TXT Version:

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==start 0201==

1

00:05:27,199 --> 00:05:28,639

hello everybody

2

00:05:28,639 --> 00:05:32,000

good afternoon nice to

3

00:05:32,000 --> 00:05:35,680

see some of you at least one of you uh

4

00:05:35,680 --> 00:05:39,199

a few more cameras would be nice so i

5

00:05:39,199 --> 00:05:41,280

can see your handsome

6

00:05:41,280 --> 00:05:45,039

and pretty faces hello there

7

00:05:45,039 --> 00:05:49,919

oh there you go nice to see you

8

00:05:50,080 --> 00:05:53,680

okay here we go so my name is veronique

9

00:05:53,680 --> 00:05:55,919

i hope you can see my you can hear me

10

00:05:55,919 --> 00:05:58,000

okay please give me a thumbs up if you

11

00:05:58,000 --> 00:05:59,520

can hear me

12

00:05:59,520 --> 00:06:02,400

good fantastic can you see my slides

13

00:06:02,400 --> 00:06:03,919

give me a thumbs up

14

00:06:03,919 --> 00:06:07,759

excellent so we're all set fantastic i

15

00:06:07,759 --> 00:06:08,240

had

16

00:06:08,240 --> 00:06:11,039

such a fun time teaching that class in

17

00:06:11,039 --> 00:06:12,160

the fall

18

00:06:12,160 --> 00:06:15,600

so i'm looking for just as much fun

19

00:06:15,600 --> 00:06:18,840

if not more with this new crop of

20

00:06:18,840 --> 00:06:20,160

students

21

00:06:20,160 --> 00:06:23,440

so i'm here to teach you

22

00:06:23,440 --> 00:06:25,759

about financial markets financial

23

00:06:25,759 --> 00:06:27,039

institutions

24

00:06:27,039 --> 00:06:29,520

so let's see what i'm going to be

25

00:06:29,520 --> 00:06:31,759

talking about

26

00:06:31,759 --> 00:06:34,319

first of all on zoom thank you for all

27

00:06:34,319 --> 00:06:36,160

of you who've turned on your

28

00:06:36,160 --> 00:06:38,400

your camera it's really nice for me to

29

00:06:38,400 --> 00:06:40,240

be able to see you

30

00:06:40,240 --> 00:06:43,199

so if you can this is would be very very

31

00:06:43,199 --> 00:06:44,720

nice for me

32

00:06:44,720 --> 00:06:49,520

and uh so when you are

33

00:06:49,520 --> 00:06:52,319

asking questions or in the breakout

34

00:06:52,319 --> 00:06:54,240

rooms make sure to unmute yourself

35

00:06:54,240 --> 00:06:57,360

otherwise uh keep it on mute so

36

00:06:57,360 --> 00:07:01,280

i don't have background noises um

37

00:07:01,280 --> 00:07:03,280

and i hope you will be active

38

00:07:03,280 --> 00:07:05,599

participants in this class

39

00:07:05,599 --> 00:07:08,800

either by talking or by the chat

40

00:07:08,800 --> 00:07:13,520

or by posting on the discussion board

41

00:07:13,520 --> 00:07:16,319

so before we start i want to introduce

42

00:07:16,319 --> 00:07:17,199

the most

43

00:07:17,199 --> 00:07:20,400

important person benson

44

00:07:20,400 --> 00:07:22,960

yeah hello hello everyone nice to meet

45

00:07:22,960 --> 00:07:23,599

you

46

00:07:23,599 --> 00:07:26,400

benson is our ta for the class he's the

47

00:07:26,400 --> 00:07:26,880

best

48

00:07:26,880 --> 00:07:30,080

ta in hkust

49

00:07:30,080 --> 00:07:33,120

and he is very very quiet

50

00:07:33,120 --> 00:07:36,160

you can always return to him um

51

00:07:36,160 --> 00:07:38,160

via email so if you don't feel

52

00:07:38,160 --> 00:07:40,639

comfortable enough reaching out to me

53

00:07:40,639 --> 00:07:42,400

you can certainly feel comfortable

54

00:07:42,400 --> 00:07:44,160

reaching out to benson

55

00:07:44,160 --> 00:07:47,360

okay so any questions that you have

56

00:07:47,360 --> 00:07:51,520

you can email him or me and we will

57

00:07:51,520 --> 00:07:54,800

do our very best to answer very quickly

58

00:07:54,800 --> 00:07:58,960

okay so um

59

00:07:58,960 --> 00:08:01,039

all right so what's the objective for

60

00:08:01,039 --> 00:08:02,319

the course uh

61

00:08:02,319 --> 00:08:06,000

it's a sweeping overview of financial

62

00:08:06,000 --> 00:08:06,639

markets

63

00:08:06,639 --> 00:08:09,840

and institutions i will teach you

64

00:08:09,840 --> 00:08:13,520

some very basic discounted cash flow

65

00:08:13,520 --> 00:08:16,479

and valuation but it's only a small part

66

00:08:16,479 --> 00:08:17,919

of the course

67

00:08:17,919 --> 00:08:20,479

the biggest part of the course will be

68

00:08:20,479 --> 00:08:21,759

teaching you

69

00:08:21,759 --> 00:08:24,280

what are the major types of financial

70

00:08:24,280 --> 00:08:26,479

institutions what they do

71

00:08:26,479 --> 00:08:29,039

how they overlap with each other how

72

00:08:29,039 --> 00:08:31,520

they are regulated

73

00:08:31,520 --> 00:08:34,880

and as much as possible we will

74

00:08:34,880 --> 00:08:37,919

look at what's going on right here in

75

00:08:37,919 --> 00:08:39,880

the asian market

76

00:08:39,880 --> 00:08:42,799

unfortunately a lot of the courses you

77

00:08:42,799 --> 00:08:45,279

have and a lot of the textbooks are very

78

00:08:45,279 --> 00:08:48,560

u.s centric and

79

00:08:48,560 --> 00:08:51,519

we cannot avoid talking about the u.s

80

00:08:51,519 --> 00:08:52,399

because

81

00:08:52,399 --> 00:08:55,279

obviously the us dollar is still the

82

00:08:55,279 --> 00:08:57,440

dominant reserve currency

83

00:08:57,440 --> 00:09:00,480

and the financial systems rely on u.s

84

00:09:00,480 --> 00:09:02,560

dollar and u.s payments to a large

85

00:09:02,560 --> 00:09:03,519

degree

86

00:09:03,519 --> 00:09:07,120

but we will zoom in to

87

00:09:07,120 --> 00:09:10,560

asia and particularly hong kong to talk

88

00:09:10,560 --> 00:09:13,839

about how the industry is acting out

89

00:09:13,839 --> 00:09:15,680

here

90

00:09:15,680 --> 00:09:18,720

now my approach is very practical

91

00:09:18,720 --> 00:09:21,440

and that's because i used to be a banker

92

00:09:21,440 --> 00:09:22,959

i was a banker for

93

00:09:22,959 --> 00:09:27,600

over 20 years before i switched

94

00:09:27,600 --> 00:09:30,959

completely by chance to teaching about

95

00:09:30,959 --> 00:09:32,560

what i used to do

96

00:09:32,560 --> 00:09:34,880

which i've now been doing in this fine

97

00:09:34,880 --> 00:09:37,839

university for over 15 years

98

00:09:37,839 --> 00:09:40,959

so i will incorporate a lot of elements

99

00:09:40,959 --> 00:09:46,080

from real life through

100

00:09:46,080 --> 00:09:50,720

sharing about what's going on out there

101

00:09:50,720 --> 00:09:54,399

okay now of course you are

102

00:09:54,399 --> 00:09:58,560

all very interested in grading

103

00:09:58,560 --> 00:10:00,399

and that's generally the only thing you

104

00:10:00,399 --> 00:10:02,959

care about in the first session

105

00:10:02,959 --> 00:10:06,079

so the grading components are here for

106

00:10:06,079 --> 00:10:06,959

you

107

00:10:06,959 --> 00:10:10,000

they are also spelt out in the syllabus

108

00:10:10,000 --> 00:10:11,440

which is posted

109

00:10:11,440 --> 00:10:14,959

like everything i use on the canvas

110

00:10:14,959 --> 00:10:15,920

website

111

00:10:15,920 --> 00:10:18,560

so you have all the information on

112

00:10:18,560 --> 00:10:20,079

canvas

113

00:10:20,079 --> 00:10:22,920

now i'm going to spend a little while on

114

00:10:22,920 --> 00:10:24,720

explaining

115

00:10:24,720 --> 00:10:27,839

the grading criteria so that we are

116

00:10:27,839 --> 00:10:31,279

crystal clear on expectations

117

00:10:31,279 --> 00:10:34,320

okay so

118

00:10:34,320 --> 00:10:37,680

i have different components here

119

00:10:37,680 --> 00:10:41,519

and benson and i have been tinkling with

120

00:10:41,519 --> 00:10:44,079

percentages to kind of reflect the

121

00:10:44,079 --> 00:10:45,200

weight

122

00:10:45,200 --> 00:10:49,120

and the workload that we expect from you

123

00:10:49,120 --> 00:10:52,880

so as you can see there's two exams

124

00:10:52,880 --> 00:10:56,000

that one in

125

00:10:56,000 --> 00:10:59,279

halfway through the course the midterm

126

00:10:59,279 --> 00:11:03,200

and one at the end the final

127

00:11:03,200 --> 00:11:05,519

however i don't call them mid-term and

128

00:11:05,519 --> 00:11:07,640

final because they are

129

00:11:07,640 --> 00:11:10,399

non-cumulative so

130

00:11:10,399 --> 00:11:13,360

the first exam covers the first half of

131

00:11:13,360 --> 00:11:14,720

the course

132

00:11:14,720 --> 00:11:17,600

the second exam covers the second half

133

00:11:17,600 --> 00:11:19,360

of the course

134

00:11:19,360 --> 00:11:22,320

both exams will be like the course

135

00:11:22,320 --> 00:11:23,040

itself

136

00:11:23,040 --> 00:11:26,480

online only and will have

137

00:11:26,480 --> 00:11:30,240

multiple choice true false questions and

138

00:11:30,240 --> 00:11:33,839

some open questions okay

139

00:11:33,839 --> 00:11:37,040

it will be open book

140

00:11:37,040 --> 00:11:40,560

which means you can use pretty much

141

00:11:40,560 --> 00:11:43,360

everything from the notes you've taken

142

00:11:43,360 --> 00:11:46,480

to the slides to everything

143

00:11:46,480 --> 00:11:49,920

to the internet but don't think it's

144

00:11:49,920 --> 00:11:51,200

going to make it

145

00:11:51,200 --> 00:11:54,480

any easier because you will have

146

00:11:54,480 --> 00:11:57,120

a limited time to answer the questions

147

00:11:57,120 --> 00:11:59,040

so if you spend a lot of time searching

148

00:11:59,040 --> 00:12:00,800

for the answer you won't have time to

149

00:12:00,800 --> 00:12:03,120

complete the exam

150

00:12:03,120 --> 00:12:05,839

so actually making it open book has made

151

00:12:05,839 --> 00:12:06,399

it

152

00:12:06,399 --> 00:12:10,000

harder okay

153

00:12:10,000 --> 00:12:13,200

now since each of the exams is 20

154

00:12:13,200 --> 00:12:16,240

of the grade just because you get

155

00:12:16,240 --> 00:12:18,399

good grades in the exams don't mean you

156

00:12:18,399 --> 00:12:19,760

get an a

157

00:12:19,760 --> 00:12:22,959

okay the grade also

158

00:12:22,959 --> 00:12:26,160

includes group work so

159

00:12:26,160 --> 00:12:29,120

group work is the group assignments that

160

00:12:29,120 --> 00:12:30,560

you have and you will have

161

00:12:30,560 --> 00:12:34,560

two assignments one of them

162

00:12:34,560 --> 00:12:38,079

is going to be a market news

163

00:12:38,079 --> 00:12:40,720

voice over powerpoint presentation i'll

164

00:12:40,720 --> 00:12:42,399

explain all that later

165

00:12:42,399 --> 00:12:44,399

the other one will be finding

166

00:12:44,399 --> 00:12:45,760

interesting

167

00:12:45,760 --> 00:12:49,440

videos and articles on a specific topic

168

00:12:49,440 --> 00:12:49,760

that

169

00:12:49,760 --> 00:12:52,880

your group will be assigned we

170

00:12:52,880 --> 00:12:57,200

will make up the groups for you

171

00:12:57,200 --> 00:13:01,680

okay so that will means you will have to

172

00:13:01,680 --> 00:13:02,639

demonstrate

173

00:13:02,639 --> 00:13:06,560

teamwork skills

174

00:13:06,560 --> 00:13:08,079

i'll come back on the details in a

175

00:13:08,079 --> 00:13:10,240

minute you also have

176

00:13:10,240 --> 00:13:14,399

four online quizzes which will be

177

00:13:14,399 --> 00:13:18,399

open during the day they will be

178

00:13:18,399 --> 00:13:21,279

in the same format as the final as the

179

00:13:21,279 --> 00:13:22,800

exams that means

180

00:13:22,800 --> 00:13:26,240

multiple choice true false questions

181

00:13:26,240 --> 00:13:30,079

open book but you'll have a limited time

182

00:13:30,079 --> 00:13:33,680

as well so very much the same format

183

00:13:33,680 --> 00:13:37,440

those four online quizzes are

184

00:13:37,440 --> 00:13:42,000

uh split over the duration of the course

185

00:13:42,000 --> 00:13:44,399

so think about one quarter of the course

186

00:13:44,399 --> 00:13:45,279

first quiz

187

00:13:45,279 --> 00:13:47,600

another the second quarter second quiz

188

00:13:47,600 --> 00:13:48,399

third quarter

189

00:13:48,399 --> 00:13:52,560

third quiz fourth quarter final quiz

190

00:13:52,560 --> 00:13:56,079

all right so eight percent each

191

00:13:56,079 --> 00:13:59,760

and you have participation

192

00:13:59,760 --> 00:14:04,000

so participation means any way you can

193

00:14:04,000 --> 00:14:07,760

contribute to the class which can be

194

00:14:07,760 --> 00:14:11,120

through raising your hand to ask or

195

00:14:11,120 --> 00:14:14,560

answer questions asking questions in the

196

00:14:14,560 --> 00:14:15,760

chat box

197

00:14:15,760 --> 00:14:18,160

posting comments on the discussion board

198

00:14:18,160 --> 00:14:19,920

on canvas

199

00:14:19,920 --> 00:14:24,120

and last but not least in using the

200

00:14:24,120 --> 00:14:27,279

iprs so we will be using

201

00:14:27,279 --> 00:14:31,839

iprs a lot during the course

202

00:14:32,240 --> 00:14:35,440

this is to test the concepts

203

00:14:35,440 --> 00:14:38,720

as we go through them okay

204

00:14:38,720 --> 00:14:41,360

my philosophy is to come up with

205

00:14:41,360 --> 00:14:42,480

concepts

206

00:14:42,480 --> 00:14:45,519

test you on it first through the iprs

207

00:14:45,519 --> 00:14:47,839

then it will be in end of chapter

208

00:14:47,839 --> 00:14:48,720

questions

209

00:14:48,720 --> 00:14:51,839

and it will be on the quizzes and then

210

00:14:51,839 --> 00:14:54,320

on the exam so by the time you reach the

211

00:14:54,320 --> 00:14:56,839

exams you're kind of used to the kind of

212

00:14:56,839 --> 00:14:58,160

questions

213

00:14:58,160 --> 00:15:01,600

that you will be facing um

214

00:15:01,600 --> 00:15:05,360

so participation is important

215

00:15:05,360 --> 00:15:08,639

okay but it can take many formats so i

216

00:15:08,639 --> 00:15:11,199

am aware that some of you are shy

217

00:15:11,199 --> 00:15:13,040

and you don't want to raise your hand

218

00:15:13,040 --> 00:15:14,959

and you don't want to be seen as a

219

00:15:14,959 --> 00:15:17,040

teacher's parent

220

00:15:17,040 --> 00:15:20,240

etc that is okay

221

00:15:20,240 --> 00:15:23,040

you can do it through discussions

222

00:15:23,040 --> 00:15:23,600

through

223

00:15:23,600 --> 00:15:26,880

chat etc all right

224

00:15:26,880 --> 00:15:30,240

now a very important thing and let me

225

00:15:30,240 --> 00:15:30,560

say

226

00:15:30,560 --> 00:15:33,839

it very slowly and very clearly

227

00:15:33,839 --> 00:15:37,519

so that you pay attention okay

228

00:15:37,519 --> 00:15:41,079

pay attention to this i

229

00:15:41,079 --> 00:15:44,240

cannot give

230

00:15:44,240 --> 00:15:48,000

everybody an a

231

00:15:48,000 --> 00:15:51,360

i will repeat this i cannot give

232

00:15:51,360 --> 00:15:55,040

everybody an a not

233

00:15:55,040 --> 00:15:58,399

allowed so

234

00:15:58,399 --> 00:16:02,560

not everybody will get an a

235

00:16:02,560 --> 00:16:06,079

sorry so

236

00:16:06,079 --> 00:16:09,279

in order to shoot for an a

237

00:16:09,279 --> 00:16:13,680

you will need to work hard

238

00:16:13,680 --> 00:16:17,440

and every element of the grade

239

00:16:17,440 --> 00:16:23,120

counts all right notice the exams is 40

240

00:16:23,120 --> 00:16:26,720

so if you only do the exams you will not

241

00:16:26,720 --> 00:16:29,759

get an a okay

242

00:16:29,759 --> 00:16:32,880

and also our students

243

00:16:32,880 --> 00:16:34,839

tend to be super smart and super

244

00:16:34,839 --> 00:16:36,320

competitive

245

00:16:36,320 --> 00:16:39,440

so it is not a walk in the park it's

246

00:16:39,440 --> 00:16:43,680

not an easy class right so you have time

247

00:16:43,680 --> 00:16:44,560

to drop it

248

00:16:44,560 --> 00:16:49,519

if you worry all right so

249

00:16:49,600 --> 00:16:54,160

i and benson take a lot of time

250

00:16:54,160 --> 00:16:57,600

to come up with the grade

251

00:16:57,600 --> 00:17:01,120

short of an obvious mistake

252

00:17:01,120 --> 00:17:06,160

i will not change the grade

253

00:17:06,160 --> 00:17:09,679

if you identify a mistake which has

254

00:17:09,679 --> 00:17:10,959

happened

255

00:17:10,959 --> 00:17:14,160

rarely but it does then

256

00:17:14,160 --> 00:17:17,280

we will in-depth review the case

257

00:17:17,280 --> 00:17:20,160

and if there is indeed a mistake then we

258

00:17:20,160 --> 00:17:21,359

will change the grade

259

00:17:21,359 --> 00:17:24,640

short of that nope no no

260

00:17:24,640 --> 00:17:29,839

no am i clear

261

00:17:30,160 --> 00:17:33,840

am i being clear yes i am being clear

262

00:17:33,840 --> 00:17:34,480

right

263

00:17:34,480 --> 00:17:38,080

okay good all right so with this on

264

00:17:38,080 --> 00:17:40,559

we can move on yes i will answer all

265

00:17:40,559 --> 00:17:42,480

these questions

266

00:17:42,480 --> 00:17:46,240

okay so participation eight percent of

267

00:17:46,240 --> 00:17:47,200

the grade

268

00:17:47,200 --> 00:17:50,559

as i have mentioned you can do it by

269

00:17:50,559 --> 00:17:53,039

answering the questions that i put

270

00:17:53,039 --> 00:17:54,559

through the polling question

271

00:17:54,559 --> 00:17:57,840

iprs question on the chat board on the

272

00:17:57,840 --> 00:17:59,360

canvas discussion board

273

00:17:59,360 --> 00:18:03,440

by raising your hand etc

274

00:18:04,000 --> 00:18:07,760

and by the way it's about

275

00:18:07,760 --> 00:18:10,960

quality not just quantity so

276

00:18:10,960 --> 00:18:14,799

iprs is a system that we use

277

00:18:14,799 --> 00:18:17,840

in hkust which

278

00:18:17,840 --> 00:18:21,200

allows you to respond to questions that

279

00:18:21,200 --> 00:18:21,919

i will

280

00:18:21,919 --> 00:18:25,120

ask you through the system okay

281

00:18:25,120 --> 00:18:28,480

so it's an app and benson do you want to

282

00:18:28,480 --> 00:18:29,280

put in the

283

00:18:29,280 --> 00:18:32,720

chat box oh you did it oh he's so

284

00:18:32,720 --> 00:18:34,480

efficient he's already put it in the

285

00:18:34,480 --> 00:18:35,600

chat

286

00:18:35,600 --> 00:18:38,559

so the iprs you have to log in with it

287

00:18:38,559 --> 00:18:41,440

every time we have a class together

288

00:18:41,440 --> 00:18:44,559

because i will be using it okay

289

00:18:44,559 --> 00:18:48,400

now whether or not you

290

00:18:48,400 --> 00:18:51,600

answer the right question doesn't matter

291

00:18:51,600 --> 00:18:55,440

okay so all i want is for you

292

00:18:55,440 --> 00:18:58,640

to participate so it

293

00:18:58,640 --> 00:19:00,799

it doesn't matter if it's the right or

294

00:19:00,799 --> 00:19:02,160

wrong answer

295

00:19:02,160 --> 00:19:05,200

as long as you participate

296

00:19:05,200 --> 00:19:10,320

okay all right

297

00:19:10,320 --> 00:19:13,760

online quizzes so there's four of them

298

00:19:13,760 --> 00:19:16,640

and it will it is designed to check at

299

00:19:16,640 --> 00:19:19,200

every point that you have assimilated

300

00:19:19,200 --> 00:19:20,720

the key concepts

301

00:19:20,720 --> 00:19:23,840

all right so they are spaced out

302

00:19:23,840 --> 00:19:24,960

throughout the course

303

00:19:24,960 --> 00:19:28,240

you will take them online they cover

304

00:19:28,240 --> 00:19:31,280

only what we covered in class

305

00:19:31,280 --> 00:19:34,320

so the best way to prepare is

306

00:19:34,320 --> 00:19:37,440

by paying attention in class and if

307

00:19:37,440 --> 00:19:38,320

necessary

308

00:19:38,320 --> 00:19:42,080

viewing the recordings of the class

309

00:19:42,080 --> 00:19:44,480

they will help prepare you for the exams

310

00:19:44,480 --> 00:19:46,240

because the exams follow the

311

00:19:46,240 --> 00:19:49,360

same type

312

00:19:49,360 --> 00:19:51,120

okay there will be very similar

313

00:19:51,120 --> 00:19:53,200

questions a little bit tougher but very

314

00:19:53,200 --> 00:19:54,640

similar

315

00:19:54,640 --> 00:19:58,559

uh okay now group assignments

316

00:19:58,559 --> 00:20:02,240

so benson will form you into

317

00:20:02,240 --> 00:20:04,080

depending on the final number of

318

00:20:04,080 --> 00:20:07,440

students after the attend drop period

319

00:20:07,440 --> 00:20:10,720

groups of six or seven students

320

00:20:10,720 --> 00:20:13,840

those group have two

321

00:20:13,840 --> 00:20:18,240

major assignments the first one

322

00:20:18,240 --> 00:20:21,600

is to submit one short video

323

00:20:21,600 --> 00:20:24,640

and one short article

324

00:20:24,640 --> 00:20:28,080

that i can use for the course related to

325

00:20:28,080 --> 00:20:28,559

a

326

00:20:28,559 --> 00:20:32,840

topic that will be assigned to you

327

00:20:32,840 --> 00:20:36,799

okay and this will be due in week four

328

00:20:36,799 --> 00:20:39,840

so benson will communicate with each of

329

00:20:39,840 --> 00:20:41,200

the groups

330

00:20:41,200 --> 00:20:44,640

and will assign the topics

331

00:20:44,640 --> 00:20:48,000

for each of the groups

332

00:20:48,000 --> 00:20:50,640

for the second assignment this is what i

333

00:20:50,640 --> 00:20:51,200

call

334

00:20:51,200 --> 00:20:54,400

market news and both of these

335

00:20:54,400 --> 00:20:55,280

assignments

336

00:20:55,280 --> 00:20:58,000

are designed to help you connect what's

337

00:20:58,000 --> 00:21:00,320

going on out there in the real world

338

00:21:00,320 --> 00:21:02,000

with what we're talking about

339

00:21:02,000 --> 00:21:05,280

in class so the second assignment is

340

00:21:05,280 --> 00:21:06,080

what we call

341

00:21:06,080 --> 00:21:10,480

market news so each group

342

00:21:10,480 --> 00:21:14,960

has to provide us with a digest

343

00:21:14,960 --> 00:21:18,320

of significant financial news

344

00:21:18,320 --> 00:21:22,000

in the week before the deadline

345

00:21:22,000 --> 00:21:24,640

that you have which means that each

346

00:21:24,640 --> 00:21:25,520

group

347

00:21:25,520 --> 00:21:29,360

will have to follow financial news

348

00:21:29,360 --> 00:21:32,640

before the deadline pick one

349

00:21:32,640 --> 00:21:36,240

and present it in a

350

00:21:36,240 --> 00:21:39,200

power voice over powerpoint so we don't

351

00:21:39,200 --> 00:21:42,000

have time to listen to all the groups

352

00:21:42,000 --> 00:21:45,039

otherwise i wouldn't be able to

353

00:21:45,039 --> 00:21:48,480

cover all the materials but i

354

00:21:48,480 --> 00:21:52,159

i expect these uh voiceover powerpoint

355

00:21:52,159 --> 00:21:53,760

presentations

356

00:21:53,760 --> 00:21:57,679

uh and i will be grading them

357

00:21:57,679 --> 00:22:01,280

for relevance

358

00:22:01,280 --> 00:22:04,960

how you present how you articulate

359

00:22:04,960 --> 00:22:07,840

your discussion about the news the

360

00:22:07,840 --> 00:22:08,799

quality

361

00:22:08,799 --> 00:22:11,120

of the slides the quality of the

362

00:22:11,120 --> 00:22:12,960

recording whether

363

00:22:12,960 --> 00:22:15,280

all the group members are playing some

364

00:22:15,280 --> 00:22:16,640

part in it

365

00:22:16,640 --> 00:22:21,360

so all of this is going to be important

366

00:22:21,360 --> 00:22:24,960

now we have groups you didn't choose

367

00:22:24,960 --> 00:22:25,360

them

368

00:22:25,360 --> 00:22:27,520

you don't have to work together this is

369

00:22:27,520 --> 00:22:29,600

going to present some logistical

370

00:22:29,600 --> 00:22:31,520

nightmares because we are all

371

00:22:31,520 --> 00:22:34,960

online and i recognize that

372

00:22:34,960 --> 00:22:38,159

i also recognize that not everybody will

373

00:22:38,159 --> 00:22:39,520

pull their weight

374

00:22:39,520 --> 00:22:42,799

in the team so occasionally

375

00:22:42,799 --> 00:22:46,320

there are some pre-writers which means

376

00:22:46,320 --> 00:22:48,000

that they don't do anything

377

00:22:48,000 --> 00:22:50,880

and ride on the work of their teammates

378

00:22:50,880 --> 00:22:51,679

which of course

379

00:22:51,679 --> 00:22:55,280

is not acceptable so in order to find

380

00:22:55,280 --> 00:22:56,400

out who these people

381

00:22:56,400 --> 00:23:00,960

are we have peer evaluation

382

00:23:00,960 --> 00:23:04,159

so if the results of the peer evaluation

383

00:23:04,159 --> 00:23:07,679

and we are using ipo right benson

384

00:23:07,679 --> 00:23:11,520

we use then people

385

00:23:11,520 --> 00:23:14,320

who are identified as free writers will

386

00:23:14,320 --> 00:23:15,919

see their grade

387

00:23:15,919 --> 00:23:19,280

down not on the course on the group work

388

00:23:19,280 --> 00:23:22,799

so there will be a great consequence

389

00:23:22,799 --> 00:23:25,919

okay so i see that benson is

390

00:23:25,919 --> 00:23:29,039

feeding information to all of you on the

391

00:23:29,039 --> 00:23:31,200

on the chat all right so i'll just keep

392

00:23:31,200 --> 00:23:33,679

zooming through the slide

393

00:23:33,679 --> 00:23:36,400

all right so the exams the the first

394

00:23:36,400 --> 00:23:36,960

exam

395

00:23:36,960 --> 00:23:40,640

will be during class time the second one

396

00:23:40,640 --> 00:23:42,880

will be during the final exam period so

397

00:23:42,880 --> 00:23:44,720

the date will be determined by

398

00:23:44,720 --> 00:23:48,640

the university you will take those exams

399

00:23:48,640 --> 00:23:51,200

online there will be absolutely no

400

00:23:51,200 --> 00:23:52,880

makeup

401

00:23:52,880 --> 00:23:56,960

okay and you have to be uh

402

00:23:56,960 --> 00:24:00,080

aware that we take cheating very

403

00:24:00,080 --> 00:24:02,640

seriously

404

00:24:02,840 --> 00:24:05,279

so if you cheat

405

00:24:05,279 --> 00:24:08,000

you will have to bear the consequences

406

00:24:08,000 --> 00:24:09,120

and we've gotten

407

00:24:09,120 --> 00:24:14,320

much better at identifying cheaters

408

00:24:14,880 --> 00:24:17,600

all right so in this class we'll do some

409

00:24:17,600 --> 00:24:18,880

calculations

410

00:24:18,880 --> 00:24:22,000

um we recommend that

411

00:24:22,000 --> 00:24:24,880

especially if you're going to do finance

412

00:24:24,880 --> 00:24:26,480

courses later

413

00:24:26,480 --> 00:24:28,880

it is worth investing in a financial

414

00:24:28,880 --> 00:24:30,240

calculator

415

00:24:30,240 --> 00:24:33,120

for this class you don't absolutely have

416

00:24:33,120 --> 00:24:33,600

to

417

00:24:33,600 --> 00:24:36,960

because the exams are open books so you

418

00:24:36,960 --> 00:24:38,720

can use

419

00:24:38,720 --> 00:24:42,320

an excel spreadsheet but it's better if

420

00:24:42,320 --> 00:24:46,080

you have a calculator

421

00:24:46,080 --> 00:24:48,400

so i saw that yeah i had questions on

422

00:24:48,400 --> 00:24:49,600

the textbook

423

00:24:49,600 --> 00:24:52,720

there is no required textbook

424

00:24:52,720 --> 00:24:56,240

okay i'm not using a textbook

425

00:24:56,240 --> 00:24:58,159

because textbooks are written by

426

00:24:58,159 --> 00:25:00,159

academics for academics

427

00:25:00,159 --> 00:25:03,600

and i don't like them so i

428

00:25:03,600 --> 00:25:06,159

if you are more comfortable with the

429

00:25:06,159 --> 00:25:09,279

textbooks there are two suggestions here

430

00:25:09,279 --> 00:25:11,679

you do not have to buy them you do not

431

00:25:11,679 --> 00:25:12,720

have to use them

432

00:25:12,720 --> 00:25:16,640

and i don't cover all of their materials

433

00:25:16,640 --> 00:25:19,120

and in fact i do disagree with most of

434

00:25:19,120 --> 00:25:20,400

the textbooks

435

00:25:20,400 --> 00:25:23,440

so the only materials you

436

00:25:23,440 --> 00:25:26,720

need are my slides which

437

00:25:26,720 --> 00:25:31,200

are my intellectual property

438

00:25:31,200 --> 00:25:34,720

so please don't put them on course hero

439

00:25:34,720 --> 00:25:38,080

or whatever okay you would be

440

00:25:38,080 --> 00:25:41,520

in an illegal situation which is not

441

00:25:41,520 --> 00:25:43,679

good

442

00:25:43,679 --> 00:25:47,440

all right now how to study for this

443

00:25:47,440 --> 00:25:48,480

class

444

00:25:48,480 --> 00:25:50,960

pay attention to all the components of

445

00:25:50,960 --> 00:25:52,240

the grade

446

00:25:52,240 --> 00:25:55,039

prepare all your assignments on time

447

00:25:55,039 --> 00:25:56,480

attend the classes

448

00:25:56,480 --> 00:25:59,200

if you cannot for whatever you know if

449

00:25:59,200 --> 00:26:00,000

you're sick

450

00:26:00,000 --> 00:26:03,279

or something happens review the

451

00:26:03,279 --> 00:26:06,320

recording okay not everything is

452

00:26:06,320 --> 00:26:10,000

on the sides i will provide background

453

00:26:10,000 --> 00:26:12,799

and content that is not necessarily on

454

00:26:12,799 --> 00:26:14,559

the side so you will need to pay

455

00:26:14,559 --> 00:26:16,799

attention

456

00:26:16,799 --> 00:26:18,960

review the slides and the notes

457

00:26:18,960 --> 00:26:21,279

carefully before the exam

458

00:26:21,279 --> 00:26:24,720

the prs questions the quizzes are all

459

00:26:24,720 --> 00:26:25,600

designed

460

00:26:25,600 --> 00:26:28,000

to get you to the exam questions so they

461

00:26:28,000 --> 00:26:29,440

follow the same

462

00:26:29,440 --> 00:26:33,200

format ask questions

463

00:26:33,200 --> 00:26:35,919

if you don't understand ask questions

464

00:26:35,919 --> 00:26:37,039

raise your hand

465

00:26:37,039 --> 00:26:40,960

catch me after class if we on campus

466

00:26:40,960 --> 00:26:42,000

make an appointment

467

00:26:42,000 --> 00:26:47,520

email whichever way and participate

468

00:26:50,840 --> 00:26:53,039

okay

469

00:26:53,039 --> 00:26:58,159

let's take a deep breath and

470

00:26:58,880 --> 00:27:02,799

okay so what are we going to be

471

00:27:02,799 --> 00:27:05,279

doing is there attendance for the course

472

00:27:05,279 --> 00:27:07,760

roman no

473

00:27:07,760 --> 00:27:11,360

if you don't show up you can participate

474

00:27:11,360 --> 00:27:14,559

if you can participate you'll have less

475

00:27:14,559 --> 00:27:17,679

points on the participation grade

476

00:27:17,679 --> 00:27:21,600

so i don't record attendance

477

00:27:21,600 --> 00:27:25,520

okay you are all

478

00:27:25,520 --> 00:27:28,880

grown-ups i think

479

00:27:28,880 --> 00:27:31,360

so it's up to you to decide you know i

480

00:27:31,360 --> 00:27:33,440

don't want to be managing attendance i

481

00:27:33,440 --> 00:27:34,000

find this

482

00:27:34,000 --> 00:27:39,200

very outdated form of education

483

00:27:39,200 --> 00:27:41,679

you should know what's good for you all

484

00:27:41,679 --> 00:27:43,919

right so the course content this

485

00:27:43,919 --> 00:27:47,120

is my map for the course so every time

486

00:27:47,120 --> 00:27:49,279

that as we progress

487

00:27:49,279 --> 00:27:51,440

we will move along this map we will

488

00:27:51,440 --> 00:27:53,840

start with an overview

489

00:27:53,840 --> 00:27:58,080

then my thing is all out of work

490

00:27:58,080 --> 00:28:00,960

then we will do the first quantitative

491

00:28:00,960 --> 00:28:02,640

part of the course

492

00:28:02,640 --> 00:28:05,600

which is foundations of interest rates

493

00:28:05,600 --> 00:28:07,760

in there we will look at discounted cash

494

00:28:07,760 --> 00:28:08,960

flow calculation

495

00:28:08,960 --> 00:28:13,279

basics and the basics of interest rates

496

00:28:13,279 --> 00:28:16,080

then we will dive into financial

497

00:28:16,080 --> 00:28:19,600

institutions there's a lot to cover

498

00:28:19,600 --> 00:28:22,559

we'll start by the sell side by which i

499

00:28:22,559 --> 00:28:25,039

mean commercial and investment banking

500

00:28:25,039 --> 00:28:27,279

then we'll move to the buy side where we

501

00:28:27,279 --> 00:28:29,200

will be looking at traditional

502

00:28:29,200 --> 00:28:30,159

institutional

503

00:28:30,159 --> 00:28:32,799

investors and then to alternative

504

00:28:32,799 --> 00:28:34,640

investors

505

00:28:34,640 --> 00:28:37,120

then we'll have the second quantitative

506

00:28:37,120 --> 00:28:38,880

part of the course which will be

507

00:28:38,880 --> 00:28:42,080

very basic valuation exercises

508

00:28:42,080 --> 00:28:45,600

really basic and then hopefully we'll

509

00:28:45,600 --> 00:28:46,480

have time

510

00:28:46,480 --> 00:28:49,679

we will zoom on to regulation so we'll

511

00:28:49,679 --> 00:28:50,480

talk about

512

00:28:50,480 --> 00:28:55,840

