brokerage house (see Exhibits 8 and 9).

Other than evaluating the possible investment performance in StanChart, is a more generalized investment strategy possible to exploit trading opportunities under similar corporate restructuring?

**Exhibit 1: Performance of standard chartered’s stocks and bonds, selected dates, January 2014 to January 2015**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Jan. 9, 2014** | **April 29, 2014** | **July 13, 2014** | **Jan. 9, 2015** |
| StanChart Stock Price (in GBP) | 12.3040 | 12.8593 | 11.7655 | 9.7070 |
| Dividends (in GBP) |  | 0.3392 |  | 0.1800 |
| Ex-Dividend Date |  | March 12, 2014 |  | August 13, 2014 |
| Dividend Payment Date |  | May 14, 2014 |  | October 20, 2014 |
| StanChart Bond SCBFF3764769 Price (in USD) | 112.9720 | 113.8730 | 113.5000 | 110.4200 |
| Exchange Rate: GBP per USD | 0.6074 | 0.5936 | 0.5837 | 0.6625 |
| Annualized Risk-Free Rate | 0.13% | 0.11% | 0.10% | 0.21% |
| Annualized Market Return | 11.00% | 2.30% | −0.94% | −2.26% |
| U.K. BBB Investment Grade Corporate Bond Yield to Maturity | 4.14% | 3.97% | 3.92% | 3.30% |

Note: StanChart = Standard Chartered PLC; GBP = British pounds; USD = U.S. dollars; U.K. = United Kingdom

Source: “Stock Prices of Shares for Standard Chartered PLC,” Yahoo Finance, accessed March 20, 2016, sg.finance.yahoo.com/q/ks?s=STAN.L; “Bond Prices for Standard Chartered PLC,” Financial Industry Regulatory Authority (FINRA) and Cbonds Financial Information, accessed March 20, 2016; “GBP per USD,” FactSet Research, accessed March 20, 2016; “1-year US Treasury Bill,” Federal Reserve Bank at St. Louis, accessed March 20, 2016, https://fred.stlouisfed.org/series/DGS1; “FTSE 100 Index”, Yahoo Finance, accessed March 20, 2016, sg.finance.yahoo.com/quote/%5EFTSE?p=%5EFTSE; “S&P U.K. BBB Investment Grade Corporate Bond Yield,” Standard & Poor’s, accessed March 20, 2016, us.spindices.com/indices/fixed-income/sp-uk-bbb-investment-grade-corporate-bond-index.

**Exhibit 2: standard chartered’s INCOME STATEMENTS, 2008–2013 (in US$ MILLIONS)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| Interest income | 16,378 | 12,926 | 13,500 | 16,584 | 17,827 | 17,593 |
| Interest expense | 8,991 | 5,303 | 5,030 | 6,431 | 7,046 | 6,437 |
| Net interest income | 7,387 | 7,623 | 8,470 | 10,153 | 10,781 | 11,156 |
| Noninterest income | 6,581 | 7,561 | 7,592 | 7,484 | 8,002 | 7,621 |
| Total income | 13,968 | 15,184 | 16,062 | 17,637 | 18,783 | 18,777 |
| Provision for credit losses | 1,321 | 2,000 | 883 | 908 | 1,196 | 1,617 |
| Gross income | 12,647 | 13,184 | 15,179 | 16,729 | 17,587 | 17,160 |
| Noninterest expense | 7,611 | 7,952 | 9,023 | 9,917 | 10,722 | 10,193 |
| Others (other impairment and profit from associates) | −468 | −81 | −34 | −37 | −14 | −903 |
| Profit before tax | 4,568 | 5,151 | 6,122 | 6,775 | 6,851 | 6,064 |
| Provision for income taxes | 1,224 | 1,674 | 1,708 | 1,842 | 1,866 | 1,864 |
| **Net Income** | **3,344** | **3,477** | **4,414** | **4,933** | **4,985** | **4,200** |

Source: Standard Chartered PLC, *Driving Investment, Trade and the Creation of Wealth across Asia, Africa and the Middle East: Annual Report 2013*, accessed February 16, 2015, www.sc.com/annual-report/2013.