banking regulation and monetary policy

513

00:28:56,080 --> 00:29:01,279

okay so the lectures are recorded

514

00:29:01,279 --> 00:29:03,760

uh they're available on canvas they're

515

00:29:03,760 --> 00:29:06,240

subject to intellectual property

516

00:29:06,240 --> 00:29:09,200

uh please don't copy disseminate them

517

00:29:09,200 --> 00:29:11,200

without consent

518

00:29:11,200 --> 00:29:14,240

uh no other recording or taping

519

00:29:14,240 --> 00:29:18,000

is allowed my lecture slides are

520

00:29:18,000 --> 00:29:22,240

my property do not

521

00:29:22,240 --> 00:29:26,880

share it or post it anywhere

522

00:29:26,880 --> 00:29:29,200

we do not tolerate plagiarism or

523

00:29:29,200 --> 00:29:30,960

cheating there are sanctions

524

00:29:30,960 --> 00:29:34,080

on this please be aware of the

525

00:29:34,080 --> 00:29:38,840

rules for academic conduct at the

526

00:29:38,840 --> 00:29:40,080

university

527

00:29:40,080 --> 00:29:44,080

okay so wrapping up on this part

528

00:29:44,080 --> 00:29:47,919

is my contact information

529

00:29:49,600 --> 00:29:52,960

so i am old

530

00:29:52,960 --> 00:29:56,399

and i am allergic to technology so

531

00:29:56,399 --> 00:30:00,480

i correspond by email or face to face

532

00:30:00,480 --> 00:30:03,440

the best way to reach me is by email

533

00:30:03,440 --> 00:30:03,919

because

534

00:30:03,919 --> 00:30:06,720

i will respond fairly quickly uh here's

535

00:30:06,720 --> 00:30:07,520

my

536

00:30:07,520 --> 00:30:10,240

telephone number in the office uh most

537

00:30:10,240 --> 00:30:11,440

people don't actually

538

00:30:11,440 --> 00:30:14,399

use it and i'm in the department of

539

00:30:14,399 --> 00:30:15,279

finance

540

00:30:15,279 --> 00:30:19,440

and the fifth floor of lsk however

541

00:30:19,440 --> 00:30:21,600

i will only meet you if you make an

542

00:30:21,600 --> 00:30:23,600

appointment and the reason for that

543

00:30:23,600 --> 00:30:26,880

is that i have a lot of other

544

00:30:26,880 --> 00:30:29,520

responsibilities in the school which

545

00:30:29,520 --> 00:30:31,360

makes my schedule completely

546

00:30:31,360 --> 00:30:34,159

unpredictable from one week to another

547

00:30:34,159 --> 00:30:37,279

this being said i love

548

00:30:37,279 --> 00:30:39,840

meeting my students i love exchanging

549

00:30:39,840 --> 00:30:40,880

with you

550

00:30:40,880 --> 00:30:42,799

i'm happy to meet you for a cup of

551

00:30:42,799 --> 00:30:44,480

coffee as long as you make an

552

00:30:44,480 --> 00:30:46,159

appointment

553

00:30:46,159 --> 00:30:49,600

now benson uh is also very happy to

554

00:30:49,600 --> 00:30:50,880

communicate with you

555

00:30:50,880 --> 00:30:54,159

preferably by email and again

556

00:30:54,159 --> 00:30:56,480

by appointments his schedule is a little

557

00:30:56,480 --> 00:30:59,840

bit unpredictable this term

558

00:30:59,840 --> 00:31:02,159

okay

559

00:31:03,360 --> 00:31:06,480

any questions so far

560

00:31:12,640 --> 00:31:15,279

all right well you're going to have to

561

00:31:15,279 --> 00:31:17,360

learn to ask questions

562

00:31:17,360 --> 00:31:21,840

why because finance

563

00:31:21,840 --> 00:31:23,919

like every profession has its own

564

00:31:23,919 --> 00:31:25,440

language

565

00:31:25,440 --> 00:31:30,240

and because i am a banker by

566

00:31:30,240 --> 00:31:34,080

experience i use a lot of finance

567

00:31:34,080 --> 00:31:37,360

language a lot of terminology and a lot

568

00:31:37,360 --> 00:31:38,320

of jargon

569

00:31:38,320 --> 00:31:41,440

and sometimes i forget

570

00:31:41,440 --> 00:31:44,720

that you don't know the language so

571

00:31:44,720 --> 00:31:48,480

if i forget to explain a term

572

00:31:48,480 --> 00:31:51,919

that you don't understand please

573

00:31:51,919 --> 00:31:55,120

ask and it's very very

574

00:31:55,120 --> 00:31:59,120

important that you have the discipline

575

00:31:59,120 --> 00:32:02,480

to ask the meaning of the terms

576

00:32:02,480 --> 00:32:06,080

because terms can have different

577

00:32:06,080 --> 00:32:08,960

meanings for different parts of the

578

00:32:08,960 --> 00:32:10,720

industry

579

00:32:10,720 --> 00:32:13,760

so if you assume

580

00:32:13,760 --> 00:32:16,640

the person in front of you knows the

581

00:32:16,640 --> 00:32:18,559

meaning of the term

582

00:32:18,559 --> 00:32:21,120

but they use their background then

583

00:32:21,120 --> 00:32:22,559

you're talking at cross

584

00:32:22,559 --> 00:32:26,840

purposes for example

585

00:32:26,840 --> 00:32:29,600

spot spot has

586

00:32:29,600 --> 00:32:32,880

three different meanings depending on

587

00:32:32,880 --> 00:32:34,880

what part of the financial market you're

588

00:32:34,880 --> 00:32:36,640

talking about

589

00:32:36,640 --> 00:32:39,440

in foreign exchange it means you're

590

00:32:39,440 --> 00:32:41,919

exchanging one currency for another

591

00:32:41,919 --> 00:32:44,320

today

592

00:32:44,720 --> 00:32:47,600

spot in the treasury yield curve is a

593

00:32:47,600 --> 00:32:50,320

zero coupon yield curve

594

00:32:50,320 --> 00:32:53,120

start in determining the value date

595

00:32:53,120 --> 00:32:53,840

means

596

00:32:53,840 --> 00:32:56,799

trade date plus two business days so

597

00:32:56,799 --> 00:32:59,200

when you use spot

598

00:32:59,200 --> 00:33:01,679

it's a finance term but depending on who

599

00:33:01,679 --> 00:33:03,519

you're talking to they have a different

600

00:33:03,519 --> 00:33:05,120

understanding of it

601

00:33:05,120 --> 00:33:08,480

so it's really really important

602

00:33:08,480 --> 00:33:12,240

to go back to definitions

603

00:33:13,440 --> 00:33:16,240

the second reason why you should always

604

00:33:16,240 --> 00:33:17,200

ask questions

605

00:33:17,200 --> 00:33:20,399

is that we should never take anything

606

00:33:20,399 --> 00:33:21,760

for granted

607

00:33:21,760 --> 00:33:24,159

and what we have found and what we keep

608

00:33:24,159 --> 00:33:25,919

finding out is that people

609

00:33:25,919 --> 00:33:28,880

assume

610

00:33:29,279 --> 00:33:32,399

certain things without even realizing

611

00:33:32,399 --> 00:33:34,000

they're making assumptions

612

00:33:34,000 --> 00:33:38,000

so i'm going to push you really hard

613

00:33:38,000 --> 00:33:40,159

to recognize what assumptions you're

614

00:33:40,159 --> 00:33:41,279

making

615

00:33:41,279 --> 00:33:44,480

and to question them because if we

616

00:33:44,480 --> 00:33:46,480

question the assumptions a little bit

617

00:33:46,480 --> 00:33:47,760

more we probably

618

00:33:47,760 --> 00:33:50,320

wouldn't end up in the mass that we

619

00:33:50,320 --> 00:33:52,960

ended up in

620

00:33:52,960 --> 00:33:55,039

there's not much new under the sun so

621

00:33:55,039 --> 00:33:57,919

finance you will find as you practice it

622

00:33:57,919 --> 00:34:00,799

is very much a game of lego so they are

623

00:34:00,799 --> 00:34:02,799

building blocks

624

00:34:02,799 --> 00:34:05,120

and then you assemble these building

625

00:34:05,120 --> 00:34:08,079

blocks into different financial products

626

00:34:08,079 --> 00:34:11,599

at its heart finance is fairly simple

627

00:34:11,599 --> 00:34:16,719

we make it look complicated okay

628

00:34:16,719 --> 00:34:19,440

there are no stupid questions seriously

629

00:34:19,440 --> 00:34:21,359

in my class you have no

630

00:34:21,359 --> 00:34:24,719

stupid questions and i wish

631

00:34:24,719 --> 00:34:27,760

people would have the courage to ask

632

00:34:27,760 --> 00:34:31,280

stupid questions chi tao is telling me

633

00:34:31,280 --> 00:34:34,159

do i cover the crafty cryptocurrency

634

00:34:34,159 --> 00:34:36,719

market the answer is no

635

00:34:36,719 --> 00:34:39,839

i do not i have

636

00:34:39,839 --> 00:34:43,359

already difficulty covering all the real

637

00:34:43,359 --> 00:34:46,239

important stuff so if you want to read

638

00:34:46,239 --> 00:34:46,800

about

639

00:34:46,800 --> 00:34:50,719

the crazy crypto stuff i'm happy to

640

00:34:50,719 --> 00:34:51,520

refer

641

00:34:51,520 --> 00:34:55,679

lots of materials to you

642

00:34:56,239 --> 00:35:00,480

and sadly i don't have all the answers

643

00:35:00,480 --> 00:35:03,119

so sometimes you will ask questions and

644

00:35:03,119 --> 00:35:04,240

i will not

645

00:35:04,240 --> 00:35:08,400

have the answer and then it's fun for me

646

00:35:08,400 --> 00:35:10,000

because then i get to find out the

647

00:35:10,000 --> 00:35:10,480

answer

648

00:35:10,480 --> 00:35:13,599

so i'll do research and sometimes

649

00:35:13,599 --> 00:35:15,760

it's somebody in the classroom who has

650

00:35:15,760 --> 00:35:17,760

answers so chitao

651

00:35:17,760 --> 00:35:20,560

you're interested in crypto let's do a

652

00:35:20,560 --> 00:35:22,720

quick survey

653

00:35:22,720 --> 00:35:26,079

of who in this

654

00:35:26,079 --> 00:35:29,480

audience has experience with

655

00:35:29,480 --> 00:35:32,480

cryptocurrencies

656

00:35:33,520 --> 00:35:36,800

type it in the chat box

657

00:35:39,040 --> 00:35:45,280

as moments there you go a few perfect

658

00:35:45,280 --> 00:35:47,839

so now chitao you have a group of people

659

00:35:47,839 --> 00:35:50,800

who have the same interest as you

660

00:35:50,800 --> 00:35:53,119

yay

661

00:35:53,839 --> 00:35:58,079

perfect good

662

00:35:58,079 --> 00:36:03,359

okay all right so we're going to start

663

00:36:03,359 --> 00:36:06,720

with a big overview and in that overview

664

00:36:06,720 --> 00:36:08,880

i'm going to start because some of you

665

00:36:08,880 --> 00:36:10,960

are not from the fire from the business

666

00:36:10,960 --> 00:36:13,440

school by talking about the language of

667

00:36:13,440 --> 00:36:14,320

business

668

00:36:14,320 --> 00:36:16,880

and then we will put our heads together

669

00:36:16,880 --> 00:36:19,440

to try to understand what is finance

670

00:36:19,440 --> 00:36:22,480

and why do we need a financial system

671

00:36:22,480 --> 00:36:25,599

then we'll talk about the players

672

00:36:25,599 --> 00:36:30,160

and we'll talk about how it all works

673

00:36:30,160 --> 00:36:34,640

so i'm going to step back from

674

00:36:34,640 --> 00:36:37,920

finance a little bit and look at

675

00:36:37,920 --> 00:36:41,520

the business world and there are some

676

00:36:41,520 --> 00:36:42,800

really important things

677

00:36:42,800 --> 00:36:45,359

to understand so when you want to set up

678

00:36:45,359 --> 00:36:46,720

a business

679

00:36:46,720 --> 00:36:49,440

the first thing you need to decide is

680

00:36:49,440 --> 00:36:49,920

what

681

00:36:49,920 --> 00:36:54,400

legal structure you're going to use

682

00:36:54,400 --> 00:36:56,640

and there are many many kinds of legal

683

00:36:56,640 --> 00:36:58,079

structures

684

00:36:58,079 --> 00:37:01,599

and it goes from mom and pop shop

685

00:37:01,599 --> 00:37:03,920

sole proprietorship all the way to

686

00:37:03,920 --> 00:37:06,839

publicly listed limited liability

687

00:37:06,839 --> 00:37:08,000

corporations

688

00:37:08,000 --> 00:37:11,440

the choices that you have in terms of

689

00:37:11,440 --> 00:37:14,800

legal structure depends on the legal

690

00:37:14,800 --> 00:37:18,320

system of the country where you operate

691

00:37:18,320 --> 00:37:22,400

so one of the choices is well

692

00:37:22,400 --> 00:37:25,040

do i want to set up my business here in

693

00:37:25,040 --> 00:37:26,880

hong kong

694

00:37:26,880 --> 00:37:31,200

in mainland china in the us

695

00:37:31,200 --> 00:37:34,480

in europe wherever

696

00:37:34,480 --> 00:37:36,480

and that's because the legal systems are

697

00:37:36,480 --> 00:37:37,760

different

698

00:37:37,760 --> 00:37:39,440

and since the legal systems are

699

00:37:39,440 --> 00:37:40,960

different they will have

700

00:37:40,960 --> 00:37:43,359

different legal vehicles that you can

701

00:37:43,359 --> 00:37:44,320

use

702

00:37:44,320 --> 00:37:47,680

with different implications okay

703

00:37:47,680 --> 00:37:50,640

so it's very important to understand and

704

00:37:50,640 --> 00:37:53,599

whenever you're talking about

705

00:37:53,599 --> 00:37:56,320

business it's important to understand

706

00:37:56,320 --> 00:37:57,680

what is the legal

707

00:37:57,680 --> 00:38:01,280

system that is underpinning all that

708

00:38:01,280 --> 00:38:05,040

so the country that you operate in

709

00:38:05,040 --> 00:38:08,240

drives the legal has a specific legal

710

00:38:08,240 --> 00:38:09,359

system

711

00:38:09,359 --> 00:38:12,480

in hong kong our legal system is

712

00:38:12,480 --> 00:38:16,000

inspired by english law

713

00:38:16,000 --> 00:38:18,400

so because we are a former british

714

00:38:18,400 --> 00:38:19,440

colony

715

00:38:19,440 --> 00:38:22,880

we inherited our legal system from

716

00:38:22,880 --> 00:38:26,400

the uk specifically england

717

00:38:26,400 --> 00:38:28,240

because by the way scotland has a

718

00:38:28,240 --> 00:38:31,280

different legal system

719

00:38:31,280 --> 00:38:34,480

in the u.s you have two levels

720

00:38:34,480 --> 00:38:37,760

you have federal law and state law

721

00:38:37,760 --> 00:38:40,560

and each state has a different legal

722

00:38:40,560 --> 00:38:41,599

system

723

00:38:41,599 --> 00:38:44,160

so state law in new york is different

724

00:38:44,160 --> 00:38:47,839

from state law in delaware

725

00:38:48,240 --> 00:38:51,440

if you go to continental europe our

726

00:38:51,440 --> 00:38:54,800

legal systems are inspired by roman law

727

00:38:54,800 --> 00:38:57,920

which is codified so everything is

728

00:38:57,920 --> 00:38:58,560

written

729

00:38:58,560 --> 00:39:02,480

in a code very different from the

730

00:39:02,480 --> 00:39:05,359

systems derived from english law where

731

00:39:05,359 --> 00:39:06,960

the law is driven by

732

00:39:06,960 --> 00:39:10,320

precedence is driven by the courts

733

00:39:10,320 --> 00:39:13,680

okay so all this to say the thing you

734

00:39:13,680 --> 00:39:14,880

need to know

735

00:39:14,880 --> 00:39:19,119

the legal system is important

736

00:39:19,119 --> 00:39:20,800

and when you're going to do business you

737

00:39:20,800 --> 00:39:22,560

need to know in which system you're

738

00:39:22,560 --> 00:39:25,200

operating

739

00:39:25,359 --> 00:39:28,960

now in the finance industry we have

740

00:39:28,960 --> 00:39:32,880

many types of legal structures

741

00:39:32,880 --> 00:39:36,560

for example mutual organization

742

00:39:36,560 --> 00:39:39,359

and here you need to pay attention this

743

00:39:39,359 --> 00:39:42,160

is a concept that will be coming back

744

00:39:42,160 --> 00:39:45,280

in a mutual organization

745

00:39:45,280 --> 00:39:48,320

the shareholders are the customers all

746

00:39:48,320 --> 00:39:49,280

the customers

747

00:39:49,280 --> 00:39:52,480

are the shareholders example

748

00:39:52,480 --> 00:39:56,240

mutual funds in a mutual fund

749

00:39:56,240 --> 00:39:59,200

as an investor you get shares in the

750

00:39:59,200 --> 00:40:00,640

mutual fund

751

00:40:00,640 --> 00:40:03,760

so the investors the customers are

752

00:40:03,760 --> 00:40:06,800

the shareholders in

753

00:40:06,800 --> 00:40:10,040

mutual banks the

754

00:40:10,040 --> 00:40:12,800

depositors the customers are the

755

00:40:12,800 --> 00:40:14,880

shareholders

756

00:40:14,880 --> 00:40:19,520

okay in mutual insurance companies

757

00:40:19,520 --> 00:40:22,720

the insured parties the

758

00:40:22,720 --> 00:40:25,760

investors are the shareholders

759

00:40:25,760 --> 00:40:29,680

so mutual organizations exist

760

00:40:29,680 --> 00:40:32,720

across the economy and specifically

761

00:40:32,720 --> 00:40:36,000

in finance now that has very important

762

00:40:36,000 --> 00:40:40,160

implications because since the customers

763

00:40:40,160 --> 00:40:42,319

are the shareholders you have an

764

00:40:42,319 --> 00:40:43,359

alignment

765

00:40:43,359 --> 00:40:47,760

of interest and the management

766

00:40:47,760 --> 00:40:50,480

is therefore having to take into account

767

00:40:50,480 --> 00:40:53,040

the interest of their customers because

768

00:40:53,040 --> 00:40:57,280

they are the shareholders okay

769

00:40:57,280 --> 00:41:00,640

now many organizations

770

00:41:00,640 --> 00:41:04,240

are limited liability companies so

771

00:41:04,240 --> 00:41:07,200

the existence of corporations goes back

772

00:41:07,200 --> 00:41:10,560

a couple of centuries to the uk

773

00:41:10,560 --> 00:41:14,079

okay and many financial institutions

774

00:41:14,079 --> 00:41:16,720

are limited liability companies very

775

00:41:16,720 --> 00:41:17,280

often

776

00:41:17,280 --> 00:41:21,359

listed but not all of them

777

00:41:21,359 --> 00:41:25,680

um in the alternative investors section

778

00:41:25,680 --> 00:41:29,040

we will talk about partnerships so in

779

00:41:29,040 --> 00:41:32,079

partnerships you have partners

780

00:41:32,079 --> 00:41:34,800

who bear the responsibility of the

781

00:41:34,800 --> 00:41:36,079

business

782

00:41:36,079 --> 00:41:38,160

in alternatives we will talk about a

783

00:41:38,160 --> 00:41:40,640

specific kind of partnership

784

00:41:40,640 --> 00:41:43,200

which is a limited partnership and you

785

00:41:43,200 --> 00:41:43,920

have two

786

00:41:43,920 --> 00:41:47,839

types of partners the general partners

787

00:41:47,839 --> 00:41:48,960

who are

788

00:41:48,960 --> 00:41:51,920

the fund management company and the

789

00:41:51,920 --> 00:41:53,680

limited partners who are

790

00:41:53,680 --> 00:41:56,960

investors and because they are limited

791

00:41:56,960 --> 00:42:00,839

partners they have limited

792

00:42:00,839 --> 00:42:03,280

responsibility

793

00:42:03,280 --> 00:42:05,680

of course throughout the economy there

794

00:42:05,680 --> 00:42:08,079

are many many many other types

795

00:42:08,079 --> 00:42:11,359

of structures uh the most common ones

796

00:42:11,359 --> 00:42:13,920

small businesses typically are sole

797

00:42:13,920 --> 00:42:15,760

proprietorship

798

00:42:15,760 --> 00:42:18,560

but in business classes we tend to focus

799

00:42:18,560 --> 00:42:19,040

on

800

00:42:19,040 --> 00:42:22,240

large organizations we tend to focus

801

00:42:22,240 --> 00:42:26,000

on limited liability companies

802

00:42:26,000 --> 00:42:28,319

okay

803

00:42:29,599 --> 00:42:32,640

now let's zoom in

804

00:42:32,640 --> 00:42:35,760

on the corporations the corporation and

805

00:42:35,760 --> 00:42:36,960

specifically

806

00:42:36,960 --> 00:42:40,000

publicly listed corporations are limited

807

00:42:40,000 --> 00:42:41,680

liability companies

808

00:42:41,680 --> 00:42:44,319

and why do we call them that because

809

00:42:44,319 --> 00:42:44,880

when you

810

00:42:44,880 --> 00:42:48,880

invest in limited liability company

811

00:42:48,880 --> 00:42:52,400

your liability your responsibility as an

812

00:42:52,400 --> 00:42:56,319

investor is limited to the amount you

813

00:42:56,319 --> 00:42:58,319

invested in

814

00:42:58,319 --> 00:43:01,680

okay this is very very different from

815

00:43:01,680 --> 00:43:04,800

a sole proprietorship if you own

816

00:43:04,800 --> 00:43:07,839

a business like your local bakery in

817

00:43:07,839 --> 00:43:09,280

your name

818

00:43:09,280 --> 00:43:13,680

then you are responsible for everything

819

00:43:13,680 --> 00:43:16,640

and if the business goes bust your

820

00:43:16,640 --> 00:43:17,839

creditors can

821

00:43:17,839 --> 00:43:20,319

can come after you for your own net

822

00:43:20,319 --> 00:43:20,960

worth

823

00:43:20,960 --> 00:43:24,640

okay not so if you're a shareholder in a

824

00:43:24,640 --> 00:43:27,839

limited liability company

825

00:43:27,839 --> 00:43:31,040

it is important to understand that

826

00:43:31,040 --> 00:43:34,240

a corporation is a legal

827

00:43:34,240 --> 00:43:37,280

entity in its own

828

00:43:37,280 --> 00:43:40,960

right it exists

829

00:43:40,960 --> 00:43:44,160

as a legal person

830

00:43:44,160 --> 00:43:47,599

it is responsible

831

00:43:47,599 --> 00:43:51,040

okay not the investors

832

00:43:51,040 --> 00:43:53,119

all the shareholders do it put money in

833

00:43:53,119 --> 00:43:55,359

the business and that's it then the

834

00:43:55,359 --> 00:43:58,880

corporation hires a management team

835

00:43:58,880 --> 00:44:01,839

to manage it the corporation is

836

00:44:01,839 --> 00:44:03,760

responsible

837

00:44:03,760 --> 00:44:07,359

not the individual shareholders okay

838

00:44:07,359 --> 00:44:10,480

and those shareholders

839

00:44:10,480 --> 00:44:13,280

it's basically all they're responsible

840

00:44:13,280 --> 00:44:14,720

for they put the money in there and

841

00:44:14,720 --> 00:44:16,720

that's it they're not responsible for

842

00:44:16,720 --> 00:44:20,240

anything else now the corporation the

843

00:44:20,240 --> 00:44:23,119

legal entity has a governance structure

844

00:44:23,119 --> 00:44:26,160

so you appoint a management team that

845

00:44:26,160 --> 00:44:28,720

management team then reports to

846

00:44:28,720 --> 00:44:32,720

the board of directors who is supposed

847

00:44:32,720 --> 00:44:35,280

to represent the interest of the

848

00:44:35,280 --> 00:44:38,000

shareholders

849

00:44:39,280 --> 00:44:42,480

why does it matter why this whole

850

00:44:42,480 --> 00:44:44,400

introduction

851

00:44:44,400 --> 00:44:47,440

and it matters very much because

852

00:44:47,440 --> 00:44:49,520

the choice that you make of legal

853

00:44:49,520 --> 00:44:50,960

structure

854

00:44:50,960 --> 00:44:53,440

will have very important implications

855

00:44:53,440 --> 00:44:55,040

for the risk

856

00:44:55,040 --> 00:44:59,839

that different parties take particularly

857

00:44:59,839 --> 00:45:03,440

the investors in the business

858

00:45:03,440 --> 00:45:07,599

if you invest in a publicly listed

859

00:45:07,599 --> 00:45:09,760

corporation by buying the shares

860

00:45:09,760 --> 00:45:13,119

you're taking very little liability

861

00:45:13,119 --> 00:45:15,440

in fact your only liability is to put in

862

00:45:15,440 --> 00:45:16,480

the money

863

00:45:16,480 --> 00:45:20,000

when you get the shares that's it

864

00:45:20,000 --> 00:45:23,520

if you invest as a partner then

865

00:45:23,520 --> 00:45:26,560

you have much more responsibility in a

866

00:45:26,560 --> 00:45:28,880

normal partnership then you're

867

00:45:28,880 --> 00:45:31,119

responsible together with your partners

868

00:45:31,119 --> 00:45:31,680

for the

869

00:45:31,680 --> 00:45:34,720

entire business obviously as a sole

870

00:45:34,720 --> 00:45:36,800

proprietorship you're responsible for

871

00:45:36,800 --> 00:45:38,480

everything

872

00:45:38,480 --> 00:45:41,040

the way you are taxed is going to be

873

00:45:41,040 --> 00:45:43,440

different

874

00:45:43,440 --> 00:45:45,839

you may have conflicts of interest

875

00:45:45,839 --> 00:45:47,520

arising

876

00:45:47,520 --> 00:45:50,079

when the management of the legal

877

00:45:50,079 --> 00:45:51,440

structure

878

00:45:51,440 --> 00:45:54,480

is not in agreement with the investors

879

00:45:54,480 --> 00:45:58,880

in the structure the ability to raise

880

00:45:58,880 --> 00:46:00,560

more capital depends

881

00:46:00,560 --> 00:46:04,560

on the risks that investors will take

882

00:46:04,560 --> 00:46:07,599

by providing you the capital so that's

883

00:46:07,599 --> 00:46:08,000

why

884

00:46:08,000 --> 00:46:11,280

it's a lot easier to raise capital when

885

00:46:11,280 --> 00:46:13,920

you have a corporation set up many tiers

886

00:46:13,920 --> 00:46:17,200

as a sole proprietorship

887

00:46:17,200 --> 00:46:19,200

and of course it has implications for

888

00:46:19,200 --> 00:46:21,200

survival of the business

889

00:46:21,200 --> 00:46:24,640

so if it's in name

890

00:46:24,640 --> 00:46:28,240

only if it's your own business

891

00:46:28,240 --> 00:46:30,880

when you die the business is likely to

892

00:46:30,880 --> 00:46:31,280

die

893

00:46:31,280 --> 00:46:33,760

with you unless you've set up a

894

00:46:33,760 --> 00:46:36,000

succession plan

895

00:46:36,000 --> 00:46:39,560

okay so that all very important

896

00:46:39,560 --> 00:46:42,560

consideration now

897

00:46:42,560 --> 00:46:45,599

tak pue has asked me i'm aware that most

898

00:46:45,599 --> 00:46:46,319

of the u.s

899

00:46:46,319 --> 00:46:48,640

listed securities are incorporated in

900

00:46:48,640 --> 00:46:49,839

delaware

901

00:46:49,839 --> 00:46:52,880

any reasons behind it so first of all

902

00:46:52,880 --> 00:46:54,839

it's not the securities that are

903

00:46:54,839 --> 00:46:56,000

incorporated

904

00:46:56,000 --> 00:46:58,400

it's the corporation that issue the

905

00:46:58,400 --> 00:47:00,800

securities that are incorporated

906

00:47:00,800 --> 00:47:03,440

in delaware and the reason for that is

907

00:47:03,440 --> 00:47:05,599

that corporate law in delaware

908

00:47:05,599 --> 00:47:09,440

is far more accommodating

909

00:47:09,440 --> 00:47:12,079

for the corporations than other state

910

00:47:12,079 --> 00:47:13,520

laws

911

00:47:13,520 --> 00:47:15,760

okay

912

00:47:16,560 --> 00:47:19,520

shiraz has asked me what do mutual

913

00:47:19,520 --> 00:47:20,880

organizations do

914

00:47:20,880 --> 00:47:23,200

well it depends on the mutual

915

00:47:23,200 --> 00:47:24,319

organization

916

00:47:24,319 --> 00:47:27,280

if it's a mutual fund it's an investment

917

00:47:27,280 --> 00:47:28,319

vehicle

918

00:47:28,319 --> 00:47:30,880

if it's a mutual insurance company then

919

00:47:30,880 --> 00:47:33,040

it's an insurance vehicle

920

00:47:33,040 --> 00:47:35,839

in fact exchanges like hong kong

921

00:47:35,839 --> 00:47:36,480

exchange

922

00:47:36,480 --> 00:47:39,680

used to be a mutual organization

923

00:47:39,680 --> 00:47:42,480

so you can find a mutual organization

924

00:47:42,480 --> 00:47:43,280

structure

925

00:47:43,280 --> 00:47:48,079

in many different parts of the economy

926

00:47:48,800 --> 00:47:51,990

all right little pop quiz

927

00:47:51,990 --> 00:47:53,359

[Music]

928

00:47:53,359 --> 00:47:56,319

i've been talking already for ah 45

929

00:47:56,319 --> 00:47:57,920

minutes this is terrible

930

00:47:57,920 --> 00:48:01,440

okay time for some action here all right

931

00:48:01,440 --> 00:48:04,040

first question what makes mutual

932

00:48:04,040 --> 00:48:05,200

organizations

933

00:48:05,200 --> 00:48:08,559

different so you can raise your hand

934

00:48:08,559 --> 00:48:11,200

or you can type in the chat i can see

935

00:48:11,200 --> 00:48:13,119

some of you have already typed in but

936

00:48:13,119 --> 00:48:14,640

it's an opportunity to

937

00:48:14,640 --> 00:48:21,839

to talk if you want to

938

00:48:25,839 --> 00:48:28,640

very good

939

00:48:29,760 --> 00:48:33,920

okay so indeed what you need to remember

940

00:48:33,920 --> 00:48:34,400

about

941

00:48:34,400 --> 00:48:36,880

mutual organization is the shareholders

942

00:48:36,880 --> 00:48:38,640

are the customers

943

00:48:38,640 --> 00:48:41,760

okay so it makes a very

944

00:48:41,760 --> 00:48:44,319

very important difference in terms of

945

00:48:44,319 --> 00:48:45,280

alignment

946

00:48:45,280 --> 00:48:51,040

of interest right next question

947

00:48:51,599 --> 00:48:54,800

if my friend and i are lawyers

948

00:48:54,800 --> 00:48:58,800

and we want to set up our law firm

949

00:48:58,800 --> 00:49:02,400

what legal structure should we use

950

00:49:02,400 --> 00:49:06,240

wow look at you you're so fast

951

00:49:06,559 --> 00:49:10,559

fantastic wow

952

00:49:10,559 --> 00:49:14,400

very good partnership indeed

953

00:49:14,880 --> 00:49:18,559

okay so many uh service firms like

954

00:49:18,559 --> 00:49:21,599

law firms accounting firms

955

00:49:21,599 --> 00:49:26,559

uh tend to be organized as partnerships

956

00:49:26,559 --> 00:49:30,640

last question if you are a shareholder

957

00:49:30,640 --> 00:49:33,760

in a publicly listed corporation

958

00:49:33,760 --> 00:49:37,200

are you responsible for the debt of the

959

00:49:37,200 --> 00:49:39,839

company

960

00:49:42,960 --> 00:49:46,000

very very good no no no we are not

961

00:49:46,000 --> 00:49:48,240

responsible for the debt of the company

962

00:49:48,240 --> 00:49:50,160

okay the company itself actually is

963

00:49:50,160 --> 00:49:52,319

responsible for the debt

964

00:49:52,319 --> 00:49:55,440

all right very good i see a lot of you

965

00:49:55,440 --> 00:49:57,520

have been paying attention that is

966

00:49:57,520 --> 00:50:01,599

excellent okay now we're going to talk

967

00:50:01,599 --> 00:50:05,599

about another part of the business

968

00:50:05,599 --> 00:50:07,920

environment which is financial

969

00:50:07,920 --> 00:50:08,880

statements

970

00:50:08,880 --> 00:50:12,240

so what are financial statements well

971

00:50:12,240 --> 00:50:15,440

this basically reports that

972

00:50:15,440 --> 00:50:18,640

companies have to present

973

00:50:18,640 --> 00:50:22,720

uh and that describe their financial

974

00:50:22,720 --> 00:50:25,760

performance okay so there

975

00:50:25,760 --> 00:50:28,160

are different countries have different

976

00:50:28,160 --> 00:50:29,040

requirements

977

00:50:29,040 --> 00:50:33,200

for example in my country in france

978

00:50:33,200 --> 00:50:36,559

even if you are not a publicly listed

979

00:50:36,559 --> 00:50:38,720

company but you've set up a business

980

00:50:38,720 --> 00:50:42,480

you have to file financial statements

981

00:50:42,480 --> 00:50:45,200

with the company registrar and these

982

00:50:45,200 --> 00:50:47,520

statements are available for anybody

983

00:50:47,520 --> 00:50:50,800

to go and check in other countries

984

00:50:50,800 --> 00:50:54,079

it's only required for a listed

985

00:50:54,079 --> 00:50:59,040

companies okay so the type of statements

986

00:50:59,040 --> 00:51:02,960

and how often you should file them

987

00:51:02,960 --> 00:51:07,200

depends country by country all right

988

00:51:07,200 --> 00:51:09,839

so since a lot of our textbooks are u.s

989

00:51:09,839 --> 00:51:11,680

century could tend to talk only about

990

00:51:11,680 --> 00:51:13,839

the u.s but be aware that there might be

991

00:51:13,839 --> 00:51:14,880

differences

992

00:51:14,880 --> 00:51:16,559

and depending on the country in which

993

00:51:16,559 --> 00:51:19,119

you operate

994

00:51:19,119 --> 00:51:22,800

so the annual report it's called

995

00:51:22,800 --> 00:51:25,119

annual report for a reason because it's

996

00:51:25,119 --> 00:51:26,960

done once a year

997

00:51:26,960 --> 00:51:30,000

it's the summary for the whole year

998

00:51:30,000 --> 00:51:33,920

of the business and it is supposed to be

999

00:51:33,920 --> 00:51:38,000

verified by an auditor

1000

00:51:38,000 --> 00:51:41,200

okay so an auditor is basically an

1001

00:51:41,200 --> 00:51:42,559

accountant

1002

00:51:42,559 --> 00:51:45,760

that's going to go and check that

1003

00:51:45,760 --> 00:51:50,240

what you put in the report is correct

1004

00:51:50,240 --> 00:51:53,920

and that's the theory okay

1005

00:51:53,920 --> 00:51:56,480

now the auditor is appointed by the

1006

00:51:56,480 --> 00:51:58,079

corporation

1007

00:51:58,079 --> 00:52:01,200

so it works for the corporation

1008

00:52:01,200 --> 00:52:03,839

it's paid by the corporation but it is

1009

00:52:03,839 --> 00:52:06,240

supposed to protect the

1010

00:52:06,240 --> 00:52:09,280

interest of the investors

1011

00:52:09,280 --> 00:52:12,880

because investors rely on the auditor

1012

00:52:12,880 --> 00:52:14,800

to tell them that the financial

1013

00:52:14,800 --> 00:52:16,000

statements

1014

00:52:16,000 --> 00:52:20,079

are a true picture of the financial

1015

00:52:20,079 --> 00:52:20,640

health

1016

00:52:20,640 --> 00:52:25,839

of the business let's look at an example

1017

00:52:28,160 --> 00:52:31,599

open will you okay here we go

1018

00:52:31,599 --> 00:52:35,920

cathay pacific annual report 2019.