**Exhibit 3: standard chartered’s BALANCE SHEETs, 2008–2013 (in US$ MILLIONS)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **ASSETS** |  |  |  |  |  |  |
|  | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| Short-term assets |  |  |  |  |  |  |
| Cash and due from banks | 46,583 | 50,885 | 52,058 | 65,981 | 67,797 | 83,702 |
| Federal funds | 24,161 | 18,131 | 32,724 | 47,364 | 60,537 | 54,534 |
| Other short-term investments | 92,575 | 67,372 | 79,709 | 88,845 | 80,422 | 93,965 |
| Investment securities held available for sale | 61,849 | 69,040 | 70,967 | 79,790 | 95,374 | 99,888 |
| **Total Investment** | **225,168** | **205,383** | **235,458** | **281,980** | **304,130** | **332,089** |
| Customer loans |  |  |  |  |  |  |
| Commercial loans | 89,817 | 98,563 | 118,172 | 133,229 | 138,733 | 149,312 |
| Real-estate construction loans | 2,325 | 2,523 | 2,454 | 3,804 | 4,645 | 3,967 |
| Residential mortgages | 47,567 | 57,637 | 70,662 | 72,574 | 72,627 | 69,789 |
| Consumer loans | 33,097 | 36,946 | 46,488 | 52,676 | 57,790 | 60,013 |
| Lease financing  (commercial real estate) | 6,357 | 7,008 | 9,388 | 10,255 | 11,543 | 13,630 |
| **Total Customer Loans** | **179,163** | **202,677** | **247,164** | **272,538** | **285,338** | **296,711** |
| Impairment provision, customers | 4,985 | 4,385 | 6,806 | 5,748 | 5,700 | 6,003 |
| **Loans and Advances to Customers** | **174,178** | **198,292** | **240,358** | **266,790** | **279,638** | **290,708** |
| Other assets |  |  |  |  |  |  |
| Premises and equipment | 3,586 | 4,103 | 4,507 | 5,078 | 6,620 | 6,903 |
| Customer liability on acceptance outstanding | 2,574 | 3,080 | 4,847 | 5,485 | 4,957 | 5,501 |
| Accrued income and prepayments | 3,466 | 3,241 | 2,127 | 2,521 | 2,552 | 2,510 |
| Other assets | 26,096 | 22,554 | 29,263 | 30,832 | 33,311 | 36,669 |
| **Total Assets** | **435,068** | **436,653** | **516,560** | **592,686** | **631,208** | **674,380** |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **LIABILITIES** |  |  |  |  |  |  |
|  | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| **Deposit Liabilities** |  |  |  |  |  |  |
| Noninterest-bearing deposits | 24,195 | 30,572 | 40,820 | 38,510 | 42,230 | 45,482 |
| Saving deposits | 93,092 | 126,726 | 137,255 | 153,185 | 173,103 | 181,159 |
| Customer certificates of deposits | 145,206 | 133,882 | 162,652 | 193,035 | 201,123 | 200,142 |
| Other deposits | 12,084 | 4,509 | 5,249 | 6,502 | 6,056 | 8,714 |
| Total interest-bearing deposits | 250,382 | 265,117 | 305,156 | 352,722 | 380,282 | 390,015 |
| Total deposits | 274,577 | 295,689 | 345,976 | 391,232 | 422,512 | 435,497 |
| Financial liabilities held at fair value through profit or loss | 8,660 | 5,984 | 10,433 | 10,210 | 13,211 | 10,914 |
| Total deposit liabilities | 265,917 | 289,705 | 335,543 | 381,022 | 409,301 | 424,583 |
| **Other Liabilities** |  |  |  |  |  |  |
| Acceptances outstanding | 2,539 | 2,963 | 4,774 | 5,473 | 4,900 | 5,501 |
| Accruals and deferred income | 4,132 | 4,113 | 4,528 | 4,458 | 4,811 | 4,668 |
| Other liabilities | 139,785 | 111,952 | 132,850 | 160,358 | 166,141 | 192,787 |
| **Total Liabilities** | **412,373** | **408,733** | **477,695** | **551,311** | **585,153** | **627,539** |

Exhibit 3 Continued

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **ASSETS** |  |  |  |  |  |  |
|  | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** |
| Capital and capital redemption reserve | 18 | 18 | 18 | 18 | 18 | 18 |
| Merger reserve | 5,450 | 7,284 | 12,421 | 12,421 | 12,421 | 12,421 |
| Available-for-sale reserve | −5 | −93 | 306 | −109 | 478 | 446 |
| Cash flow hedge reserve | −83 | 15 | 57 | −13 | 81 | 15 |
| Translation reserve | −1,784 | −1,185 | −412 | −1,394 | −885 | −2,106 |
| Retained earnings | 12,866 | 15,460 | 19,260 | 23,167 | 26,566 | 28,745 |
| Parent company shareholders’ equity | 22,140 | 27,340 | 38,212 | 40,714 | 45,362 | 46,246 |
| Non-controlling interests | 555 | 580 | 653 | 661 | 693 | 595 |
| **Total Equity** | **22,695** | **27,920** | **38,865** | **41,375** | **46,055** | **46,841** |
| **Total Equity and Liabilities** | **435,068** | **436,653** | **516,560** | **592,686** | **631,208** | **674,380** |