1019

00:52:35,920 --> 00:52:39,119

you can take any company and look at

1020

00:52:39,119 --> 00:52:41,520

their latest annual report

1021

00:52:41,520 --> 00:52:44,400

and then you're going to be looking at

1022

00:52:44,400 --> 00:52:46,960

so we can see here this is the content

1023

00:52:46,960 --> 00:52:50,400

of an annual report it typically starts

1024

00:52:50,400 --> 00:52:52,559

with the statement from

1025

00:52:52,559 --> 00:52:55,359

the management of the company with key

1026

00:52:55,359 --> 00:52:56,800

highlights

1027

00:52:56,800 --> 00:52:59,920

tells you who's in charge and then gives

1028

00:52:59,920 --> 00:53:01,119

you all the different

1029

00:53:01,119 --> 00:53:03,920

numbers starting with the independent

1030

00:53:03,920 --> 00:53:06,880

auditor's report

1031

00:53:06,880 --> 00:53:09,680

so let me go to the independent

1032

00:53:09,680 --> 00:53:12,160

auditor's report

1033

00:53:12,160 --> 00:53:16,800

here we go so kpmg

1034

00:53:16,800 --> 00:53:20,240

is the auditor for cathay pacific

1035

00:53:20,240 --> 00:53:24,160

and this is the report so the opinion

1036

00:53:24,160 --> 00:53:27,440

this is very important word opinion of

1037

00:53:27,440 --> 00:53:29,119

the auditors

1038

00:53:29,119 --> 00:53:33,040

and it the key wording

1039

00:53:33,040 --> 00:53:36,880

is in our opinion

1040

00:53:36,880 --> 00:53:39,680

the consolidated financial statements

1041

00:53:39,680 --> 00:53:40,960

give a true

1042

00:53:40,960 --> 00:53:44,559

and fair view of the consolidated

1043

00:53:44,559 --> 00:53:45,760

financial position

1044

00:53:45,760 --> 00:53:49,920

of the group as of december 20 2019

1045

00:53:49,920 --> 00:53:52,000

and the consolidated performance blah

1046

00:53:52,000 --> 00:53:56,079

blah blah in accordance with

1047

00:53:56,079 --> 00:54:00,240

hong kong financial reporting standards

1048

00:54:00,240 --> 00:54:03,680

issued by the hki cpa

1049

00:54:03,680 --> 00:54:06,240

and have been properly prepared in

1050

00:54:06,240 --> 00:54:07,680

compliance with

1051

00:54:07,680 --> 00:54:10,960

the hong kong company's ordinance

1052

00:54:10,960 --> 00:54:14,079

so what the auditor is saying is they

1053

00:54:14,079 --> 00:54:17,920

think this is their opinion

1054

00:54:17,920 --> 00:54:21,280

that the financial statements give

1055

00:54:21,280 --> 00:54:25,280

you investors a true and fair view

1056

00:54:25,280 --> 00:54:28,000

of the consolidated financial situation

1057

00:54:28,000 --> 00:54:30,800

of the company

1058

00:54:31,520 --> 00:54:34,720

the opinion of the auditor is something

1059

00:54:34,720 --> 00:54:38,559

investors rely on

1060

00:54:38,559 --> 00:54:42,319

to take the financial statements

1061

00:54:42,319 --> 00:54:45,599

at face value okay

1062

00:54:45,599 --> 00:54:48,480

so this is very very important why am i

1063

00:54:48,480 --> 00:54:51,359

saying it's very important because

1064

00:54:51,359 --> 00:54:54,240

over the years we have seen many

1065

00:54:54,240 --> 00:54:56,160

scandals

1066

00:54:56,160 --> 00:55:00,000

where the auditors gave opinions like

1067

00:55:00,000 --> 00:55:01,280

this

1068

00:55:01,280 --> 00:55:03,280

when it turned out all the numbers were

1069

00:55:03,280 --> 00:55:05,599

fabricated

1070

00:55:05,599 --> 00:55:08,799

okay so this is not new the biggest

1071

00:55:08,799 --> 00:55:10,720

scandal was back in the early

1072

00:55:10,720 --> 00:55:13,839

2000s with enron

1073

00:55:13,839 --> 00:55:17,839

okay so the problem with the role of the

1074

00:55:17,839 --> 00:55:19,119

auditors

1075

00:55:19,119 --> 00:55:22,240

is that they're paid for by the company

1076

00:55:22,240 --> 00:55:25,359

but investors rely on them and what they

1077

00:55:25,359 --> 00:55:25,680

put

1078

00:55:25,680 --> 00:55:28,880

out there is an opinion under u.s

1079

00:55:28,880 --> 00:55:33,200

law you cannot be sued for an opinion

1080

00:55:33,200 --> 00:55:36,559

china however is taking a different

1081

00:55:36,559 --> 00:55:40,559

look at this this year

1082

00:55:40,559 --> 00:55:43,680

china has started holding auditors

1083

00:55:43,680 --> 00:55:48,480

legally responsible for their opinions

1084

00:55:48,480 --> 00:55:51,520

in a very recent case the chinese courts

1085

00:55:51,520 --> 00:55:52,400

have held

1086

00:55:52,400 --> 00:55:55,839

auditors rating agencies and

1087

00:55:55,839 --> 00:55:59,440

underwriting banks legally responsible

1088

00:55:59,440 --> 00:56:03,520

for a company going bankrupt

1089

00:56:03,520 --> 00:56:06,480

so you see how two countries may have

1090

00:56:06,480 --> 00:56:06,880

two

1091

00:56:06,880 --> 00:56:11,440

very very different takes on things okay

1092

00:56:11,440 --> 00:56:16,640

so let me go back to my slides

1093

00:56:16,640 --> 00:56:19,680

yeah all right so

1094

00:56:19,680 --> 00:56:22,240

let's take a step back and i'm getting

1095

00:56:22,240 --> 00:56:23,760

to the end of the

1096

00:56:23,760 --> 00:56:25,520

what time what time do we finish six

1097

00:56:25,520 --> 00:56:28,000

right okay

1098

00:56:28,000 --> 00:56:31,920

so prompt me okay um so very important

1099

00:56:31,920 --> 00:56:34,160

the financial statements is something

1100

00:56:34,160 --> 00:56:36,720

that companies have to report on

1101

00:56:36,720 --> 00:56:38,720

they have to get it verified by the

1102

00:56:38,720 --> 00:56:41,119

auditors sadly the auditors don't always

1103

00:56:41,119 --> 00:56:44,079

do their job very very well

1104

00:56:44,079 --> 00:56:47,440

um and there's been a lot of controversy

1105

00:56:47,440 --> 00:56:50,880

around that all right

1106

00:56:50,880 --> 00:56:53,920

now this brings us to accounting

1107

00:56:53,920 --> 00:56:54,720

standards

1108

00:56:54,720 --> 00:56:57,359

remember when i showed you the cafe

1109

00:56:57,359 --> 00:56:59,359

pacific it says the reports were

1110

00:56:59,359 --> 00:57:02,240

prepared in accordance with

1111

00:57:02,240 --> 00:57:06,160

hong kong financial reporting standards

1112

00:57:06,160 --> 00:57:11,359

why because accountants have a language

1113

00:57:11,359 --> 00:57:14,400

and that language is the accounting

1114

00:57:14,400 --> 00:57:16,559

standards

1115

00:57:16,559 --> 00:57:18,799

when i started working when i was your

1116

00:57:18,799 --> 00:57:20,079

age

1117

00:57:20,079 --> 00:57:23,119

pretty much every country

1118

00:57:23,119 --> 00:57:27,359

had a different set of standards

1119

00:57:27,359 --> 00:57:30,960

every country had its own

1120

00:57:30,960 --> 00:57:34,079

generally accepted accounting

1121

00:57:34,079 --> 00:57:37,599

principles so

1122

00:57:37,599 --> 00:57:40,160

companies reported their financial

1123

00:57:40,160 --> 00:57:41,040

statements

1124

00:57:41,040 --> 00:57:44,000

in accordance with that country's set of

1125

00:57:44,000 --> 00:57:46,240

rules

1126

00:57:46,240 --> 00:57:49,680

what was the problem with that

1127

00:57:50,720 --> 00:57:55,839

any problem

1128

00:57:57,440 --> 00:58:00,480

very good yes rise and

1129

00:58:00,480 --> 00:58:04,079

uh day yes and amman

1130

00:58:04,079 --> 00:58:06,079

it's different difficult to compare

1131

00:58:06,079 --> 00:58:07,280

right it's like

1132

00:58:07,280 --> 00:58:09,040

when you're talking two different

1133

00:58:09,040 --> 00:58:10,400

languages and nobody

1134

00:58:10,400 --> 00:58:13,680

translates right so

1135

00:58:13,680 --> 00:58:16,319

if you're trying to invest in countries

1136

00:58:16,319 --> 00:58:16,880

in diff

1137

00:58:16,880 --> 00:58:18,960

in different countries and you you know

1138

00:58:18,960 --> 00:58:20,559

it means you have to understand

1139

00:58:20,559 --> 00:58:22,319

all the accounting standards get really

1140

00:58:22,319 --> 00:58:24,480

complicated

1141

00:58:24,480 --> 00:58:27,680

so there was an initiative and it came

1142

00:58:27,680 --> 00:58:29,440

from europe

1143

00:58:29,440 --> 00:58:33,680

and it was an initiative to converge

1144

00:58:33,680 --> 00:58:36,799

the different standards into one

1145

00:58:36,799 --> 00:58:40,000

common set of accounting standards

1146

00:58:40,000 --> 00:58:42,720

called the international financial

1147

00:58:42,720 --> 00:58:44,240

reporting standards

1148

00:58:44,240 --> 00:58:47,440

or ifrs

1149

00:58:47,440 --> 00:58:51,200

and nowadays is over 100 countries that

1150

00:58:51,200 --> 00:58:52,079

are using

1151

00:58:52,079 --> 00:58:55,280

ifrs or very similar to

1152

00:58:55,280 --> 00:58:59,040

ifrs so in hong kong the hong kong frs

1153

00:58:59,040 --> 00:59:03,119

is very very similar to ifrs

1154

00:59:03,119 --> 00:59:05,680

of course the u.s of course is not doing

1155

00:59:05,680 --> 00:59:07,119

that the u.s

1156

00:59:07,119 --> 00:59:10,319

gap is only used in the u.s

1157

00:59:10,319 --> 00:59:14,640

however u.s gap and ifrs

1158

00:59:14,640 --> 00:59:17,440

accounting standards bodies have been

1159

00:59:17,440 --> 00:59:18,000

trying

1160

00:59:18,000 --> 00:59:21,280

to converge the standards to

1161

00:59:21,280 --> 00:59:23,599

common standards so there's still some

1162

00:59:23,599 --> 00:59:25,920

differences of opinion so it hasn't

1163

00:59:25,920 --> 00:59:28,960

fully converged but it's a lot easier

1164

00:59:28,960 --> 00:59:31,040

than it used to be

1165

00:59:31,040 --> 00:59:32,720

and the other important thing to

1166

00:59:32,720 --> 00:59:35,200

understand about accounting standards

1167

00:59:35,200 --> 00:59:38,799

is they are not set in stone

1168

00:59:38,799 --> 00:59:42,240

they evolve they

1169

00:59:42,240 --> 00:59:45,280

change and when you have

1170

00:59:45,280 --> 00:59:48,559

changes in accounting standards

1171

00:59:48,559 --> 00:59:52,040

it has very very important

1172

00:59:52,040 --> 00:59:56,319

implications for businesses

1173

00:59:56,319 --> 00:59:59,520

in particular we have recently seen

1174

00:59:59,520 --> 01:00:02,960

two huge changes affecting

1175

01:00:02,960 --> 01:00:06,640

banking and insurance

1176

01:00:06,640 --> 01:00:09,920

this is ifrs 7 for insurance

1177

01:00:09,920 --> 01:00:14,160

and afrs 9 for thanking

1178

01:00:14,160 --> 01:00:17,200

all right so i'm not going to give you

1179

01:00:17,200 --> 01:00:18,559

an accounting class

1180

01:00:18,559 --> 01:00:20,880

i'm setting the background so that you

1181

01:00:20,880 --> 01:00:22,079

understand

1182

01:00:22,079 --> 01:00:25,200

the big picture

1183

01:00:26,240 --> 01:00:28,799

all right so you're coming from

1184

01:00:28,799 --> 01:00:30,880

different countries

1185

01:00:30,880 --> 01:00:33,119

which accounting standards are used in

1186

01:00:33,119 --> 01:00:34,720

your country

1187

01:00:34,720 --> 01:00:43,839

so google it

1188

01:00:47,920 --> 01:00:51,200

okay so we see a lot of ifrs so hong

1189

01:00:51,200 --> 01:00:53,760

kong and forest so korean forest

1190

01:00:53,760 --> 01:00:57,040

ah so we have things from indian

1191

01:00:57,040 --> 01:01:00,400

accounting standards

1192

01:01:00,960 --> 01:01:06,480

good all right so we see a variety

1193

01:01:06,480 --> 01:01:10,480

okay ifac

1194

01:01:10,480 --> 01:01:14,480

muhammad what is ifac

1195

01:01:18,880 --> 01:01:24,000

okay so there's some i'm not from

1196

01:01:24,000 --> 01:01:27,040

okay very good all right

1197

01:01:27,040 --> 01:01:29,599

so see you know it says variety in our

1198

01:01:29,599 --> 01:01:31,119

class we already have

1199

01:01:31,119 --> 01:01:34,240

many different accounting standards

1200

01:01:34,240 --> 01:01:36,839

okay so this is very important to

1201

01:01:36,839 --> 01:01:38,720

understand

1202

01:01:38,720 --> 01:01:42,559

all right so make it

1203

01:01:42,559 --> 01:01:44,640

your objective to find out what

1204

01:01:44,640 --> 01:01:46,000

accounting standards

1205

01:01:46,000 --> 01:01:49,760

your country is actually using and is it

1206

01:01:49,760 --> 01:01:52,079

similar to ifrs or is it something

1207

01:01:52,079 --> 01:01:55,119

completely different

1208

01:01:55,760 --> 01:01:59,440

okay now i've talked about the role of

1209

01:01:59,440 --> 01:02:00,319

the auditor

1210

01:02:00,319 --> 01:02:02,559

and this is something that is really

1211

01:02:02,559 --> 01:02:04,079

really important

1212

01:02:04,079 --> 01:02:06,160

because there is a big difference

1213

01:02:06,160 --> 01:02:08,400

between what they're supposed to do

1214

01:02:08,400 --> 01:02:11,839

and the reality

1215

01:02:11,920 --> 01:02:14,240

now the auditor is supposed to check

1216

01:02:14,240 --> 01:02:16,079

they're supposed to verify

1217

01:02:16,079 --> 01:02:18,720

and they can actually somebody was

1218

01:02:18,720 --> 01:02:19,359

asking

1219

01:02:19,359 --> 01:02:22,480

earlier in the chat box about qualified

1220

01:02:22,480 --> 01:02:24,720

opinions and yes you can do

1221

01:02:24,720 --> 01:02:28,000

a qualified opinions all right now

1222

01:02:28,000 --> 01:02:30,480

when you look at the auditor's report

1223

01:02:30,480 --> 01:02:32,240

there are two things you want to check

1224

01:02:32,240 --> 01:02:33,359

out for

1225

01:02:33,359 --> 01:02:37,599

i want to check out whether it says true

1226

01:02:37,599 --> 01:02:41,359

and fair view and whether there is

1227

01:02:41,359 --> 01:02:44,200

any what we call qualifications and

1228

01:02:44,200 --> 01:02:45,359

qualifications

1229

01:02:45,359 --> 01:02:48,640

says wow yeah

1230

01:02:48,640 --> 01:02:51,839

so it's kind of okay but we spotted a

1231

01:02:51,839 --> 01:02:53,440

few little things here

1232

01:02:53,440 --> 01:02:56,000

and you know we might want to dig into

1233

01:02:56,000 --> 01:02:57,039

it

1234

01:02:57,039 --> 01:03:00,720

so qualified uh

1235

01:03:00,720 --> 01:03:04,160

auditors letters is a bad thing

1236

01:03:04,160 --> 01:03:06,960

you if you have a company with qualified

1237

01:03:06,960 --> 01:03:07,680

uh

1238

01:03:07,680 --> 01:03:10,799

auditors you have to really uh be very

1239

01:03:10,799 --> 01:03:12,079

careful

1240

01:03:12,079 --> 01:03:14,640

the other thing is that the auditors

1241

01:03:14,640 --> 01:03:17,280

will give you an

1242

01:03:17,280 --> 01:03:19,760

opinion

1243

01:03:20,799 --> 01:03:24,720

taking into account the company as a

1244

01:03:24,720 --> 01:03:27,359

going business a going concern

1245

01:03:27,359 --> 01:03:31,119

right so in order to have an unqualified

1246

01:03:31,119 --> 01:03:32,240

opinion

1247

01:03:32,240 --> 01:03:34,799

the auditors must believe that the

1248

01:03:34,799 --> 01:03:35,680

company will

1249

01:03:35,680 --> 01:03:38,799

survive for another year

1250

01:03:38,799 --> 01:03:41,359

okay that was a huge problem in the

1251

01:03:41,359 --> 01:03:42,880

spring last year

1252

01:03:42,880 --> 01:03:46,079

because with the pandemic and the total

1253

01:03:46,079 --> 01:03:47,520

uncertainty

1254

01:03:47,520 --> 01:03:50,480

there were concerns that auditors will

1255

01:03:50,480 --> 01:03:52,400

start saying well you know we have no

1256

01:03:52,400 --> 01:03:53,440

idea

1257

01:03:53,440 --> 01:03:56,160

so how can we give you an opinion that

1258

01:03:56,160 --> 01:03:56,640

you're

1259

01:03:56,640 --> 01:03:58,480

still going to be around one year from

1260

01:03:58,480 --> 01:04:01,680

now right so there was a lot of concern

1261

01:04:01,680 --> 01:04:05,440

in the um in the economy

1262

01:04:05,440 --> 01:04:07,680

and with the regulators that auditors

1263

01:04:07,680 --> 01:04:10,319

would start issuing qualified

1264

01:04:10,319 --> 01:04:12,319

opinions saying i don't know if this

1265

01:04:12,319 --> 01:04:14,079

company is going to survive for

1266

01:04:14,079 --> 01:04:17,280

a whole year and always your

1267

01:04:17,280 --> 01:04:20,160

opinions should be based on a going

1268

01:04:20,160 --> 01:04:22,720

concern that the company will survive

1269

01:04:22,720 --> 01:04:26,319

for another year okay so there's been a

1270

01:04:26,319 --> 01:04:26,880

lot of

1271

01:04:26,880 --> 01:04:29,680

really interesting debates about the

1272

01:04:29,680 --> 01:04:31,440

role of the auditors

1273

01:04:31,440 --> 01:04:34,720

this has been magnified by scandals

1274

01:04:34,720 --> 01:04:38,799

there were big scandals last year

1275

01:04:38,799 --> 01:04:43,119

some scandals related to china

1276

01:04:43,119 --> 01:04:46,160

and some scandals in europe and the big

1277

01:04:46,160 --> 01:04:48,160

scandal in europe was

1278

01:04:48,160 --> 01:04:51,599

wirecard so wirecard was a fintech

1279

01:04:51,599 --> 01:04:52,160

company

1280

01:04:52,160 --> 01:04:55,359

in germany that turned out to be nothing

1281

01:04:55,359 --> 01:04:56,960

but fluff

1282

01:04:56,960 --> 01:05:00,559

and the guys who funded the company were

1283

01:05:00,559 --> 01:05:01,520

actually

1284

01:05:01,520 --> 01:05:05,680

lying through their teeth so

1285

01:05:05,680 --> 01:05:07,680

there were a few scandals in china but

1286

01:05:07,680 --> 01:05:09,200

not only in china

1287

01:05:09,200 --> 01:05:12,799

and the problem was that the auditors

1288

01:05:12,799 --> 01:05:15,920

didn't see what was going on didn't

1289

01:05:15,920 --> 01:05:19,680

even do the basic verification

1290

01:05:19,680 --> 01:05:23,839

and the role of the auditors gente

1291

01:05:23,839 --> 01:05:27,280

the scandals have shown that

1292

01:05:27,280 --> 01:05:30,559

auditors have given clean

1293

01:05:30,559 --> 01:05:33,920

opinions to companies

1294

01:05:33,920 --> 01:05:37,359

which were fabricating making up

1295

01:05:37,359 --> 01:05:40,160

their financial statements so they

1296

01:05:40,160 --> 01:05:41,760

didn't do their job

1297

01:05:41,760 --> 01:05:45,119

to go and check in detail what was going

1298

01:05:45,119 --> 01:05:46,000

on

1299

01:05:46,000 --> 01:05:49,640

okay so lucky and coffee in china

1300

01:05:49,640 --> 01:05:53,920

wirecard in germany are examples

1301

01:05:53,920 --> 01:05:58,720

where the auditors did not do their job

1302

01:05:58,720 --> 01:06:02,720

now in defense of auditors the reality

1303

01:06:02,720 --> 01:06:06,079

is that the companies pay them

1304

01:06:06,079 --> 01:06:09,520

but the auditors send the junior staff

1305

01:06:09,520 --> 01:06:12,160

who generally have no clue

1306

01:06:12,160 --> 01:06:14,960

to go and do the grunt work the partners

1307

01:06:14,960 --> 01:06:17,200

don't actually get involved until it's

1308

01:06:17,200 --> 01:06:20,400

time to build the company for the hours

1309

01:06:20,400 --> 01:06:23,839

and put the partner's name on it so

1310

01:06:23,839 --> 01:06:26,240

it's actually a very hard job and should

1311

01:06:26,240 --> 01:06:28,799

be compensated more

1312

01:06:28,799 --> 01:06:32,559

but it's a it's a huge it's a huge issue

1313

01:06:32,559 --> 01:06:35,680

so thanks romana for putting the

1314

01:06:35,680 --> 01:06:39,039

information for your classmates in the

1315

01:06:39,039 --> 01:06:41,599

chat box

1316

01:06:41,599 --> 01:06:44,720

all right okay let's

1317

01:06:44,720 --> 01:06:48,319

test our understanding of the concepts

1318

01:06:48,319 --> 01:06:53,520

why do firms have to publish financial

1319

01:06:58,839 --> 01:07:01,839

reports

1320

01:07:09,599 --> 01:07:13,359

wow this is nice lots of different

1321

01:07:13,359 --> 01:07:16,559

responses so yes

1322

01:07:16,559 --> 01:07:18,240

you're correct it's to provide

1323

01:07:18,240 --> 01:07:20,720

information for investors

1324

01:07:20,720 --> 01:07:23,920

both existing and potential investors

1325

01:07:23,920 --> 01:07:26,960

it's also a legal requirement

1326

01:07:26,960 --> 01:07:30,720

uh depending on the underlying system

1327

01:07:30,720 --> 01:07:34,559

uh it can be a regulatory requirement

1328

01:07:34,559 --> 01:07:39,760

uh yeah very good

1329

01:07:39,760 --> 01:07:44,319

very good okay second question

1330

01:07:44,319 --> 01:07:46,240

why does it matter that there are

1331

01:07:46,240 --> 01:07:57,839

different accounting standards

1332

01:08:02,240 --> 01:08:05,359

very good yes it makes it harder

1333

01:08:05,359 --> 01:08:09,520

to compare different companies okay

1334

01:08:09,520 --> 01:08:13,119

and translating into a different set of

1335

01:08:13,119 --> 01:08:15,839

standards can be very complicated

1336

01:08:15,839 --> 01:08:20,560

okay very good last question

1337

01:08:20,560 --> 01:08:25,839

what is the role of auditors

1338

01:08:38,640 --> 01:08:41,600

whoops the auditors are not legally

1339

01:08:41,600 --> 01:08:43,040

liable in the u.s

1340

01:08:43,040 --> 01:08:46,480

well this is an opinion

1341

01:08:46,640 --> 01:08:49,520

okay so depending on the system where

1342

01:08:49,520 --> 01:08:50,640

you are

1343

01:08:50,640 --> 01:08:53,439

the auditors may not be liable for their

1344

01:08:53,439 --> 01:08:54,479

opinion

1345

01:08:54,479 --> 01:08:56,960

it's like the reading agencies we'll

1346

01:08:56,960 --> 01:08:59,600

talk about them later

1347

01:08:59,600 --> 01:09:03,279

okay so

1348

01:09:03,439 --> 01:09:06,238

they're supposed to verify the

1349

01:09:06,238 --> 01:09:07,679

statements

1350

01:09:07,679 --> 01:09:11,198

and tell the investors if the

1351

01:09:11,198 --> 01:09:14,158

financial statements represent in their

1352

01:09:14,158 --> 01:09:15,439

opinion

1353

01:09:15,439 --> 01:09:17,679

a true and fair view of the financial

1354

01:09:17,679 --> 01:09:19,839

situation of the company

1355

01:09:19,839 --> 01:09:23,120

assuming going concern

1356

01:09:23,120 --> 01:09:26,238

all right okay

1357

01:09:26,238 --> 01:09:30,080

so let's start digging a little bit

1358

01:09:30,080 --> 01:09:32,399

now we talked about financial statements

1359

01:09:32,399 --> 01:09:35,279

and financial statements typically

1360

01:09:35,279 --> 01:09:39,600

include four different stats of reports

1361

01:09:39,600 --> 01:09:42,560

the balance sheet the income statement

1362

01:09:42,560 --> 01:09:44,319

the cash flow statement

1363

01:09:44,319 --> 01:09:46,319

and the statement of changes in

1364

01:09:46,319 --> 01:09:48,479

shareholders equity

1365

01:09:48,479 --> 01:09:50,719

so i'm not going to give you an

1366

01:09:50,719 --> 01:09:53,120

accounting class but i'm going to give

1367

01:09:53,120 --> 01:09:53,920

you

1368

01:09:53,920 --> 01:09:57,320

some basics so that you understand the

1369

01:09:57,320 --> 01:09:59,760

terminology

1370

01:09:59,760 --> 01:10:02,239

all right so part of the problem in

1371

01:10:02,239 --> 01:10:05,040

business and in finance is we often use

1372

01:10:05,040 --> 01:10:09,280

different terms for the same concept

1373

01:10:09,280 --> 01:10:12,880

okay all right so let's start with

1374

01:10:12,880 --> 01:10:16,000

the balance sheet it's

1375

01:10:16,000 --> 01:10:19,120

also called statement of financial

1376

01:10:19,120 --> 01:10:21,600

position

1377

01:10:21,600 --> 01:10:24,960

what is it it's a snapshot so at

1378

01:10:24,960 --> 01:10:28,239

a specific point of time it tells you

1379

01:10:28,239 --> 01:10:29,520

what the company

1380

01:10:29,520 --> 01:10:33,199

owns which are the assets and what it

1381

01:10:33,199 --> 01:10:36,800

owes which are the liabilities

1382

01:10:36,800 --> 01:10:40,960

okay in simple terms that's what it is

1383

01:10:40,960 --> 01:10:43,679

so this is what it looks like this is a

1384

01:10:43,679 --> 01:10:45,679

simplified balance sheet

1385

01:10:45,679 --> 01:10:48,560

so on one side you have the assets on

1386

01:10:48,560 --> 01:10:51,920

the other side you have the liabilities

1387

01:10:51,920 --> 01:10:55,120

the assets are broken down between

1388

01:10:55,120 --> 01:10:57,440

things that are going to be used within

1389

01:10:57,440 --> 01:10:58,560

a year

1390

01:10:58,560 --> 01:11:01,760

which we call current assets

1391

01:11:01,760 --> 01:11:03,840

and things that are going to be used

1392

01:11:03,840 --> 01:11:06,480

over several years which we call

1393

01:11:06,480 --> 01:11:10,840

long-term assets these are the things we

1394

01:11:10,840 --> 01:11:16,239

own on the other side the liabilities

1395

01:11:16,239 --> 01:11:19,360

is what we owe to

1396

01:11:19,360 --> 01:11:24,320

our creditors to our suppliers

1397

01:11:24,320 --> 01:11:28,560

and again we break it down in terms of

1398

01:11:28,560 --> 01:11:32,320

how long okay so things that we

1399

01:11:32,320 --> 01:11:35,280

owe within one year is current

1400

01:11:35,280 --> 01:11:36,800

liabilities

1401

01:11:36,800 --> 01:11:40,080

things that we owe for longer period

1402

01:11:40,080 --> 01:11:43,679

is long-term liabilities

1403

01:11:43,679 --> 01:11:45,920

now why is it called balance sheet

1404

01:11:45,920 --> 01:11:48,480

because it has to balance

1405

01:11:48,480 --> 01:11:51,520

and the difference between assets

1406

01:11:51,520 --> 01:11:55,920

and liabilities is equity

1407

01:11:55,920 --> 01:11:59,120

okay specifically shareholders or

1408

01:11:59,120 --> 01:12:00,159

stockholders

1409

01:12:00,159 --> 01:12:03,199

equity this is the money

1410

01:12:03,199 --> 01:12:07,199

that investors have put in the company

1411

01:12:07,199 --> 01:12:10,800

in terms of capital equity capital

1412

01:12:10,800 --> 01:12:13,920

and it also includes money

1413

01:12:13,920 --> 01:12:17,080

that has been earned by the business and

1414

01:12:17,080 --> 01:12:18,400

reinvested

1415

01:12:18,400 --> 01:12:21,280

in the company which we call retained

1416

01:12:21,280 --> 01:12:22,560

earnings

1417

01:12:22,560 --> 01:12:27,679

okay we also call this the net worth

1418

01:12:27,679 --> 01:12:31,199

okay so remember

1419

01:12:31,199 --> 01:12:34,800

assets what we own

1420

01:12:34,800 --> 01:12:38,159

we use the capital to buy this

1421

01:12:38,159 --> 01:12:41,520

okay this is what we owe

1422

01:12:41,520 --> 01:12:45,120

these are different sources of capital

1423

01:12:45,120 --> 01:12:48,960

this being equity capital and the rest

1424

01:12:48,960 --> 01:12:50,239

will be that

1425

01:12:50,239 --> 01:12:53,280

capital it's really important that

1426

01:12:53,280 --> 01:12:55,679

you understand that basic stuff okay

1427

01:12:55,679 --> 01:12:57,679

it's very fundamental

1428

01:12:57,679 --> 01:13:00,159

as you go forward with your finance

1429

01:13:00,159 --> 01:13:02,719

classes

1430

01:13:03,120 --> 01:13:06,719

so the two sides must balance

1431

01:13:06,719 --> 01:13:10,080

assets equals liabilities plus

1432

01:13:10,080 --> 01:13:13,920

stockholders equity if you

1433

01:13:13,920 --> 01:13:17,280

owe more than you own then you have

1434

01:13:17,280 --> 01:13:19,840

negative equity which is generally not a

1435

01:13:19,840 --> 01:13:20,560

good thing

1436

01:13:20,560 --> 01:13:24,880

but is possible sometimes okay

1437

01:13:24,880 --> 01:13:27,760

and that has to do with the difference

1438

01:13:27,760 --> 01:13:29,679

that i will explain later between

1439

01:13:29,679 --> 01:13:33,840

book and market value

1440

01:13:35,760 --> 01:13:39,120

okay so we've seen that one of the

1441

01:13:39,120 --> 01:13:39,920

sources of

1442

01:13:39,920 --> 01:13:43,679

capital for the firm is

1443

01:13:43,679 --> 01:13:46,800

stockholders equity so it

1444

01:13:46,800 --> 01:13:50,159

includes money that investors have

1445

01:13:50,159 --> 01:13:53,679

paid to buy the shares of the stock

1446

01:13:53,679 --> 01:13:57,199

and it also include money that the

1447

01:13:57,199 --> 01:14:00,640

business has made and reinvested

1448

01:14:00,640 --> 01:14:03,520

in the business

1449

01:14:06,560 --> 01:14:10,800

okay so what we see in the balance sheet

1450

01:14:10,800 --> 01:14:14,719

is the book value of equity

1451

01:14:14,719 --> 01:14:17,920

okay this is what is recorded in the

1452

01:14:17,920 --> 01:14:21,520

financial statements

1453

01:14:21,760 --> 01:14:24,960

this is different from the

1454

01:14:24,960 --> 01:14:28,000

market value the

1455

01:14:28,000 --> 01:14:31,840

market value of equity is what the

1456

01:14:31,840 --> 01:14:34,960

market thinks the equity

1457

01:14:34,960 --> 01:14:39,280

is worth okay

1458

01:14:40,840 --> 01:14:42,560

so

1459

01:14:42,560 --> 01:14:46,000

the market value of the equity

1460

01:14:46,000 --> 01:14:48,880

is basically what is the price of the

1461

01:14:48,880 --> 01:14:50,400

shares in the market

1462

01:14:50,400 --> 01:14:53,800

right now and the market

1463

01:14:53,800 --> 01:14:57,440

capitalization of market cap for short

1464

01:14:57,440 --> 01:15:01,360

is the price of the shares right now

1465

01:15:01,360 --> 01:15:05,679

times the number of shares outstanding

1466

01:15:05,679 --> 01:15:08,719

okay so the

1467

01:15:08,719 --> 01:15:11,920

book value that is the value of equity

1468

01:15:11,920 --> 01:15:15,199

as reported in the financial statements

1469

01:15:15,199 --> 01:15:18,400

is often very different from the

1470

01:15:18,400 --> 01:15:22,320

market value of the equity

1471

01:15:22,320 --> 01:15:25,360

it can be lower

1472

01:15:25,360 --> 01:15:28,480

if the market believes the company is

1473

01:15:28,480 --> 01:15:29,120

more

1474

01:15:29,120 --> 01:15:31,840

worth more than what's reflected in the

1475

01:15:31,840 --> 01:15:33,040

numbers

1476

01:15:33,040 --> 01:15:36,320

or it can be less so

1477

01:15:36,320 --> 01:15:39,600

we can look at the situation with our

1478

01:15:39,600 --> 01:15:42,080

friends

1479

01:15:42,159 --> 01:15:46,880

in cathay pacific

1480

01:15:46,880 --> 01:15:50,320

all right so if i just go down in my

1481

01:15:50,320 --> 01:15:54,320

after the auditor's report i see

1482

01:15:54,320 --> 01:15:58,239

the consolidated financial statement

1483

01:15:58,239 --> 01:16:00,159

okay so this is the balance sheet you

1484

01:16:00,159 --> 01:16:01,600

will notice

1485

01:16:01,600 --> 01:16:03,840

first of all that the presentation is

1486

01:16:03,840 --> 01:16:05,360

different

1487

01:16:05,360 --> 01:16:08,960

so in my slide i had assets on one side

1488

01:16:08,960 --> 01:16:10,960

liability on the other which is a very

1489

01:16:10,960 --> 01:16:13,360

common form of presentation this one is

1490

01:16:13,360 --> 01:16:17,040

different they put current or

1491

01:16:17,040 --> 01:16:18,960

non-current assets and liabilities

1492

01:16:18,960 --> 01:16:21,199

together and then current and last

1493

01:16:21,199 --> 01:16:24,080

assets and liabilities together and then

1494

01:16:24,080 --> 01:16:24,880

you have

1495

01:16:24,880 --> 01:16:27,280

the capital and reserves so if you look

1496

01:16:27,280 --> 01:16:29,760

at 2019

1497

01:16:29,760 --> 01:16:33,120

and you look at the equity

1498

01:16:33,120 --> 01:16:37,280

in hong kong dollars you find 62 billion

1499

01:16:37,280 --> 01:16:40,640

hong kong dollars now why don't you go

1500

01:16:40,640 --> 01:16:41,760

and check out

1501

01:16:41,760 --> 01:16:44,719

on internet what is the market cap of

1502

01:16:44,719 --> 01:16:49,840

kathy pacific today

1503

01:16:50,159 --> 01:16:55,760

to google it and put it in the chat box

1504

01:16:55,760 --> 01:17:03,840

in hong kong dollars

1505

01:17:09,199 --> 01:17:11,040

so that's per share but i want to know

1506

01:17:11,040 --> 01:17:12,320

how many yes

1507

01:17:12,320 --> 01:17:16,800

thank you samson very good

1508

01:17:16,800 --> 01:17:19,920

okay so i'm seeing 39 billion hong kong

1509

01:17:19,920 --> 01:17:21,280

dollars

1510

01:17:21,280 --> 01:17:24,159

so you see an example where the market

1511

01:17:24,159 --> 01:17:24,640

puts

1512

01:17:24,640 --> 01:17:27,679

a much lower value on

1513

01:17:27,679 --> 01:17:31,600

cafe than what the books say

1514

01:17:31,600 --> 01:17:34,800

okay the book value of equity

1515

01:17:34,800 --> 01:17:37,840

is at the end of 2019

1516

01:17:37,840 --> 01:17:42,000

was a little bit under 63 billion

1517

01:17:42,000 --> 01:17:44,640

and now the market considers it's worth

1518

01:17:44,640 --> 01:17:45,120

about

1519

01:17:45,120 --> 01:17:48,480

39 billion right

1520

01:17:48,480 --> 01:17:52,000

so things have happened so why

1521

01:17:52,000 --> 01:17:55,520

is the market having such a bad view of

1522

01:17:55,520 --> 01:17:57,840

cafe

1523

01:17:57,840 --> 01:18:00,640

what happened yes the impact of the

1524

01:18:00,640 --> 01:18:01,440

pandemic

1525

01:18:01,440 --> 01:18:04,560

right so people cannot travel

1526

01:18:04,560 --> 01:18:07,120

all right so there's been the impact of

1527

01:18:07,120 --> 01:18:09,280

the pandemic but even before that

1528

01:18:09,280 --> 01:18:12,640

cathay pacific was already in trouble

1529

01:18:12,640 --> 01:18:15,840

okay they had badly you know the service

1530

01:18:15,840 --> 01:18:17,440

was not going very well

1531

01:18:17,440 --> 01:18:19,440

there were fewer customers even before

1532

01:18:19,440 --> 01:18:21,760

the pandemic and of course the dynamic

1533

01:18:21,760 --> 01:18:24,640

has made things much much worse so

1534

01:18:24,640 --> 01:18:26,000

here's an example where

1535

01:18:26,000 --> 01:18:28,080

the market value of the company is

1536

01:18:28,080 --> 01:18:29,199

substantially

1537

01:18:29,199 --> 01:18:32,640

lower than the book value

1538

01:18:32,640 --> 01:18:36,239

now there probably is in your mind a few

1539

01:18:36,239 --> 01:18:38,560

ideas of companies which have

1540

01:18:38,560 --> 01:18:44,000

a higher market capitalization

1541

01:18:44,000 --> 01:18:48,320

yes very good oh god i can see the name

1542

01:18:48,320 --> 01:18:52,640

hmm okay oh oh

1543

01:18:52,640 --> 01:18:54,880

oh no no no no we are not starting on

1544

01:18:54,880 --> 01:18:57,760

this we are not starting on gme no no no

1545

01:18:57,760 --> 01:18:58,239

no no

1546

01:18:58,239 --> 01:19:02,239

no gamestop discussion here stop

1547

01:19:02,239 --> 01:19:06,239

okay all right so the point here was the

1548

01:19:06,239 --> 01:19:08,320

difference between both value and market

1549

01:19:08,320 --> 01:19:08,960

cap

1550

01:19:08,960 --> 01:19:12,719

okay we've just done this okay

1551

01:19:12,719 --> 01:19:15,920

now the balance sheet also shows you

1552

01:19:15,920 --> 01:19:19,199

that you can fund the business

1553

01:19:19,199 --> 01:19:21,120

from different sources so we have

1554

01:19:21,120 --> 01:19:25,040

different sources of capital

1555

01:19:25,360 --> 01:19:28,400

when you start a business at a very

1556

01:19:28,400 --> 01:19:30,960

early stage as a startup

1557

01:19:30,960 --> 01:19:34,640

where do we get the funding from

1558

01:19:34,880 --> 01:19:38,480

we call it the three f's friends family

1559

01:19:38,480 --> 01:19:41,600

and fools okay

1560

01:19:41,600 --> 01:19:45,199

uh and you give them shares in exchange

1561

01:19:45,199 --> 01:19:45,679

for

1562

01:19:45,679 --> 01:19:47,360

the money that they give you to start

1563

01:19:47,360 --> 01:19:49,199

the business

1564

01:19:49,199 --> 01:19:52,640

as you grow you can start attracting

1565

01:19:52,640 --> 01:19:55,920

financial investors typically in the

1566

01:19:55,920 --> 01:19:56,480

form

1567

01:19:56,480 --> 01:20:00,800

of venture capital and then later on

1568

01:20:00,800 --> 01:20:04,000

private equity and then

1569

01:20:04,000 --> 01:20:07,199

once you are ready you can

1570

01:20:07,199 --> 01:20:10,320

take the company public which

1571

01:20:10,320 --> 01:20:13,880

allows you to attract retail

1572

01:20:13,880 --> 01:20:16,840

individual investors

1573

01:20:16,840 --> 01:20:20,080

okay so when you

1574

01:20:20,080 --> 01:20:23,440

are going public you're getting

1575

01:20:23,440 --> 01:20:26,960

listed on a recognized stock exchange

1576

01:20:26,960 --> 01:20:30,400

you can then place your shares with

1577

01:20:30,400 --> 01:20:33,520

anybody who wants them and then you can

1578

01:20:33,520 --> 01:20:34,480

attract

1579

01:20:34,480 --> 01:20:38,159

retail individual investors

1580

01:20:38,159 --> 01:20:42,159

now this is very important thank you

1581

01:20:42,159 --> 01:20:45,760

because we will see

1582

01:20:45,760 --> 01:20:50,000

that whenever you're selling things to

1583

01:20:50,000 --> 01:20:52,800

retail investors by which i mean you and

1584

01:20:52,800 --> 01:20:54,239

me

1585

01:20:54,239 --> 01:20:57,360

widows and orphans

1586

01:20:57,360 --> 01:21:01,120

the regulators will be watching

1587

01:21:01,120 --> 01:21:03,840

because the main responsibility of

1588

01:21:03,840 --> 01:21:05,360

investors

1589

01:21:05,360 --> 01:21:09,520

is to protect the widows and orphans

1590

01:21:09,520 --> 01:21:12,800

they don't want little investors to be

1591

01:21:12,800 --> 01:21:16,320

taken advantage of

1592

01:21:16,320 --> 01:21:19,520

by big actors in the market

1593

01:21:19,520 --> 01:21:22,639

okay so we see

1594

01:21:22,639 --> 01:21:25,600

equity comes in different forms but you

1595

01:21:25,600 --> 01:21:27,520

can also raise

1596

01:21:27,520 --> 01:21:30,639

debt capital from

1597

01:21:30,639 --> 01:21:33,360

different sources so we can borrow money

1598

01:21:33,360 --> 01:21:34,639

when we're talking about

1599

01:21:34,639 --> 01:21:38,159

debt we're talking about money that we

1600

01:21:38,159 --> 01:21:38,639

get

1601

01:21:38,639 --> 01:21:42,000

for a period of time and we have to

1602

01:21:42,000 --> 01:21:45,440

pay back we can get them

1603

01:21:45,440 --> 01:21:48,800

from the bank in the form of a loan

1604

01:21:48,800 --> 01:21:52,080

we can also get it from investors

1605

01:21:52,080 --> 01:21:55,920

by issuing bonds we can get it from

1606

01:21:55,920 --> 01:21:56,719

finance

1607

01:21:56,719 --> 01:22:00,159

companies in the form of at least

1608

01:22:00,159 --> 01:22:04,159

we can also get it from

1609

01:22:04,159 --> 01:22:08,239

suppliers in the form of trade credit

1610

01:22:08,239 --> 01:22:11,920

so all of this is different forms

1611

01:22:11,920 --> 01:22:15,199

of debt capital which is

1612

01:22:15,199 --> 01:22:18,400

money you get for a period of time

1613

01:22:18,400 --> 01:22:20,719

at a specific cost but you have to pay

1614

01:22:20,719 --> 01:22:22,239

it back

1615

01:22:22,239 --> 01:22:24,880

the equity capital you don't have to pay

1616

01:22:24,880 --> 01:22:26,159

it back

1617

01:22:26,159 --> 01:22:29,040

okay so very important difference there

1618

01:22:29,040 --> 01:22:30,880

are many differences but this is one

1619

01:22:30,880 --> 01:22:32,880

major one

1620

01:22:32,880 --> 01:22:36,639

okay so remember the names

1621

01:22:36,639 --> 01:22:39,920

equity capital and debt

1622

01:22:39,920 --> 01:22:42,960

capital equity

1623

01:22:42,960 --> 01:22:45,360

you don't have to give it back that you

1624

01:22:45,360 --> 01:22:46,480

have to give it back

1625

01:22:46,480 --> 01:22:49,920

at some point okay

1626

01:22:49,920 --> 01:22:53,679

and of course the debt is the liability

1627

01:22:53,679 --> 01:22:54,159

part

1628

01:22:54,159 --> 01:22:56,960

of the balance sheet the equity is the

1629

01:22:56,960 --> 01:22:58,080

stockholders

1630

01:22:58,080 --> 01:23:01,679

equity at the bottom

1631

01:23:02,480 --> 01:23:06,960

okay so i have a couple of minutes left

1632

01:23:06,960 --> 01:23:09,760

so if you think in terms of the life

1633

01:23:09,760 --> 01:23:10,480

cycle

1634

01:23:10,480 --> 01:23:14,560

of the firms okay the

1635

01:23:14,560 --> 01:23:18,239

capital that you generate will come from

1636

01:23:18,239 --> 01:23:19,360

different

1637

01:23:19,360 --> 01:23:23,760

sources at the very early stage here at

1638

01:23:23,760 --> 01:23:24,960

the light bulb

1639

01:23:24,960 --> 01:23:28,239

idea you have an idea

1640

01:23:28,239 --> 01:23:31,040

and in order to make that idea turn into

1641

01:23:31,040 --> 01:23:32,719

a business you need a little bit of

1642

01:23:32,719 --> 01:23:33,199

funding

1643

01:23:33,199 --> 01:23:36,480

at that point there's three f's

1644

01:23:36,480 --> 01:23:39,679

families and friends and some fools

1645

01:23:39,679 --> 01:23:43,280

then as you start growing when you have

1646

01:23:43,280 --> 01:23:45,679

young growth and you are starting to

1647

01:23:45,679 --> 01:23:48,639

convert that idea into a business that

1648

01:23:48,639 --> 01:23:50,239

is started to generate

1649

01:23:50,239 --> 01:23:53,520

revenues then you can attract

1650

01:23:53,520 --> 01:23:56,639

venture capital as you

1651

01:23:56,639 --> 01:24:00,639

scale up you will attract private equity

1652

01:24:00,639 --> 01:24:03,040

you can start raising debt and

1653

01:24:03,040 --> 01:24:04,560

eventually

1654

01:24:04,560 --> 01:24:07,600

you go public

1655

01:24:07,600 --> 01:24:10,199

then the business gets into more

1656

01:24:10,199 --> 01:24:11,920

maturity

1657

01:24:11,920 --> 01:24:14,960

okay and eventually will decline

1658

01:24:14,960 --> 01:24:19,199

so businesses go through life cycles

1659

01:24:19,199 --> 01:24:23,280

many businesses don't survive very long

1660

01:24:23,280 --> 01:24:25,520

there are very few businesses that

1661

01:24:25,520 --> 01:24:28,480

survive more than a hundred years

1662

01:24:28,480 --> 01:24:32,000

okay so as the businesses evolve

1663

01:24:32,000 --> 01:24:34,159

through the life cycle it will have

1664

01:24:34,159 --> 01:24:36,239

different characteristics it will have

1665

01:24:36,239 --> 01:24:37,920

different growth rate it will have

1666

01:24:37,920 --> 01:24:39,679

different profitability

1667

01:24:39,679 --> 01:24:42,840

and it will have different types of

1668

01:24:42,840 --> 01:24:44,639

investors

1669

01:24:44,639 --> 01:24:47,920

all right so i put it right there

1670

01:24:47,920 --> 01:24:51,040

self-funding at the early stage moving

1671

01:24:51,040 --> 01:24:55,679

on to wide access to capital

1672

01:24:55,679 --> 01:24:58,560

one of the challenges in business school

1673

01:24:58,560 --> 01:25:00,320

is we teach you a lot

1674

01:25:00,320 --> 01:25:04,239

about grown firms we don't teach you too

1675

01:25:04,239 --> 01:25:04,800

much

1676

01:25:04,800 --> 01:25:08,400

about the early stages all right so

1677

01:25:08,400 --> 01:25:10,239

a lot of the things you learn in

1678

01:25:10,239 --> 01:25:12,400

business school courses

1679

01:25:12,400 --> 01:25:14,960

have to do with things that large

1680

01:25:14,960 --> 01:25:17,120

companies can do

1681

01:25:17,120 --> 01:25:20,320

the reality though is

1682

01:25:20,320 --> 01:25:23,120

only a small number of very large

1683

01:25:23,120 --> 01:25:25,360

companies can do these things

1684

01:25:25,360 --> 01:25:28,560

most of the early stage firms cannot

1685

01:25:28,560 --> 01:25:31,760

raise cannot access the capital markets

1686

01:25:31,760 --> 01:25:32,639

cannot issue

1687

01:25:32,639 --> 01:25:35,920

bonds and they are limited

1688

01:25:35,920 --> 01:25:38,239

in the sources of funding that they can

1689

01:25:38,239 --> 01:25:39,520

get

1690

01:25:39,520 --> 01:25:42,000

all right i'm going to stop here because

1691

01:25:42,000 --> 01:25:43,280

uh this is i'm

1692

01:25:43,280 --> 01:25:46,719

i try to stop on time so it's 5 50 which

1693

01:25:46,719 --> 01:25:47,920

is when

1694

01:25:47,920 --> 01:25:50,639

the class is supposed to stop if you

1695

01:25:50,639 --> 01:25:51,120

have

1696

01:25:51,120 --> 01:25:54,480

any questions please ask them

1697

01:25:54,480 --> 01:25:57,360

and if not you're free to go and i will

1698

01:25:57,360 --> 01:25:58,000

see you

1699

01:25:58,000 --> 01:26:00,960

on friday

1700

01:26:03,840 --> 01:26:07,199

so if you have any questions please do

1701

01:26:07,199 --> 01:26:09,840

thank you kids

1702

01:26:12,159 --> 01:26:14,480

thanks

==end 0201==

==start 0205==

1

00:10:19,360 --> 00:10:20,399

okay

2

00:10:20,399 --> 00:10:23,600

good afternoon ladies and gentlemen it's

3

00:10:23,600 --> 00:10:26,880

nice to see you back in the classroom

4

00:10:26,880 --> 00:10:29,440

uh so for those of you who haven't yet

5

00:10:29,440 --> 00:10:32,079

please turn on your videos i can see

6

00:10:32,079 --> 00:10:34,320

your handsome and pretty faces

7

00:10:34,320 --> 00:10:38,320

uh good all right

8

00:10:38,320 --> 00:10:41,519

if you have any questions please raise

9

00:10:41,519 --> 00:10:42,720

your hand or

10

00:10:42,720 --> 00:10:47,519

put it in the chat box i hope

11

00:10:47,519 --> 00:10:51,040

you don't uh i hope you can all hear me

12

00:10:51,040 --> 00:10:51,760

clearly

13

00:10:51,760 --> 00:10:54,160

can you see the slides give me a thumbs

14

00:10:54,160 --> 00:10:55,920

up

15

00:10:55,920 --> 00:10:58,959

yeah fantastic okay

16

00:10:58,959 --> 00:11:01,839

let's get moving on then all right so

17

00:11:01,839 --> 00:11:03,279

we've been talking about

18

00:11:03,279 --> 00:11:05,279

financial statements we've we're in the

19

00:11:05,279 --> 00:11:07,360

section about language of business to

20

00:11:07,360 --> 00:11:10,640

get everybody sort of on the same page

21

00:11:10,640 --> 00:11:13,040

and now we've talked about the balance

22

00:11:13,040 --> 00:11:14,000

sheet

23

00:11:14,000 --> 00:11:16,880

now we're going to talk about the income

24

00:11:16,880 --> 00:11:18,320

statement

25

00:11:18,320 --> 00:11:21,440

so the income statement is also called

26

00:11:21,440 --> 00:11:22,000

the

27

00:11:22,000 --> 00:11:25,440

pnl profit and loss statement

28

00:11:25,440 --> 00:11:28,720

so what it means is that it shows you

29

00:11:28,720 --> 00:11:32,480

how profitable eetong this is a weird

30

00:11:32,480 --> 00:11:34,240

cat behind you

31

00:11:34,240 --> 00:11:37,519

it's kind of floating is it a ghost

32

00:11:37,519 --> 00:11:41,279

i think it's a little lowly too simple

33

00:11:41,279 --> 00:11:44,560

it's really cute though

34

00:11:44,560 --> 00:11:49,200

okay this is distracting me from p l

35

00:11:49,200 --> 00:11:52,399

okay so income statement tells you in

36

00:11:52,399 --> 00:11:54,079

simple terms

37

00:11:54,079 --> 00:11:57,360

how profitable a company is so

38

00:11:57,360 --> 00:12:00,320

remember the balance sheet is a snapshot

39

00:12:00,320 --> 00:12:02,000

at one point in time

40

00:12:02,000 --> 00:12:05,839

tells you what assets the company has

41

00:12:05,839 --> 00:12:08,959

what it owns and what it owes

42

00:12:08,959 --> 00:12:11,440

the income statement looks at a period

43

00:12:11,440 --> 00:12:13,040

of time

44

00:12:13,040 --> 00:12:15,839

so over that period of time did the

45

00:12:15,839 --> 00:12:17,440

company make money

46

00:12:17,440 --> 00:12:21,920

okay so it's also called

47

00:12:21,920 --> 00:12:25,600

profit and loss or p l and in that

48

00:12:25,600 --> 00:12:30,639

context the last line the bottom line

49

00:12:30,639 --> 00:12:33,920

is the profits so that's why we talk in

50

00:12:33,920 --> 00:12:34,720

terms of

51

00:12:34,720 --> 00:12:37,200

bottom lines so when we you hear the

52

00:12:37,200 --> 00:12:38,399

term bottom line

53

00:12:38,399 --> 00:12:41,839

is how profitable the company is

54

00:12:41,839 --> 00:12:45,120

okay so this is what it looks like

55

00:12:45,120 --> 00:12:48,399

okay your typical profit and loss or

56

00:12:48,399 --> 00:12:49,839

income statement

57

00:12:49,839 --> 00:12:53,360

the top line so we talk in terms of

58

00:12:53,360 --> 00:12:56,639

top line and bottom line the top line

59

00:12:56,639 --> 00:13:00,160

is revenues in other words sales

60

00:13:00,160 --> 00:13:02,480

all right so money we get from our

61

00:13:02,480 --> 00:13:04,160

customers

62

00:13:04,160 --> 00:13:08,240

and then from that you have to deduct

63

00:13:08,240 --> 00:13:12,240

all the expenses all right so we have

64

00:13:12,240 --> 00:13:15,839

the expenses that are needed to

65

00:13:15,839 --> 00:13:18,399

create the product or service which is

66

00:13:18,399 --> 00:13:21,839

your cost of sales or cost of goods sold

67

00:13:21,839 --> 00:13:25,760

and then you deduct all of the kinds of

68

00:13:25,760 --> 00:13:29,360

operating expenses that

69

00:13:29,360 --> 00:13:32,480

then gives you your operating income

70

00:13:32,480 --> 00:13:36,399

which is how much margin you're making

71

00:13:36,399 --> 00:13:40,560

and then after you deduct

72

00:13:40,800 --> 00:13:43,839

other income or you add out all the

73

00:13:43,839 --> 00:13:45,519

income deduct your

74

00:13:45,519 --> 00:13:48,160

interest expenses deduct your taxes the

75

00:13:48,160 --> 00:13:49,760

bottom line

76

00:13:49,760 --> 00:13:53,360

is your net profit your net income

77

00:13:53,360 --> 00:13:56,480

earnings so here's a word of caution the

78

00:13:56,480 --> 00:13:56,959

word

79

00:13:56,959 --> 00:14:00,320

earnings is misleading

80

00:14:00,320 --> 00:14:02,480

because earnings is how profitable the

81

00:14:02,480 --> 00:14:03,920

company is

82

00:14:03,920 --> 00:14:06,480

not what the company has earned in

83

00:14:06,480 --> 00:14:07,760

revenues

84

00:14:07,760 --> 00:14:10,240

so remember the top line is sales and

85

00:14:10,240 --> 00:14:11,360

revenues

86

00:14:11,360 --> 00:14:14,959

the bottom line is net income net profit

87

00:14:14,959 --> 00:14:18,480

earnings and this is important because

88

00:14:18,480 --> 00:14:19,680

you hear the term

89

00:14:19,680 --> 00:14:22,880

earnings per share so

90

00:14:22,880 --> 00:14:25,519

earnings per share is the bottom line

91

00:14:25,519 --> 00:14:28,240

the net earnings divided by

92

00:14:28,240 --> 00:14:31,279

the number of shares outstanding all

93

00:14:31,279 --> 00:14:31,839

right

94

00:14:31,839 --> 00:14:35,120

one of the key challenges for you as it

95

00:14:35,120 --> 00:14:36,240

was for me

96

00:14:36,240 --> 00:14:40,399

is terminology is the the words that we

97

00:14:40,399 --> 00:14:41,360

use

98

00:14:41,360 --> 00:14:44,240

they can be very confusing and also you

99

00:14:44,240 --> 00:14:44,959

may have

100

00:14:44,959 --> 00:14:48,639

multiple words for the same concept

101

00:14:48,639 --> 00:14:50,480

okay so i'm going to try and help you

102

00:14:50,480 --> 00:14:52,639

with that but you're going to have to

103

00:14:52,639 --> 00:14:53,519

pay attention

104

00:14:53,519 --> 00:14:56,839

all right so don't confuse earnings and

105

00:14:56,839 --> 00:14:59,199

revenues revenues top line

106

00:14:59,199 --> 00:15:03,680

earnings is the bottom line all right

107

00:15:03,680 --> 00:15:07,440

okay so the income statement

108

00:15:07,440 --> 00:15:09,920

is the second of the four sets of

109

00:15:09,920 --> 00:15:12,000

financial statement we started with

110

00:15:12,000 --> 00:15:14,160

balance sheet we've just talked about

111

00:15:14,160 --> 00:15:16,880

income statement the third one

112

00:15:16,880 --> 00:15:20,639

is the statement of cash flows

113

00:15:20,639 --> 00:15:24,079

so cash flows is what it says

114

00:15:24,079 --> 00:15:27,519

the flow of cash and

115

00:15:27,519 --> 00:15:30,399

why is it important because when you

116

00:15:30,399 --> 00:15:34,160

record the financial statements

117

00:15:34,160 --> 00:15:38,880

we look at it on an accrual basis

118

00:15:38,880 --> 00:15:42,480

okay so it's different

119

00:15:42,480 --> 00:15:45,199

from the actual cash so you need

120

00:15:45,199 --> 00:15:48,000

something to tell you

121

00:15:48,000 --> 00:15:51,120

what the accounts are which take

122

00:15:51,120 --> 00:15:55,440

into which is based on an accrual basis

123

00:15:55,440 --> 00:15:58,880

and how much cash actual cash

124

00:15:58,880 --> 00:16:01,680

the company has generated this is why we

125

00:16:01,680 --> 00:16:02,320

have

126

00:16:02,320 --> 00:16:05,199

the statement of cash flows why is that

127

00:16:05,199 --> 00:16:05,920

important

128

00:16:05,920 --> 00:16:09,680

because you need cash to pay salaries

129

00:16:09,680 --> 00:16:13,519

to pay your suppliers and

130

00:16:13,519 --> 00:16:15,600

it's going to be the source of any

131

00:16:15,600 --> 00:16:18,560

return on investment

132

00:16:18,560 --> 00:16:22,480

so this is the statement of cash flows

133

00:16:22,480 --> 00:16:26,959

and what you do is you start from

134

00:16:26,959 --> 00:16:30,720

the income statement and then adjust

135

00:16:30,720 --> 00:16:33,839

for accrual accounting so adjust for

136

00:16:33,839 --> 00:16:35,360

everything that is not

137

00:16:35,360 --> 00:16:38,560

actual cash so you start from the net

138

00:16:38,560 --> 00:16:39,199

income

139

00:16:39,199 --> 00:16:42,399

you add back depreciation amortization

140

00:16:42,399 --> 00:16:44,000

which is an accounting

141

00:16:44,000 --> 00:16:47,759

concept of the usage of

142

00:16:47,759 --> 00:16:50,959

your assets and then you have

143

00:16:50,959 --> 00:16:54,639

to incorporate the actual cash effect

144

00:16:54,639 --> 00:16:58,399

of changes in working capital

145

00:16:58,399 --> 00:17:01,600

then you take into account capital

146

00:17:01,600 --> 00:17:02,720

expenditures which

147

00:17:02,720 --> 00:17:05,919

don't show up in the income statements

148

00:17:05,919 --> 00:17:09,520

and financing activities and all of that

149

00:17:09,520 --> 00:17:10,400

once you've done

150

00:17:10,400 --> 00:17:14,240

all of this it will give you how much

151

00:17:14,240 --> 00:17:17,839

your cash balance has changed over

152

00:17:17,839 --> 00:17:21,039

the accounting period

153

00:17:22,400 --> 00:17:26,319

all right now let's

154

00:17:26,319 --> 00:17:29,200

get back on what we talked about last

155

00:17:29,200 --> 00:17:31,600

monday

156

00:17:31,679 --> 00:17:34,880

in terms of sources of capital

157

00:17:34,880 --> 00:17:38,240

the first question is when a startup

158

00:17:38,240 --> 00:17:42,240

raises equity capital from investors

159

00:17:42,240 --> 00:17:46,240

does it issue shares or

160

00:17:46,240 --> 00:17:49,840

bonds so this is

161

00:17:49,840 --> 00:17:52,880

related to what source of financing what

162

00:17:52,880 --> 00:17:55,600

sorts of capital are we using

163

00:17:55,600 --> 00:17:57,600

all right so remember we distinguish

164

00:17:57,600 --> 00:17:58,799

between

165

00:17:58,799 --> 00:18:02,960

equity capital and debt capital

166

00:18:02,960 --> 00:18:06,480

all right yes very good

167

00:18:06,480 --> 00:18:09,120

all right so equity capital is in the

168

00:18:09,120 --> 00:18:09,679

form of

169

00:18:09,679 --> 00:18:14,559

shares that can be in the form of loans

170

00:18:14,559 --> 00:18:19,120

or bonds very good okay excellent

171

00:18:19,120 --> 00:18:22,080

okay i know i had a question early on

172

00:18:22,080 --> 00:18:25,440

and i'm trying to find it

173

00:18:26,840 --> 00:18:28,480

okay

174

00:18:28,480 --> 00:18:32,720

okay uh who's that i had a question

175

00:18:32,720 --> 00:18:35,679

um so if you put questions it's better

176

00:18:35,679 --> 00:18:36,160

to

177

00:18:36,160 --> 00:18:38,799

put them to benson uh because he's

178

00:18:38,799 --> 00:18:39,760

following the chat

179

00:18:39,760 --> 00:18:42,960

i'm trying to to teach and keep an eye

180

00:18:42,960 --> 00:18:44,640

on the chat box but if you send a

181

00:18:44,640 --> 00:18:45,440

message

182

00:18:45,440 --> 00:18:49,039

to me only i may not see it in time

183

00:18:49,039 --> 00:18:51,280

all right so there was a question about

184

00:18:51,280 --> 00:18:53,120

interest income

185

00:18:53,120 --> 00:18:56,480

okay it's income that is money you

186

00:18:56,480 --> 00:18:57,440

receive

187

00:18:57,440 --> 00:19:01,039

from interest in other word

188

00:19:01,039 --> 00:19:04,240

if you have for example a portfolio

189

00:19:04,240 --> 00:19:07,280

of bonds the

190

00:19:07,280 --> 00:19:09,200

interest that you receive from those

191

00:19:09,200 --> 00:19:10,320

bonds is

192

00:19:10,320 --> 00:19:14,000

interest income okay income means

193

00:19:14,000 --> 00:19:17,280

money we receive okay all right

194

00:19:17,280 --> 00:19:20,559

okay five new messages oh boy

195

00:19:20,559 --> 00:19:23,039

okay good all right now let's move back

196

00:19:23,039 --> 00:19:24,640

to the questions

197

00:19:24,640 --> 00:19:27,760

when a company needs to finance a new

198

00:19:27,760 --> 00:19:28,720

project with

199

00:19:28,720 --> 00:19:32,240

that will it issue shares

200

00:19:32,240 --> 00:19:39,200

or bonds

201

00:19:39,200 --> 00:19:43,039

very good very very good excellent

202

00:19:43,039 --> 00:19:46,400

all right next question

203

00:19:46,400 --> 00:19:49,840

if a company is losing money so it's not

204

00:19:49,840 --> 00:19:51,280

profitable

205

00:19:51,280 --> 00:19:56,160

are its earnings positive or negative

206

00:19:59,679 --> 00:20:03,520

well done very good okay

207

00:20:03,520 --> 00:20:06,559

last question as a retail

208

00:20:06,559 --> 00:20:09,600

investor so retail means individual

209

00:20:09,600 --> 00:20:12,400

investors okay as a retail investor like

210

00:20:12,400 --> 00:20:13,760

you and me

211

00:20:13,760 --> 00:20:17,440

how can you invest in a company to make

212

00:20:17,440 --> 00:20:21,200

money from its growth

213

00:20:21,200 --> 00:20:24,320

very good very good so

214

00:20:24,320 --> 00:20:27,679

indeed invest in the shares all right

215

00:20:27,679 --> 00:20:32,799

well done very very good okay

216

00:20:32,960 --> 00:20:35,440

all right so we've talked about three

217

00:20:35,440 --> 00:20:37,919

major financial statements

218

00:20:37,919 --> 00:20:40,559

now there are some turns you will be

219

00:20:40,559 --> 00:20:42,400

hearing quite a bit if you read

220

00:20:42,400 --> 00:20:44,960

financial news you will hear the terms

221

00:20:44,960 --> 00:20:48,080

ebit and ebitda and the term

222

00:20:48,080 --> 00:20:51,600

eps so what does it mean well

223

00:20:51,600 --> 00:20:54,720

ebitda is a very very

224

00:20:54,720 --> 00:20:58,880

useful ratio that financial analyst

225

00:20:58,880 --> 00:21:03,360

will track it is earnings

226

00:21:03,360 --> 00:21:05,679

so remember earnings the bottom line

227

00:21:05,679 --> 00:21:07,760

before

228

00:21:07,760 --> 00:21:11,039

interest tax depreciation and

229

00:21:11,039 --> 00:21:12,720

amortization

230

00:21:12,720 --> 00:21:14,840

all right so this is what they call

231

00:21:14,840 --> 00:21:17,840

ebitda

232

00:21:17,919 --> 00:21:21,360

this is a useful ratio because it's a

233

00:21:21,360 --> 00:21:25,760

quick way to look at the cash that the

234

00:21:25,760 --> 00:21:27,679

company generates from

235

00:21:27,679 --> 00:21:30,400

its operations it's not a perfect way

236

00:21:30,400 --> 00:21:32,400

but it's quick and dirty and it gives

237

00:21:32,400 --> 00:21:34,240

you

238

00:21:34,240 --> 00:21:37,440

an idea of how much cash the company

239

00:21:37,440 --> 00:21:38,159

generates

240

00:21:38,159 --> 00:21:41,520

and as a result this ratio

241

00:21:41,520 --> 00:21:45,760

is very often used in debt contracts

242

00:21:45,760 --> 00:21:49,200

so when banks lend money to

243

00:21:49,200 --> 00:21:52,880

a company or when investors buy bonds

244

00:21:52,880 --> 00:21:55,520

from issued by a company they want to

245

00:21:55,520 --> 00:21:58,159

make sure the company can still generate

246

00:21:58,159 --> 00:22:02,240

sufficient cash to pay the debt

247

00:22:02,240 --> 00:22:05,120

okay so there will often be in the

248

00:22:05,120 --> 00:22:06,320

contract

249

00:22:06,320 --> 00:22:09,280

a clause a condition that says the

250

00:22:09,280 --> 00:22:10,880

ebitda has to be

251

00:22:10,880 --> 00:22:14,000

at a certain level that's what we call

252

00:22:14,000 --> 00:22:17,360

a debt covenant

253

00:22:18,000 --> 00:22:20,559

the other term you need to know is eps

254

00:22:20,559 --> 00:22:22,320

earnings per share i've already

255

00:22:22,320 --> 00:22:23,520

mentioned it

256

00:22:23,520 --> 00:22:27,120

it's basically your earnings divided by

257

00:22:27,120 --> 00:22:28,159

the number of shares

258

00:22:28,159 --> 00:22:31,120

outstanding okay so earnings is the net

259

00:22:31,120 --> 00:22:32,080

income

260

00:22:32,080 --> 00:22:34,880

to net income divided by the number of

261

00:22:34,880 --> 00:22:36,720

shares outstanding

262

00:22:36,720 --> 00:22:41,120

so let's practice why don't you tell me

263

00:22:41,120 --> 00:22:44,480

what is cathay pacific's eps

264

00:22:44,480 --> 00:22:54,640

in 2019

265

00:22:54,640 --> 00:22:58,400

so why are you looking at it and then

266

00:22:58,880 --> 00:23:01,120

very good so i had a question from

267

00:23:01,120 --> 00:23:02,600

shiraz what is

268

00:23:02,600 --> 00:23:05,760

amortization so depreciation

269

00:23:05,760 --> 00:23:09,039

and amortization is an accounting

270

00:23:09,039 --> 00:23:12,640

concept so the idea is

271

00:23:12,640 --> 00:23:15,679

okay when i buy a machine

272

00:23:15,679 --> 00:23:20,000

over time the machine is going to be

273

00:23:20,000 --> 00:23:23,039

broken down is going to be used up

274

00:23:23,039 --> 00:23:27,039

it will be wear and tear

275

00:23:27,039 --> 00:23:30,320

and you need to reflect that in your

276

00:23:30,320 --> 00:23:32,480

financial statements because

277

00:23:32,480 --> 00:23:36,400

like a car when you buy it brand new

278

00:23:36,400 --> 00:23:39,360

it runs very well but over time the

279

00:23:39,360 --> 00:23:41,120

engine

280

00:23:41,120 --> 00:23:43,440

you know suffers and you need to replace

281

00:23:43,440 --> 00:23:45,919

pieces so the value of the car goes down

282

00:23:45,919 --> 00:23:46,880

over time

283

00:23:46,880 --> 00:23:50,400

because it's been used so in accounting

284

00:23:50,400 --> 00:23:51,679

terms

285

00:23:51,679 --> 00:23:54,159

we reflect that through what we call

286

00:23:54,159 --> 00:23:56,720

amortization and depreciation

287

00:23:56,720 --> 00:23:58,960

different ways to do that the more

288

00:23:58,960 --> 00:23:59,840

common one

289

00:23:59,840 --> 00:24:03,120

is to take the value of the asset

290

00:24:03,120 --> 00:24:06,799

the car the machine and divided

291

00:24:06,799 --> 00:24:10,240

by what you expect the machine to last

292

00:24:10,240 --> 00:24:13,760

for so what we call the usable life okay

293

00:24:13,760 --> 00:24:16,880

and that annual expense

294

00:24:16,880 --> 00:24:20,480

is a depreciation expense okay

295

00:24:20,480 --> 00:24:23,120

so we use depreciation amortization two

296

00:24:23,120 --> 00:24:24,080

different terms

297

00:24:24,080 --> 00:24:27,279

from uh tangible machines

298

00:24:27,279 --> 00:24:30,400

ppe and intangibles for

299

00:24:30,400 --> 00:24:32,080

intellectual property and things like

300

00:24:32,080 --> 00:24:33,760

that okay so

301

00:24:33,760 --> 00:24:35,600

you will learn that in accounting

302

00:24:35,600 --> 00:24:37,679

classes this is not an accounting class

303

00:24:37,679 --> 00:24:39,039

i just give you broad

304

00:24:39,039 --> 00:24:42,480

notions okay but this amortization

305

00:24:42,480 --> 00:24:43,600

depreciation

306

00:24:43,600 --> 00:24:48,640

is the accounting way to represent

307

00:24:48,640 --> 00:24:51,760

wear and tear all right

308

00:24:51,760 --> 00:24:55,679

so you all find out 0.28 very good

309

00:24:55,679 --> 00:24:59,600

okay any questions so far

310

00:24:59,600 --> 00:25:03,039

anything unclear

311

00:25:03,440 --> 00:25:06,159

you can raise your hand or you can type

312

00:25:06,159 --> 00:25:09,120

things in the chat

313

00:25:09,600 --> 00:25:13,200

no my goodness benson i must be very

314

00:25:13,200 --> 00:25:15,120

clear today

315

00:25:15,120 --> 00:25:19,440

okay la okay then let's move on

316

00:25:19,440 --> 00:25:21,200

so we've talked about the language of

317

00:25:21,200 --> 00:25:23,279

business which was kind of like

318

00:25:23,279 --> 00:25:25,200

setting the big picture and now we're

319

00:25:25,200 --> 00:25:27,039

just going to focus on finance

320

00:25:27,039 --> 00:25:29,520

okay so we're going to talk about what

321

00:25:29,520 --> 00:25:30,480

is finance

322

00:25:30,480 --> 00:25:35,039

and why we need a financial system

323

00:25:35,520 --> 00:25:37,760

so

324

00:25:38,880 --> 00:25:41,039

what i want to do in this part is get

325

00:25:41,039 --> 00:25:42,000

you to really

326

00:25:42,000 --> 00:25:46,159

think about you know what is finance

327

00:25:46,159 --> 00:25:50,240

and and that's important because

328

00:25:51,840 --> 00:25:54,960

what if we don't have finance

329

00:25:54,960 --> 00:26:00,159

can you imagine a region without money

330

00:26:00,159 --> 00:26:04,159

a country with no banking system

331

00:26:04,159 --> 00:26:08,720

a world with no global capital flows

332

00:26:08,720 --> 00:26:12,559

so that existed before all right

333

00:26:12,559 --> 00:26:16,480

and so i want to ask you

334

00:26:16,480 --> 00:26:20,000

so if a country doesn't have banks

335

00:26:20,000 --> 00:26:22,400

or a region for that murder there's no

336

00:26:22,400 --> 00:26:23,679

banks

337

00:26:23,679 --> 00:26:27,360

so what do people do how do they deal

338

00:26:27,360 --> 00:26:29,360

with the money that they may have

339

00:26:29,360 --> 00:26:31,919

earned

340

00:26:33,200 --> 00:26:36,880

barter that's one way okay

341

00:26:36,880 --> 00:26:40,240

store at home says jasper okay let's

342

00:26:40,240 --> 00:26:44,559

hide under the bed keep in the closet

343

00:26:44,559 --> 00:26:46,880

now what's the problem with that dig a

344

00:26:46,880 --> 00:26:48,880

hole yeah

345

00:26:48,880 --> 00:26:52,720

what's the problem with that

346

00:26:52,720 --> 00:26:56,320

money is idle security implications

347

00:26:56,320 --> 00:26:58,880

indeed

348

00:27:01,760 --> 00:27:04,480

yeah you won't keep up with inflation

349

00:27:04,480 --> 00:27:06,400

you don't earn anything

350

00:27:06,400 --> 00:27:10,000

complicate the tax system for sure

351

00:27:10,000 --> 00:27:12,480

okay

352

00:27:13,200 --> 00:27:16,159

let's grows

353

00:27:17,760 --> 00:27:20,399

no universal equivalent to evaluate

354

00:27:20,399 --> 00:27:20,960

goods

355

00:27:20,960 --> 00:27:25,279

putting value on things yes

356

00:27:25,440 --> 00:27:28,000

difficult to accumulate wealth trading

357

00:27:28,000 --> 00:27:30,320

is difficult

358

00:27:30,320 --> 00:27:34,960

this is not a place okay

359

00:27:34,960 --> 00:27:37,360

right so you can all imagine how

360

00:27:37,360 --> 00:27:39,919

complicated it becomes right so

361

00:27:39,919 --> 00:27:42,640

one of the first functions that we will

362

00:27:42,640 --> 00:27:45,679

talk about when we talk about banking

363

00:27:45,679 --> 00:27:48,640

and why why it's useful is that it gives

364

00:27:48,640 --> 00:27:50,880

you a safe place to put the money

365

00:27:50,880 --> 00:27:53,360

you have earned and that you don't need

366

00:27:53,360 --> 00:27:54,159

right away

367

00:27:54,159 --> 00:27:57,520

okay so the savings function so you can

368

00:27:57,520 --> 00:27:58,480

keep it at home

369

00:27:58,480 --> 00:28:00,799

all right but you do have security

370

00:28:00,799 --> 00:28:01,760

issues

371

00:28:01,760 --> 00:28:06,640

it doesn't earn you anything um

372

00:28:06,720 --> 00:28:09,760

not a great way okay

373

00:28:09,760 --> 00:28:12,480

it's it and the flows of money don't

374

00:28:12,480 --> 00:28:13,840

happen

375

00:28:13,840 --> 00:28:16,080

right so that that's a very uh

376

00:28:16,080 --> 00:28:17,919

complicated thing

377

00:28:17,919 --> 00:28:20,320

and why is that important why the flow

378

00:28:20,320 --> 00:28:21,200

of money is

379

00:28:21,200 --> 00:28:23,679

important and how many of you have heard

380

00:28:23,679 --> 00:28:26,799

of muhammad yunus

381

00:28:26,799 --> 00:28:30,000

raise your hand if you have

382

00:28:30,000 --> 00:28:33,840

yes okay a few of you wonderful

383

00:28:33,840 --> 00:28:34,880

wonderful

384

00:28:34,880 --> 00:28:38,640

okay soon uh sung hak tell me about what

385

00:28:38,640 --> 00:28:40,240

do you know about mohannad's

386

00:28:40,240 --> 00:28:43,840

universe i don't remember exact country

387

00:28:43,840 --> 00:28:44,159

but

388

00:28:44,159 --> 00:28:47,600

he built a certain kind of banking

389

00:28:47,600 --> 00:28:50,080

system in the region where there was no

390

00:28:50,080 --> 00:28:53,120

banking system in uh before

391

00:28:53,120 --> 00:28:56,559

all right uh fisi chai

392

00:28:56,559 --> 00:28:59,840

tell me about it um yeah i think

393

00:28:59,840 --> 00:29:03,760

he uh he established a bank

394

00:29:03,760 --> 00:29:05,840

i think it was grameen bank if i'm not

395

00:29:05,840 --> 00:29:07,919

wrong in bangladesh

396

00:29:07,919 --> 00:29:10,480

uh where he established like micro

397

00:29:10,480 --> 00:29:12,240

credit and microfinance

398

00:29:12,240 --> 00:29:15,520

very good very good drew do you

399

00:29:15,520 --> 00:29:18,559

want any add to anything oh yeah it was

400

00:29:18,559 --> 00:29:20,159

i think you wanted because you basically

401

00:29:20,159 --> 00:29:22,320

allowed for um

402

00:29:22,320 --> 00:29:24,799

mainly farmers and people who were too

403

00:29:24,799 --> 00:29:26,399

poor to loan like take

404

00:29:26,399 --> 00:29:28,399

traditional loans from banks to actually

405

00:29:28,399 --> 00:29:30,559

get money to invest as well

406

00:29:30,559 --> 00:29:32,880

that's right very good well great

407

00:29:32,880 --> 00:29:33,760

contribution

408

00:29:33,760 --> 00:29:37,039

so muhammad yunus is an economist

409

00:29:37,039 --> 00:29:40,559

from bangladesh and he became very

410

00:29:40,559 --> 00:29:42,799

famous because he set up the grameen

411

00:29:42,799 --> 00:29:46,480

uh became crimean bank

412

00:29:46,480 --> 00:29:49,440

and it all started with an economic

413

00:29:49,440 --> 00:29:51,039

experiment

414

00:29:51,039 --> 00:29:54,240

and it's the legend has it that he went

415

00:29:54,240 --> 00:29:55,520

to some village

416

00:29:55,520 --> 00:29:59,520

in rural bangladesh and saw ladies

417

00:29:59,520 --> 00:30:02,720

weaving textiles

418

00:30:02,720 --> 00:30:04,799

and got talking with them and they were

419

00:30:04,799 --> 00:30:06,320

saying that they you know they were

420

00:30:06,320 --> 00:30:08,080

making all these textiles

421

00:30:08,080 --> 00:30:10,640

and they were able to sell them but they

422

00:30:10,640 --> 00:30:11,600

needed one more

423

00:30:11,600 --> 00:30:13,360

weaving machine and they didn't have

424

00:30:13,360 --> 00:30:14,880

money saved

425

00:30:14,880 --> 00:30:17,279

so they couldn't buy another weaving

426

00:30:17,279 --> 00:30:18,080

machine which

427

00:30:18,080 --> 00:30:21,360

was restricting how many textiles they

428

00:30:21,360 --> 00:30:22,399

could produce

429

00:30:22,399 --> 00:30:24,960

and therefore restricting the size of

430

00:30:24,960 --> 00:30:26,320

the business

431

00:30:26,320 --> 00:30:29,520

so he thought about it and he

432

00:30:29,520 --> 00:30:31,679

thought whether he should give them the

433

00:30:31,679 --> 00:30:33,279

money

434

00:30:33,279 --> 00:30:36,799

or make an experiment and see if i

435

00:30:36,799 --> 00:30:39,919

lend them the money okay

436

00:30:39,919 --> 00:30:41,600

what are the chances that they will pay

437

00:30:41,600 --> 00:30:44,320

me back so it was an economic experiment

438

00:30:44,320 --> 00:30:46,080

and it turned out

439

00:30:46,080 --> 00:30:49,200

and he knew that no bank was involved

440

00:30:49,200 --> 00:30:50,320

here because

441

00:30:50,320 --> 00:30:53,520

it was too small an amount and also

442

00:30:53,520 --> 00:30:56,159

because these people had no collateral

443

00:30:56,159 --> 00:30:59,360

they had no nothing to give

444

00:30:59,360 --> 00:31:01,760

to the bank in case they paid didn't pay

445

00:31:01,760 --> 00:31:02,720

back

446

00:31:02,720 --> 00:31:06,000

so he started that experiment which

447

00:31:06,000 --> 00:31:08,080

indeed as one of you mentioned was

448

00:31:08,080 --> 00:31:09,919

i think it was uh fisa chai who

449

00:31:09,919 --> 00:31:11,519

mentioned that it was a

450

00:31:11,519 --> 00:31:15,039

micro credit micro for very small

451

00:31:15,039 --> 00:31:18,240

credit so landing at a very very very

452

00:31:18,240 --> 00:31:19,279

small level

453

00:31:19,279 --> 00:31:22,000

and it turned out that they paid him

454

00:31:22,000 --> 00:31:22,799

back

455

00:31:22,799 --> 00:31:26,000

and so he grew that experiment and found

456

00:31:26,000 --> 00:31:26,399

out

457

00:31:26,399 --> 00:31:29,519

that because of peer pressure

458

00:31:29,519 --> 00:31:32,159

so by lending to a group where there's

459

00:31:32,159 --> 00:31:33,519

been the group

460

00:31:33,519 --> 00:31:37,200

providing support

461

00:31:37,200 --> 00:31:41,279

in a way they were more pressure on

462

00:31:41,279 --> 00:31:44,640

people to pay back the loan and in fact

463

00:31:44,640 --> 00:31:47,279

the rate of default that is the number

464

00:31:47,279 --> 00:31:49,200

of people who didn't pay back was very

465

00:31:49,200 --> 00:31:50,720

very low

466

00:31:50,720 --> 00:31:53,039

okay so this experiment was very

467

00:31:53,039 --> 00:31:55,760

important because it showed that

468

00:31:55,760 --> 00:32:00,080

by having the opportunity to borrow

469

00:32:00,080 --> 00:32:03,919

even at a very low small micro level you

470

00:32:03,919 --> 00:32:06,399

can actually grow the business

471

00:32:06,399 --> 00:32:08,399

so what he was saying with that is the

472

00:32:08,399 --> 00:32:11,279

function of banks is very important

473

00:32:11,279 --> 00:32:13,919

in both their saving function that they

474

00:32:13,919 --> 00:32:16,559

provide the ability to save money in a

475

00:32:16,559 --> 00:32:17,600

safe place

476

00:32:17,600 --> 00:32:20,799

and the lending function because

477

00:32:20,799 --> 00:32:23,440

by being able to borrow to buy the

478

00:32:23,440 --> 00:32:25,120

machine

479

00:32:25,120 --> 00:32:27,279

this group of women was able to grow

480

00:32:27,279 --> 00:32:28,640

their business

481

00:32:28,640 --> 00:32:32,480

okay so having that function allows the

482

00:32:32,480 --> 00:32:33,360

economy

483

00:32:33,360 --> 00:32:36,559

to grow okay so this was

484

00:32:36,559 --> 00:32:41,039

a very very important demonstration

485

00:32:41,039 --> 00:32:44,880

of the role of finance

486

00:32:44,880 --> 00:32:49,440

and the connection with the economy

487

00:32:51,600 --> 00:32:55,440

all right now finance

488

00:32:55,440 --> 00:32:58,559

is not static

489

00:32:58,559 --> 00:33:01,679

it evolves all right so

490

00:33:01,679 --> 00:33:05,039

we are in asia-pacific

491

00:33:05,039 --> 00:33:10,080

so asia-pacific is a patchwork

492

00:33:10,080 --> 00:33:13,360

of many countries

493

00:33:13,360 --> 00:33:17,039

and these countries are at different

494

00:33:17,039 --> 00:33:21,279

stages of evolution of their economic

495

00:33:21,279 --> 00:33:22,480

system

496

00:33:22,480 --> 00:33:25,840

and their financial system broadly

497

00:33:25,840 --> 00:33:28,240

speaking when you look at the evolution

498

00:33:28,240 --> 00:33:31,279

of financial system there's like

499

00:33:31,279 --> 00:33:35,200

four major phases

500

00:33:35,200 --> 00:33:39,120

so level zero is when you have nothing

501

00:33:39,120 --> 00:33:41,760

no banks no nothing all right can you

502

00:33:41,760 --> 00:33:43,919

think of any country in asia pacific

503

00:33:43,919 --> 00:33:46,320

like that

504

00:33:46,640 --> 00:33:50,840

with like stage zero of financial system

505

00:33:50,840 --> 00:33:53,679

development

506

00:33:53,679 --> 00:33:56,960

any country comes to mind

507

00:33:59,360 --> 00:34:03,360

pacifica north korea very close

508

00:34:03,360 --> 00:34:05,840

christmas sign well you do have to have

509

00:34:05,840 --> 00:34:08,399

people living there though

510

00:34:08,399 --> 00:34:11,760

okay yeah north korea well

511

00:34:11,760 --> 00:34:14,639

cuba is not in asia pacific and it does

512

00:34:14,639 --> 00:34:17,040

have a banking system

513

00:34:17,040 --> 00:34:20,960

oh don xiao no

514

00:34:22,000 --> 00:34:25,839

in africa all right

515

00:34:25,839 --> 00:34:29,839

okay so now there are uh countries like

516

00:34:29,839 --> 00:34:31,040

north korea

517

00:34:31,040 --> 00:34:33,839

like myanmar that have very limited

518

00:34:33,839 --> 00:34:35,839

financial system development

519

00:34:35,839 --> 00:34:38,960

okay so kind of really

520

00:34:38,960 --> 00:34:42,159

at very very early stages

521

00:34:42,159 --> 00:34:44,560

then you have countries where the

522

00:34:44,560 --> 00:34:45,839

financial system is

523

00:34:45,839 --> 00:34:48,639

primarily the banking system so there's

524

00:34:48,639 --> 00:34:50,320

no capital markets

525

00:34:50,320 --> 00:34:53,359

no stock market nothing like that

526

00:34:53,359 --> 00:34:57,119

all right then ice countries

527

00:34:57,119 --> 00:35:00,240

grow and develop financial system you

528

00:35:00,240 --> 00:35:02,640

start having stock markets

529

00:35:02,640 --> 00:35:07,040

right so equity finance stock market

530

00:35:07,040 --> 00:35:10,960

and some countries in asia pacific

531

00:35:10,960 --> 00:35:13,440

have tiny stock market really really

532

00:35:13,440 --> 00:35:15,760

tiny like maybe a couple of stocks being

533

00:35:15,760 --> 00:35:17,680

traded

534

00:35:17,680 --> 00:35:21,440

then you start seeing the development

535

00:35:21,440 --> 00:35:25,200

of bond markets so bond market

536

00:35:25,200 --> 00:35:28,800

is a level of sophistication where you

537

00:35:28,800 --> 00:35:32,240

start no longer relying on banks to make

538

00:35:32,240 --> 00:35:34,800

loans but where companies can start

539

00:35:34,800 --> 00:35:35,680

issuing

540

00:35:35,680 --> 00:35:38,880

debt securities

541

00:35:38,880 --> 00:35:41,920

and then as you get very sophisticated

542

00:35:41,920 --> 00:35:44,359

you know you have securitizations so

543

00:35:44,359 --> 00:35:45,839

securitization

544

00:35:45,839 --> 00:35:48,960

is basically derivatives

545

00:35:48,960 --> 00:35:52,480

okay a form of derivatives right

546

00:35:52,480 --> 00:35:55,599

so let's see

547

00:35:55,599 --> 00:35:58,880

where which stage of sophistication

548

00:35:58,880 --> 00:36:02,960

would you put south korea

549

00:36:02,960 --> 00:36:07,040

what level one two three four

550

00:36:09,200 --> 00:36:12,400

indeed four very sophisticated

551

00:36:12,400 --> 00:36:14,960

south korea has a very sophisticated

552

00:36:14,960 --> 00:36:16,640

capital markets

553

00:36:16,640 --> 00:36:19,200

uh and they were pretty much ahead of

554

00:36:19,200 --> 00:36:21,200

the game in term of securitization

555

00:36:21,200 --> 00:36:23,200

markets together with japan

556

00:36:23,200 --> 00:36:26,960

and australia um where would you put

557

00:36:26,960 --> 00:36:40,880

hong kong

558

00:36:40,880 --> 00:36:43,359

yeah well you know what i disagree not

559

00:36:43,359 --> 00:36:45,280

really for

560

00:36:45,280 --> 00:36:48,960

and even three the small

561

00:36:48,960 --> 00:36:52,320

corporate bond market okay so

562

00:36:52,320 --> 00:36:55,040

securitization exists in hong kong but

563

00:36:55,040 --> 00:36:57,680

it's not very well developed

564

00:36:57,680 --> 00:37:09,119

all right now how about india

565

00:37:09,119 --> 00:37:14,320

wow interesting huh good

566

00:37:14,320 --> 00:37:17,520

yeah two to three pretty much

567

00:37:17,520 --> 00:37:20,000

okay what's my point here my point is to

568

00:37:20,000 --> 00:37:21,040

show you

569

00:37:21,040 --> 00:37:24,480

that asia pacific is a really

570

00:37:24,480 --> 00:37:25,920

complicated market

571

00:37:25,920 --> 00:37:27,920

because we have some countries which are

572

00:37:27,920 --> 00:37:29,359

at level zero

573

00:37:29,359 --> 00:37:31,359

we have some countries which had level

574

00:37:31,359 --> 00:37:32,560

four

575

00:37:32,560 --> 00:37:36,000

and it's not static so you can

576

00:37:36,000 --> 00:37:38,720

generally go forward but you can go fall

577

00:37:38,720 --> 00:37:39,599

down

578

00:37:39,599 --> 00:37:43,040

again okay so

579

00:37:43,040 --> 00:37:45,280

what if there is a change of political

580

00:37:45,280 --> 00:37:46,320

regime

581

00:37:46,320 --> 00:37:49,040

uh you might have movements of the

582

00:37:49,040 --> 00:37:51,040

country up and down the scale

583

00:37:51,040 --> 00:37:54,800

all right so

584

00:37:55,440 --> 00:37:59,359

and so i've talked about the evolution

585

00:37:59,359 --> 00:38:02,400

in degrees of sophistication

586

00:38:02,400 --> 00:38:04,960

there's another very important element

587

00:38:04,960 --> 00:38:06,240

and that is the

588

00:38:06,240 --> 00:38:10,000

impact of technology all right so i'm

589

00:38:10,000 --> 00:38:11,440

way way older than you

590

00:38:11,440 --> 00:38:14,240

are it could be your grandma and i've

591

00:38:14,240 --> 00:38:14,640

lived

592

00:38:14,640 --> 00:38:18,000

through massive technology

593

00:38:18,000 --> 00:38:21,440

called evolution so when i when i was

594

00:38:21,440 --> 00:38:22,240

your age

595

00:38:22,240 --> 00:38:24,800

i started working in a bank that bank at

596

00:38:24,800 --> 00:38:26,720

the time was the largest bank in the

597

00:38:26,720 --> 00:38:28,560

world in terms of

598

00:38:28,560 --> 00:38:32,400

balance sheet and this is what we had

599

00:38:32,400 --> 00:38:34,400

in terms of technology we had a

600

00:38:34,400 --> 00:38:36,320

mainframe computer

601

00:38:36,320 --> 00:38:38,480

mainframe means that there was one big

602

00:38:38,480 --> 00:38:39,920

gigantic machine

603

00:38:39,920 --> 00:38:43,440

in a room and the computing power of the

604

00:38:43,440 --> 00:38:46,000

mainframe computer was less than you

605

00:38:46,000 --> 00:38:49,359

have in your mobile phone

606

00:38:49,359 --> 00:38:53,200

okay we had the telephone and this is a

607

00:38:53,200 --> 00:38:55,280

picture of the telephone over there

608

00:38:55,280 --> 00:38:57,520

when i showed that to my son he told me

609

00:38:57,520 --> 00:38:59,359

mom that's not a telephone

610

00:38:59,359 --> 00:39:02,160

you know it doesn't look like a phone

611

00:39:02,160 --> 00:39:03,119

it's a museum

612

00:39:03,119 --> 00:39:04,640

piece and i don't know what this is what

613

00:39:04,640 --> 00:39:06,800

i had to deal with right

614

00:39:06,800 --> 00:39:11,760

and i had a telex so this is a telex

615

00:39:11,760 --> 00:39:15,359

we had typewriters electric typewriters

616

00:39:15,359 --> 00:39:16,480

because we were

617

00:39:16,480 --> 00:39:21,119

really ahead and the post office

618

00:39:21,119 --> 00:39:25,839

okay now do you guys know how to use

619

00:39:25,839 --> 00:39:29,760

the post office

620

00:39:29,760 --> 00:39:32,079

when's the last time you you sent a

621

00:39:32,079 --> 00:39:34,960

letter or something

622

00:39:38,000 --> 00:39:40,560

yeah you know you still need to use it

623

00:39:40,560 --> 00:39:41,520

right

624

00:39:41,520 --> 00:39:43,760

so when you're going to do internships

625

00:39:43,760 --> 00:39:45,760

you know you need to know how to use the

626

00:39:45,760 --> 00:39:46,720

post office

627

00:39:46,720 --> 00:39:50,800

all right okay see very seldom right so

628

00:39:50,800 --> 00:39:51,839

yeah

629

00:39:51,839 --> 00:39:54,640

in my time we used to write i used to

630

00:39:54,640 --> 00:39:55,280

write

631

00:39:55,280 --> 00:39:58,320

to my grandma postcards you know with

632

00:39:58,320 --> 00:40:00,640

stamps and things like that

633

00:40:00,640 --> 00:40:03,680

right so this is what we had