Source: Standard Chartered PLC, *Driving Investment, Trade and the Creation of Wealth across Asia, Africa and the Middle East: Annual Report 2013*, accessed February 16, 2015, www.sc.com/annual-report/2013.

**exhibit 4: REAL GDP GROWTH RATES, selected countries, 2012–2018 (IN PERCENTAGE)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Region/Year** | **2012** | **2013** | **2014** | **2015–2018 (Forecast)** |
| Asia | 6.7 | 6.5 | 6.5 | 6.3 |
| China | 7.7 | 7.6 | 7.4 | 7.0 |
| Africa | 5.3 | 4.9 | 5.4 | 5.4 |
| MENA (Middle East and North Africa) | 4.5 | 3.8 | 4.0 | 4.3 |
| Advanced Economies | 1.4 | 1.0 | 2.0 | 2.4 |
| United States | 2.8 | 1.6 | 2.5 | 3.3 |

Note: GDP = gross domestic product

Source: Standard Chartered PLC, “Leading the Way in Asia, Africa and the Middle East,” November 11, 2013, accessed March 20, 2016, https://www.sc.com/en/resources/global-en/pdf/press-releases/Standard\_Chartered\_Investor\_Day\_media\_deck.pdf.

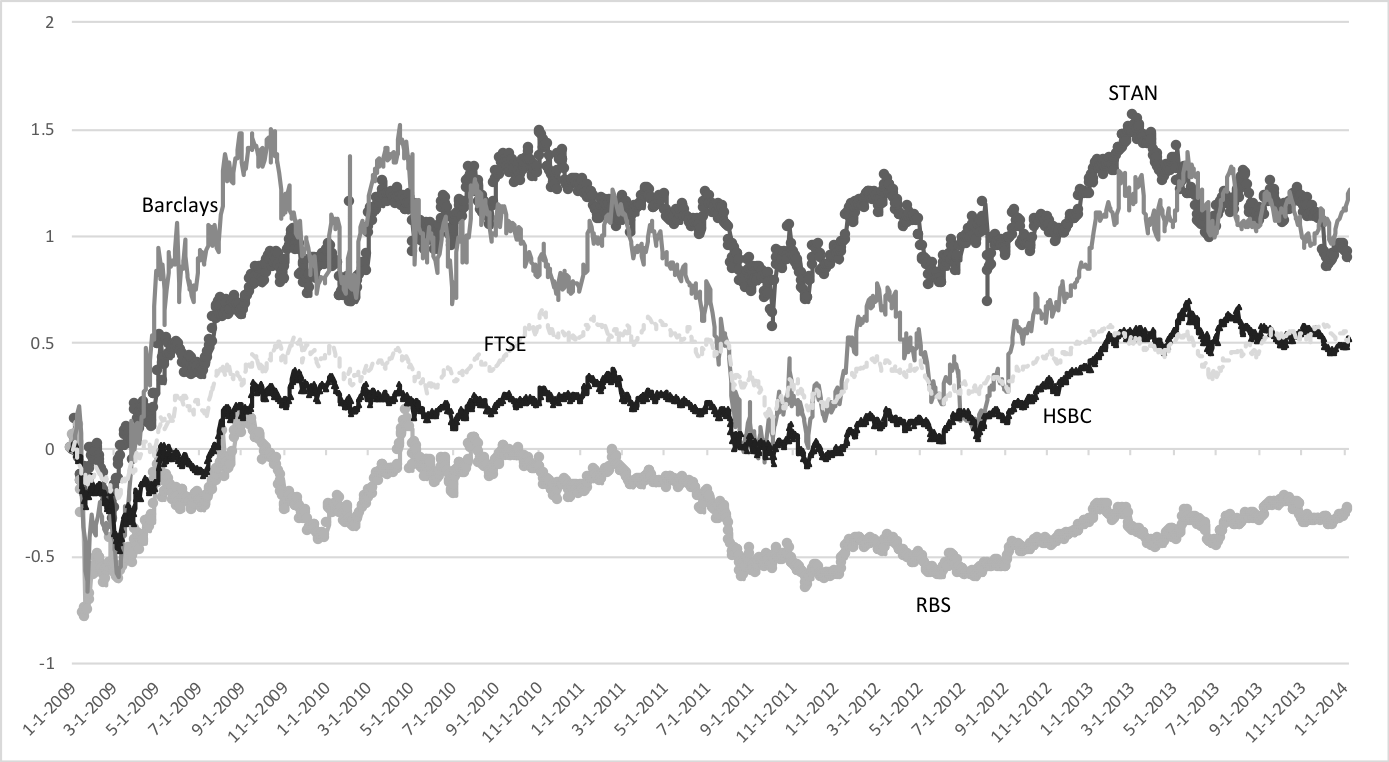
**Exhibit 5: KEY FINANCIAL FIGURES and MARKET-COMPARABLE MULTIPLES of standard chartered and SELECTED PUBLICLY TRADED PEERS, 2013**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Banks (FY 2013)** | **Standard Chartered** | **HSBC** | **RBS** | **Barclays** |
| Ticker | STAN | HSBC | RBS | BCS |
| Stock Exchange | LSE | LSE | LSE | LSE |
| Currency in Annual Reports | USD | USD | GBP | GBP |
| Market Cap | 23.57B | 120.73B | 44.12B | 53.51B |
| Employees | 86,000 | 254,000 | 106,100 | 139,600 |
| Quarterly Revenue Growth (yoy) | −9.20% | 11.30% | 58.90% | 9.10% |
| Revenue (ttm) | 25.69B | 99.53B | 26.50B | 36.91B |
| Gross Profit (ttm) | 18.77B | 58.796B | 19.78B | 24.87B |
| EBITDA (ttm) | 9.29B | N/A | 2.96B | N/A |
| Operating Margin (ttm) | 73.96% | 59.07% | 74.64% | 67.38% |
| Net Income (ttm) | 4.200B | 17.800B | −7.260B | 1.297B |
| EPS (ttm) (diluted) | 1.63 | 0.81 | −0.57 | 0.06 |
| P/E (ttm) (forward) | 5.94 | 6.57 | 0.12 | 0.10 |
| PEG (5 year expected) | 11.65 | 0.91 | 0.04 | −30.25 |
| P/S (ttm) | 141.12 | 206.24 | 306.76 | 218.50 |
| Price/Book (mrq) | 47.30 | 62.18 | 70.68 | 88.74 |
| Total Cash | 54.53B | 166.60B | 79.99B | 45.69B |
| Total Debt | 627.54B | 2480.86B | 971.07B | 1.25B |
| Beta | 1.40 | 1.25 | 1.92 | 2.15 |
| Price on January 9, 2014 | 12.3040 | 6.1498 | 3.6020 | 2.7706 |
| Price on April 29, 2014 | 12.8593 | 5.7301 | 3.0120 | 2.4710 |

Note: FY = financial year; HSBC = Hong Kong and Shanghai Banking Corporation; RBS = Royal Bank of Scotland; LSE = London Stock Exchange; USD = U.S. dollars; GBP = British pounds; B = billion; yoy = year over year; ttm = trailing twelve months; EBITDA = earnings before interest, taxes, depreciation, and amortization; EPS = earnings per share; P/E = price-to-earnings ratio; PEG = price/earnings-to-growth ratio; P/S = price-to-sales ratio; mrq =most recent quarter. The share prices of all four banks are in GBP because they are all listed on London Stock Exchange. Beta is estimated by the case authors using the Financial Times Stock Exchange 100 index as the market return from January 1, 2009, to January 8, 2014.

Source: “Standard Chartered PLC (STAN.L)—Key Statistics,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/q/ks?s=STAN.L; “Royal Bank of Scotland Group plc (RBS.L)—Key Statistics,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/q/ks?s=RBS.L; “Barclays PLC (BARC.L) – Key Statistics,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/q/ks?s=BARC.L; “HSBC Holdings plc (HSBA.L)—Key Statistics,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/q/ks?s=HSBA.

**Exhibit 6: share price performance of standard chartered and SELECTED PEERS, January 2009 to January 2014**



Note: STAN = Standard Chartered PLC; FTSE = Financial Times Stock Exchange; HSBC = Hong Kong and Shanghai Banking Corporation; RBS = Royal Bank of Scotland.