634

00:40:03,680 --> 00:40:06,160

does it mean that the financial system

635

00:40:06,160 --> 00:40:08,000

was not working

636

00:40:08,000 --> 00:40:11,040

no it worked pretty well

637

00:40:11,040 --> 00:40:14,720

but then with things

638

00:40:14,720 --> 00:40:18,079

started changing oh

639

00:40:18,079 --> 00:40:21,119

here by the way this is italics now why

640

00:40:21,119 --> 00:40:23,440

don't you find out what is italics

641

00:40:23,440 --> 00:40:27,359

and then tell me in the chat box

642

00:40:32,079 --> 00:40:34,160

what is a telex or you can raise your

643

00:40:34,160 --> 00:40:36,240

hand

644

00:40:36,240 --> 00:40:40,319

print a nope like a fax machine but

645

00:40:40,319 --> 00:40:42,319

sending with words

646

00:40:42,319 --> 00:40:46,800

sending messages tell a printer

647

00:40:46,800 --> 00:40:51,040

uh i remember the telus can also

648

00:40:51,040 --> 00:40:54,319

have a telephone function and high price

649

00:40:54,319 --> 00:40:56,800

function

650

00:40:57,839 --> 00:41:01,920

kind of oh i like that stuff

651

00:41:01,920 --> 00:41:04,640

look at that something to send code text

652

00:41:04,640 --> 00:41:05,359

message

653

00:41:05,359 --> 00:41:08,960

no it's not a fax machine

654

00:41:10,079 --> 00:41:14,160

it combined if you look at the picture

655

00:41:14,160 --> 00:41:17,040

okay so telex machines were very very

656

00:41:17,040 --> 00:41:17,520

important

657

00:41:17,520 --> 00:41:22,200

in finance up until about 2001

658

00:41:22,200 --> 00:41:25,200

2002 this

659

00:41:25,200 --> 00:41:28,640

was a collectible

660

00:41:28,640 --> 00:41:32,000

i don't know aryan but if you look at it

661

00:41:32,000 --> 00:41:35,440

it combines sort of a typewriter

662

00:41:35,440 --> 00:41:39,920

with a a roll of

663

00:41:39,920 --> 00:41:43,760

paper so it was used to send and receive

664

00:41:43,760 --> 00:41:47,680

messages and so it combined it

665

00:41:47,680 --> 00:41:51,040

with a sort of telegraphic system and

666

00:41:51,040 --> 00:41:52,560

yes you right wing some

667

00:41:52,560 --> 00:41:54,880

it's international system for sending

668

00:41:54,880 --> 00:41:56,800

messages

669

00:41:56,800 --> 00:41:59,359

and it was used in the financial

670

00:41:59,359 --> 00:42:00,720

industry to confirm

671

00:42:00,720 --> 00:42:03,200

transactions so when you use the telex

672

00:42:03,200 --> 00:42:05,200

machine you had a limited

673

00:42:05,200 --> 00:42:08,319

space for the message okay

674

00:42:08,319 --> 00:42:12,000

so we used talexes to confirm

675

00:42:12,000 --> 00:42:15,280

financial transactions and this was the

676

00:42:15,280 --> 00:42:16,160

case

677

00:42:16,160 --> 00:42:19,839

until very much 2000 to

678

00:42:19,839 --> 00:42:22,720

so when you had typos it was a problem

679

00:42:22,720 --> 00:42:24,720

you couldn't correct it

680

00:42:24,720 --> 00:42:28,240

you had to be very careful um so these

681

00:42:28,240 --> 00:42:29,119

machines were

682

00:42:29,119 --> 00:42:32,240

super super important

683

00:42:32,240 --> 00:42:35,280

until really really just about 20 years

684

00:42:35,280 --> 00:42:36,079

ago

685

00:42:36,079 --> 00:42:40,319

okay all right nope no backspace key

686

00:42:40,319 --> 00:42:44,960

nope nope nope you had to be careful

687

00:42:44,960 --> 00:42:47,280

all right so why am i bringing this up

688

00:42:47,280 --> 00:42:48,000

because

689

00:42:48,000 --> 00:42:51,200

obviously things have been changing and

690

00:42:51,200 --> 00:42:53,440

what i want you to think about is what

691

00:42:53,440 --> 00:42:55,520

does it mean

692

00:42:55,520 --> 00:42:58,880

what is the impact of technology so here

693

00:42:58,880 --> 00:43:02,319

is what i had

694

00:43:07,119 --> 00:43:09,839

this is what i had right when i started

695

00:43:09,839 --> 00:43:11,440

working

696

00:43:11,440 --> 00:43:13,839

and then

697

00:43:15,680 --> 00:43:18,960

this machine appeared the fax machine

698

00:43:18,960 --> 00:43:22,720

do you know how to use fax machines

699

00:43:23,359 --> 00:43:26,000

yes oh visit china knows how to use a

700

00:43:26,000 --> 00:43:28,880

fax machine

701

00:43:31,200 --> 00:43:34,400

never use that okay well before you go

702

00:43:34,400 --> 00:43:35,920

on an internship

703

00:43:35,920 --> 00:43:37,520

you'd better find out how it works

704

00:43:37,520 --> 00:43:38,960

because businesses

705

00:43:38,960 --> 00:43:42,000

still use it all right so

706

00:43:42,000 --> 00:43:45,200

the fax machine was

707

00:43:45,200 --> 00:43:48,800

a revolution why

708

00:43:48,800 --> 00:43:52,560

so who wants to tell me

709

00:43:52,560 --> 00:43:55,520

why the fax machine was such an

710

00:43:55,520 --> 00:43:58,480

impactful

711

00:44:06,839 --> 00:44:09,040

technology

712

00:44:09,040 --> 00:44:12,319

that's right so shanghai talk to me talk

713

00:44:12,319 --> 00:44:14,640

to me

714

00:44:14,800 --> 00:44:17,599

good point talk to me you can send the

715

00:44:17,599 --> 00:44:20,319

documents in a very fast speed

716

00:44:20,319 --> 00:44:24,160

right so that means that financial

717

00:44:24,160 --> 00:44:25,680

transactions

718

00:44:25,680 --> 00:44:28,880

time to completion can be accelerated

719

00:44:28,880 --> 00:44:30,800

dramatically so let me give you an

720

00:44:30,800 --> 00:44:32,800

example

721

00:44:32,800 --> 00:44:36,800

now as you age i was running a um

722

00:44:36,800 --> 00:44:39,440

i was in charge of doing uh syndicated

723

00:44:39,440 --> 00:44:40,160

loans

724

00:44:40,160 --> 00:44:44,960

for asia so i was in paris in the bank

725

00:44:44,960 --> 00:44:47,280

in paris dealing with customers

726

00:44:47,280 --> 00:44:50,319

in indonesia all right and you

727

00:44:50,319 --> 00:44:53,200

were arranging big transactions so we

728

00:44:53,200 --> 00:44:56,480

had to write the contract so the lawyers

729

00:44:56,480 --> 00:44:59,920

would type the contract on a typewriter

730

00:44:59,920 --> 00:45:02,960

intricate with carbon copies

731

00:45:02,960 --> 00:45:06,160

send take one version put it in an

732

00:45:06,160 --> 00:45:07,200

envelope

733

00:45:07,200 --> 00:45:11,760

and send it by post to indonesia

734

00:45:11,760 --> 00:45:16,640

all right so that took time

735

00:45:16,640 --> 00:45:20,720

when the mail arrived at the indonesian

736

00:45:20,720 --> 00:45:24,720

lawyer's office when it opened

737

00:45:24,720 --> 00:45:28,160

the lawyer would open the

738

00:45:28,160 --> 00:45:31,359

envelope read through the contract mark

739

00:45:31,359 --> 00:45:33,920

app changes put it in an envelope and

740

00:45:33,920 --> 00:45:35,359

send it back

741

00:45:35,359 --> 00:45:38,319

by the post office so any transaction

742

00:45:38,319 --> 00:45:39,119

would take

743

00:45:39,119 --> 00:45:42,160

months simply because the contract had

744

00:45:42,160 --> 00:45:43,680

to go back and forth

745

00:45:43,680 --> 00:45:47,440

across the globe right

746

00:45:47,440 --> 00:45:51,119

comes the facts so fax machines

747

00:45:51,119 --> 00:45:54,240

allow you to send documents which can be

748

00:45:54,240 --> 00:45:57,599

text or for all images or anything

749

00:45:57,599 --> 00:46:00,480

you put it in the machine you dial the

750

00:46:00,480 --> 00:46:01,359

number

751

00:46:01,359 --> 00:46:03,839

and it comes out on the other side at

752

00:46:03,839 --> 00:46:04,960

your client's

753

00:46:04,960 --> 00:46:08,240

office on their fax machine that

754

00:46:08,240 --> 00:46:11,920

spouts out the document so what does it

755

00:46:11,920 --> 00:46:12,400

mean

756

00:46:12,400 --> 00:46:16,160

it means that my lawyer in france

757

00:46:16,160 --> 00:46:19,839

type the thing feed it into the machine

758

00:46:19,839 --> 00:46:22,480

and out it comes immediately on the

759

00:46:22,480 --> 00:46:24,079

other side of the globe

760

00:46:24,079 --> 00:46:26,839

what does it mean for the lawyer in

761

00:46:26,839 --> 00:46:31,200

indonesia they now have to work overtime

762

00:46:31,200 --> 00:46:35,200

because i pay them and i expect them

763

00:46:35,200 --> 00:46:38,319

to do it right now

764

00:46:38,319 --> 00:46:41,440

okay so you have this time

765

00:46:41,440 --> 00:46:44,160

compression where a transaction that

766

00:46:44,160 --> 00:46:45,119

used to take

767

00:46:45,119 --> 00:46:48,480

months can now be done in a matter of

768

00:46:48,480 --> 00:46:52,800

days so the pace of acceleration

769

00:46:52,800 --> 00:46:56,560

has been tremendous okay the fax machine

770

00:46:56,560 --> 00:46:56,960

was

771

00:46:56,960 --> 00:47:00,079

incredible it was a huge

772

00:47:00,079 --> 00:47:04,800

huge development that nobody talks about

773

00:47:04,800 --> 00:47:07,280

and then

774

00:47:08,240 --> 00:47:11,599

the computer

775

00:47:11,599 --> 00:47:15,200

became personal so now we're no longer

776

00:47:15,200 --> 00:47:18,160

relying on this big mainframe thingy but

777

00:47:18,160 --> 00:47:18,480

now

778

00:47:18,480 --> 00:47:21,599

everybody has their own terminal

779

00:47:21,599 --> 00:47:24,800

their own computing power and one of the

780

00:47:24,800 --> 00:47:25,920

most

781

00:47:25,920 --> 00:47:29,280

disruptive things that happened was it

782

00:47:29,280 --> 00:47:33,599

started with word processing

783

00:47:33,599 --> 00:47:36,720

so you know word in excel right in

784

00:47:36,720 --> 00:47:39,280

microsoft well before there was word

785

00:47:39,280 --> 00:47:40,400

they were

786

00:47:40,400 --> 00:47:45,280

the wine machine and now

787

00:47:45,280 --> 00:47:48,160

so we go from typewriter to word

788

00:47:48,160 --> 00:47:50,880

processing

789

00:47:51,680 --> 00:47:54,880

who lost their jobs

790

00:48:01,599 --> 00:48:06,400

the secretaries we used to have lots of

791

00:48:06,400 --> 00:48:07,680

secretaries that would

792

00:48:07,680 --> 00:48:11,760

take dictation and type the memos

793

00:48:11,760 --> 00:48:15,520

or type things but when we started

794

00:48:15,520 --> 00:48:18,000

having personal computers with word

795

00:48:18,000 --> 00:48:18,960

processing

796

00:48:18,960 --> 00:48:24,079

software we did it ourselves

797

00:48:24,079 --> 00:48:27,040

so off we go with no more need for

798

00:48:27,040 --> 00:48:28,559

secretaries

799

00:48:28,559 --> 00:48:31,520

except at the very very senior level

800

00:48:31,520 --> 00:48:35,359

okay because it was a status symbol

801

00:48:35,359 --> 00:48:38,960

so then the internet

802

00:48:38,960 --> 00:48:42,559

appears so the first manifestation

803

00:48:42,559 --> 00:48:44,720

in the industry that we have of the

804

00:48:44,720 --> 00:48:45,920

internet

805

00:48:45,920 --> 00:48:49,200

was in the form of email

806

00:48:49,200 --> 00:48:52,640

so what's the impact of that

807

00:48:54,480 --> 00:48:57,280

what's the impact of email you don't

808

00:48:57,280 --> 00:48:59,200

need the facts right

809

00:48:59,200 --> 00:49:03,520

instant messaging faster communication

810

00:49:03,520 --> 00:49:06,880

very good and the email

811

00:49:06,880 --> 00:49:10,559

was in the initial adoption of that

812

00:49:10,559 --> 00:49:12,559

technology in finance was

813

00:49:12,559 --> 00:49:16,640

internal email okay so

814

00:49:16,640 --> 00:49:19,839

now i don't have to think about

815

00:49:19,839 --> 00:49:23,520

oh my my colleagues in chicago

816

00:49:23,520 --> 00:49:26,640

are six hours ahead of me

817

00:49:26,640 --> 00:49:29,520

and so i need to think right no i just

818

00:49:29,520 --> 00:49:30,800

type the email

819

00:49:30,800 --> 00:49:32,880

and i know that they will open it

820

00:49:32,880 --> 00:49:33,920

whenever

821

00:49:33,920 --> 00:49:37,119

they come to the office right so you no

822

00:49:37,119 --> 00:49:39,040

longer have to worry about

823

00:49:39,040 --> 00:49:42,880

calling your colleagues and factoring in

824

00:49:42,880 --> 00:49:44,319

the time zones

825

00:49:44,319 --> 00:49:47,520

and all of that stuff right

826

00:49:47,520 --> 00:49:51,520

so 24 7 absolutely

827

00:49:51,520 --> 00:49:56,640

dying all of a sudden

828

00:49:56,640 --> 00:50:01,200

you're on the hook all the time

829

00:50:01,200 --> 00:50:05,920

all right and then the internet then

830

00:50:05,920 --> 00:50:08,319

also gave us something we didn't have

831

00:50:08,319 --> 00:50:09,680

before which is

832

00:50:09,680 --> 00:50:13,040

instant access to

833

00:50:13,040 --> 00:50:16,319

massive information

834

00:50:16,319 --> 00:50:19,760

all right so think about it in terms

835

00:50:19,760 --> 00:50:23,359

of you know when i was um

836

00:50:23,359 --> 00:50:27,200

a student yeah i've been a student

837

00:50:27,200 --> 00:50:28,079

before

838

00:50:28,079 --> 00:50:31,280

a long time ago where did i get

839

00:50:31,280 --> 00:50:34,000

information

840

00:50:34,640 --> 00:50:38,800

books right to rise in television we

841

00:50:38,800 --> 00:50:42,160

only had one channel books library right

842

00:50:42,160 --> 00:50:44,079

as a student

843

00:50:44,079 --> 00:50:46,960

i got information from the library what

844

00:50:46,960 --> 00:50:48,880

if the library didn't have the book i

845

00:50:48,880 --> 00:50:51,280

needed

846

00:50:51,680 --> 00:50:54,720

tough luck right

847

00:50:54,720 --> 00:50:58,480

teacher once yeah you hope

848

00:50:58,480 --> 00:51:04,079

okay where do you guys need to get your

849

00:51:06,839 --> 00:51:08,640

information

850

00:51:08,640 --> 00:51:11,280

all right

851

00:51:13,520 --> 00:51:16,240

you get it from the internet all right

852

00:51:16,240 --> 00:51:18,079

so do me a favor here

853

00:51:18,079 --> 00:51:21,119

i want all of you to

854

00:51:21,119 --> 00:51:24,559

log into the internet and type in the

855

00:51:24,559 --> 00:51:25,520

question

856

00:51:25,520 --> 00:51:36,319

what is finance please do it what

857

00:51:36,319 --> 00:51:39,200

is finance

858

00:51:43,040 --> 00:51:46,240

okay no no i don't want you to to how

859

00:51:46,240 --> 00:51:47,680

many

860

00:51:47,680 --> 00:51:51,680

responses do you get how many

861

00:51:51,680 --> 00:51:54,079

what's what you see i'm assuming you're

862

00:51:54,079 --> 00:51:54,800

all using

863

00:51:54,800 --> 00:51:57,200

google

864

00:51:57,870 --> 00:51:59,520

[Music]

865

00:51:59,520 --> 00:52:02,880

oh interest oh look at that you have

866

00:52:02,880 --> 00:52:05,760

different responses

867

00:52:05,760 --> 00:52:08,400

okay

868

00:52:14,559 --> 00:52:16,720

so this is interesting so some of you

869

00:52:16,720 --> 00:52:18,640

get like four mil

870

00:52:18,640 --> 00:52:20,960

four billion and some of you get a few

871

00:52:20,960 --> 00:52:21,680

less

872

00:52:21,680 --> 00:52:25,760

right okay now i'm very curious i would

873

00:52:25,760 --> 00:52:27,359

you know it's kind of hard to do it

874

00:52:27,359 --> 00:52:29,520

right now because we're

875

00:52:29,520 --> 00:52:32,079

remote but it would be very interesting

876

00:52:32,079 --> 00:52:33,520

to compare what you

877

00:52:33,520 --> 00:52:36,880

see to what your

878

00:52:36,880 --> 00:52:40,880

friend is saying and i bet you you don't

879

00:52:40,880 --> 00:52:42,960

see the same thing

880

00:52:42,960 --> 00:52:47,839

and why don't you see the same thing

881

00:52:48,800 --> 00:52:52,000

who decides what you see

882

00:52:57,280 --> 00:53:01,520

yeah whichever search engine you

883

00:53:01,520 --> 00:53:05,200

are using is going to decide what you

884

00:53:05,200 --> 00:53:07,200

see

885

00:53:07,200 --> 00:53:10,640

ah the algorithm right

886

00:53:10,640 --> 00:53:13,680

whichever search engine you are using

887

00:53:13,680 --> 00:53:17,160

and the location where you are and the

888

00:53:17,160 --> 00:53:18,319

restrictions

889

00:53:18,319 --> 00:53:22,800

that your country may be imposing

890

00:53:23,359 --> 00:53:26,319

will impact what you see now you don't

891

00:53:26,319 --> 00:53:28,079

have this problem with the library

892

00:53:28,079 --> 00:53:31,040

but the library is created by a

893

00:53:31,040 --> 00:53:33,920

librarian so the librarian decides which

894

00:53:33,920 --> 00:53:35,760

books you're seeing

895

00:53:35,760 --> 00:53:38,800

right so what i do want you to think

896

00:53:38,800 --> 00:53:39,440

about

897

00:53:39,440 --> 00:53:43,040

is the fact that yes you have access to

898

00:53:43,040 --> 00:53:46,079

massive amounts of information but

899

00:53:46,079 --> 00:53:49,680

you don't decide what you see

900

00:53:49,680 --> 00:53:52,640

and so it's really important that you

901

00:53:52,640 --> 00:53:54,240

are aware of this

902

00:53:54,240 --> 00:53:58,240

so that you can combat the bias

903

00:53:58,240 --> 00:54:01,119

from the software all right so that you

904

00:54:01,119 --> 00:54:02,319

can keep

905

00:54:02,319 --> 00:54:05,440

a broad mind

906

00:54:05,440 --> 00:54:08,480

and one of the problems your generation

907

00:54:08,480 --> 00:54:11,599

has is because you are exposed to

908

00:54:11,599 --> 00:54:15,119

so much information

909

00:54:15,599 --> 00:54:18,960

you have to filter it somehow

910

00:54:18,960 --> 00:54:23,359

right and then you have a selection bias

911

00:54:23,359 --> 00:54:26,240

okay so that selection bias may be

912

00:54:26,240 --> 00:54:28,319

coming naturally because you don't have

913

00:54:28,319 --> 00:54:29,760

time to read everything

914

00:54:29,760 --> 00:54:33,200

nobody can all right but you have to

915

00:54:33,200 --> 00:54:34,079

consciously

916

00:54:34,079 --> 00:54:36,880

keep your mind open by reading broadly

917

00:54:36,880 --> 00:54:40,079

otherwise you have self-reinflecting

918

00:54:40,079 --> 00:54:44,799

biases that is super important

919

00:54:44,799 --> 00:54:47,599

all right and then things got even worse

920

00:54:47,599 --> 00:54:48,559

because

921

00:54:48,559 --> 00:54:52,079

we had mobile technology

922

00:54:52,079 --> 00:54:54,400

and that has been happening in only the

923

00:54:54,400 --> 00:54:56,240

last 15 years

924

00:54:56,240 --> 00:54:59,359

so this has been compounding the problem

925

00:54:59,359 --> 00:55:01,760

and even further because now we also

926

00:55:01,760 --> 00:55:02,400

have the

927

00:55:02,400 --> 00:55:05,680

internet of things so now we have

928

00:55:05,680 --> 00:55:06,720

connected

929

00:55:06,720 --> 00:55:11,200

things and the the flow of data

930

00:55:11,200 --> 00:55:15,040

is so massive so huge

931

00:55:15,040 --> 00:55:18,000

that we're being overwhelmed by this

932

00:55:18,000 --> 00:55:19,359

okay

933

00:55:19,359 --> 00:55:22,240

now this is very important because it

934

00:55:22,240 --> 00:55:25,040

does affect the way we do business

935

00:55:25,040 --> 00:55:28,559

things have gone very fast

936

00:55:28,559 --> 00:55:31,839

the time to completion of transaction

937

00:55:31,839 --> 00:55:34,640

has accelerated massively

938

00:55:34,640 --> 00:55:38,160

and we've all become

939

00:55:38,160 --> 00:55:42,319

reachable 24 7

940

00:55:42,599 --> 00:55:46,799

365 or 366 days a year there's no

941

00:55:46,799 --> 00:55:49,200

basically no place on the planet where

942

00:55:49,200 --> 00:55:52,319

technology cannot actually reach you

943

00:55:52,319 --> 00:55:55,200

this is very sad because it makes it

944

00:55:55,200 --> 00:55:55,760

really

945

00:55:55,760 --> 00:55:58,559

hard to separate your professional life

946

00:55:58,559 --> 00:56:01,119

from your personal life

947

00:56:01,119 --> 00:56:04,720

so when i was working in banking in the

948

00:56:04,720 --> 00:56:07,040

early stage of my career before

949

00:56:07,040 --> 00:56:10,559

email and before internet i had

950

00:56:10,559 --> 00:56:12,960

a very clear separation between my

951

00:56:12,960 --> 00:56:16,160

professional life and my personal life i

952

00:56:16,160 --> 00:56:18,240

came into the office i worked whatever

953

00:56:18,240 --> 00:56:20,160

many hours i used to work which was

954

00:56:20,160 --> 00:56:22,240

quite a lot but by the time i left the

955

00:56:22,240 --> 00:56:25,599

office nobody could reach me

956

00:56:25,760 --> 00:56:29,040

and then my personal life began

957

00:56:29,040 --> 00:56:31,359

and then until the next day when i went

958

00:56:31,359 --> 00:56:33,520

back to the office this is no longer the

959

00:56:33,520 --> 00:56:34,799

case

960

00:56:34,799 --> 00:56:38,079

and this transition has been made worse

961

00:56:38,079 --> 00:56:41,599

by the pandemic because with working

962

00:56:41,599 --> 00:56:42,640

from home

963

00:56:42,640 --> 00:56:46,319

there is no time limit anymore

964

00:56:46,319 --> 00:56:48,880

okay so what i've noticed and actually

965

00:56:48,880 --> 00:56:50,559

the statistics buried out

966

00:56:50,559 --> 00:56:54,160

is that the work day has increased

967

00:56:54,160 --> 00:56:57,760

by a couple of hours with this working

968

00:56:57,760 --> 00:56:58,079

from

969

00:56:58,079 --> 00:57:02,799

home thing and your generation

970

00:57:02,799 --> 00:57:05,920

has to be very conscious of

971

00:57:05,920 --> 00:57:08,079

you know how you differentiate your

972

00:57:08,079 --> 00:57:10,160

personal life and your work life

973

00:57:10,160 --> 00:57:13,680

because it's really really hard now

974

00:57:13,680 --> 00:57:17,119

all right now what's the next big thing

975

00:57:17,119 --> 00:57:20,079

i don't know but we hear a lot about

976

00:57:20,079 --> 00:57:21,839

artificial intelligence

977

00:57:21,839 --> 00:57:23,760

big data machine learning and all these

978

00:57:23,760 --> 00:57:26,160

things the only thing for sure is that

979

00:57:26,160 --> 00:57:27,839

things are changing they're changing

980

00:57:27,839 --> 00:57:30,880

very very fast

981

00:57:30,960 --> 00:57:35,680

um and this was my life

982

00:57:35,680 --> 00:57:39,520

before see that but i also want you to

983

00:57:39,520 --> 00:57:40,079

understand

984

00:57:40,079 --> 00:57:43,760

is that things worked

985

00:57:43,760 --> 00:57:45,440

and just because we didn't have the

986

00:57:45,440 --> 00:57:47,760

internet didn't mean things were not

987

00:57:47,760 --> 00:57:48,880

working

988

00:57:48,880 --> 00:57:52,720

all right um before i move on to the

989

00:57:52,720 --> 00:57:54,079

next thing i want

990

00:57:54,079 --> 00:57:57,599

to give you a word of caution

991

00:57:57,599 --> 00:58:00,960

and i do this with all my classes

992

00:58:00,960 --> 00:58:04,400

be careful be careful

993

00:58:04,400 --> 00:58:08,000

what you put out there be very

994

00:58:08,000 --> 00:58:12,400

very very careful of social media

995

00:58:12,400 --> 00:58:16,000

because your potential employers

996

00:58:16,000 --> 00:58:19,119

will check it out they will

997

00:58:19,119 --> 00:58:22,079

facebook you they will google you they

998

00:58:22,079 --> 00:58:23,119

will twitter you

999

00:58:23,119 --> 00:58:25,599

they will link in you they will

1000

00:58:25,599 --> 00:58:28,000

instagram you

1001

00:58:28,000 --> 00:58:31,119

so scrub

1002

00:58:31,119 --> 00:58:34,400

your profiles

1003

00:58:34,400 --> 00:58:38,240

look at what you posting

1004

00:58:38,240 --> 00:58:41,359

as an employer would i

1005

00:58:41,359 --> 00:58:44,720

hire this person

1006

00:58:45,359 --> 00:58:50,799

think about it do the exercise

1007

00:58:50,799 --> 00:58:55,359

ask somebody to check it out

1008

00:58:55,359 --> 00:58:58,960

and unfortunately in uh in asia and the

1009

00:58:58,960 --> 00:58:59,440

us

1010

00:58:59,440 --> 00:59:01,839

and other places you you know it's very

1011

00:59:01,839 --> 00:59:03,040

difficult

1012

00:59:03,040 --> 00:59:06,480

to get stuff off once you've posted them

1013

00:59:06,480 --> 00:59:10,079

in europe we have the right to forget

1014

00:59:10,079 --> 00:59:13,040

until we have the right to be forgotten

1015

00:59:13,040 --> 00:59:13,839

not so

1016

00:59:13,839 --> 00:59:17,040

in other places so the only way

1017

00:59:17,040 --> 00:59:20,079

is to be super careful what you're

1018

00:59:20,079 --> 00:59:21,440

putting out there

1019

00:59:21,440 --> 00:59:24,319

and i'm so very grateful that social

1020

00:59:24,319 --> 00:59:28,640

media did not exist when i was your age

1021

00:59:28,799 --> 00:59:31,760

all right with this doom and gloom we're

1022

00:59:31,760 --> 00:59:34,160

going to move on to

1023

00:59:34,160 --> 00:59:37,760

discussing why

1024

00:59:37,760 --> 00:59:41,119

we need financial markets and what do we

1025

00:59:41,119 --> 00:59:43,839

need for financial markets to work

1026

00:59:43,839 --> 00:59:46,640

so i'm going to send you all off to

1027

00:59:46,640 --> 00:59:48,559

breakout rooms

1028

00:59:48,559 --> 00:59:53,280

and i'm going to give you 10 minutes

1029

00:59:53,280 --> 00:59:57,040

that's a lot huh maybe too much

1030

00:59:59,440 --> 01:00:02,160

okay hmm try it anyway i'm going to

1031

01:00:02,160 --> 01:00:04,319

randomly assign you all to breakout

1032

01:00:04,319 --> 01:00:07,200

rooms so you get to meet your classmates

1033

01:00:07,200 --> 01:00:10,160

please chat with them about the blue

1034

01:00:10,160 --> 01:00:10,880

slide

1035

01:00:10,880 --> 01:00:13,040

the question out there and then i'll

1036

01:00:13,040 --> 01:00:14,400

debrief you

1037

01:00:14,400 --> 01:00:16,640

as you come back to the main room okay

1038

01:00:16,640 --> 01:00:18,640

you ready

1039

01:00:18,640 --> 01:00:23,599

all right i'm going to create how many

1040

01:00:23,599 --> 01:00:26,960

huh 10 15 10 is

1041

01:00:26,960 --> 01:00:30,160

10 10 maybe 15 12 or 15.

1042

01:00:30,160 --> 01:00:35,200

okay well yeah all right here we go

1043

01:00:35,200 --> 01:00:43,839

open all rooms

1044

01:00:52,640 --> 01:00:57,839

so 10 minutes

1045

01:01:22,839 --> 01:01:25,839

so

1046

01:01:36,839 --> 01:01:39,839

so

1047

01:01:50,839 --> 01:01:53,839

so

1048

01:02:05,839 --> 01:02:07,920

you

1049

01:02:32,839 --> 01:02:35,839

so

1050

01:02:46,839 --> 01:02:49,839

so

1051

01:02:55,760 --> 01:02:57,839

okay we have one student who is still

1052

01:02:57,839 --> 01:02:59,839

stuck in the main room and hasn't moved

1053

01:02:59,839 --> 01:03:01,359

to the breakout

1054

01:03:01,359 --> 01:03:04,480

maybe it's only turned on the uh the

1055

01:03:04,480 --> 01:03:06,160

thing

1056

01:03:06,160 --> 01:03:09,520

or maybe the student is using multiple

1057

01:03:09,520 --> 01:03:10,799

device

1058

01:03:10,799 --> 01:03:14,839

so two device only joined by one of the

1059

01:03:14,839 --> 01:03:19,599

device he's only one student who hasn't

1060

01:03:28,839 --> 01:03:31,839

moved

1061

01:04:20,400 --> 01:04:24,640

he's not responding to my message or

1062

01:04:24,839 --> 01:04:27,839

anything

1063

01:04:31,760 --> 01:04:34,160

param

1064

01:04:38,839 --> 01:04:40,400

haram

1065

01:04:40,400 --> 01:04:55,839

somebody's logged in but he's not here

1066

01:05:06,839 --> 01:05:09,839

so

1067

01:05:21,039 --> 01:05:23,839

um

1068

01:05:49,200 --> 01:05:54,079

so the iprs will start um

1069

01:05:59,359 --> 01:06:05,839

yeah when we start talking about markets

1070

01:06:16,839 --> 01:06:19,839

this

1071

01:06:20,160 --> 01:06:23,359

and when she hadn't dropped

1072

01:06:23,359 --> 01:06:26,640

until 17 17 yeah after the chinese

1073

01:06:26,640 --> 01:06:28,640

interview

1074

01:06:28,640 --> 01:06:33,839

that is westlake

1075

01:06:58,559 --> 01:07:15,839

somebody came out and went back in

1076

01:08:30,550 --> 01:08:34,159

[Music]

1077

01:08:37,120 --> 01:08:39,120

connections and now i finally got a lot

1078

01:08:39,120 --> 01:08:41,920

of connections and i come back and

1079

01:08:41,920 --> 01:08:43,920

so you you're having problem with your

1080

01:08:43,920 --> 01:08:45,439

connection

1081

01:08:45,439 --> 01:08:47,919

wait wait

1082

01:08:50,839 --> 01:08:53,759

hello

1083

01:08:53,759 --> 01:08:57,279

huh hello hello

1084

01:08:57,279 --> 01:09:00,719

yes i got

1085

01:09:00,719 --> 01:09:02,238

i got this coming out my life just

1086

01:09:02,238 --> 01:09:04,319

everything for a while and i finally got

1087

01:09:04,319 --> 01:09:06,719

a good position for wi-fi so i

1088

01:09:06,719 --> 01:09:09,839

can't be submitting and

1089

01:09:09,839 --> 01:09:11,520

okay that's all right we're going to get

1090

01:09:11,520 --> 01:09:13,520

everybody back in very shortly don't

1091

01:09:13,520 --> 01:09:14,399

worry

1092

01:09:14,399 --> 01:09:21,838

okay sorry thank you

1093

01:10:14,840 --> 01:10:17,840

okay

1094

01:10:20,400 --> 01:10:22,800

so as we get everybody back in i'm going

1095

01:10:22,800 --> 01:10:23,760

to go from

1096

01:10:23,760 --> 01:10:26,960

room to group to group and ask you to

1097

01:10:26,960 --> 01:10:27,600

debrief

1098

01:10:27,600 --> 01:10:30,480

me on what you've been discussing with

1099

01:10:30,480 --> 01:10:33,440

your classmates

1100

01:10:36,719 --> 01:10:38,080

all right so i should be getting

1101

01:10:38,080 --> 01:10:41,760

everybody back in more or less

1102

01:10:42,840 --> 01:10:45,600

yeah some people who are still hanging

1103

01:10:45,600 --> 01:10:47,440

in their discussion room but they will

1104

01:10:47,440 --> 01:10:48,800

be brought in

1105

01:10:48,800 --> 01:10:52,080

very very shortly okay

1106

01:10:52,080 --> 01:10:55,199

so room number one

1107

01:10:55,199 --> 01:10:57,600

it's

1108

01:10:58,330 --> 01:11:05,779

[Music]

1109

01:11:07,920 --> 01:11:11,199

so could one of you

1110

01:11:11,199 --> 01:11:15,600

tell me what you've been talking about

1111

01:11:18,000 --> 01:11:20,400

okay so one or two things that you

1112

01:11:20,400 --> 01:11:22,080

talked about

1113

01:11:22,080 --> 01:11:23,840

that you feel are important for

1114

01:11:23,840 --> 01:11:27,040

financial market okay

1115

01:11:27,040 --> 01:11:30,560

okay i want to start with room one uh

1116

01:11:30,560 --> 01:11:33,760

itong marco chu jung day

1117

01:11:33,760 --> 01:11:36,800

once uh min q dominic wong

1118

01:11:36,800 --> 01:11:40,159

cement and tachem one of you raise your

1119

01:11:40,159 --> 01:11:42,960

hand and call me

1120

01:11:46,239 --> 01:11:49,840

hello i don't know how to

1121

01:11:49,840 --> 01:11:51,600

read hand but i i can i can say

1122

01:11:51,600 --> 01:11:53,440

something about that

1123

01:11:53,440 --> 01:11:57,040

huh uh i i i can say something about

1124

01:11:57,040 --> 01:12:00,000

our discussion yeah go ahead okay okay

1125

01:12:00,000 --> 01:12:00,880

so first we

1126

01:12:00,880 --> 01:12:03,520

talk about something about rules and

1127

01:12:03,520 --> 01:12:04,320

laws

1128

01:12:04,320 --> 01:12:07,360

to protect the marketing financial

1129

01:12:07,360 --> 01:12:09,120

market markets

1130

01:12:09,120 --> 01:12:11,040

i think we think that is the most

1131

01:12:11,040 --> 01:12:12,960

important thing

1132

01:12:12,960 --> 01:12:15,760

and then we talk something about how to

1133

01:12:15,760 --> 01:12:18,159

attack people to join the

1134

01:12:18,159 --> 01:12:22,239

markets and make it bigger and bigger

1135

01:12:22,239 --> 01:12:25,470

like show them that the

1136

01:12:25,470 --> 01:12:28,239

[Music]

1137

01:12:28,239 --> 01:12:31,280

benefit is breathable

1138

01:12:31,280 --> 01:12:34,800

and i don't think i forget

1139

01:12:34,800 --> 01:12:37,280

it's okay all right so you guys talked

1140

01:12:37,280 --> 01:12:39,440

about rules and regulations

1141

01:12:39,440 --> 01:12:42,560

very good uh jung day tell me tell me

1142

01:12:42,560 --> 01:12:44,000

more tell me more

1143

01:12:44,000 --> 01:12:46,480

and also we talked about uh auditors

1144

01:12:46,480 --> 01:12:48,320

auditors that uh

1145

01:12:48,320 --> 01:12:51,600

ensure that the corporations um publish

1146

01:12:51,600 --> 01:12:52,480

the correct

1147

01:12:52,480 --> 01:12:56,239

data and not try to uh decept

1148

01:12:56,239 --> 01:13:00,719

the debit very good okay

1149

01:13:00,719 --> 01:13:04,800

anything else from uh okay we've got uh

1150

01:13:04,800 --> 01:13:07,840

nayin i'll come to you in a minute uh

1151

01:13:07,840 --> 01:13:11,360

group one you don anything else you want

1152

01:13:11,360 --> 01:13:12,560

to say

1153

01:13:12,560 --> 01:13:15,679

no all right group two is

1154

01:13:15,679 --> 01:13:19,280

chew wing tio yat tang

1155

01:13:19,280 --> 01:13:23,920

hoyen soy in and don xiao

1156

01:13:23,920 --> 01:13:27,520

so one of you talk to me

1157

01:13:29,199 --> 01:13:32,320

hello hello

1158

01:13:32,320 --> 01:13:36,080

you must have talked about something

1159

01:13:38,159 --> 01:13:41,199

yes oh there we go

1160

01:13:41,199 --> 01:13:44,320

thank you so

1161

01:13:44,800 --> 01:13:47,520

uh we have talked about the financial

1162

01:13:47,520 --> 01:13:49,040

market but

1163

01:13:49,040 --> 01:13:52,480

i we think that our discussions

1164

01:13:52,480 --> 01:13:54,880

are going astray because we are talking

1165

01:13:54,880 --> 01:13:55,920

about

1166

01:13:55,920 --> 01:13:57,920

what is the importance of financial

1167

01:13:57,920 --> 01:13:59,520

market yes

1168

01:13:59,520 --> 01:14:02,640

and we we come to the

1169

01:14:02,640 --> 01:14:05,679

conclusion is that financial market

1170

01:14:05,679 --> 01:14:08,719

is targeting on making

1171

01:14:08,719 --> 01:14:12,840

the social welfare more bigger and then

1172

01:14:12,840 --> 01:14:14,560

distributed

1173

01:14:14,560 --> 01:14:17,760

which is which means that we make the

1174

01:14:17,760 --> 01:14:22,480

cake make make the cake larger

1175

01:14:22,480 --> 01:14:26,480

and as for the question

1176

01:14:26,480 --> 01:14:29,840

we think that financial markets

1177

01:14:29,840 --> 01:14:32,960

need regulation yes

1178

01:14:32,960 --> 01:14:36,480

because when we come back to 2008

1179

01:14:36,480 --> 01:14:40,800

the financial crisis it is because the

1180

01:14:40,800 --> 01:14:43,840

assets asset-backed securities

1181

01:14:43,840 --> 01:14:45,840

and the whole financial market was

1182

01:14:45,840 --> 01:14:47,920

collapsed so i think

1183

01:14:47,920 --> 01:14:51,199

we think financial markets need a

1184

01:14:51,199 --> 01:14:55,600

correct regulation by the government

1185

01:14:55,679 --> 01:14:58,960

very good yes so that echoes what

1186

01:14:58,960 --> 01:15:02,480

was discussed by uh the students in room

1187

01:15:02,480 --> 01:15:04,600

one we're talking about rules and

1188

01:15:04,600 --> 01:15:05,760

regulations

1189

01:15:05,760 --> 01:15:07,920

as well as the auditors thank you

1190

01:15:07,920 --> 01:15:08,880

dongxiao

1191

01:15:08,880 --> 01:15:11,520

let's move to room three in room three

1192

01:15:11,520 --> 01:15:12,239

we had

1193

01:15:12,239 --> 01:15:16,480

elliot calvin george visit chai

1194

01:15:16,480 --> 01:15:19,679

wai hung song tag jan fen

1195

01:15:19,679 --> 01:15:23,280

and using so one of you tell me

1196

01:15:23,280 --> 01:15:27,040

um yeah so i think that uh in addition

1197

01:15:27,040 --> 01:15:30,400

to the legal systems and regulations we

1198

01:15:30,400 --> 01:15:31,679

also thought that

1199

01:15:31,679 --> 01:15:34,800

having um an educated population and

1200

01:15:34,800 --> 01:15:35,679

having

1201

01:15:35,679 --> 01:15:38,239

proper training for these personnels are

1202

01:15:38,239 --> 01:15:39,679

also essential

1203

01:15:39,679 --> 01:15:42,880

and having the ability to globalize and

1204

01:15:42,880 --> 01:15:44,000

to

1205

01:15:44,000 --> 01:15:46,480

spread and take in more information we

1206

01:15:46,480 --> 01:15:47,760

thought is also

1207

01:15:47,760 --> 01:15:50,719

important for financial markets very

1208

01:15:50,719 --> 01:15:51,600

good

1209

01:15:51,600 --> 01:15:57,360

excellent anything else from room three

1210

01:15:58,800 --> 01:16:02,239

that's okay very good room four we have

1211

01:16:02,239 --> 01:16:02,640

so

1212

01:16:02,640 --> 01:16:06,000

on kevin kent sutin

1213

01:16:06,000 --> 01:16:09,199

na ting kin pan

1214

01:16:09,199 --> 01:16:13,360

kathleen and winian

1215

01:16:14,800 --> 01:16:18,840

so uh

1216

01:16:18,840 --> 01:16:22,960

okay uh wing yen told me tell me tell me

1217

01:16:22,960 --> 01:16:26,000

okay yeah we talk about the basic things

1218

01:16:26,000 --> 01:16:27,199

that is the money

1219

01:16:27,199 --> 01:16:29,040

you need to have currency in order to

1220

01:16:29,040 --> 01:16:30,880

make investment easier

1221

01:16:30,880 --> 01:16:33,120

and also we also talk about the banking

1222

01:16:33,120 --> 01:16:34,560

system

1223

01:16:34,560 --> 01:16:37,199

and the banking system also make the

1224

01:16:37,199 --> 01:16:37,920

learning

1225

01:16:37,920 --> 01:16:41,440

or landing process easier and we also

1226

01:16:41,440 --> 01:16:42,159

talk about

1227

01:16:42,159 --> 01:16:44,719

instant communication system like for

1228

01:16:44,719 --> 01:16:46,080

example as

1229

01:16:46,080 --> 01:16:48,640

especially nowadays uh if you're in hong

1230

01:16:48,640 --> 01:16:49,520

kong and

1231

01:16:49,520 --> 01:16:52,560

you like to listen to the speech of

1232

01:16:52,560 --> 01:16:53,440

donald trump

1233

01:16:53,440 --> 01:16:56,320

you're gonna like log on to some kind of

1234

01:16:56,320 --> 01:16:57,040

platform

1235

01:16:57,040 --> 01:17:00,159

in order to get the uh

1236

01:17:00,159 --> 01:17:02,560

first-hand information from him so the

1237

01:17:02,560 --> 01:17:04,560

instant communication system is also

1238

01:17:04,560 --> 01:17:06,400

very crucial in this time and age

1239

01:17:06,400 --> 01:17:09,600

thank you very good excellent excellent

1240

01:17:09,600 --> 01:17:10,320

point

1241

01:17:10,320 --> 01:17:12,400

well done anybody else wants to talk

1242

01:17:12,400 --> 01:17:14,080

from room four

1243

01:17:14,080 --> 01:17:17,120

yeah and to just to add on uh we are

1244

01:17:17,120 --> 01:17:18,719

first to discuss that we should have

1245

01:17:18,719 --> 01:17:19,600

some kind of

1246

01:17:19,600 --> 01:17:23,360

um middlemen working in the financial

1247

01:17:23,360 --> 01:17:24,080

markets

1248

01:17:24,080 --> 01:17:26,320

for example the trading companies like

1249

01:17:26,320 --> 01:17:27,600

the hks

1250

01:17:27,600 --> 01:17:30,960

ex in hong kong and also like the

1251

01:17:30,960 --> 01:17:33,120

underwriters for stock listing

1252

01:17:33,120 --> 01:17:35,360

and also the auditors when um and also

1253

01:17:35,360 --> 01:17:37,600

law firms and auditors for

1254

01:17:37,600 --> 01:17:39,840

preparing those listing documents or the

1255

01:17:39,840 --> 01:17:41,760

other documents to contrast for the

1256

01:17:41,760 --> 01:17:43,120

companies

1257

01:17:43,120 --> 01:17:45,840

very good a very important point netting

1258

01:17:45,840 --> 01:17:46,640

excellent

1259

01:17:46,640 --> 01:17:50,080

well done okay let's move on to room

1260

01:17:50,080 --> 01:17:53,360

five we have aria warden

1261

01:17:53,360 --> 01:17:56,800

tikwang hong fi dhruv

1262

01:17:56,800 --> 01:17:59,120

mak

1263

01:18:00,080 --> 01:18:03,679

so who wants to talk to me

1264

01:18:09,120 --> 01:18:13,840

hello room five

1265

01:18:15,760 --> 01:18:18,000

come on come on i think most of the

1266

01:18:18,000 --> 01:18:19,360

things have already been mentioned by

1267

01:18:19,360 --> 01:18:21,440

the previous group

1268

01:18:21,440 --> 01:18:23,280

uh but other than that i think one thing

1269

01:18:23,280 --> 01:18:26,320

i can add is um

1270

01:18:26,320 --> 01:18:27,679

the money but also something to

1271

01:18:27,679 --> 01:18:30,080

determine the value of the money

1272

01:18:30,080 --> 01:18:32,960

yes so i think that's the only thing

1273

01:18:32,960 --> 01:18:34,080

that we can add

1274

01:18:34,080 --> 01:18:37,760

after that very good

1275

01:18:37,760 --> 01:18:40,960

and adding to that i feel that

1276

01:18:40,960 --> 01:18:43,440

it's proper supply and demand is also

1277

01:18:43,440 --> 01:18:44,800

required for

1278

01:18:44,800 --> 01:18:47,840

financial markets to function

1279

01:18:47,840 --> 01:18:51,040

because most of the times there is a

1280

01:18:51,040 --> 01:18:53,920

huge gap between supply and demand so

1281

01:18:53,920 --> 01:18:55,280

which causes

1282

01:18:55,280 --> 01:18:56,960

financial markets to not function

1283

01:18:56,960 --> 01:18:59,440

properly very good

1284

01:18:59,440 --> 01:19:02,800

excellent points um also i think that

1285

01:19:02,800 --> 01:19:04,159

technology also

1286

01:19:04,159 --> 01:19:05,679

important for the financial market

1287

01:19:05,679 --> 01:19:07,679

access and venture property because

1288

01:19:07,679 --> 01:19:10,000

for this change to happen we need to

1289

01:19:10,000 --> 01:19:12,239

have a good way for them to

1290

01:19:12,239 --> 01:19:14,640

do so and also the security is very

1291

01:19:14,640 --> 01:19:16,400

important is related to the

1292

01:19:16,400 --> 01:19:19,760

internet security yes

1293

01:19:19,760 --> 01:19:22,080

so what do you mean security you mean

1294

01:19:22,080 --> 01:19:24,000

security in the terms of being

1295

01:19:24,000 --> 01:19:27,280

safe um being safe

1296

01:19:27,280 --> 01:19:31,600

so that um the trade has to be for

1297

01:19:31,760 --> 01:19:34,480

contacts has been protected and then

1298

01:19:34,480 --> 01:19:36,560

capital also it needs to be protected as

1299

01:19:36,560 --> 01:19:36,960

well

1300

01:19:36,960 --> 01:19:39,920

yeah yeah okay so security in that sense

1301

01:19:39,920 --> 01:19:40,320

okay

1302

01:19:40,320 --> 01:19:43,840

well done thank you all right let's move

1303

01:19:43,840 --> 01:19:44,640

on to room

1304

01:19:44,640 --> 01:19:48,000

six where we have adrian chuck fung

1305

01:19:48,000 --> 01:19:51,840

one shan roman

1306

01:19:56,400 --> 01:19:58,239

[Music]

1307

01:19:58,239 --> 01:20:00,640

so we discussed a lot of things but

1308

01:20:00,640 --> 01:20:03,280

basically it all boiled down to five

1309

01:20:03,280 --> 01:20:05,679

key things that we need and that is

1310

01:20:05,679 --> 01:20:07,600

first of all a good set of rules

1311

01:20:07,600 --> 01:20:10,080

so we don't allow any manipulation of

1312

01:20:10,080 --> 01:20:12,239

the stock market or any unfair practices

1313

01:20:12,239 --> 01:20:14,400

like insider trading

1314

01:20:14,400 --> 01:20:16,320

and then we also need a secure and

1315

01:20:16,320 --> 01:20:18,719

reliable system of exchange

1316

01:20:18,719 --> 01:20:20,480

because otherwise people would be

1317

01:20:20,480 --> 01:20:22,320

discouraged because maybe if i put in a

1318

01:20:22,320 --> 01:20:24,080

transaction i pay my money but i don't

1319

01:20:24,080 --> 01:20:25,040

get my stock

1320

01:20:25,040 --> 01:20:26,480

then i'm discouraged from trading

1321

01:20:26,480 --> 01:20:28,400

obviously

1322

01:20:28,400 --> 01:20:30,320

and to enforce these we need regulators

1323

01:20:30,320 --> 01:20:32,000

and watchdogs like the sec

1324

01:20:32,000 --> 01:20:35,679

or auditors the fasb

1325

01:20:35,679 --> 01:20:38,560

we also said that we need transparency

1326

01:20:38,560 --> 01:20:39,440

so

1327

01:20:39,440 --> 01:20:41,040

the universal availability of

1328

01:20:41,040 --> 01:20:42,719

information

1329

01:20:42,719 --> 01:20:45,840

so that the investors are all have the

1330

01:20:45,840 --> 01:20:47,280

same

1331

01:20:47,280 --> 01:20:51,040

foundation so it's all fair and also

1332

01:20:51,040 --> 01:20:53,920

in the same light mass accessibility so

1333

01:20:53,920 --> 01:20:55,920

everyone is able to trade

1334

01:20:55,920 --> 01:21:00,480

very good excellent that's really nice

1335

01:21:00,480 --> 01:21:03,600

very very good thanks woman for sharing

1336

01:21:03,600 --> 01:21:07,120

um room seven we have

1337

01:21:07,120 --> 01:21:10,639

katong anson

1338

01:21:11,840 --> 01:21:14,159

song

1339

01:21:16,880 --> 01:21:19,600

i think most of our answers have been

1340

01:21:19,600 --> 01:21:21,600

already mentioned but we

1341

01:21:21,600 --> 01:21:25,120

divided our elements into

1342

01:21:25,120 --> 01:21:28,639

few categories we first uh made the

1343

01:21:28,639 --> 01:21:31,199

first category as a player that includes

1344

01:21:31,199 --> 01:21:32,080

like sellers

1345

01:21:32,080 --> 01:21:35,199

buyers brokers banks and customers yeah

1346

01:21:35,199 --> 01:21:37,520

and the second one is the system so we

1347

01:21:37,520 --> 01:21:39,280

need the banking system transaction

1348

01:21:39,280 --> 01:21:39,760

system

1349

01:21:39,760 --> 01:21:43,040

and monetary system to ensure that

1350

01:21:43,040 --> 01:21:45,760

everything works properly and finally we

1351

01:21:45,760 --> 01:21:46,960

need the regulation

1352

01:21:46,960 --> 01:21:50,239

so that everything is functioning uh

1353

01:21:50,239 --> 01:21:53,520

under the supervision very good

1354

01:21:53,520 --> 01:21:56,880

very good excellent points

1355

01:21:56,880 --> 01:21:59,920

then we have room eight we have

1356

01:21:59,920 --> 01:22:03,120

pong king param sinting

1357

01:22:03,120 --> 01:22:06,639

safong jin juan yang jun

1358

01:22:06,639 --> 01:22:11,840

chung kit and cyrus

1359

01:22:13,040 --> 01:22:16,719

we need a um high institution authority

1360

01:22:16,719 --> 01:22:18,239

to

1361

01:22:18,239 --> 01:22:21,760

build a fight build a foundation for the

1362

01:22:21,760 --> 01:22:23,760

financial market to kickstart

1363

01:22:23,760 --> 01:22:28,159

and get uh people to participate

1364

01:22:28,159 --> 01:22:32,639

and for it to function properly

1365

01:22:32,639 --> 01:22:35,920

we need the stakeholders to actively

1366

01:22:35,920 --> 01:22:39,120

get involved in financial market and

1367

01:22:39,120 --> 01:22:43,280

um the ohio institution needs to set

1368

01:22:43,280 --> 01:22:46,560

regulations so yeah it doesn't go

1369

01:22:46,560 --> 01:22:48,880

straight

1370

01:22:49,280 --> 01:22:52,560

and a point to add is that it allows us

1371

01:22:52,560 --> 01:22:55,760

to acquire various type of informations

1372

01:22:55,760 --> 01:22:58,560

without you know spending our money so

1373

01:22:58,560 --> 01:22:59,040

it'll

1374

01:22:59,040 --> 01:23:00,639

allow us to lower the cost of

1375

01:23:00,639 --> 01:23:02,480

transaction and it also

1376

01:23:02,480 --> 01:23:05,440

makes our financial asset more liquid

1377

01:23:05,440 --> 01:23:06,080

since we

1378

01:23:06,080 --> 01:23:09,760

can you know treat our security at any

1379

01:23:09,760 --> 01:23:11,760

time

1380

01:23:11,760 --> 01:23:15,600

great points okay very good

1381

01:23:15,600 --> 01:23:19,280

uh let's move to and i do realize that

1382

01:23:19,280 --> 01:23:21,760

as i'm debriefing there are a lot of

1383

01:23:21,760 --> 01:23:23,679

things that have already been discussed

1384

01:23:23,679 --> 01:23:24,800

but that's okay

1385

01:23:24,800 --> 01:23:28,480

don't worry about it okay so room nine

1386

01:23:28,480 --> 01:23:31,679

i have wing yen hey lam and

1387

01:23:31,679 --> 01:23:34,719

apologies for mispronouncing your names

1388

01:23:34,719 --> 01:23:37,040

okay

1389

01:23:38,320 --> 01:23:41,760

ying and emmanuel um

1390

01:23:41,760 --> 01:23:43,679

so we discussed that we need some sort

1391

01:23:43,679 --> 01:23:45,280

of investor and also

1392

01:23:45,280 --> 01:23:47,040

securities to be traded like in the

1393

01:23:47,040 --> 01:23:49,440

financial sense like bonds

1394

01:23:49,440 --> 01:23:51,600

um like forex like currencies and stuff

1395

01:23:51,600 --> 01:23:52,480

like that

1396

01:23:52,480 --> 01:23:55,120

uh and uh i kind of have a question

1397

01:23:55,120 --> 01:23:55,600

because

1398

01:23:55,600 --> 01:23:58,239

i see a lot of my classmates in the

1399

01:23:58,239 --> 01:23:59,040

groups before

1400

01:23:59,040 --> 01:24:02,719

me that mentioned we need regulation but

1401

01:24:02,719 --> 01:24:04,800

aren't there also disadvantages to

1402

01:24:04,800 --> 01:24:06,800

regulation for example rent control

1403

01:24:06,800 --> 01:24:09,440

uh especially i think in new york a lot

1404

01:24:09,440 --> 01:24:10,400

of economists

1405

01:24:10,400 --> 01:24:12,880

are discussing how rent control is bad

1406

01:24:12,880 --> 01:24:13,760

so

1407

01:24:13,760 --> 01:24:16,880

i think uh there's a balance to be had

1408

01:24:16,880 --> 01:24:18,480

between regulation

1409

01:24:18,480 --> 01:24:21,120

and deregulation yeah that's a great

1410

01:24:21,120 --> 01:24:22,159

point emanuel

1411

01:24:22,159 --> 01:24:25,440

yes i mean we you want a balance

1412

01:24:25,440 --> 01:24:27,840

you want rules but not too many because

1413

01:24:27,840 --> 01:24:30,159

then you stippling creativity

1414

01:24:30,159 --> 01:24:32,239

and initiative right it's really very

1415

01:24:32,239 --> 01:24:33,520

good point

1416

01:24:33,520 --> 01:24:36,639

uh room 10 we had mantic

1417

01:24:36,639 --> 01:24:44,159

bella romana isaac pog hang and muhammad

1418

01:24:44,159 --> 01:24:46,880

um well we talked of things that's very

1419

01:24:46,880 --> 01:24:48,800

similar to previous group it's

1420

01:24:48,800 --> 01:24:51,520

mainly about how like this has to be

1421

01:24:51,520 --> 01:24:53,520

regulations and like people have to

1422

01:24:53,520 --> 01:24:56,639

have certified to do uh trading to do

1423

01:24:56,639 --> 01:24:58,480

like trading for them

1424

01:24:58,480 --> 01:25:01,040

so that people have trust you know in

1425

01:25:01,040 --> 01:25:03,280

the market

1426

01:25:03,280 --> 01:25:07,040

yeah all right

1427

01:25:07,040 --> 01:25:10,880

anything else from 10

1428

01:25:10,880 --> 01:25:14,000

no all right room

1429

01:25:14,000 --> 01:25:17,440

11 we had hosum park

1430

01:25:17,440 --> 01:25:20,960

chan yoon wing church iphone

1431

01:25:20,960 --> 01:25:27,840

irene and hilton

1432

01:25:28,080 --> 01:25:31,280

um our group talked about um we need and

1433

01:25:31,280 --> 01:25:32,560

well established

1434

01:25:32,560 --> 01:25:34,560

banking system so that it would

1435

01:25:34,560 --> 01:25:36,639

encourage loaning from banks

1436

01:25:36,639 --> 01:25:39,520

and deposits from public and it will

1437

01:25:39,520 --> 01:25:41,600

form a well

1438

01:25:41,600 --> 01:25:44,800

a good cycle of money creation and we

1439

01:25:44,800 --> 01:25:46,320

also talked about that

1440

01:25:46,320 --> 01:25:49,679

we need an advanced communication system

1441

01:25:49,679 --> 01:25:52,000

so that there will be a good flow of

1442

01:25:52,000 --> 01:25:52,880

information

1443

01:25:52,880 --> 01:25:55,920

and the players like the banks the

1444

01:25:55,920 --> 01:25:57,600

firms and the general public would

1445

01:25:57,600 --> 01:25:58,960

actually engage

1446

01:25:58,960 --> 01:26:02,560

in the financial markets very good

1447

01:26:02,560 --> 01:26:05,760

and uh you wanted to add something

1448

01:26:05,760 --> 01:26:08,080

yes and just like someone mentioned

1449

01:26:08,080 --> 01:26:08,960

before it is

1450

01:26:08,960 --> 01:26:11,600

important to have a free market and also

1451

01:26:11,600 --> 01:26:13,199

to have a transparent market

1452

01:26:13,199 --> 01:26:15,040

but at the same time regulation is

1453

01:26:15,040 --> 01:26:16,320

important as well

1454

01:26:16,320 --> 01:26:18,719

because we really describe the balance

1455

01:26:18,719 --> 01:26:19,840

between the two

1456

01:26:19,840 --> 01:26:23,040

to ensure that the buyers and also the

1457

01:26:23,040 --> 01:26:23,600

sellers

1458

01:26:23,600 --> 01:26:25,920

are regulated and protected during

1459

01:26:25,920 --> 01:26:27,120

transactions

1460

01:26:27,120 --> 01:26:29,520

so for example like in america there is

1461

01:26:29,520 --> 01:26:31,600

the federal reserve system

1462

01:26:31,600 --> 01:26:33,679

and like different kinds of system and

1463

01:26:33,679 --> 01:26:36,239

infrastructure to protect the people

1464

01:26:36,239 --> 01:26:39,280

and apart from that we also need a good

1465

01:26:39,280 --> 01:26:41,840

market infrastructure so for example

1466

01:26:41,840 --> 01:26:43,440

there are the capital

1467

01:26:43,440 --> 01:26:46,320

market authorities so they can host both

1468

01:26:46,320 --> 01:26:49,280

buyers and the sellers in the market

1469

01:26:49,280 --> 01:26:51,600

very good points very very good points

1470

01:26:51,600 --> 01:26:53,600

yes absolutely

1471

01:26:53,600 --> 01:26:56,719

let's move to room 12 we have oining

1472

01:26:56,719 --> 01:27:02,000

signie jasper sir hin

1473

01:27:02,000 --> 01:27:05,679

cotsun and jinkai

1474

01:27:05,679 --> 01:27:08,480

so justice so basically our group

1475

01:27:08,480 --> 01:27:10,080

discussed many of the ideas just like

1476

01:27:10,080 --> 01:27:11,679

similarized before but i think one of

1477

01:27:11,679 --> 01:27:13,120

the most important points that we need

1478

01:27:13,120 --> 01:27:14,960

to discuss is about the demand side of

1479

01:27:14,960 --> 01:27:15,600

things

1480

01:27:15,600 --> 01:27:18,480

because like in order for to have a in

1481

01:27:18,480 --> 01:27:20,239

order to have like a financial market

1482

01:27:20,239 --> 01:27:21,920

itself you need to have demand so

1483

01:27:21,920 --> 01:27:23,840

basically like many companies who want

1484

01:27:23,840 --> 01:27:25,760

to do business in a certain market and

1485

01:27:25,760 --> 01:27:27,360

they need to acquire funds

1486

01:27:27,360 --> 01:27:29,199

and as we know in order for a financial

1487

01:27:29,199 --> 01:27:30,960

market to thrive they basically need to

1488

01:27:30,960 --> 01:27:31,440

first

1489

01:27:31,440 --> 01:27:33,280

check the ability to create money so

1490

01:27:33,280 --> 01:27:35,280

basically if us we can have like

1491

01:27:35,280 --> 01:27:38,239

a sufficient like the customer base for

1492

01:27:38,239 --> 01:27:39,440

all of those funds

1493

01:27:39,440 --> 01:27:41,040

and it can really support the financial

1494

01:27:41,040 --> 01:27:43,199

market to thrive and also we also

1495

01:27:43,199 --> 01:27:44,560

mention a very good point is about

1496

01:27:44,560 --> 01:27:45,120

having

1497

01:27:45,120 --> 01:27:46,960

some sort of like market protection

1498

01:27:46,960 --> 01:27:48,639

mechanism in order to protect the

1499

01:27:48,639 --> 01:27:49,920

stability of the market

1500

01:27:49,920 --> 01:27:52,639

because like back in 1997 like in hong

1501

01:27:52,639 --> 01:27:53,360

kong where

1502

01:27:53,360 --> 01:27:55,120

soros attacked hong kong dollar

1503

01:27:55,120 --> 01:27:57,679

stability and we have hma back then to

1504

01:27:57,679 --> 01:27:59,120

actually help us to restore the whole

1505

01:27:59,120 --> 01:27:59,679

system

1506

01:27:59,679 --> 01:28:01,440

and i think that is really important to

1507

01:28:01,440 --> 01:28:02,800

have some sort of mechanism

1508

01:28:02,800 --> 01:28:05,600

to protect the stability of the market

1509

01:28:05,600 --> 01:28:06,880

very good point

1510

01:28:06,880 --> 01:28:11,760

wow yes so i want to also want to add

1511

01:28:11,760 --> 01:28:14,880

from a technology perspective so the

1512

01:28:14,880 --> 01:28:16,639

first point would be the

1513

01:28:16,639 --> 01:28:19,280

stability for broker and exchange so we

1514

01:28:19,280 --> 01:28:21,199

need to build a software that

1515

01:28:21,199 --> 01:28:23,120

can allow people to trade in high

1516

01:28:23,120 --> 01:28:24,639

concurrency and high frequency high

1517

01:28:24,639 --> 01:28:25,440

frequency

1518

01:28:25,440 --> 01:28:27,199

and also cyber security is very

1519

01:28:27,199 --> 01:28:29,440

important so for example there is some

1520

01:28:29,440 --> 01:28:31,840

incident of in blockchain where the

1521

01:28:31,840 --> 01:28:33,280

cyber security

1522

01:28:33,280 --> 01:28:35,840

of trading is not protected and also so

1523

01:28:35,840 --> 01:28:38,080

there should be some regulation for

1524

01:28:38,080 --> 01:28:40,239

technology and also i think the most

1525

01:28:40,239 --> 01:28:42,080

important should be the

1526

01:28:42,080 --> 01:28:44,719

open api technology so everyone can

1527

01:28:44,719 --> 01:28:45,199

involve

1528

01:28:45,199 --> 01:28:48,560

into developing the software

1529

01:28:48,560 --> 01:28:51,199

i see your fintech guy good soon are you

1530

01:28:51,199 --> 01:28:52,800

from the engineering school

1531

01:28:52,800 --> 01:28:57,040

yes i could

1532

01:28:57,840 --> 01:29:00,480

um hi so another thing we want to add on

1533

01:29:00,480 --> 01:29:02,320

is that we believe that and

1534

01:29:02,320 --> 01:29:04,800

a generally accepted exchange medium is

1535

01:29:04,800 --> 01:29:06,159

required which is um

1536

01:29:06,159 --> 01:29:08,960

in most of cases money or currency as

1537

01:29:08,960 --> 01:29:10,080

you know um

1538

01:29:10,080 --> 01:29:13,120

the basic um criteria for a financial

1539

01:29:13,120 --> 01:29:14,400

market to exist is about

1540

01:29:14,400 --> 01:29:16,560

all about trading because without buying

1541

01:29:16,560 --> 01:29:17,520

and selling

1542

01:29:17,520 --> 01:29:20,239

um so the there's no money flow no cash

1543

01:29:20,239 --> 01:29:21,760

flow the market cannot be

1544

01:29:21,760 --> 01:29:23,920

kind of growth and the market will not

1545

01:29:23,920 --> 01:29:25,040

exist

1546

01:29:25,040 --> 01:29:27,600

so um a general asset medium will

1547

01:29:27,600 --> 01:29:29,440

increase the convenience so that more

1548

01:29:29,440 --> 01:29:30,159

people are

1549

01:29:30,159 --> 01:29:33,600

willing to trade with each other

1550

01:29:33,760 --> 01:29:36,480

very good very very good oh this is

1551

01:29:36,480 --> 01:29:38,719

fantastic i love this discussion

1552

01:29:38,719 --> 01:29:42,480

all right uh room 13 we have rey hang

1553

01:29:42,480 --> 01:29:46,320

sue on adrian porching wing tsum

1554

01:29:46,320 --> 01:29:50,159

katong and sunna

1555

01:29:50,159 --> 01:29:53,040

talk who wants to talk to me uh hi

1556

01:29:53,040 --> 01:29:54,080

professor

1557

01:29:54,080 --> 01:29:57,280

so our group um refers some like also

1558

01:29:57,280 --> 01:29:58,480

like other groups i mentioned the

1559

01:29:58,480 --> 01:29:59,520

information

1560

01:29:59,520 --> 01:30:01,920

uh the importance of regulations so i

1561

01:30:01,920 --> 01:30:03,920

would like to add more like my personal

1562

01:30:03,920 --> 01:30:06,960

feel on like regulations and

1563

01:30:06,960 --> 01:30:09,600

policy issues so uh like to facilitate a

1564

01:30:09,600 --> 01:30:11,360

better financial market i believe like

1565

01:30:11,360 --> 01:30:14,320

uh policies that encourage investment

1566

01:30:14,320 --> 01:30:15,040

encourage

1567

01:30:15,040 --> 01:30:17,600

firms to invest their capital into other

1568

01:30:17,600 --> 01:30:19,120

industries to support the

1569

01:30:19,120 --> 01:30:20,960

future development will be more

1570

01:30:20,960 --> 01:30:23,199

important when we establish one

1571

01:30:23,199 --> 01:30:25,280

financial market and financial systems

1572

01:30:25,280 --> 01:30:27,520

so we can make it go further and

1573

01:30:27,520 --> 01:30:30,719

that will be more benefits to not only

1574

01:30:30,719 --> 01:30:32,239

the company themselves but also

1575

01:30:32,239 --> 01:30:35,520

the asset or company they invested in

1576

01:30:35,520 --> 01:30:37,760

all right i see you have stones behind

1577

01:30:37,760 --> 01:30:40,719

you are you a reddit guy

1578

01:30:40,719 --> 01:30:44,159

yeah yeah yeah you think i'm organizing

1579

01:30:44,159 --> 01:30:47,040

that i talk on gamestop and ready

1580

01:30:47,040 --> 01:30:49,679

and read it um two weeks from now with

1581

01:30:49,679 --> 01:30:51,120

some of my colleagues

1582

01:30:51,120 --> 01:30:52,960

you'll say i'll get you the invite to

1583

01:30:52,960 --> 01:30:54,239

everybody

1584

01:30:54,239 --> 01:30:57,440

okay anybody else from room 13 want to

1585

01:30:57,440 --> 01:31:00,000

add anything

1586

01:31:00,000 --> 01:31:03,920

nope nope okay so room 14 we have shiraz

1587

01:31:03,920 --> 01:31:05,120

wing long

1588

01:31:05,120 --> 01:31:08,480

manual samsung samsung

1589

01:31:08,480 --> 01:31:13,440

timmy aryan and coover

1590

01:31:14,840 --> 01:31:17,679

um

1591

01:31:17,679 --> 01:31:21,040

okay uh so we went over quite a few

1592

01:31:21,040 --> 01:31:23,440

uh topics but first initially like

1593

01:31:23,440 --> 01:31:25,360

everyone else we started with

1594

01:31:25,360 --> 01:31:27,760

uh financial institutions and the

1595

01:31:27,760 --> 01:31:30,080

government regulations being the

1596

01:31:30,080 --> 01:31:32,880

uh the main point and from there we went

1597

01:31:32,880 --> 01:31:33,440

on to

1598

01:31:33,440 --> 01:31:36,080

since financial markets are essentially

1599

01:31:36,080 --> 01:31:37,520

decentralized

1600

01:31:37,520 --> 01:31:40,400

we need a low barrier to entry for all

1601

01:31:40,400 --> 01:31:42,400

individuals so that they all have access

1602

01:31:42,400 --> 01:31:43,520

to the market

1603

01:31:43,520 --> 01:31:46,480

and even like roman said initially a

1604

01:31:46,480 --> 01:31:47,920

while back that

1605

01:31:47,920 --> 01:31:49,920

uh transparency of information is really

1606

01:31:49,920 --> 01:31:52,159

important and to maintain stability

1607

01:31:52,159 --> 01:31:53,199

regulation

1608

01:31:53,199 --> 01:31:56,000

is also important to prevent situations

1609

01:31:56,000 --> 01:31:58,239

like the 2008 housing market crisis and

1610

01:31:58,239 --> 01:31:58,960

even

1611

01:31:58,960 --> 01:32:01,280

situations like the recent gme uh

1612

01:32:01,280 --> 01:32:02,159

situation

1613

01:32:02,159 --> 01:32:04,960

stuff like that is isn't really supposed

1614

01:32:04,960 --> 01:32:06,880

to happen otherwise it could evolve into

1615

01:32:06,880 --> 01:32:08,560

something really

1616

01:32:08,560 --> 01:32:11,840

really bad and could have

1617

01:32:11,840 --> 01:32:14,960

lasting consequences and another thing

1618

01:32:14,960 --> 01:32:15,360

was

1619

01:32:15,360 --> 01:32:18,480

the market should be free-flowing so the

1620

01:32:18,480 --> 01:32:19,440

system that

1621

01:32:19,440 --> 01:32:22,480

is created should allow for

1622

01:32:22,480 --> 01:32:24,800

a free-flowing system and not something

1623

01:32:24,800 --> 01:32:27,280

rigid in place because it has to

1624

01:32:27,280 --> 01:32:29,840

move with supply and demand and like

1625

01:32:29,840 --> 01:32:31,760

like the stock market works it has to

1626

01:32:31,760 --> 01:32:33,920

work instantaneously and

1627

01:32:33,920 --> 01:32:36,480

respond to individuals and their

1628

01:32:36,480 --> 01:32:39,280

decisions and even the market as a whole

1629

01:32:39,280 --> 01:32:42,239

and from there we went on to discussing

1630

01:32:42,239 --> 01:32:44,639

cryptocurrencies and blockchain and how

1631

01:32:44,639 --> 01:32:47,760

that could be the next stage in

1632

01:32:47,760 --> 01:32:50,719

financial markets and how we're evolving

1633

01:32:50,719 --> 01:32:53,520

into a more a more decentralized

1634

01:32:53,520 --> 01:32:54,159

situation

1635

01:32:54,159 --> 01:32:58,000

where everyone has their own uh

1636

01:32:58,000 --> 01:33:00,400

their own method of tracking all

1637

01:33:00,400 --> 01:33:02,480

transactions and even having access to

1638

01:33:02,480 --> 01:33:04,480

all the information required

1639

01:33:04,480 --> 01:33:07,280

and how countries would also adopt

1640

01:33:07,280 --> 01:33:08,560

officially adopt

1641

01:33:08,560 --> 01:33:10,719

uh cryptocurrencies and even make their

1642

01:33:10,719 --> 01:33:12,320

own according to their own regulations

1643

01:33:12,320 --> 01:33:14,560

and how this could be the next stage

1644

01:33:14,560 --> 01:33:17,760

uh in financial markets well this is

1645

01:33:17,760 --> 01:33:20,800

brilliant now uh the time

1646

01:33:20,800 --> 01:33:23,600

is up and so i i still want to do

1647

01:33:23,600 --> 01:33:26,159

debrief room 15 but those of you

1648

01:33:26,159 --> 01:33:28,480

who have other classes and benson it's

1649

01:33:28,480 --> 01:33:30,560

okay uh feel free to leave

1650

01:33:30,560 --> 01:33:33,760

but uh if somebody in room 15 is still

1651

01:33:33,760 --> 01:33:34,840

here

1652

01:33:34,840 --> 01:33:37,840

charis

1653

01:33:39,620 --> 01:33:42,710

[Music]

1654

01:33:43,440 --> 01:33:45,600

and can share with me what you discussed

1655

01:33:45,600 --> 01:33:47,679

in room 15 that would be great

1656

01:33:47,679 --> 01:33:51,199

if you need to leave uh that's okay too

1657

01:33:51,199 --> 01:33:53,520

all right hi professor so uh you can

1658

01:33:53,520 --> 01:33:55,040

just call me shauna

1659

01:33:55,040 --> 01:33:58,239

okay that's like the shorter form um so

1660

01:33:58,239 --> 01:34:00,239

we thought like our team thought we

1661

01:34:00,239 --> 01:34:02,400

could maybe go back to the definition

1662

01:34:02,400 --> 01:34:04,719

and the origin of a financial market

1663

01:34:04,719 --> 01:34:06,639

so we believe like a strong enforcement

1664

01:34:06,639 --> 01:34:08,560

of the definition of money

1665

01:34:08,560 --> 01:34:11,440

um would be a solid foundation for the

1666

01:34:11,440 --> 01:34:13,760

financial market so what i mean is

1667

01:34:13,760 --> 01:34:15,280

there should be like a common measure of

1668

01:34:15,280 --> 01:34:16,960

value um

1669

01:34:16,960 --> 01:34:19,040

and like i think roman mentioned earlier

1670

01:34:19,040 --> 01:34:20,639

about transparency

1671

01:34:20,639 --> 01:34:22,880

uh we believe that with money we could

1672

01:34:22,880 --> 01:34:24,000

actually

1673

01:34:24,000 --> 01:34:25,760

um but like he mentioned about

1674

01:34:25,760 --> 01:34:27,920

transparency and transaction costs

1675

01:34:27,920 --> 01:34:30,560

and that just made us realize that we

1676

01:34:30,560 --> 01:34:32,080

could minimize our transaction

1677

01:34:32,080 --> 01:34:35,679

cost if we just like enforce the

1678

01:34:35,679 --> 01:34:37,760

definition of money stronger

1679

01:34:37,760 --> 01:34:41,199

and other than yeah we rent the real

1680

01:34:41,199 --> 01:34:42,239

basics

1681

01:34:42,239 --> 01:34:44,480

but other than that we also thought

1682

01:34:44,480 --> 01:34:46,800

about the external factors

1683

01:34:46,800 --> 01:34:49,360

that could affect the financial market i

1684

01:34:49,360 --> 01:34:50,800

know everyone talked about the sound

1685

01:34:50,800 --> 01:34:52,239

legal system

1686

01:34:52,239 --> 01:34:54,719

um and i think one or two even mentioned

1687

01:34:54,719 --> 01:34:56,480

about the education level

1688

01:34:56,480 --> 01:34:59,600

which we'd like to just add we

1689

01:34:59,600 --> 01:35:01,040

believe that everyone should be having a

1690

01:35:01,040 --> 01:35:03,199

basic level of understanding when it

1691

01:35:03,199 --> 01:35:04,880

comes to shares

1692

01:35:04,880 --> 01:35:07,840

securities derivatives all these stuff

1693

01:35:07,840 --> 01:35:08,880

and

1694

01:35:08,880 --> 01:35:10,480

i don't know if anyone's mentioned it

1695

01:35:10,480 --> 01:35:12,080

yet because i haven't heard it

1696

01:35:12,080 --> 01:35:15,040

but we believe that political stability

1697

01:35:15,040 --> 01:35:16,960

would also be

1698

01:35:16,960 --> 01:35:19,360

a major factor because we see a lot of

1699

01:35:19,360 --> 01:35:20,239

countries

1700

01:35:20,239 --> 01:35:23,520

such as syria and north korea they don't

1701

01:35:23,520 --> 01:35:24,159

have

1702

01:35:24,159 --> 01:35:26,159

such a stable financial market because

1703

01:35:26,159 --> 01:35:29,199

their political stability is not that

1704

01:35:29,199 --> 01:35:32,880

stable um i don't want to talk too much

1705

01:35:32,880 --> 01:35:35,040

in case my team members would like to

1706

01:35:35,040 --> 01:35:36,560

share

1707

01:35:36,560 --> 01:35:38,480

um apart from the points that i

1708

01:35:38,480 --> 01:35:40,400

mentioned just now i think that

1709

01:35:40,400 --> 01:35:43,600

a sound trading system is also like

1710

01:35:43,600 --> 01:35:45,679

imperative for the financial market to

1711

01:35:45,679 --> 01:35:46,960

function properly

1712

01:35:46,960 --> 01:35:49,040

um for example in hong kong um the

1713

01:35:49,040 --> 01:35:50,719

securities market is

1714

01:35:50,719 --> 01:35:54,320

currently using the otp system which is

1715

01:35:54,320 --> 01:35:57,040

in full name orion trading platform um i

1716

01:35:57,040 --> 01:35:58,159

think um

1717

01:35:58,159 --> 01:36:00,400

why this is so important is that um a

1718

01:36:00,400 --> 01:36:02,560

sound trading system can ensure that all

1719

01:36:02,560 --> 01:36:03,199

the

1720

01:36:03,199 --> 01:36:06,719

um all the deals and all the um all the

1721

01:36:06,719 --> 01:36:09,520

um all the buyers and sellers can buy

1722

01:36:09,520 --> 01:36:11,040

and sell their

1723

01:36:11,040 --> 01:36:14,080

shares effectively and actually

1724

01:36:14,080 --> 01:36:17,360

it can ensure the whole um whole market

1725

01:36:17,360 --> 01:36:17,679

is

1726

01:36:17,679 --> 01:36:20,800

running properly and apart from

1727

01:36:20,800 --> 01:36:22,719

the trading system i think that a

1728

01:36:22,719 --> 01:36:24,080

regulator is also very

1729

01:36:24,080 --> 01:36:26,000

important for the market to run properly

1730

01:36:26,000 --> 01:36:28,560

for example hong kong is currently um

1731

01:36:28,560 --> 01:36:31,920

like there is a commission called

1732

01:36:31,920 --> 01:36:34,960

sfc securities and futures commission

1733

01:36:34,960 --> 01:36:38,159

and the sfc is actually responsible

1734

01:36:38,159 --> 01:36:40,800

for um monitoring the whole security

1735

01:36:40,800 --> 01:36:43,199

market and to monitor if there are any

1736

01:36:43,199 --> 01:36:45,600

improper trading practices um for

1737

01:36:45,600 --> 01:36:47,119

example like rat trading

1738

01:36:47,119 --> 01:36:50,239

false trading etc so i think that

1739

01:36:50,239 --> 01:36:51,840

both the trading system and the

1740

01:36:51,840 --> 01:36:53,600

regulator and the stock market is

1741

01:36:53,600 --> 01:36:54,560

actually

1742

01:36:54,560 --> 01:36:57,520

very imperative for the market to run

1743

01:36:57,520 --> 01:36:59,280

properly and to ensure that

1744

01:36:59,280 --> 01:37:01,520

there are no manipulation and fraudulent

1745

01:37:01,520 --> 01:37:04,639

activities going on in the market

1746

01:37:04,639 --> 01:37:08,480

very good wonderful yeah

1747

01:37:08,480 --> 01:37:12,480

yes you want to share something yeah um

1748

01:37:12,480 --> 01:37:15,520

my teammate mentioned a lot about the

1749

01:37:15,520 --> 01:37:17,280

the monitoring system the the

1750

01:37:17,280 --> 01:37:18,639

regulations the law

1751

01:37:18,639 --> 01:37:21,199

and also the political environment and

1752

01:37:21,199 --> 01:37:22,800

all of these are based on the trust

1753

01:37:22,800 --> 01:37:23,600

because

1754

01:37:23,600 --> 01:37:26,960

um you know the people have

1755

01:37:26,960 --> 01:37:30,080

to have the willingness to lend money

1756

01:37:30,080 --> 01:37:32,320

to to store money in banks or whatever

1757

01:37:32,320 --> 01:37:33,199

but still they

1758

01:37:33,199 --> 01:37:35,360

um they have to trust the system and

1759

01:37:35,360 --> 01:37:37,040

without trust and

1760

01:37:37,040 --> 01:37:40,560

yeah it is nothing mm-hmm

1761

01:37:40,560 --> 01:37:43,360

maybe mentioned by one of my teammates

1762

01:37:43,360 --> 01:37:44,639

that's okay

1763

01:37:44,639 --> 01:37:47,840

that's okay all right well this was a

1764

01:37:47,840 --> 01:37:50,239

wonderful discussion i'll summarize it

1765

01:37:50,239 --> 01:37:52,400

and we'll talk about it again on monday

1766

01:37:52,400 --> 01:37:54,320

and i'll add a few other things

1767

01:37:54,320 --> 01:37:57,520

thank you for staying around and uh

1768

01:37:57,520 --> 01:38:01,520

have a wonderful weekend see you soon

1769

01:38:01,520 --> 01:38:01,920

all right

1770

01:38:01,920 --> 01:38:05,679

thank you thank you professor you hello

1771

01:38:05,679 --> 01:38:08,719

excuse me thank you professor yes yes i

1772

01:38:08,719 --> 01:38:09,600

tried to

1773

01:38:09,600 --> 01:38:11,600

google what are derivatives but i don't

1774

01:38:11,600 --> 01:38:12,719

really understand what's

1775

01:38:12,719 --> 01:38:14,159

written over there so could you just

1776

01:38:14,159 --> 01:38:16,480

briefly explain what is divergence

1777

01:38:16,480 --> 01:38:20,480

okay very very shortly um so derivatives

1778

01:38:20,480 --> 01:38:24,239

are financial instruments

1779

01:38:24,239 --> 01:38:28,320

which price is derived or is based on

1780

01:38:28,320 --> 01:38:32,639

another asset so broadly speaking

1781

01:38:32,639 --> 01:38:35,760

we're talking about um

1782

01:38:35,760 --> 01:38:39,280

swaps which are exchanges of cash flows

1783

01:38:39,280 --> 01:38:42,480

options which are the right but not the

1784

01:38:42,480 --> 01:38:44,080

obligation to buy

1785

01:38:44,080 --> 01:38:48,000

or sell another asset forwards

1786

01:38:48,000 --> 01:38:51,199

which is the right and the obligation

1787

01:38:51,199 --> 01:38:54,560

to buy something at a certain point

1788

01:38:54,560 --> 01:38:57,679

in the future at a set price and

1789

01:38:57,679 --> 01:39:00,159

futures which is basically the same

1790

01:39:00,159 --> 01:39:01,920

thing as a forward

1791

01:39:01,920 --> 01:39:05,520

but which is traded on an exchange

1792

01:39:05,520 --> 01:39:09,840

so forwards and futures are the same

1793

01:39:09,840 --> 01:39:12,560

kind of mechanism the only difference is

1794

01:39:12,560 --> 01:39:13,360

futures are

1795

01:39:13,360 --> 01:39:16,800

only traded on exchange

1796

01:39:16,800 --> 01:39:19,280

okay what is the use for so it's just a

1797

01:39:19,280 --> 01:39:20,480

contract right

1798

01:39:20,480 --> 01:39:24,320

sorry it's just a contract right

1799

01:39:24,320 --> 01:39:26,400

you determine the value of something

1800

01:39:26,400 --> 01:39:28,880

yeah so a financial a derivative is

1801

01:39:28,880 --> 01:39:31,440

is is an instrument a financial

1802

01:39:31,440 --> 01:39:32,800

instrument

1803

01:39:32,800 --> 01:39:36,560

that has a price based on something else

1804

01:39:36,560 --> 01:39:40,080

so an an equity option is the

1805

01:39:40,080 --> 01:39:44,000

option to buy or sell a share

1806

01:39:44,000 --> 01:39:47,600

at a certain price uh a

1807

01:39:47,600 --> 01:39:51,199

foreign exchange forward is the

1808

01:39:51,199 --> 01:39:54,320

right and obligation to buy foreign

1809

01:39:54,320 --> 01:39:55,040

currency

1810

01:39:55,040 --> 01:39:57,600

at a certain price at a certain point in

1811

01:39:57,600 --> 01:39:59,520

time

1812

01:39:59,520 --> 01:40:01,520

okay so derivatives is really

1813

01:40:01,520 --> 01:40:03,280

complicated

1814

01:40:03,280 --> 01:40:05,520

if you do finance as a major you will

1815

01:40:05,520 --> 01:40:07,040

probably learn about it

1816

01:40:07,040 --> 01:40:09,280

but this is in a nutshell a very very

1817

01:40:09,280 --> 01:40:11,600

simple way

1818

01:40:11,600 --> 01:40:15,280

thank you professor you're welcome

1819

01:40:15,280 --> 01:40:18,159

any other questions

1820

01:40:19,600 --> 01:40:25,679

all right bye have a nice weekend

1821

01:40:25,679 --> 01:40:37,840

thank you

==end 0205==

==start 0208==

1

00:00:28,840 --> 00:00:31,840

um

2

00:00:47,600 --> 00:00:51,840

good afternoon professor

3

00:00:54,559 --> 00:00:59,840

hello hello good afternoon

4

00:01:08,960 --> 00:01:13,840

all right

5

00:01:31,759 --> 00:01:33,759

now before we start do you have any

6

00:01:33,759 --> 00:01:34,799

questions for me

7

00:01:34,799 --> 00:01:41,840

for those of you who are already here

8

00:01:52,840 --> 00:01:55,840

you

9

00:02:20,840 --> 00:02:23,840

so

10

00:02:48,840 --> 00:02:51,440

okay

11

00:02:51,440 --> 00:02:54,239

all right now we're going to be starting

12

00:02:54,239 --> 00:02:54,800

now

13

00:02:54,800 --> 00:02:57,760

it's 4 30 try to start on time finish on

14

00:02:57,760 --> 00:02:59,040

time

15

00:02:59,040 --> 00:03:02,879

welcome back to my class and

16

00:03:02,879 --> 00:03:06,720

we are going to uh carry on from where

17

00:03:06,720 --> 00:03:08,159

we left it

18

00:03:08,159 --> 00:03:11,440

last week so remember we had a

19

00:03:11,440 --> 00:03:13,120

brainstorming discussion

20

00:03:13,120 --> 00:03:16,319

about what it takes uh

21

00:03:16,319 --> 00:03:19,360

for financial markets to exist and to

22

00:03:19,360 --> 00:03:21,360

function properly

23

00:03:21,360 --> 00:03:25,280

and i jotted down a lot of what you guys

24

00:03:25,280 --> 00:03:28,640

were talking about so you talked a lot

25

00:03:28,640 --> 00:03:32,080

about rules and regulations uh

26

00:03:32,080 --> 00:03:34,159

some of you talked about the legal

27

00:03:34,159 --> 00:03:35,200

system

28

00:03:35,200 --> 00:03:37,959

accounting system the need for

29

00:03:37,959 --> 00:03:40,159

transparency

30

00:03:40,159 --> 00:03:43,360

then you talked about monies uh

31

00:03:43,360 --> 00:03:46,959

and different currencies touched a

32

00:03:46,959 --> 00:03:47,760

little bit about

33

00:03:47,760 --> 00:03:51,120

crypto talked about money creation

34

00:03:51,120 --> 00:03:54,480

characteristics of money then you talk

35

00:03:54,480 --> 00:03:56,519

about the market structure and market

36

00:03:56,519 --> 00:03:59,280

infrastructure like trading systems

37

00:03:59,280 --> 00:04:00,400

communication

38

00:04:00,400 --> 00:04:04,319

systems operations and how to make

39

00:04:04,319 --> 00:04:08,000

information accessible to all

40

00:04:08,000 --> 00:04:10,799

then you talked about players the demand

41

00:04:10,799 --> 00:04:11,840

and supply

42

00:04:11,840 --> 00:04:14,400

investors stakeholders regulators

43

00:04:14,400 --> 00:04:15,680

auditors

44

00:04:15,680 --> 00:04:18,560

you talked about security and cyber

45

00:04:18,560 --> 00:04:20,079

security

46

00:04:20,079 --> 00:04:22,880

you talk about the need for education

47

00:04:22,880 --> 00:04:24,800

and financial literacy

48

00:04:24,800 --> 00:04:28,560

as well as access to information

49

00:04:28,560 --> 00:04:30,320

and then you talked about some of the

50

00:04:30,320 --> 00:04:33,360

more macro aspects in terms of political

51

00:04:33,360 --> 00:04:34,560

stability

52

00:04:34,560 --> 00:04:38,400

and economic development

53

00:04:38,400 --> 00:04:41,680

so we covered a lot of ground

54

00:04:41,680 --> 00:04:43,440

there are a few things we didn't talk

55

00:04:43,440 --> 00:04:45,759

about

56

00:04:46,160 --> 00:04:50,560

hmm and what could they be

57

00:04:51,919 --> 00:04:57,600

so what are we missing here

58

00:04:57,600 --> 00:05:00,960

what other things do we need so let's

59

00:05:00,960 --> 00:05:03,840

look for example let me give you a clue

60

00:05:03,840 --> 00:05:08,000

let me talk about infrastructure right

61

00:05:08,000 --> 00:05:10,800

so in order for what kind of instructure

62

00:05:10,800 --> 00:05:12,560

infrastructure you talk about trading

63

00:05:12,560 --> 00:05:13,919

systems communication

64

00:05:13,919 --> 00:05:18,800

systems so what does this run on

65

00:05:19,440 --> 00:05:24,240

attack yeah what does it run on what do

66

00:05:24,240 --> 00:05:26,479

we need for technology to work

67

00:05:26,479 --> 00:05:29,840

internet yeah electricity thank you

68

00:05:29,840 --> 00:05:31,520

aryan

69

00:05:31,520 --> 00:05:36,000

now this sounds like an obvious thing

70

00:05:36,000 --> 00:05:39,199

but remember where we are we are in asia

71

00:05:39,199 --> 00:05:41,600

pacific

72

00:05:41,600 --> 00:05:46,240

right so what happens sometimes in some

73

00:05:46,240 --> 00:05:47,199

countries

74

00:05:47,199 --> 00:05:52,759

in terms of electricity

75

00:05:52,759 --> 00:05:55,759

blackouts yes

76

00:05:55,759 --> 00:06:00,000

right you also talk about the internet

77

00:06:00,000 --> 00:06:03,759

access to internet well you know

78

00:06:03,759 --> 00:06:06,319

we've been having to do things online

79

00:06:06,319 --> 00:06:06,880

now

80

00:06:06,880 --> 00:06:10,639

for over a year what happens to some of

81

00:06:10,639 --> 00:06:13,520

you sometimes

82

00:06:17,360 --> 00:06:21,199

unstable connections right

83

00:06:21,199 --> 00:06:24,479

laggy wiffy yeah

84

00:06:24,479 --> 00:06:27,600

disconnection absolutely it happened to

85

00:06:27,600 --> 00:06:28,240

me

86

00:06:28,240 --> 00:06:31,840

in the office at hkusd in the middle

87

00:06:31,840 --> 00:06:35,280

of a discussion with the dean

88

00:06:35,280 --> 00:06:38,240

and some industry parties suddenly my

89

00:06:38,240 --> 00:06:39,120

zoom went

90

00:06:39,120 --> 00:06:43,199

poof no more zoom horrible

91

00:06:43,199 --> 00:06:46,479

yes the thing doesn't work

92

00:06:46,479 --> 00:06:50,639

right so we rely on so much technology

93

00:06:50,639 --> 00:06:54,000

and sometimes we forget all right

94

00:06:54,000 --> 00:06:57,919

that we need the power

95

00:06:57,919 --> 00:07:01,440

to for that technology to function

96

00:07:01,440 --> 00:07:04,800

and that technology does not necessarily

97

00:07:04,800 --> 00:07:09,280

reach as much as we think it should

98

00:07:09,280 --> 00:07:12,599

right so remember

99

00:07:12,599 --> 00:07:17,759

asia-pacific is a complex market

100

00:07:17,759 --> 00:07:20,880

and not every country have

101

00:07:20,880 --> 00:07:23,599

a penetration of internet not every

102

00:07:23,599 --> 00:07:24,880

country have enough

103

00:07:24,880 --> 00:07:28,400

power to support the

104

00:07:28,400 --> 00:07:31,199

infrastructure and think about what is

105

00:07:31,199 --> 00:07:31,759

happening

106

00:07:31,759 --> 00:07:34,080

in terms of technology where suddenly

107

00:07:34,080 --> 00:07:34,960

we're doing

108

00:07:34,960 --> 00:07:38,160

more things online

109

00:07:38,160 --> 00:07:42,160

and the platforms that were designed

110

00:07:42,160 --> 00:07:45,280

are crumbling under the weight right

111

00:07:45,280 --> 00:07:45,919

because then

112

00:07:45,919 --> 00:07:50,080

they were not designed for this huge

113

00:07:50,080 --> 00:07:53,120

number of transactions right

114

00:07:53,120 --> 00:07:56,840

so yes you also have security issues uh

115

00:07:56,840 --> 00:07:59,919

security viruses say what what happened

116

00:07:59,919 --> 00:08:03,199

recently in the us

117

00:08:04,240 --> 00:08:06,319

what happened recently in the us in

118

00:08:06,319 --> 00:08:10,879

terms of security cyber security

119

00:08:11,120 --> 00:08:14,479

have you been reading about it

120

00:08:14,560 --> 00:08:18,000

data breached there was a

121

00:08:18,000 --> 00:08:22,560

major major major cyber attack

122

00:08:22,560 --> 00:08:25,759

on the us systems and it

123

00:08:25,759 --> 00:08:28,960

started with one company called

124

00:08:28,960 --> 00:08:32,000

solarwinds right

125

00:08:32,000 --> 00:08:35,120

and what they found out

126

00:08:35,120 --> 00:08:37,279

and actually they didn't find out it was

127

00:08:37,279 --> 00:08:39,599

microsoft will find out that the systems

128

00:08:39,599 --> 00:08:40,000

had been

129

00:08:40,000 --> 00:08:44,640

breached and there had been penetration

130

00:08:44,640 --> 00:08:47,600

wannacry was much earlier than that

131

00:08:47,600 --> 00:08:48,959

night in

132

00:08:48,959 --> 00:08:52,160

um but this this

133

00:08:52,160 --> 00:08:55,360

huge hacking problem

134

00:08:55,360 --> 00:08:58,399

which means that all u.s government

135

00:08:58,399 --> 00:08:59,360

agencies

136

00:08:59,360 --> 00:09:03,200

were breached into and they don't know

137

00:09:03,200 --> 00:09:06,480

and they don't know what data has been

138

00:09:06,480 --> 00:09:10,959

uh you know has been compromised so

139

00:09:10,959 --> 00:09:15,360

huge problem with cyber security

140

00:09:15,360 --> 00:09:18,480

all right so um other things

141

00:09:18,480 --> 00:09:21,600

that we need to worry about as well

142

00:09:21,600 --> 00:09:23,040

right so we talk about the

143

00:09:23,040 --> 00:09:26,080

infrastructure which also means

144

00:09:26,080 --> 00:09:29,360

uh buildings right so i have a picture

145

00:09:29,360 --> 00:09:32,560

of hkusc building right behind me

146

00:09:32,560 --> 00:09:38,399

now what do we all need to live

147

00:09:39,920 --> 00:09:43,839

food and water

148

00:09:43,839 --> 00:09:47,440

and air right air and water

149

00:09:47,440 --> 00:09:50,240

but most importantly water we cannot

150

00:09:50,240 --> 00:09:51,120

live without

151

00:09:51,120 --> 00:09:54,959

water at all

152

00:09:55,279 --> 00:09:58,480

and guess what's happening

153

00:09:58,480 --> 00:10:01,600

we have a massive challenge in

154

00:10:01,600 --> 00:10:04,880

asia because it's not enough

155

00:10:04,880 --> 00:10:08,399

water and the problems are getting worse

156

00:10:08,399 --> 00:10:09,040

and worse

157

00:10:09,040 --> 00:10:12,320

so i have picked up an article to share

158

00:10:12,320 --> 00:10:13,680

with you

159

00:10:13,680 --> 00:10:19,839

the recent news

160

00:10:19,920 --> 00:10:22,640

and this has to do with uh a country

161

00:10:22,640 --> 00:10:24,000

some of you come from

162

00:10:24,000 --> 00:10:26,480

uh which is india but it's not the only

163

00:10:26,480 --> 00:10:28,640

country which has a problem

164

00:10:28,640 --> 00:10:32,240

uh and it's uh it's what's going on

165

00:10:32,240 --> 00:10:35,440

with water in chennai

166

00:10:35,440 --> 00:10:38,880

in india uh sixth largest city

167

00:10:38,880 --> 00:10:43,120

uh ran out of water uh in 2019

168

00:10:43,120 --> 00:10:45,519

one of the first major cities in the

169

00:10:45,519 --> 00:10:46,880

world

170

00:10:46,880 --> 00:10:49,200

to run out of water and they had to

171

00:10:49,200 --> 00:10:51,120

bring in trucks

172

00:10:51,120 --> 00:10:53,600

uh to give water to the to the

173

00:10:53,600 --> 00:10:55,120

population

174

00:10:55,120 --> 00:10:58,560

and and and the worst thing of about the

175

00:10:58,560 --> 00:11:00,399

story of of chennai

176

00:11:00,399 --> 00:11:03,200

is that it actually gets a lot of

177

00:11:03,200 --> 00:11:04,880

rainfall

178

00:11:04,880 --> 00:11:08,880

but when it does then you have flooding

179

00:11:08,880 --> 00:11:12,560

and then it makes the system even worse

180

00:11:12,560 --> 00:11:16,000

so uh urbanization has contributed to

181

00:11:16,000 --> 00:11:17,040

the crisis

182

00:11:17,040 --> 00:11:20,399

climate change is a big issue

183

00:11:20,399 --> 00:11:23,600

and in asia pacific uh

184

00:11:23,600 --> 00:11:26,600

the problem of water is a huge

185

00:11:26,600 --> 00:11:29,440

geopolitical issue

186

00:11:29,440 --> 00:11:32,640

so the point i'm trying to make here is

187

00:11:32,640 --> 00:11:34,480

that before we can talk

188

00:11:34,480 --> 00:11:37,760

about things like

189

00:11:37,760 --> 00:11:39,920

you know market structure and all of

190

00:11:39,920 --> 00:11:41,360

this we need to think of the

191

00:11:41,360 --> 00:11:43,440

fundamentals

192

00:11:43,440 --> 00:11:46,800

okay we are particularly in an area

193

00:11:46,800 --> 00:11:50,000

which has huge challenges in terms of

194

00:11:50,000 --> 00:11:53,200

uh transition to climate change

195

00:11:53,200 --> 00:11:56,959

in terms of access to power

196

00:11:56,959 --> 00:12:01,440

and water and infrastructure

197

00:12:01,440 --> 00:12:04,800

we also have uh you know we need

198

00:12:04,800 --> 00:12:07,920

people uh yes automation

199

00:12:07,920 --> 00:12:10,720

is changing the way we work but we still

200

00:12:10,720 --> 00:12:13,600

need people and we need educated people

201

00:12:13,600 --> 00:12:17,440

and uh and that is a a major

202

00:12:17,440 --> 00:12:21,600

challenge uh in in this region

203

00:12:21,600 --> 00:12:24,800

so all of this development uh well yes

204

00:12:24,800 --> 00:12:28,320

of sahara africa for sure it's not just

205

00:12:28,320 --> 00:12:32,320

in asia but we're right now in asia

206

00:12:32,320 --> 00:12:35,600

and i'm talking about doing uh financial

207

00:12:35,600 --> 00:12:37,440

markets in asia so i

208

00:12:37,440 --> 00:12:40,450

kind of like focus on asia um

209

00:12:40,450 --> 00:12:41,760

[Music]