Source: “Standard Chartered PLC (STAN.L)—Key Statistics,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/q/ks?s=STAN.L; “Royal Bank of Scotland Group plc (RBS.L)—Key Statistics,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/q/ks?s=RBS.L; “Barclays PLC (BARC.L) – Key Statistics,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/q/ks?s=BARC.L; “HSBC Holdings plc (HSBA.L)—Key Statistics,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/q/ks?s=HSBA.L; “FTSE 100 Index,” Yahoo Finance, accessed February 16, 2015, https://sg.finance.yahoo.com/quote/%5EFTSE?p=%5EFTSE.

**exhibit 7: STANdard CHARTered CORPORATE BONDs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Bond Number** | **Bond 1** | **Bond 2** | **Bond 3** | **Bond 4** | **Bond 5** |
| BOND ISIN | **XS0323650787** | **XS0736418962** | **XS0803659340** | **XS0875267394** | **XS0969864916** |
| Symbol | SCBFF3764769 | SCBFF3832767 | SCBFF3882625 | SCBFF3968238 | SCBFF4055484 |
| Coupon rate | 6.40% | 5.70% | 4.00% | 5.30% | 5.20% |
| Coupon type | FIXED | FIXED | FIXED | FIXED | FIXED |
| Issue date | September 26, 2007 | January 25, 2012 | July 12, 2012 | January 11, 2013 | September 26, 2013 |
| First coupon date | March 26, 2008 | July 25, 2012 | January 12, 2013 | July 11, 2013 | March 26, 2014 |
| Maturity Date | September 26, 2017 | January 25, 2022 | July 12, 2022 | January 9, 2043 | January 26, 2024 |
| Credit rating (Moody’s/S&P) | A3/BBB | A3/BBB– | A3/BBB– | A3/BBB– | A3/BBB– |
| Currency | USD | USD | USD | USD | USD |
| Coupons per year | 2 | 2 | 2 | 2 | 2 |
| Price of bond at 9/1/14 (USD) | 112.972 | 106.500 | 101.610 | 98.270 | 100.950 |
| Price of bond at 29/4/14 (USD) | 113.873 | 108.810 | 102.540 | 99.790 | 104.270 |

Note: ISIN = International Securities Identification Number; S&P = Standard & Poor’s; USD = U.S. dollars

Source: “Bond Prices for Standard Chartered PLC,” ”SCBFF3764769,” Financial Industry Regulatory Authority (FINRA), accessed March 20, 2016, <http://finra-markets.morningstar.com/BondCenter/BondDetail.jsp?ticker=FSCBFF3764769&symbol=SCBFF3764769>; “SCBFF3832767,” FINRA, op. cit.; “SCBFF3832625,” FINRA, op. cit.; “SCBFF3968238,” FINRA, op. cit.; “SCBFF4055484,” FINRA, op. cit.; Further pricing information was purchased by the case authors from Cbonds, accessed March 20, 2016, cbonds.com.

**Exhibit 8: STANdard CHARTered SECURITY LENDING AND UTILIZATION RATEs, December 2012 to December 2013**

**Panel A: Standard Chartered Stock Lending Cost and Utilization Rates**

**Panel B: Standard Chartered Bond Lending Cost and Utilization Rates**

Note: bps = basis points (i.e., 0.01%). Standard Chartered’s Ex-Dividend Dates: March 12, 2013; August 14, 2013; and March 12, 2014.

Source: “Securities Lending Fees and Utilization Rates of Standard Chartered PLC,” extracted from IHS Markit Securities Finance Database, accessed February 15, 2017.

**Exhibit 9: A PRIMER ON SHORTING**

Since the global financial crisis, most exchanges require that the short seller borrows the stocks in advance for shorting. A short seller would have wanted to short StanChart shares on the London Stock Exchange on January 2, 2014, when the share price was £12. Generally, a short seller does not hold the shares at beginning of the trade, so needs to borrow them in advance to ensure delivery. If the short seller wants to trade 1,000 shares, the seller has to provide about 100% collateral plus a 50% margin. For simplicity, we can assume that both margin and collaterals are in cash (although in reality, the trader can use equities from part of the trader’s portfolio of holdings as collateral). We also assume that the cost of borrowing StanChart shares is 2% in an annualized term (which could be much higher if there is great demand for the shares, when the company is targeted by short sellers).