210

00:12:41,760 --> 00:12:44,880

right so

211

00:12:45,040 --> 00:12:47,279

you talked about all of these elements

212

00:12:47,279 --> 00:12:48,399

here so this is

213

00:12:48,399 --> 00:12:52,000

kind of a messy map and it's by no

214

00:12:52,000 --> 00:12:55,120

means complete uh but we do need

215

00:12:55,120 --> 00:12:58,240

all of these ingredients so we need we

216

00:12:58,240 --> 00:12:58,639

need

217

00:12:58,639 --> 00:13:01,680

players uh we need the banks

218

00:13:01,680 --> 00:13:03,760

we need the brokers we need the

219

00:13:03,760 --> 00:13:04,839

corporations

220

00:13:04,839 --> 00:13:08,160

institutional the general public but we

221

00:13:08,160 --> 00:13:09,920

also need regulators

222

00:13:09,920 --> 00:13:13,040

we need exchanges which are platforms on

223

00:13:13,040 --> 00:13:15,519

which trading can take place

224

00:13:15,519 --> 00:13:18,880

we need information we need service

225

00:13:18,880 --> 00:13:21,760

providers and those can

226

00:13:21,760 --> 00:13:24,880

be lawyers auditors

227

00:13:24,880 --> 00:13:28,560

accountants etc we need information

228

00:13:28,560 --> 00:13:31,680

providers like refinitive

229

00:13:31,680 --> 00:13:35,440

bloomberg etc etc so we need a lot of

230

00:13:35,440 --> 00:13:37,200

things

231

00:13:37,200 --> 00:13:41,199

for financial markets to operate

232

00:13:41,199 --> 00:13:45,040

and we do run into a lot of challenges

233

00:13:45,040 --> 00:13:45,920

out here

234

00:13:45,920 --> 00:13:49,279

in asia so

235

00:13:49,279 --> 00:13:52,639

um so what are some of the

236

00:13:52,639 --> 00:13:55,760

key building blocks so we talked about

237

00:13:55,760 --> 00:13:59,120

the foundational policies in terms of

238

00:13:59,120 --> 00:14:01,600

supply of capital supply and demand of

239

00:14:01,600 --> 00:14:03,000

capital

240

00:14:03,000 --> 00:14:06,160

intermediation to connect the parties

241

00:14:06,160 --> 00:14:08,800

uh we need a price discovery process we

242

00:14:08,800 --> 00:14:09,279

need

243

00:14:09,279 --> 00:14:12,240

assets that can be bought and sold and

244

00:14:12,240 --> 00:14:14,880

then you need the regulatory framework

245

00:14:14,880 --> 00:14:17,680

you need cornerstone institutions

246

00:14:17,680 --> 00:14:19,920

regulations and standards

247

00:14:19,920 --> 00:14:22,079

taxation policies which is part of the

248

00:14:22,079 --> 00:14:23,519

legal system

249

00:14:23,519 --> 00:14:27,360

marketing for structure and technology

250

00:14:27,360 --> 00:14:31,199

now why all this what why do we need

251

00:14:31,199 --> 00:14:33,680

financial markets well

252

00:14:33,680 --> 00:14:37,920

the one of the first roles and functions

253

00:14:37,920 --> 00:14:41,519

is is channeling funds from

254

00:14:41,519 --> 00:14:45,120

surplus to deficit units so

255

00:14:45,120 --> 00:14:47,279

in other words one of the most basic

256

00:14:47,279 --> 00:14:48,880

things is that

257

00:14:48,880 --> 00:14:50,880

when you have a business and you need

258

00:14:50,880 --> 00:14:53,279

capital to develop the business

259

00:14:53,279 --> 00:14:56,720

and you don't have that capital can you

260

00:14:56,720 --> 00:14:58,880

find a source of capital and that's one

261

00:14:58,880 --> 00:14:59,920

of the most

262

00:14:59,920 --> 00:15:02,959

fundamental functions of financial

263

00:15:02,959 --> 00:15:03,600

markets

264

00:15:03,600 --> 00:15:07,199

is to allow you to identify this source

265

00:15:07,199 --> 00:15:09,040

of capital

266

00:15:09,040 --> 00:15:12,320

and not just identifying it and

267

00:15:12,320 --> 00:15:14,079

connecting it but to do this

268

00:15:14,079 --> 00:15:17,440

efficiently and um

269

00:15:17,440 --> 00:15:21,440

in the process the market allows you to

270

00:15:21,440 --> 00:15:24,000

put a price on things so this price

271

00:15:24,000 --> 00:15:26,240

discovery process which allows you to

272

00:15:26,240 --> 00:15:28,320

determine the price of those

273

00:15:28,320 --> 00:15:32,560

assets uh the markets also

274

00:15:32,560 --> 00:15:35,839

provide you a way to share risk

275

00:15:35,839 --> 00:15:39,519

so you can use markets to

276

00:15:39,519 --> 00:15:43,360

get rid of risk or to take on risk

277

00:15:43,360 --> 00:15:46,959

or to share some of the risk

278

00:15:46,959 --> 00:15:49,680

so there are different mechanisms we can

279

00:15:49,680 --> 00:15:50,560

use

280

00:15:50,560 --> 00:15:54,240

but the markets provide a way to deal

281

00:15:54,240 --> 00:15:55,759

with risk management

282

00:15:55,759 --> 00:15:58,639

and we will talk about risk management

283

00:15:58,639 --> 00:16:00,880

later in the course

284

00:16:00,880 --> 00:16:04,480

liquidity so liquidity

285

00:16:04,480 --> 00:16:07,440

is a very very important concept and i

286

00:16:07,440 --> 00:16:08,079

want to

287

00:16:08,079 --> 00:16:10,959

highlight it because i'm going to be

288

00:16:10,959 --> 00:16:14,959

speaking about this time and time again

289

00:16:15,680 --> 00:16:19,120

let me play with my thingy here

290

00:16:19,120 --> 00:16:21,040

so i highlight it so that you can see

291

00:16:21,040 --> 00:16:23,440

it's very very important

292

00:16:23,440 --> 00:16:26,079

so what is liquidity you can tell us

293

00:16:26,079 --> 00:16:30,000

anybody tell me what is liquidity

294

00:16:30,880 --> 00:16:33,680

you can raise your hand or all right

295

00:16:33,680 --> 00:16:34,160

roman

296

00:16:34,160 --> 00:16:37,600

tell me uh liquidity describes how

297

00:16:37,600 --> 00:16:40,480

quickly you can basically turn something

298

00:16:40,480 --> 00:16:42,320

into cash

299

00:16:42,320 --> 00:16:45,680

good so not just how quickly

300

00:16:45,680 --> 00:16:48,720

but also with minimum costs involved

301

00:16:48,720 --> 00:16:51,360

okay so there's two angles here all

302

00:16:51,360 --> 00:16:52,079

right and this

303

00:16:52,079 --> 00:16:55,040

is one of the definitions of liquidity

304

00:16:55,040 --> 00:16:55,440

so

305

00:16:55,440 --> 00:16:58,560

how quickly can i turn an asset

306

00:16:58,560 --> 00:17:03,519

into cash at the lowest possible cost

307

00:17:03,519 --> 00:17:07,520

okay another definition of liquidity

308

00:17:07,520 --> 00:17:11,679

is what access do i have

309

00:17:11,679 --> 00:17:14,720

to money can i raise funds

310

00:17:14,720 --> 00:17:17,919

quickly so there's two aspects when we

311

00:17:17,919 --> 00:17:18,559

talk about

312

00:17:18,559 --> 00:17:21,760

liquidity in corporate business uh

313

00:17:21,760 --> 00:17:24,640

it's either transforming assets that i

314

00:17:24,640 --> 00:17:25,280

have

315

00:17:25,280 --> 00:17:28,799

into cash or accessing cash

316

00:17:28,799 --> 00:17:32,240

okay so two angles

317

00:17:32,240 --> 00:17:35,520

one of the biggest challenge with

318

00:17:35,520 --> 00:17:40,400

liquidity is that it is relative

319

00:17:40,400 --> 00:17:43,440

and it's relative because when the

320

00:17:43,440 --> 00:17:44,799

markets are

321

00:17:44,799 --> 00:17:48,080

functioning normally then you find

322

00:17:48,080 --> 00:17:49,760

liquidity pretty much

323

00:17:49,760 --> 00:17:52,799

everywhere and it's relatively easy to

324

00:17:52,799 --> 00:17:53,280

sell

325

00:17:53,280 --> 00:17:56,799

assets without too much cost but

326

00:17:56,799 --> 00:17:59,919

when the markets turn bearish that means

327

00:17:59,919 --> 00:18:02,000

when people are worried

328

00:18:02,000 --> 00:18:05,520

when they worry about risk then

329

00:18:05,520 --> 00:18:08,720

it becomes much harder to

330

00:18:08,720 --> 00:18:12,720

sell assets and you don't get as good a

331

00:18:12,720 --> 00:18:13,679

price

332

00:18:13,679 --> 00:18:16,480

and it takes longer and sometimes there

333

00:18:16,480 --> 00:18:19,039

is even no price

334

00:18:19,039 --> 00:18:23,039

so in your economics 101 classes

335

00:18:23,039 --> 00:18:25,919

your economist will tell you there's

336

00:18:25,919 --> 00:18:27,760

always a price

337

00:18:27,760 --> 00:18:29,600

and i'm here to tell you that's true

338

00:18:29,600 --> 00:18:31,120

that's not true at all

339

00:18:31,120 --> 00:18:34,240

in fact sometimes there is no price when

340

00:18:34,240 --> 00:18:35,120

the markets go

341

00:18:35,120 --> 00:18:38,160

crazy when there is a crisis

342

00:18:38,160 --> 00:18:41,440

there is no price okay

343

00:18:41,440 --> 00:18:44,799

so one of the biggest challenging

344

00:18:44,799 --> 00:18:46,960

for financial institutions financial

345

00:18:46,960 --> 00:18:49,360

markets generally is that liquidity is

346

00:18:49,360 --> 00:18:49,919

very

347

00:18:49,919 --> 00:18:53,039

relative it's always there

348

00:18:53,039 --> 00:18:56,240

when you don't need it and never there

349

00:18:56,240 --> 00:19:00,799

when you do so managing liquidity

350

00:19:00,799 --> 00:19:04,320

is one of the biggest challenges for

351

00:19:04,320 --> 00:19:07,039

uh institutions and we will talk about

352

00:19:07,039 --> 00:19:08,400

this when we

353

00:19:08,400 --> 00:19:12,559

zoom in on the banking system

354

00:19:12,960 --> 00:19:16,000

nevertheless financial systems when they

355

00:19:16,000 --> 00:19:18,160

function efficiently

356

00:19:18,160 --> 00:19:21,679

are a source of liquidity because you

357

00:19:21,679 --> 00:19:23,280

can go to the market

358

00:19:23,280 --> 00:19:25,919

to find a price and to find a taker for

359

00:19:25,919 --> 00:19:28,640

your assets

360

00:19:29,760 --> 00:19:32,400

when financial markets function properly

361

00:19:32,400 --> 00:19:34,480

they also bring about financial

362

00:19:34,480 --> 00:19:35,840

stability

363

00:19:35,840 --> 00:19:38,559

and an environment where transactions

364

00:19:38,559 --> 00:19:40,240

can take place

365

00:19:40,240 --> 00:19:45,200

in a pretty stable manner

366

00:19:45,200 --> 00:19:47,840

of course they can go the complete

367

00:19:47,840 --> 00:19:50,000

opposite

368

00:19:50,000 --> 00:19:53,120

markets also offer a way

369

00:19:53,120 --> 00:19:55,039

and you mentioned it in the

370

00:19:55,039 --> 00:19:56,240

brainstorming

371

00:19:56,240 --> 00:19:59,919

session that we had to identify

372

00:19:59,919 --> 00:20:03,520

information to share it to consolidate

373

00:20:03,520 --> 00:20:04,159

it

374

00:20:04,159 --> 00:20:07,440

and we are in the information age

375

00:20:07,440 --> 00:20:11,120

so information has become

376

00:20:11,120 --> 00:20:14,240

even more important and

377

00:20:14,240 --> 00:20:18,559

in fact it is more important

378

00:20:18,559 --> 00:20:20,720

than than money and financial

379

00:20:20,720 --> 00:20:21,919

instruments it's

380

00:20:21,919 --> 00:20:26,240

all about data nowadays

381

00:20:26,240 --> 00:20:28,480

all right so i've been uh blabbing on

382

00:20:28,480 --> 00:20:30,880

about we are in asia we're in asia

383

00:20:30,880 --> 00:20:34,000

so what i want you to do is okay

384

00:20:34,000 --> 00:20:37,039

go on to the internet and find me a map

385

00:20:37,039 --> 00:20:39,679

of asia

386

00:20:44,400 --> 00:20:47,520

so go on the internet and google map of

387

00:20:47,520 --> 00:20:48,400

asia

388

00:20:48,400 --> 00:21:03,840

and see what you can see

389

00:21:05,760 --> 00:21:08,000

well this is what i get so you might

390

00:21:08,000 --> 00:21:10,000

have different kind of maps

391

00:21:10,000 --> 00:21:12,480

right so it's important that you do the

392

00:21:12,480 --> 00:21:14,000

exercise because

393

00:21:14,000 --> 00:21:17,039

depending on the map you click you

394

00:21:17,039 --> 00:21:19,840

click on some of them will show you

395

00:21:19,840 --> 00:21:20,960

different things

396

00:21:20,960 --> 00:21:24,320

right so

397

00:21:24,400 --> 00:21:27,440

for example this one all right so you

398

00:21:27,440 --> 00:21:30,559

look at this i'm just

399

00:21:30,559 --> 00:21:34,720

clicking on one and i look at all these

400

00:21:34,720 --> 00:21:37,440

things so this is a political map and it

401

00:21:37,440 --> 00:21:39,280

goes down all the way to

402

00:21:39,280 --> 00:21:42,159

australia but australia is not actually

403

00:21:42,159 --> 00:21:44,080

included in the map

404

00:21:44,080 --> 00:21:47,600

okay so most maps of asia that you see

405

00:21:47,600 --> 00:21:51,679

will not typically include australia

406

00:21:51,679 --> 00:21:54,960

so australia like for example

407

00:21:54,960 --> 00:21:58,080

um let's see but if you

408

00:21:58,080 --> 00:22:00,799

want to do asia pacific then you will

409

00:22:00,799 --> 00:22:03,200

have australia and new zealand

410

00:22:03,200 --> 00:22:08,320

now if i take uh let's say

411

00:22:08,400 --> 00:22:12,320

this one here all right

412

00:22:12,320 --> 00:22:15,360

right it says asia map what is it

413

00:22:15,360 --> 00:22:17,360

showing me

414

00:22:17,360 --> 00:22:20,480

i don't know where asia stops and starts

415

00:22:20,480 --> 00:22:23,600

i i i know france is not in asia

416

00:22:23,600 --> 00:22:26,799

but it still shows in the map right

417

00:22:26,799 --> 00:22:29,360

this is not really a map of asia okay

418

00:22:29,360 --> 00:22:31,520

what about

419

00:22:31,520 --> 00:22:33,840

this

420

00:22:34,720 --> 00:22:38,080

all right so it's some

421

00:22:38,080 --> 00:22:41,200

some person uh geographical map all

422

00:22:41,200 --> 00:22:41,760

right

423

00:22:41,760 --> 00:22:45,120

whatever no not but if you look at it

424

00:22:45,120 --> 00:22:50,960

right so it includes all the middle east

425

00:22:52,320 --> 00:22:56,240

where this one maybe

426

00:22:56,960 --> 00:23:00,240

this one so also includes what i call

427

00:23:00,240 --> 00:23:02,320

the middle east

428

00:23:02,320 --> 00:23:05,440

and it also includes russia

429

00:23:05,440 --> 00:23:10,000

right is russia in asia from a financial

430

00:23:10,000 --> 00:23:11,200

market standpoint

431

00:23:11,200 --> 00:23:14,159

no actually from a financial market

432

00:23:14,159 --> 00:23:14,880

standpoint

433

00:23:14,880 --> 00:23:18,080

russia is considered part of europe it's

434

00:23:18,080 --> 00:23:21,120

managed out of europe typically so if

435

00:23:21,120 --> 00:23:21,440

you

436

00:23:21,440 --> 00:23:25,919

are say the ceo of morgan stanley

437

00:23:25,919 --> 00:23:28,400

and you break down the world in big

438

00:23:28,400 --> 00:23:30,559

major financial markets

439

00:23:30,559 --> 00:23:32,640

you're not going to manage russia from

440

00:23:32,640 --> 00:23:33,600

asia

441

00:23:33,600 --> 00:23:36,640

you're going to be managed from london

442

00:23:36,640 --> 00:23:39,440

what about the middle east well most

443

00:23:39,440 --> 00:23:42,480

firms manage the middle east from

444

00:23:42,480 --> 00:23:46,080

europe because they have europe emea

445

00:23:46,080 --> 00:23:48,159

europe middle east and africa

446

00:23:48,159 --> 00:23:51,120

that's what they manage right what about

447

00:23:51,120 --> 00:23:53,600

the stan republics

448

00:23:53,600 --> 00:23:56,400

so is that like that's central asia does

449

00:23:56,400 --> 00:23:57,360

it go with

450

00:23:57,360 --> 00:24:00,640

asia or with eastern europe uh

451

00:24:00,640 --> 00:24:04,799

it's unclear right so sometimes

452

00:24:04,799 --> 00:24:08,720

asia is including japan and sometimes

453

00:24:08,720 --> 00:24:11,919

it doesn't uh so

454

00:24:11,919 --> 00:24:15,440

what i'm trying to say here okay with

455

00:24:15,440 --> 00:24:16,840

this

456

00:24:16,840 --> 00:24:19,200

exercise is that

457

00:24:19,200 --> 00:24:23,440

asia is a complicated concept

458

00:24:23,440 --> 00:24:26,640

and depending on yeah and cyprus too

459

00:24:26,640 --> 00:24:28,480

you're right

460

00:24:28,480 --> 00:24:32,000

so there's a it depends how you

461

00:24:32,000 --> 00:24:35,360

define it so when i was

462

00:24:35,360 --> 00:24:38,799

in banking the middle east and was run

463

00:24:38,799 --> 00:24:39,440

out of

464

00:24:39,440 --> 00:24:42,320

london and for most companies it still

465

00:24:42,320 --> 00:24:43,039

is

466

00:24:43,039 --> 00:24:45,919

but over the years some of this has

467

00:24:45,919 --> 00:24:47,039

moved to

468

00:24:47,039 --> 00:24:50,240

asia all right so

469

00:24:50,240 --> 00:24:53,520

uh it is quite challenging and if you

470

00:24:53,520 --> 00:24:53,919

look

471

00:24:53,919 --> 00:24:58,000

at all the countries that make up asia

472

00:24:58,000 --> 00:25:01,039

you have such a huge variety we've

473

00:25:01,039 --> 00:25:01,679

already

474

00:25:01,679 --> 00:25:06,159

started talking about that and

475

00:25:06,159 --> 00:25:10,159

we have very fragmented markets

476

00:25:10,159 --> 00:25:12,559

so imagine you're the ceo of morgan

477

00:25:12,559 --> 00:25:14,320

stanley and you're running

478

00:25:14,320 --> 00:25:18,000

four major areas the americas

479

00:25:18,000 --> 00:25:22,080

europe middle east and africa asia

480

00:25:22,080 --> 00:25:25,120

you have very very different markets

481

00:25:25,120 --> 00:25:28,880

to deal with in the u.s

482

00:25:28,880 --> 00:25:32,159

you have one single big market

483

00:25:32,159 --> 00:25:35,440

it's very homogeneous

484

00:25:35,440 --> 00:25:38,240

the complete opposite of asia where you

485

00:25:38,240 --> 00:25:39,120

have

486

00:25:39,120 --> 00:25:42,320

highly fragmented markets each has its

487

00:25:42,320 --> 00:25:43,279

own language

488

00:25:43,279 --> 00:25:46,880

its own legal system it's its own level

489

00:25:46,880 --> 00:25:48,960

of development

490

00:25:48,960 --> 00:25:52,559

it's and you cannot just take what works

491

00:25:52,559 --> 00:25:53,520

in the us

492

00:25:53,520 --> 00:25:56,559

and think you can apply it in asia it's

493

00:25:56,559 --> 00:25:59,279

a recipe for disaster

494

00:25:59,279 --> 00:26:02,559

so we have very fragmented market

495

00:26:02,559 --> 00:26:05,279

in some of these market information is

496

00:26:05,279 --> 00:26:05,679

not

497

00:26:05,679 --> 00:26:09,840

accessible or if it even exists

498

00:26:09,840 --> 00:26:12,799

it probably would take translating it

499

00:26:12,799 --> 00:26:15,520

into your language which is costly

500

00:26:15,520 --> 00:26:20,159

and difficult the information you get

501

00:26:20,159 --> 00:26:23,919

you may not be able to rely on it

502

00:26:23,919 --> 00:26:26,400

not just to mention the fact that you

503

00:26:26,400 --> 00:26:28,480

might get it very late

504

00:26:28,480 --> 00:26:31,840

okay so all of this has serious

505

00:26:31,840 --> 00:26:34,320

implication because you all told me how

506

00:26:34,320 --> 00:26:37,279

important information is for financial

507

00:26:37,279 --> 00:26:38,640

markets

508

00:26:38,640 --> 00:26:42,320

right so when you are faced with

509

00:26:42,320 --> 00:26:46,320

huge difficulty in identifying

510

00:26:46,320 --> 00:26:49,520

information in a timely manner and that

511

00:26:49,520 --> 00:26:52,159

information you may not be able to trust

512

00:26:52,159 --> 00:26:54,320

it

513

00:26:54,320 --> 00:26:57,840

that in turns will mean that you won't

514

00:26:57,840 --> 00:27:01,679

have transaction efficiency

515

00:27:01,760 --> 00:27:08,080

and you have information asymmetry

516

00:27:08,159 --> 00:27:10,799

which combines with the fact that the

517

00:27:10,799 --> 00:27:12,240

legal regimes

518

00:27:12,240 --> 00:27:16,640

may or may not be very established

519

00:27:16,640 --> 00:27:19,840

and when it exists the regulators may or

520

00:27:19,840 --> 00:27:20,480

may not

521

00:27:20,480 --> 00:27:23,760

implement it all of that means price

522

00:27:23,760 --> 00:27:27,600

efficiency will suffer

523

00:27:27,600 --> 00:27:31,360

so we are confronted with a very very

524

00:27:31,360 --> 00:27:33,360

diverse regions

525

00:27:33,360 --> 00:27:36,399

in which in some cases it's

526

00:27:36,399 --> 00:27:39,520

really difficult to find information

527

00:27:39,520 --> 00:27:41,919

you cannot trust it so transactions are

528

00:27:41,919 --> 00:27:43,600

not efficient

529

00:27:43,600 --> 00:27:45,760

price determination is not very

530

00:27:45,760 --> 00:27:46,880

efficient

531

00:27:46,880 --> 00:27:51,120

so it's a hugely challenging market

532

00:27:51,200 --> 00:27:53,840

and we've talked about the fact that we

533

00:27:53,840 --> 00:27:54,399

have

534

00:27:54,399 --> 00:27:58,240

many levels of development uh around

535

00:27:58,240 --> 00:28:01,360

asia and this is a report from mckinsey

536

00:28:01,360 --> 00:28:04,080

back in 2017

537

00:28:04,080 --> 00:28:06,320

where they were looking at the capital

538

00:28:06,320 --> 00:28:08,080

market development index

539

00:28:08,080 --> 00:28:10,799

in different countries and as you can

540

00:28:10,799 --> 00:28:11,200

see

541

00:28:11,200 --> 00:28:14,320

here as you would expect you know we

542

00:28:14,320 --> 00:28:16,320

south korea as we mentioned is pretty

543

00:28:16,320 --> 00:28:17,919

high up in the list

544

00:28:17,919 --> 00:28:20,320

and the others are pretty some of them

545

00:28:20,320 --> 00:28:23,520

are pretty low in the list

546

00:28:24,480 --> 00:28:28,320

all right okay

547

00:28:28,320 --> 00:28:32,960

so a little bit of pop quiz

548

00:28:32,960 --> 00:28:35,919

when everything in a country is fully

549

00:28:35,919 --> 00:28:37,679

owned by the government

550

00:28:37,679 --> 00:28:45,840

can there be an effective capital market

551

00:28:48,559 --> 00:28:52,080

yeah well if you have only one owner

552

00:28:52,080 --> 00:28:55,440

then cannot be much of a market

553

00:28:55,440 --> 00:28:59,279

now more tricky question why is climate

554

00:28:59,279 --> 00:29:05,279

change a risk factor for capital markets

555

00:29:06,320 --> 00:29:09,120

put some assets and companies in danger

556

00:29:09,120 --> 00:29:10,840

right you might have to move your

557

00:29:10,840 --> 00:29:12,679

headquarters

558

00:29:12,679 --> 00:29:16,399

uncertainty absolutely

559

00:29:16,399 --> 00:29:18,559

changing investment standard what do you

560

00:29:18,559 --> 00:29:22,080

mean by that sunghak

561

00:29:22,960 --> 00:29:25,200

like some investor cares more about the

562

00:29:25,200 --> 00:29:26,159

esg

563

00:29:26,159 --> 00:29:28,559

standard when they're investing so it

564

00:29:28,559 --> 00:29:30,000

may be a risk

565

00:29:30,000 --> 00:29:32,799

yeah that's right now absolutely the esg

566

00:29:32,799 --> 00:29:33,520

factor

567

00:29:33,520 --> 00:29:36,720

is um it's become very mainstream

568

00:29:36,720 --> 00:29:40,960

absolutely uh may damage resources

569

00:29:40,960 --> 00:29:43,360

absolutely decrease self-production

570

00:29:43,360 --> 00:29:44,640

uncertainty

571

00:29:44,640 --> 00:29:48,720

you know you get it okay and remember we

572

00:29:48,720 --> 00:29:51,279

must have not all of you but most of us

573

00:29:51,279 --> 00:29:52,159

right now

574

00:29:52,159 --> 00:29:54,880

we're in hong kong oh yeah on typhoon

575

00:29:54,880 --> 00:29:58,000

day people don't have to work

576

00:29:58,000 --> 00:30:00,159

well you know what there is a discussion

577

00:30:00,159 --> 00:30:01,120

about this

578

00:30:01,120 --> 00:30:03,919

now that everybody is remote you know

579

00:30:03,919 --> 00:30:04,559

that's the

580

00:30:04,559 --> 00:30:06,480

horrible thing about it there was a lot

581

00:30:06,480 --> 00:30:07,679

of discussion

582

00:30:07,679 --> 00:30:09,760

when we were all working from home and

583

00:30:09,760 --> 00:30:11,520

we had a typhoon

584

00:30:11,520 --> 00:30:15,279

as to whether that's supposed to be

585

00:30:15,279 --> 00:30:19,200

off or are you supposed to be working

586

00:30:19,200 --> 00:30:22,320

anyway because you're working from home

587

00:30:22,320 --> 00:30:25,600

right so technology

588

00:30:25,600 --> 00:30:28,640

not so great insurance pricing that's a

589

00:30:28,640 --> 00:30:32,640

super good point uh and um

590

00:30:32,640 --> 00:30:36,080

a very very good point yes insurance

591

00:30:36,080 --> 00:30:39,440

companies will not insure you

592

00:30:39,440 --> 00:30:42,559

if you don't manage your risk properly

593

00:30:42,559 --> 00:30:46,880

so they will not ensure some risks

594

00:30:46,880 --> 00:30:50,000

for individuals but also for large

595

00:30:50,000 --> 00:30:52,399

companies in fact that started happening

596

00:30:52,399 --> 00:30:54,880

after katrina the hurricane katrina

597

00:30:54,880 --> 00:30:57,440

in in the united states caused the

598

00:30:57,440 --> 00:30:59,200

insurance company to review

599

00:30:59,200 --> 00:31:01,760

all their catastrophe modeling and

600

00:31:01,760 --> 00:31:03,519

realize that climate change was

601

00:31:03,519 --> 00:31:04,559

happening

602

00:31:04,559 --> 00:31:07,440

so what they then did is went around to

603

00:31:07,440 --> 00:31:09,519

their big corporate clients say

604

00:31:09,519 --> 00:31:11,760

you got to take that in consideration

605

00:31:11,760 --> 00:31:12,799

and if you don't

606

00:31:12,799 --> 00:31:14,799

planning for it in your risk management

607

00:31:14,799 --> 00:31:17,600

plan we're not going to insure you

608

00:31:17,600 --> 00:31:20,799

so absolutely so this is a big

609

00:31:20,799 --> 00:31:24,159

big big factor and it's become

610

00:31:24,159 --> 00:31:27,840

very prominent this year post pandemic

611

00:31:27,840 --> 00:31:31,919

uh it's on the agenda of the boards

612

00:31:31,919 --> 00:31:35,519

around the world third question what are

613

00:31:35,519 --> 00:31:37,200

some of the challenges

614

00:31:37,200 --> 00:31:40,559

investors face in frontier market so

615

00:31:40,559 --> 00:31:41,840

frontier market

616

00:31:41,840 --> 00:31:45,279

is markets that are

617

00:31:45,279 --> 00:31:47,840

just beginning so they're not even

618

00:31:47,840 --> 00:31:48,960

emerging

619

00:31:48,960 --> 00:31:51,440

but they're just they have a little bit

620

00:31:51,440 --> 00:31:53,360

of financial markets like

621

00:31:53,360 --> 00:31:56,559

yeah vietnam well vietnamese emerging

622

00:31:56,559 --> 00:31:58,240

markets like mongolia

623

00:31:58,240 --> 00:32:01,200

places like that

624

00:32:02,320 --> 00:32:05,840

lack of information yeah political

625

00:32:05,840 --> 00:32:06,840

stability

626

00:32:06,840 --> 00:32:09,840

uncertainty

627

00:32:10,559 --> 00:32:13,840

lack of laws lack of inform information

628

00:32:13,840 --> 00:32:15,760

high volatility

629

00:32:15,760 --> 00:32:18,480

information acidity lack of transplant

630

00:32:18,480 --> 00:32:19,440

very good

631

00:32:19,440 --> 00:32:22,480

okay you get the point all right and in

632

00:32:22,480 --> 00:32:24,640

asia we have a number of markets that

633

00:32:24,640 --> 00:32:26,320

are frontier markets

634

00:32:26,320 --> 00:32:28,960

we have some markets that are emerging

635

00:32:28,960 --> 00:32:29,679

markets

636

00:32:29,679 --> 00:32:32,399

we have some developing market and some

637

00:32:32,399 --> 00:32:34,320

developed markets so we have the

638

00:32:34,320 --> 00:32:38,880

whole range of uh situations that we can

639

00:32:38,880 --> 00:32:40,960

deal with

640

00:32:40,960 --> 00:32:44,159

all right any questions

641

00:32:45,519 --> 00:32:48,720

okay right

642

00:32:48,720 --> 00:32:51,720

okay so we've talked about the

643

00:32:51,720 --> 00:32:52,880

fundamentals

644

00:32:52,880 --> 00:32:56,159

we talked about financial system now

645

00:32:56,159 --> 00:33:00,240

we're going to talk about the players

646

00:33:03,440 --> 00:33:06,000

okay and you've already talked about it

647

00:33:06,000 --> 00:33:08,080

when we were brainstorming you were

648

00:33:08,080 --> 00:33:10,559

saying well we knew we need demand and

649

00:33:10,559 --> 00:33:12,000

supply and we need

650

00:33:12,000 --> 00:33:15,200

parties to play in the market

651

00:33:15,200 --> 00:33:19,279

so broadly speaking we can

652

00:33:19,519 --> 00:33:22,640

classify the players into three big

653

00:33:22,640 --> 00:33:23,360

blocks

654

00:33:23,360 --> 00:33:27,039

you have the sources of funds

655

00:33:27,039 --> 00:33:30,640

which are the investors we have

656

00:33:30,640 --> 00:33:33,840

the users of funds which in market we

657

00:33:33,840 --> 00:33:34,399

call

658

00:33:34,399 --> 00:33:38,039

issuers and then we will have a bunch of

659

00:33:38,039 --> 00:33:41,480

intermediaries and other actors who will

660

00:33:41,480 --> 00:33:42,720

facilitate

661

00:33:42,720 --> 00:33:47,360

the transactions so let's start with

662

00:33:47,360 --> 00:33:50,240

the sources of funds so i'm going to

663

00:33:50,240 --> 00:33:52,240

start with some terminology

664

00:33:52,240 --> 00:33:55,360

here all right

665

00:33:55,360 --> 00:33:58,399

so sources of funds investors

666

00:33:58,399 --> 00:34:01,840

okay investors range from

667

00:34:01,840 --> 00:34:05,200

the little guys the public retail

668

00:34:05,200 --> 00:34:08,800

households you and me widows and orphans

669

00:34:08,800 --> 00:34:13,040

so the little guys okay

670

00:34:13,199 --> 00:34:16,719

that's one source of funds then you have

671

00:34:16,719 --> 00:34:20,359

rich guys high net worth

672

00:34:20,359 --> 00:34:24,480

investors high net worth

673

00:34:24,480 --> 00:34:28,000

individuals okay rich people who have

674

00:34:28,000 --> 00:34:30,639

high net worth so sometimes you have

675

00:34:30,639 --> 00:34:32,719

ultra high net worth

676

00:34:32,719 --> 00:34:36,239

very rich people okay this is an

677

00:34:36,239 --> 00:34:38,560

important source of money and

678

00:34:38,560 --> 00:34:39,839

investments

679

00:34:39,839 --> 00:34:43,760

particularly in asia because

680

00:34:43,760 --> 00:34:47,520

our high net worth investors

681

00:34:47,520 --> 00:34:50,560

sector high net

682

00:34:50,560 --> 00:34:55,440

worth individual or investors

683

00:34:55,440 --> 00:34:58,079

okay high net worth do you want me to

684

00:34:58,079 --> 00:34:59,920

write it

685

00:34:59,920 --> 00:35:01,760

now yeah i'm really really bad at

686

00:35:01,760 --> 00:35:05,520

writing with the with the mouse

687

00:35:05,520 --> 00:35:09,440

okay hi

688

00:35:12,000 --> 00:35:17,839

oh boy i should have a stymus

689

00:35:17,839 --> 00:35:22,640

hi net

690

00:35:28,839 --> 00:35:31,560

worth

691

00:35:31,560 --> 00:35:36,000

individuals or investors

692

00:35:38,640 --> 00:35:44,640

right so rich people

693

00:35:44,640 --> 00:35:48,720

so this is a big market and so sometimes

694

00:35:48,720 --> 00:35:50,000

they invest directly

695

00:35:50,000 --> 00:35:53,359

by themselves sometimes they create what

696

00:35:53,359 --> 00:35:54,079

we call

697

00:35:54,079 --> 00:35:57,119

family offices uh

698

00:35:57,119 --> 00:36:00,079

sometimes they appoint financial

699

00:36:00,079 --> 00:36:01,359

institutions to

700

00:36:01,359 --> 00:36:04,560

manage the money for them but they are

701

00:36:04,560 --> 00:36:08,240

a big force in the markets

702

00:36:08,240 --> 00:36:10,839

a big source of money then you have

703

00:36:10,839 --> 00:36:12,320

corporations

704

00:36:12,320 --> 00:36:15,520

now in your classic textbooks

705

00:36:15,520 --> 00:36:18,800

corporations tend to be described as

706

00:36:18,800 --> 00:36:22,320

users of funds but this is no longer

707

00:36:22,320 --> 00:36:22,880

true

708

00:36:22,880 --> 00:36:26,720

because many corporations today

709

00:36:26,720 --> 00:36:29,760

have a lot of money to invest can you

710

00:36:29,760 --> 00:36:30,720

think of some

711

00:36:30,720 --> 00:36:34,160

corporations that have a lot of money to

712

00:36:34,160 --> 00:36:36,560

invest

713

00:36:37,280 --> 00:36:41,119

yes tech friends amazon

714

00:36:41,119 --> 00:36:44,320

apple tencent berkshire hathaway yeah

715

00:36:44,320 --> 00:36:47,440

okay so c comes to you naturally right

716

00:36:47,440 --> 00:36:49,760

so you can immediately think of some

717

00:36:49,760 --> 00:36:51,040

corporation that

718

00:36:51,040 --> 00:36:55,119

hkusd no no we are very

719

00:36:55,119 --> 00:36:58,400

poor we need people to donate

720

00:36:58,400 --> 00:37:01,680

money to us we have very little

721

00:37:01,680 --> 00:37:04,560

money we're not paid very well at that

722

00:37:04,560 --> 00:37:06,320

stage

723

00:37:06,320 --> 00:37:10,160

do you we need donations

724

00:37:10,160 --> 00:37:14,560

okay so anyway so corporations and by

725

00:37:14,560 --> 00:37:16,400

the way we're not a corporation

726

00:37:16,400 --> 00:37:19,440

we are a higher education

727

00:37:19,440 --> 00:37:22,880

nonprofit institution so

728

00:37:22,880 --> 00:37:25,520

corporations can be on both side as you

729

00:37:25,520 --> 00:37:27,119

can see right there

730

00:37:27,119 --> 00:37:32,079

right so we have corporations on both

731

00:37:32,079 --> 00:37:34,400

side of the equation here

732

00:37:34,400 --> 00:37:37,920

and that means that some of them

733

00:37:37,920 --> 00:37:41,599

can borrow or issue capital

734

00:37:41,599 --> 00:37:45,280

in the market and some of them will

735

00:37:45,280 --> 00:37:49,119

invest in the market so you will also

736

00:37:49,119 --> 00:37:50,240

notice that

737

00:37:50,240 --> 00:37:53,280

banks and financial institutions

738

00:37:53,280 --> 00:37:56,640

are also on both side of the equation

739

00:37:56,640 --> 00:38:00,160

because banks can be both sources of

740

00:38:00,160 --> 00:38:01,280

funds

741

00:38:01,280 --> 00:38:04,800

and users of funds so banks borrow

742

00:38:04,800 --> 00:38:06,640

in the market by issuing bonds

743

00:38:06,640 --> 00:38:09,599

certificates of deposits etc

744

00:38:09,599 --> 00:38:13,520

they also issue equity so banks can

745

00:38:13,520 --> 00:38:16,800

be users of funds but they also

746

00:38:16,800 --> 00:38:19,599

sources of funds so they lend money they

747

00:38:19,599 --> 00:38:20,240

invest

748

00:38:20,240 --> 00:38:23,839

in portfolios of securities etc

749

00:38:23,839 --> 00:38:27,040

the term fi

750

00:38:27,040 --> 00:38:30,960

means financial institution

751

00:38:30,960 --> 00:38:34,160

okay so if you are

752

00:38:34,160 --> 00:38:37,680

in a fig group in a bank

753

00:38:37,680 --> 00:38:41,680

this is a financial institution group

754

00:38:41,680 --> 00:38:43,599

okay so the group that looks after

755

00:38:43,599 --> 00:38:45,440

financial institutions

756

00:38:45,440 --> 00:38:49,680

as a client group

757

00:38:49,760 --> 00:38:53,599

okay coming up the word sovereign

758

00:38:53,599 --> 00:38:58,160

can anybody tell me what does it mean

759

00:38:58,839 --> 00:39:01,839

sovereign

760

00:39:03,599 --> 00:39:07,920

government that's right

761

00:39:07,920 --> 00:39:12,320

all right so the central government but

762

00:39:12,960 --> 00:39:17,440

when they act outside their own market

763

00:39:17,440 --> 00:39:22,240

so when a government raises money from

764

00:39:22,240 --> 00:39:25,359

foreign investors we call that a

765

00:39:25,359 --> 00:39:28,400

sovereign issue so when you hear the

766

00:39:28,400 --> 00:39:28,800

term

767

00:39:28,800 --> 00:39:31,920

sovereign it has two connotations the

768

00:39:31,920 --> 00:39:32,720

first one

769

00:39:32,720 --> 00:39:35,280

is government central government and the

770

00:39:35,280 --> 00:39:36,000

second

771

00:39:36,000 --> 00:39:39,200

is international right

772

00:39:39,200 --> 00:39:42,560

so a sovereign gov

773

00:39:42,560 --> 00:39:45,839

sovereign issue is when a government

774

00:39:45,839 --> 00:39:48,400

gets into the international markets to

775

00:39:48,400 --> 00:39:49,839

raise funds

776

00:39:49,839 --> 00:39:53,680

so you can see that they can be both

777

00:39:53,680 --> 00:39:59,119

issuers and investors

778

00:39:59,599 --> 00:40:02,720

now there are also the sovereign is at

779

00:40:02,720 --> 00:40:03,119

the

780

00:40:03,119 --> 00:40:06,000