**January 2, 2014**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets |  | Liability + Equity |
| Short Proceeds  (The short seller sells the 1,000 borrowed shares on the market from £12 per share. This is locked in an account and cannot be accessed.) | £12,000 | Liability:  short position | £12,000 |
| Cash Margin | £6,000 | Equity | £6,000 |
| Total | £18,000 | Total | £18,000 |

**January 3, 2014**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets |  | Liability + Equity |
| Short Proceeds  (The short seller sells the 1,000 borrowed shares on the market from £12 per share. This is locked in an account and cannot be accessed.) | £12,000 | Liability: short position | £12,000 |
| Cash Margin | £6,000 − 0.67 = £5,999.33 | Equity  (− cost of shorting 2% annualized) | £6,000 − 12,000 × (2% ÷ 360) daily borrowing fee incurred shorting cost  = £6,000 − 0.67 = £5,999.33 |
| Total | £17,999.33 | Total | £17,999.33 |

Note: StanChart = Standard Chartered PLC; £ = GBP = British pounds

Source: “Securities Lending Fees and Utilization Rates of Standard Chartered PLC,” extracted from IHS Markit Securities Finance Database, accessed February 15, 2017.

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Standard Chartered PLC or any of its employees. [↑](#endnote-ref-1)
2. This section is based on Standard Chartered PLC, “Standard Chartered Reorganisation of Business and Board Changes,” press release, January 9, 2014, accessed March 20, 2016, www.sc.com/en/news-and-media/news/global/09-01-2014-reorganisation-and-changes.html. [↑](#endnote-ref-2)
3. £ = GBP = British pounds; £1 = US$1.24 on March 31, 2015. [↑](#endnote-ref-3)
4. All dollar amounts are in US$ unless otherwise noted. [↑](#endnote-ref-4)
5. “RBS to Cut Further 300 Jobs at Investment Bank,” Reuters, December 24, 2012, accessed on January 9, 2018, www.reuters.com/article/us-rbs-jobs/rbs-to-cut-further-300-jobs-at-investment-bank-idUSBRE88N0FB20120924. [↑](#endnote-ref-5)
6. Ibid. [↑](#endnote-ref-6)
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12. David Benoit, “Standard Chartered’s Fine Tally Runs to $667 Million,” *Wall Street Journal*, December 10, 2012, accessed February 26, 2015, http://blogs.wsj.com/deals/2012/12/10/standard-chartereds-fine-tally-runs-to-667-million. [↑](#endnote-ref-12)
13. “Our History,” Standard Chartered PLC, accessed March 20, 2016, www.sc.com/en/about-us/our-history.html. [↑](#endnote-ref-13)
14. Ibid. [↑](#endnote-ref-14)
15. “Global Head Office,” Standard Chartered Bank, accessed March 20, 2016, https://www.sc.com/en/about-us/standard-chartered-worldwide/europe/unitedkingdom.html. [↑](#endnote-ref-15)
16. “Our History,” op. cit. [↑](#endnote-ref-16)
17. Standard Chartered PLC, “Standard Chartered Reorganisation of Business and Board Changes,” press release, January 9, 2014, accessed March 20, 2016, https://www.sc.com/en/news-and-media/news/global/09-01-2014-reorganisation-and-changes.html. [↑](#endnote-ref-17)
18. “StanChart Eyes Bank Stake Sales as It Tries to Slim Down,” Reuters, January 16, 2015, accessed January 9, 2018, www.reuters.com/article/2015/01/16/stanchart-restructuring-idUSL3N0UU18Y20150116. [↑](#endnote-ref-18)
19. Ibid. [↑](#endnote-ref-19)
20. Standard Chartered PLC, “Standard Chartered Reorganisation of Business and Board Changes,” op. cit. [↑](#endnote-ref-20)
21. Ibid. [↑](#endnote-ref-21)
22. “StanChart Eyes Bank Stake Sales as It Tries to Slim Down,” op. cit. [↑](#endnote-ref-22)
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24. Ibid. [↑](#endnote-ref-24)
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28. “S&P Downgrades Standard Chartered for the First Time in Bank’s History,” op. cit. [↑](#endnote-ref-28)
29. April 29, 2014, was chosen because there was infrequent trading of StanChart bonds but there were actual bond transactions recorded on this date. Moreover, this date fell into the range of the 3-month investment horizon that was used for evaluating a potential trading strategy. [↑](#endnote-ref-29)