the central government level there are

781

00:40:06,000 --> 00:40:06,920

what we call

782

00:40:06,920 --> 00:40:09,680

quasi-sovereign which is the level below

783

00:40:09,680 --> 00:40:10,000

so

784

00:40:10,000 --> 00:40:13,280

quasi means not quite okay so

785

00:40:13,280 --> 00:40:15,440

we have the sovereign and then the level

786

00:40:15,440 --> 00:40:18,000

below the level below can be

787

00:40:18,000 --> 00:40:22,720

agencies it can be

788

00:40:22,839 --> 00:40:26,960

municipalities it can be

789

00:40:30,720 --> 00:40:33,119

counties or regions so if you think

790

00:40:33,119 --> 00:40:35,359

about china

791

00:40:35,359 --> 00:40:37,440

it could be ministries it could be

792

00:40:37,440 --> 00:40:39,359

regions it could be cities

793

00:40:39,359 --> 00:40:41,359

but they're one level down so local

794

00:40:41,359 --> 00:40:43,760

government would be one level down

795

00:40:43,760 --> 00:40:46,800

okay sovereign would be the central

796

00:40:46,800 --> 00:40:49,040

government

797

00:40:49,040 --> 00:40:52,319

and then we have surprise so

798

00:40:52,319 --> 00:40:57,839

surprise has to do with

799

00:40:58,280 --> 00:41:01,359

supranational supranational

800

00:41:01,359 --> 00:41:04,880

supra means above supranational means

801

00:41:04,880 --> 00:41:08,000

above the national level okay

802

00:41:08,000 --> 00:41:12,160

so above the national borders

803

00:41:12,160 --> 00:41:15,720

eu yes the eu is a

804

00:41:15,720 --> 00:41:18,960

supranational institution

805

00:41:18,960 --> 00:41:21,920

can you think of any other supranational

806

00:41:21,920 --> 00:41:23,520

institutions

807

00:41:23,520 --> 00:41:26,960

un asian yeah yeah

808

00:41:26,960 --> 00:41:32,800

imf very good very good

809

00:41:33,200 --> 00:41:36,319

okay world bank perfect yes

810

00:41:36,319 --> 00:41:39,200

many many others while brics is not

811

00:41:39,200 --> 00:41:39,760

really

812

00:41:39,760 --> 00:41:43,280

an institution brics is an acronym for

813

00:41:43,280 --> 00:41:44,000

brazil

814

00:41:44,000 --> 00:41:48,560

russia india china and south africa

815

00:41:48,560 --> 00:41:51,520

but it's it's it does not exist as an

816

00:41:51,520 --> 00:41:52,480

entity

817

00:41:52,480 --> 00:41:56,000

the world bank the imf the eu uh

818

00:41:56,000 --> 00:41:59,680

they all exist as entities

819

00:41:59,680 --> 00:42:02,720

okay pigs is the same thing as brics

820

00:42:02,720 --> 00:42:05,760

it's portugal italy

821

00:42:05,760 --> 00:42:08,720

greece and spain but it doesn't exist as

822

00:42:08,720 --> 00:42:08,960

an

823

00:42:08,960 --> 00:42:12,000

entity so why i call them supranational

824

00:42:12,000 --> 00:42:13,680

why we use the term supranational

825

00:42:13,680 --> 00:42:15,839

because supranational organizations like

826

00:42:15,839 --> 00:42:17,920

the imf the world bank the asian

827

00:42:17,920 --> 00:42:19,359

development bank

828

00:42:19,359 --> 00:42:23,599

the new development bank they

829

00:42:23,599 --> 00:42:26,720

act in the market they borrow money

830

00:42:26,720 --> 00:42:29,839

in their name and then they lend on

831

00:42:29,839 --> 00:42:32,880

so development banks like the european

832

00:42:32,880 --> 00:42:36,640

uh the ebrd uh the asian development

833

00:42:36,640 --> 00:42:37,440

bank

834

00:42:37,440 --> 00:42:40,880

uh the african development bank

835

00:42:40,880 --> 00:42:44,240

they issued that in the market

836

00:42:44,240 --> 00:42:47,839

and then they use that money to finance

837

00:42:47,839 --> 00:42:51,200

development plans okay so no they're not

838

00:42:51,200 --> 00:42:53,200

sovereign sovereign is a central

839

00:42:53,200 --> 00:42:55,839

government they're above the national

840

00:42:55,839 --> 00:42:56,800

level

841

00:42:56,800 --> 00:43:00,560

okay they are super nationals

842

00:43:00,560 --> 00:43:04,079

um professor yeah i was asking if

843

00:43:04,079 --> 00:43:05,440

state-owned banks

844

00:43:05,440 --> 00:43:08,480

are sovereign that's what i was asking

845

00:43:08,480 --> 00:43:09,359

there are quite a

846

00:43:09,359 --> 00:43:13,680

self-run and it depends uh

847

00:43:13,680 --> 00:43:16,960

at what level they are so sometimes so

848

00:43:16,960 --> 00:43:20,240

a state-owned bank

849

00:43:20,400 --> 00:43:22,319

if it has the full support of the

850

00:43:22,319 --> 00:43:23,680

government

851

00:43:23,680 --> 00:43:26,800

it's a quasi-sovereign but the

852

00:43:26,800 --> 00:43:28,880

ownership itself doesn't make it

853

00:43:28,880 --> 00:43:31,440

sovereign

854

00:43:31,440 --> 00:43:34,240

thank you thank you you're welcome and

855

00:43:34,240 --> 00:43:36,240

we'll revisit that when we talk about

856

00:43:36,240 --> 00:43:38,560

sovereign wealth funds

857

00:43:38,560 --> 00:43:40,920

all right and then you have

858

00:43:40,920 --> 00:43:42,319

institutionals

859

00:43:42,319 --> 00:43:45,760

and we'll talk about institutionals

860

00:43:45,760 --> 00:43:50,000

uh later in the class

861

00:43:50,000 --> 00:43:53,680

okay so institutionals

862

00:43:53,680 --> 00:43:57,040

mean institutional investors

863

00:43:57,040 --> 00:44:00,880

broadly speaking we are talking about

864

00:44:00,880 --> 00:44:04,880

asset managers insurance companies

865

00:44:04,880 --> 00:44:07,680

pension funds and retirement funds and

866

00:44:07,680 --> 00:44:08,560

then you have

867

00:44:08,560 --> 00:44:10,960

alternative investors like private

868

00:44:10,960 --> 00:44:14,960

equity venture capital hedge funds etc

869

00:44:14,960 --> 00:44:17,760

all right so the world institutional

870

00:44:17,760 --> 00:44:18,800

come from the world

871

00:44:18,800 --> 00:44:22,640

institution so it's an institution

872

00:44:22,640 --> 00:44:24,960

that pulls together a lot of money to

873

00:44:24,960 --> 00:44:26,480

invest in the market

874

00:44:26,480 --> 00:44:29,760

but we will delve into that

875

00:44:29,760 --> 00:44:33,040

as we go deeper into each category of

876

00:44:33,040 --> 00:44:35,599

financial institution

877

00:44:35,599 --> 00:44:38,960

okay any questions

878

00:44:38,960 --> 00:44:41,599

on this it's important that you

879

00:44:41,599 --> 00:44:50,079

understand the terminology all right

880

00:44:50,079 --> 00:44:53,119

okay so we've talked about sources of

881

00:44:53,119 --> 00:44:54,240

funds

882

00:44:54,240 --> 00:44:57,280

and uses often so by the way ssa

883

00:44:57,280 --> 00:45:00,640

if you work in financial markets in

884

00:45:00,640 --> 00:45:03,200

a big institution in sales and trading

885

00:45:03,200 --> 00:45:04,000

for example

886

00:45:04,000 --> 00:45:06,079

on the trading floor you'll hear the

887

00:45:06,079 --> 00:45:07,680

term ssa

888

00:45:07,680 --> 00:45:10,000

as i say means supra sovereign and

889

00:45:10,000 --> 00:45:11,599

agencies

890

00:45:11,599 --> 00:45:14,640

so the the team that covers ssa

891

00:45:14,640 --> 00:45:18,000

is a team that covers super sovereigns

892

00:45:18,000 --> 00:45:19,119

and agencies

893

00:45:19,119 --> 00:45:21,920

oh roman very good reminding me i have

894

00:45:21,920 --> 00:45:23,200

not defined

895

00:45:23,200 --> 00:45:27,040

spvs which is very very bad of me

896

00:45:27,040 --> 00:45:30,560

thanks for reminding me okay does

897

00:45:30,560 --> 00:45:31,599

anybody know what

898

00:45:31,599 --> 00:45:34,720

spv stands for

899

00:45:40,160 --> 00:45:43,680

very good songhack yes special

900

00:45:43,680 --> 00:45:48,480

purpose vehicle and by vehicle we do not

901

00:45:48,480 --> 00:45:48,880

mean

902

00:45:48,880 --> 00:45:52,000

a car or a bus we mean a

903

00:45:52,000 --> 00:45:55,200

legal vehicle in other words we can also

904

00:45:55,200 --> 00:45:55,920

say

905

00:45:55,920 --> 00:45:58,960

special purpose corporation

906

00:45:58,960 --> 00:46:03,040

so it's a legal vehicle or a corporation

907

00:46:03,040 --> 00:46:03,599

that is

908

00:46:03,599 --> 00:46:07,040

set up for a specific purpose

909

00:46:07,040 --> 00:46:10,599

so we often see them with

910

00:46:10,599 --> 00:46:14,240

securitizations we see them

911

00:46:14,240 --> 00:46:18,000

when corporate companies

912

00:46:18,000 --> 00:46:21,040

want to be more tax efficient so they

913

00:46:21,040 --> 00:46:21,599

set up

914

00:46:21,599 --> 00:46:25,119

a special purpose company

915

00:46:25,119 --> 00:46:28,480

in a um tax efficient country

916

00:46:28,480 --> 00:46:31,520

no so spak is different it's special

917

00:46:31,520 --> 00:46:32,160

purpose

918

00:46:32,160 --> 00:46:34,400

acquisition vehicle it's a special

919

00:46:34,400 --> 00:46:35,760

purpose acquisition

920

00:46:35,760 --> 00:46:40,160

vehicle which have been all the rage

921

00:46:40,160 --> 00:46:44,560

and uses different ball game

922

00:46:44,800 --> 00:46:48,160

don't get me started special purpose

923

00:46:48,160 --> 00:46:51,119

vehicle are set up for a specific

924

00:46:51,119 --> 00:46:53,599

purpose generally to do with raising

925

00:46:53,599 --> 00:46:56,800

funds um in either

926

00:46:56,800 --> 00:46:58,880

tax efficient manner or legally

927

00:46:58,880 --> 00:47:00,079

efficient money

928

00:47:00,079 --> 00:47:03,200

so we see them in project finance

929

00:47:03,200 --> 00:47:06,400

structured finance um

930

00:47:06,400 --> 00:47:10,000

tax optimization etc so

931

00:47:10,000 --> 00:47:13,119

song mean is asking about spanx spac is

932

00:47:13,119 --> 00:47:17,599

special purpose acquisition corporation

933

00:47:17,599 --> 00:47:20,240

those are corporations so this is it's

934

00:47:20,240 --> 00:47:21,760

called the blank check

935

00:47:21,760 --> 00:47:25,200

company so you set up a company

936

00:47:25,200 --> 00:47:28,880

that has nothing and you get it listed

937

00:47:28,880 --> 00:47:32,079

and the only purpose is so that it can

938

00:47:32,079 --> 00:47:35,839

acquire another company later on

939

00:47:35,839 --> 00:47:39,200

okay so it's a way to do um

940

00:47:39,200 --> 00:47:42,960

back door listing so if you have

941

00:47:42,960 --> 00:47:48,400

a company that is private for example

942

00:47:50,960 --> 00:47:53,040

i don't know what's company that is

943

00:47:53,040 --> 00:47:54,880

private right now

944

00:47:54,880 --> 00:47:57,680

that will be listing robin hood okay

945

00:47:57,680 --> 00:48:00,160

robin hood is currently private

946

00:48:00,160 --> 00:48:03,599

and you are you're growing and so you

947

00:48:03,599 --> 00:48:04,160

want to

948

00:48:04,160 --> 00:48:06,800

eventually get listed so there's many

949

00:48:06,800 --> 00:48:08,079

ways you can do that

950

00:48:08,079 --> 00:48:12,640

you can do an ipo or

951

00:48:12,640 --> 00:48:16,400

lucid or you can

952

00:48:16,400 --> 00:48:20,079

do a direct listing or

953

00:48:20,079 --> 00:48:22,000

you can do a backdoor listing so the

954

00:48:22,000 --> 00:48:23,200

backdoor listing

955

00:48:23,200 --> 00:48:25,920

means using a company that's already

956

00:48:25,920 --> 00:48:27,680

listed

957

00:48:27,680 --> 00:48:30,079

and that company buys the company that

958

00:48:30,079 --> 00:48:32,720

wants to be listed

959

00:48:32,720 --> 00:48:35,040

okay so because you're buying the

960

00:48:35,040 --> 00:48:36,240

company

961

00:48:36,240 --> 00:48:38,319

and they're merging so then you

962

00:48:38,319 --> 00:48:40,240

automatically become listed that's

963

00:48:40,240 --> 00:48:42,319

called a back door listing

964

00:48:42,319 --> 00:48:45,520

so long story short

965

00:48:45,520 --> 00:48:48,640

sparks blank check companies are

966

00:48:48,640 --> 00:48:49,440

vehicles

967

00:48:49,440 --> 00:48:52,720

designed for acquisition purposes okay

968

00:48:52,720 --> 00:48:54,800

so they're a bit different

969

00:48:54,800 --> 00:48:59,680

ngos no uh non-governmental organization

970

00:48:59,680 --> 00:49:01,280

and really don't have much to do with

971

00:49:01,280 --> 00:49:02,240

this

972

00:49:02,240 --> 00:49:05,440

um what is the difference between direct

973

00:49:05,440 --> 00:49:07,359

listing and ipo

974

00:49:07,359 --> 00:49:10,480

okay so an ipo an initial

975

00:49:10,480 --> 00:49:14,319

public offering means that you appoint

976

00:49:14,319 --> 00:49:17,359

investment banks the investment banks

977

00:49:17,359 --> 00:49:19,280

will come up with the valuation for the

978

00:49:19,280 --> 00:49:21,760

company and they will be

979

00:49:21,760 --> 00:49:24,960

um raising money from investors by

980

00:49:24,960 --> 00:49:27,839

building what we call a book

981

00:49:27,839 --> 00:49:31,200

and they will um

982

00:49:31,200 --> 00:49:33,680

they will manage the entire process for

983

00:49:33,680 --> 00:49:36,400

you and support the price

984

00:49:36,400 --> 00:49:40,160

a direct listing is you simply go to the

985

00:49:40,160 --> 00:49:42,000

stock exchange and say i want to sell

986

00:49:42,000 --> 00:49:43,359

shares

987

00:49:43,359 --> 00:49:45,920

okay and that has you don't need

988

00:49:45,920 --> 00:49:47,440

investment banks

989

00:49:47,440 --> 00:49:50,400

you you can do it yourself the problem

990

00:49:50,400 --> 00:49:51,280

with that

991

00:49:51,280 --> 00:49:54,800

is uh whatever the price is when the

992

00:49:54,800 --> 00:49:56,079

shares start

993

00:49:56,079 --> 00:49:58,400

trading will be the price you have no

994

00:49:58,400 --> 00:50:00,880

control over the pricing process

995

00:50:00,880 --> 00:50:03,599

uh so it has positive aspects and

996

00:50:03,599 --> 00:50:05,440

negative aspects

997

00:50:05,440 --> 00:50:09,040

uh direct listings used to be very very

998

00:50:09,040 --> 00:50:10,720

very rare

999

00:50:10,720 --> 00:50:13,200

uh but they've become they've started

1000

00:50:13,200 --> 00:50:14,319

picking up

1001

00:50:14,319 --> 00:50:16,960

quite a bit uh the interesting thing is

1002

00:50:16,960 --> 00:50:19,280

that

1003

00:50:19,280 --> 00:50:22,559

investment banks are helping with direct

1004

00:50:22,559 --> 00:50:23,440

listing but

1005

00:50:23,440 --> 00:50:25,920

not underwriting and not managing the

1006

00:50:25,920 --> 00:50:27,359

entire process so

1007

00:50:27,359 --> 00:50:29,599

somewhat the fees you pay to investment

1008

00:50:29,599 --> 00:50:31,359

banks is a bit

1009

00:50:31,359 --> 00:50:34,880

less than that eton is asking me will

1010

00:50:34,880 --> 00:50:38,319

sbv lead to some illegal things no

1011

00:50:38,319 --> 00:50:41,680

uh not necessarily uh

1012

00:50:41,680 --> 00:50:47,040

it is a financial engineering um

1013

00:50:47,119 --> 00:50:51,119

setup that is designed so for example

1014

00:50:51,119 --> 00:50:53,760

okay let's say you want to build a power

1015

00:50:53,760 --> 00:50:54,559

plant

1016

00:50:54,559 --> 00:50:58,400

from scratch and you are clp

1017

00:50:58,400 --> 00:51:01,040

clp is one of our two electricity

1018

00:51:01,040 --> 00:51:02,559

companies in hong kong

1019

00:51:02,559 --> 00:51:04,160

and you want to build a power plant in

1020

00:51:04,160 --> 00:51:05,680

india well

1021

00:51:05,680 --> 00:51:07,839

you don't want to raise money in your

1022

00:51:07,839 --> 00:51:09,599

name and invest it in the power plant

1023

00:51:09,599 --> 00:51:11,040

you'd rather

1024

00:51:11,040 --> 00:51:13,680

the investors go and invest directly in

1025

00:51:13,680 --> 00:51:15,440

the power plant in india

1026

00:51:15,440 --> 00:51:18,319

so you set up a company that will be

1027

00:51:18,319 --> 00:51:19,200

managing this

1028

00:51:19,200 --> 00:51:22,160

entire process so that company will be

1029

00:51:22,160 --> 00:51:23,680

raising money

1030

00:51:23,680 --> 00:51:26,400

to build the power plant and it will

1031

00:51:26,400 --> 00:51:26,800

have

1032

00:51:26,800 --> 00:51:30,240

all the assets of the power plant and

1033

00:51:30,240 --> 00:51:32,640

it will have a contract for the outtake

1034

00:51:32,640 --> 00:51:33,920

agreement with

1035

00:51:33,920 --> 00:51:38,079

uh the electricity company in india uh

1036

00:51:38,079 --> 00:51:41,520

so that this whole transaction

1037

00:51:41,520 --> 00:51:44,640

uh while it was initiated by clp

1038

00:51:44,640 --> 00:51:46,880

does not consolidate into the balance

1039

00:51:46,880 --> 00:51:48,480

sheet of clp so it's

1040

00:51:48,480 --> 00:51:51,839

a little bit complicated but no sbps

1041

00:51:51,839 --> 00:51:55,359

don't necessarily lead to illegal things

1042

00:51:55,359 --> 00:51:58,640

uh is an sbv a kind of fund of funds

1043

00:51:58,640 --> 00:52:02,319

no it is not it's simply a legal vehicle

1044

00:52:02,319 --> 00:52:04,319

okay friends of funds are very different

1045

00:52:04,319 --> 00:52:05,839

from defense are actually

1046

00:52:05,839 --> 00:52:08,480

funds that invest in other funds we will

1047

00:52:08,480 --> 00:52:09,440

take

1048

00:52:09,440 --> 00:52:12,079

we will talk about that later right

1049

00:52:12,079 --> 00:52:13,520

these are very very good

1050

00:52:13,520 --> 00:52:16,800

questions okay why suppress

1051

00:52:16,800 --> 00:52:20,640

are not on the list of source of funds

1052

00:52:20,640 --> 00:52:24,160

um because broadly speaking

1053

00:52:24,160 --> 00:52:27,680

they are more users of funds uh

1054

00:52:27,680 --> 00:52:31,440

an institution like adb

1055

00:52:31,440 --> 00:52:34,720

in capital market terms they tend to

1056

00:52:34,720 --> 00:52:36,960

get the money themselves first and then

1057

00:52:36,960 --> 00:52:39,920

redistribute it in their own projects

1058

00:52:39,920 --> 00:52:44,400

so actually you're quite right

1059

00:52:44,400 --> 00:52:47,359

that i could probably put them on both

1060

00:52:47,359 --> 00:52:49,200

sides but they're mostly

1061

00:52:49,200 --> 00:52:52,240

on the fundraising side rather than the

1062

00:52:52,240 --> 00:52:54,079

fun supplying side

1063

00:52:54,079 --> 00:52:58,160

in terms of markets capital markets

1064

00:52:58,160 --> 00:53:01,359

okay those are great questions

1065

00:53:01,359 --> 00:53:05,040

very good questions all right okay

1066

00:53:05,040 --> 00:53:08,079

now we talk about sources of funds and

1067

00:53:08,079 --> 00:53:10,960

uses of funds now let's talk about

1068

00:53:10,960 --> 00:53:14,000

uh other players and here

1069

00:53:14,000 --> 00:53:17,760

i'm talking about institutions that help

1070

00:53:17,760 --> 00:53:18,960

to facilitate

1071

00:53:18,960 --> 00:53:20,800

transactions so i call them

1072

00:53:20,800 --> 00:53:22,240

intermediaries

1073

00:53:22,240 --> 00:53:24,960

which is a source of confusion because

1074

00:53:24,960 --> 00:53:27,119

later on we will talk about

1075

00:53:27,119 --> 00:53:30,000

financial intermediaries and financial

1076

00:53:30,000 --> 00:53:32,640

intermediaries has a very specific

1077

00:53:32,640 --> 00:53:34,000

meaning

1078

00:53:34,000 --> 00:53:37,520

financial intermediaries in this class

1079

00:53:37,520 --> 00:53:40,880

and in academia means financial

1080

00:53:40,880 --> 00:53:44,839

institutions that provide financial

1081

00:53:44,839 --> 00:53:48,800

intermediation and we will spend time

1082

00:53:48,800 --> 00:53:52,000

explaining where that is later

1083

00:53:52,000 --> 00:53:56,000

so do not mix up intermediaries

1084

00:53:56,000 --> 00:53:58,880

and financial intermediaries

1085

00:53:58,880 --> 00:54:00,319

intermediaries here

1086

00:54:00,319 --> 00:54:04,319

simply means institutions that

1087

00:54:04,319 --> 00:54:07,760

put parties together okay so they

1088

00:54:07,760 --> 00:54:09,119

intermediate

1089

00:54:09,119 --> 00:54:12,160

they help put parties together

1090

00:54:12,160 --> 00:54:14,880

but they don't necessarily perform

1091

00:54:14,880 --> 00:54:17,599

financial intermediation

1092

00:54:17,599 --> 00:54:20,960

so we will talk at length

1093

00:54:20,960 --> 00:54:24,079

about investment banking and i'm going

1094

00:54:24,079 --> 00:54:27,359

to talk later about dealers traders and

1095

00:54:27,359 --> 00:54:28,640

brokers

1096

00:54:28,640 --> 00:54:31,680

for the moment i am going to focus

1097

00:54:31,680 --> 00:54:34,079

so put those aside i'll come back to

1098

00:54:34,079 --> 00:54:35,680

that later

1099

00:54:35,680 --> 00:54:38,480

but i'm going to talk about credit and

1100

00:54:38,480 --> 00:54:39,520

liquidity

1101

00:54:39,520 --> 00:54:44,559

enhancers so first of all

1102

00:54:44,799 --> 00:54:46,640

this is a class where you learn so many

1103

00:54:46,640 --> 00:54:48,640

things

1104

00:54:48,640 --> 00:54:52,480

including english so to enhance

1105

00:54:52,480 --> 00:54:55,920

is an english verb that means to improve

1106

00:54:55,920 --> 00:54:59,359

okay so young ladies enhance the natural

1107

00:54:59,359 --> 00:55:02,319

natural beauty with the help of

1108

00:55:02,319 --> 00:55:03,680

cosmetics

1109

00:55:03,680 --> 00:55:07,280

okay so to enhance is to make better

1110

00:55:07,280 --> 00:55:10,799

so credit enhancers

1111

00:55:10,799 --> 00:55:15,040

are institutions that enhance

1112

00:55:15,040 --> 00:55:19,440

credit risk in other words improve

1113

00:55:19,440 --> 00:55:25,200

the credit can you think of an example

1114

00:55:30,079 --> 00:55:33,280

how can we improve

1115

00:55:33,280 --> 00:55:36,160

credit insurance yes insurance companies

1116

00:55:36,160 --> 00:55:36,960

can provide

1117

00:55:36,960 --> 00:55:40,319

insurance that would for example credit

1118

00:55:40,319 --> 00:55:41,599

insurance

1119

00:55:41,599 --> 00:55:44,880

which would cover the parties against

1120

00:55:44,880 --> 00:55:46,480

the risk of default

1121

00:55:46,480 --> 00:55:48,880

of the borrower that is one very good

1122

00:55:48,880 --> 00:55:49,760

example

1123

00:55:49,760 --> 00:55:52,400

any others collateral very good

1124

00:55:52,400 --> 00:55:54,000

collateral

1125

00:55:54,000 --> 00:55:58,000

is providing uh an asset

1126

00:55:58,000 --> 00:56:01,040

in case you cannot pay then the lender

1127

00:56:01,040 --> 00:56:01,359

can

1128

00:56:01,359 --> 00:56:03,680

seize the asset for example in a

1129

00:56:03,680 --> 00:56:04,880

mortgage

1130

00:56:04,880 --> 00:56:08,960

the piece of property will be collateral

1131

00:56:08,960 --> 00:56:11,839

credit rating agencies know credit

1132

00:56:11,839 --> 00:56:13,760

rating agencies do not

1133

00:56:13,760 --> 00:56:18,000

enhance credit they evaluate it they

1134

00:56:18,000 --> 00:56:18,720

give you an

1135

00:56:18,720 --> 00:56:20,799

opinion about the credit risk a

1136

00:56:20,799 --> 00:56:23,920

guarantor very good a guarantor

1137

00:56:23,920 --> 00:56:26,480

is credit enhancement the guarantor

1138

00:56:26,480 --> 00:56:28,079

stands behind you

1139

00:56:28,079 --> 00:56:31,119

if you cannot pay they will pay for you

1140

00:56:31,119 --> 00:56:34,880

okay that is very good options

1141

00:56:34,880 --> 00:56:38,480

uh well this is kind of a broad term

1142

00:56:38,480 --> 00:56:41,200

uh it's not in itself a credit enhancer

1143

00:56:41,200 --> 00:56:42,160

but you can use

1144

00:56:42,160 --> 00:56:45,520

options and what else did we see

1145

00:56:45,520 --> 00:56:48,240

moody somebody's is a rating agency they

1146

00:56:48,240 --> 00:56:49,920

do not

1147

00:56:49,920 --> 00:56:52,160

provide credit enhancement they provide

1148

00:56:52,160 --> 00:56:54,319

credit ratings

1149

00:56:54,319 --> 00:56:55,690

risk manager

1150

00:56:55,690 --> 00:56:57,440

[Music]

1151

00:56:57,440 --> 00:57:00,720

risk manager manages risk cds

1152

00:57:00,720 --> 00:57:03,760

credit default swaps it's not

1153

00:57:03,760 --> 00:57:06,400

strictly speaking credit enhancement

1154

00:57:06,400 --> 00:57:07,440

it's credit

1155

00:57:07,440 --> 00:57:10,480

risk insurance in a way

1156

00:57:10,480 --> 00:57:12,640

but it's a separate instrument so it's

1157

00:57:12,640 --> 00:57:14,319

quite separate from

1158

00:57:14,319 --> 00:57:16,640

what sanghak was talking about in terms

1159

00:57:16,640 --> 00:57:17,440

of uh

1160

00:57:17,440 --> 00:57:20,640

credit insurance okay

1161

00:57:20,640 --> 00:57:23,920

cdos it's collateral debt obligations

1162

00:57:23,920 --> 00:57:26,480

this is not credit enhancement this is

1163

00:57:26,480 --> 00:57:28,880

putting together a portfolio

1164

00:57:28,880 --> 00:57:31,920

of credit facilities and then selling

1165

00:57:31,920 --> 00:57:34,480

that securities against that portfolio

1166

00:57:34,480 --> 00:57:38,400

this is securitization okay

1167

00:57:38,400 --> 00:57:40,720

so the point about credit enhancement

1168

00:57:40,720 --> 00:57:42,400

the best examples were

1169

00:57:42,400 --> 00:57:46,880

guarantees or insurance credit insurance

1170

00:57:46,880 --> 00:57:50,000

uh these basically are

1171

00:57:50,000 --> 00:57:53,040

allowing a company

1172

00:57:53,040 --> 00:57:55,440

to borrow even though its own credit is

1173

00:57:55,440 --> 00:57:58,000

not that great but because a bank or an

1174

00:57:58,000 --> 00:58:01,599

insurance company stands behind them

1175

00:58:01,599 --> 00:58:04,880

or the government for that matter then

1176

00:58:04,880 --> 00:58:06,960

creditors will be more likely to lend to

1177

00:58:06,960 --> 00:58:08,000

them at

1178

00:58:08,000 --> 00:58:11,280

a retail level at an individual level

1179

00:58:11,280 --> 00:58:14,799

as a young graduate when you want to buy

1180

00:58:14,799 --> 00:58:18,079

property no bank is going to lend to you

1181

00:58:18,079 --> 00:58:20,000

but if your mom and dad are willing to

1182

00:58:20,000 --> 00:58:21,359

guarantee you

1183

00:58:21,359 --> 00:58:23,359

and if they have a good job and they

1184

00:58:23,359 --> 00:58:25,200

have good assets then the bank will

1185

00:58:25,200 --> 00:58:26,240

listen

1186

00:58:26,240 --> 00:58:28,960

okay so mom and dad the bank of mom and

1187

00:58:28,960 --> 00:58:29,920

dad provides

1188

00:58:29,920 --> 00:58:34,640

credit enhancement for young students

1189

00:58:34,839 --> 00:58:38,480

now same thing applies with liquidity

1190

00:58:38,480 --> 00:58:40,799

it's a little bit more complicated and

1191

00:58:40,799 --> 00:58:43,200

you don't have to remember that

1192

00:58:43,200 --> 00:58:45,839

but you also have banks providing

1193

00:58:45,839 --> 00:58:48,000

liquidity enhancement

1194

00:58:48,000 --> 00:58:50,079

you also have financial institutions

1195

00:58:50,079 --> 00:58:52,319

providing liquidity enhancement which

1196

00:58:52,319 --> 00:58:53,760

means that

1197

00:58:53,760 --> 00:58:56,240

this is the other aspect of liquidity

1198

00:58:56,240 --> 00:58:58,720

which we discussed early on with roman

1199

00:58:58,720 --> 00:59:00,880

it's not the aspect of liquidity about

1200

00:59:00,880 --> 00:59:01,920

selling assets

1201

00:59:01,920 --> 00:59:04,640

is the aspect of liquidity in terms of

1202

00:59:04,640 --> 00:59:06,640

raising financing

1203

00:59:06,640 --> 00:59:09,680

so if you cannot raise financing then

1204

00:59:09,680 --> 00:59:12,559

the liquidity enhancer stands behind you

1205

00:59:12,559 --> 00:59:14,799

to provide liquidity

1206

00:59:14,799 --> 00:59:17,920

okay so there are different functions

1207

00:59:17,920 --> 00:59:19,920

and i haven't put all of them here we

1208

00:59:19,920 --> 00:59:20,400

will

1209

00:59:20,400 --> 00:59:23,920

cover more as we go through uh

1210

00:59:23,920 --> 00:59:27,520

the course of players in the market that

1211

00:59:27,520 --> 00:59:30,720

provide different kinds of services

1212

00:59:30,720 --> 00:59:34,160

um so uh there are many many other

1213

00:59:34,160 --> 00:59:34,880

actors this

1214

00:59:34,880 --> 00:59:37,680

is not a complete list and we've talked

1215

00:59:37,680 --> 00:59:40,160

in the brainstorming session about

1216

00:59:40,160 --> 00:59:43,760

regulators right so regulators are very

1217

00:59:43,760 --> 00:59:47,839

important um

1218

00:59:48,000 --> 00:59:50,960

because they are kind of the police in

1219

00:59:50,960 --> 00:59:51,760

the market

1220

00:59:51,760 --> 00:59:55,119

right they they kind of create rules

1221

00:59:55,119 --> 00:59:57,440

and people have to follow the rules at

1222

00:59:57,440 --> 00:59:59,040

least theoretically

1223

00:59:59,040 --> 01:00:01,280

the key things though when we look at

1224

01:00:01,280 --> 01:00:02,160

regulators

1225

01:00:02,160 --> 01:00:05,280

is do they have teeth

1226

01:00:05,280 --> 01:00:08,319

or not so when we say

1227

01:00:08,319 --> 01:00:10,880

toothless regulators it's a regulator

1228

01:00:10,880 --> 01:00:12,960

that has rules in place but they never

1229

01:00:12,960 --> 01:00:14,000

enforce them

1230

01:00:14,000 --> 01:00:16,079

they don't have the power to enforce

1231

01:00:16,079 --> 01:00:18,160

them or they don't have the will

1232

01:00:18,160 --> 01:00:21,200

to enforce them so sadly in

1233

01:00:21,200 --> 01:00:24,960

asia we've had many over the years our

1234

01:00:24,960 --> 01:00:27,040

regulators have started growing teeth a

1235

01:00:27,040 --> 01:00:29,599

little bit particularly in hong kong but

1236

01:00:29,599 --> 01:00:32,559

it was not the case that much

1237

01:00:32,559 --> 01:00:35,119

one regulator that has grown big teeth

1238

01:00:35,119 --> 01:00:35,839

is

1239

01:00:35,839 --> 01:00:38,400

chinese regulators have recently come up

1240

01:00:38,400 --> 01:00:40,000

with really big teeth

1241

01:00:40,000 --> 01:00:43,040

uh and our friends at uh and financial

1242

01:00:43,040 --> 01:00:43,920

have

1243

01:00:43,920 --> 01:00:47,280

experienced the bite of the

1244

01:00:47,280 --> 01:00:50,720

cb src um

1245

01:00:50,720 --> 01:00:54,160

so regulators are very important players

1246

01:00:54,160 --> 01:00:56,000

and we will talk about this when we get

1247

01:00:56,000 --> 01:00:57,040

to the end

1248

01:00:57,040 --> 01:01:00,079

of the course service providers

1249

01:01:00,079 --> 01:01:02,000

there are many of them we've talked

1250

01:01:02,000 --> 01:01:04,000

about it in the brainstorming we talk

1251

01:01:04,000 --> 01:01:04,480

about

1252

01:01:04,480 --> 01:01:08,720

lawyers we talk about accountants

1253

01:01:08,720 --> 01:01:10,960

all of these perform very important

1254

01:01:10,960 --> 01:01:12,079

functions

1255

01:01:12,079 --> 01:01:15,359

uh sadly sometimes not

1256

01:01:15,359 --> 01:01:18,319

quite as well as they should i've

1257

01:01:18,319 --> 01:01:19,520

touched a little bit

1258

01:01:19,520 --> 01:01:22,240

on reading agencies as i was discussing

1259

01:01:22,240 --> 01:01:23,040

your posts

1260

01:01:23,040 --> 01:01:26,480

in the chat so what are rating agencies

1261

01:01:26,480 --> 01:01:28,400

anybody want to tell me what is a rating

1262

01:01:28,400 --> 01:01:31,119

agency

1263

01:01:36,400 --> 01:01:40,079

reading agencies anyone okay

1264

01:01:40,079 --> 01:01:43,920

nothing tell me as i heard

1265

01:01:43,920 --> 01:01:46,079

in my secondary school for my teacher it

1266

01:01:46,079 --> 01:01:47,440

seems that it's about

1267

01:01:47,440 --> 01:01:50,240

like um there are three big and reading

1268

01:01:50,240 --> 01:01:52,960

agencies and they will post their asian

1269

01:01:52,960 --> 01:01:53,359

rep

1270

01:01:53,359 --> 01:01:56,079

their rating reports every year for

1271

01:01:56,079 --> 01:01:57,760

different um corporations and also the

1272

01:01:57,760 --> 01:01:58,559

governments

1273

01:01:58,559 --> 01:02:01,680

and there are something like um a aaa

1274

01:02:01,680 --> 01:02:04,160

and so on and yeah to give some kind of

1275

01:02:04,160 --> 01:02:05,680

reference for the investors

1276

01:02:05,680 --> 01:02:08,960

like which um which company or which

1277

01:02:08,960 --> 01:02:11,520

government is in a good financial credit

1278

01:02:11,520 --> 01:02:15,200

and so yeah to give a reference

1279

01:02:15,200 --> 01:02:18,240

very good thank you so and a lot of you

1280

01:02:18,240 --> 01:02:20,799

have posted comments so

1281

01:02:20,799 --> 01:02:24,000

credit rating agencies

1282

01:02:24,000 --> 01:02:28,000

are companies that provide opinions

1283

01:02:28,000 --> 01:02:31,039

their opinions of the credit

1284

01:02:31,039 --> 01:02:35,119

risk of companies

1285

01:02:35,119 --> 01:02:39,359

banks countries securities

1286

01:02:39,359 --> 01:02:42,799

etc so there are many

1287

01:02:42,799 --> 01:02:46,319

credit rating companies globally there

1288

01:02:46,319 --> 01:02:47,200

are three

1289

01:02:47,200 --> 01:02:49,520

that everybody knows about can you tell

1290

01:02:49,520 --> 01:02:53,119

me who are the top three

1291

01:02:53,520 --> 01:02:58,480

very good moody's snp and fish

1292

01:02:58,480 --> 01:03:01,440

moodies and standard and poor's dominate

1293

01:03:01,440 --> 01:03:02,160

the market

1294

01:03:02,160 --> 01:03:04,720

like over 80 percent of the ratings

1295

01:03:04,720 --> 01:03:05,520

number three

1296

01:03:05,520 --> 01:03:07,440

is fetch and then there's a bunch of

1297

01:03:07,440 --> 01:03:08,799

other companies

1298

01:03:08,799 --> 01:03:12,240

and there are local credit rating

1299

01:03:12,240 --> 01:03:14,640

agencies in different countries

1300

01:03:14,640 --> 01:03:17,760

so what do they do they analyze

1301

01:03:17,760 --> 01:03:22,319

the credit risk of companies

1302

01:03:22,319 --> 01:03:25,359

of countries and

1303

01:03:25,359 --> 01:03:28,640

banks financial institutions any entity

1304

01:03:28,640 --> 01:03:30,799

that seeks to raise

1305

01:03:30,799 --> 01:03:33,920

debt capital from the market okay

1306

01:03:33,920 --> 01:03:36,400

they only look at the credit risk so

1307

01:03:36,400 --> 01:03:37,760

they're only involved

1308

01:03:37,760 --> 01:03:40,880

in debt markets okay and they

1309

01:03:40,880 --> 01:03:44,000

rank the credit risk

1310

01:03:44,000 --> 01:03:47,039

using some indicators so nothing told us

1311

01:03:47,039 --> 01:03:49,520

about triple a double a single a

1312

01:03:49,520 --> 01:03:52,880

so each agency has its own

1313

01:03:52,880 --> 01:03:56,000

notation uh scale

1314

01:03:56,000 --> 01:03:59,839

but they have some broad equivalences

1315

01:03:59,839 --> 01:04:01,680

what do you need to know about rating

1316

01:04:01,680 --> 01:04:04,720

agencies they've become very important

1317

01:04:04,720 --> 01:04:07,280

because the regulators made them

1318

01:04:07,280 --> 01:04:08,480

important

1319

01:04:08,480 --> 01:04:11,599

the regulators outsourced regulatory

1320

01:04:11,599 --> 01:04:12,000

power

1321

01:04:12,000 --> 01:04:15,039

to rating agencies with uh

1322

01:04:15,039 --> 01:04:18,000

banking regulations going back to basel

1323

01:04:18,000 --> 01:04:20,240

to regulations which we will talk about

1324

01:04:20,240 --> 01:04:22,160

at the end of the course

1325

01:04:22,160 --> 01:04:25,200

and there is a lot of questions around

1326

01:04:25,200 --> 01:04:27,280

rating agencies particularly the

1327

01:04:27,280 --> 01:04:28,160

fundamental

1328

01:04:28,160 --> 01:04:31,359

conflict of interest because they

1329

01:04:31,359 --> 01:04:34,799

are like auditors they are paid by

1330

01:04:34,799 --> 01:04:36,960

the companies or countries that they

1331

01:04:36,960 --> 01:04:39,119

rate

1332

01:04:39,119 --> 01:04:41,920

and therefore have a vested interest in

1333

01:04:41,920 --> 01:04:42,400

not

1334

01:04:42,400 --> 01:04:45,760

um making those companies angry

1335

01:04:45,760 --> 01:04:49,119

but also importantly they have a very

1336

01:04:49,119 --> 01:04:51,000

big conflict between their

1337

01:04:51,000 --> 01:04:55,119

consulting role and their rating role

1338

01:04:55,119 --> 01:04:57,920

same as the auditors so look at the

1339

01:04:57,920 --> 01:05:00,559

parallels we're both we have both type

1340

01:05:00,559 --> 01:05:02,160

of institutions giving

1341

01:05:02,160 --> 01:05:06,400

opinions both have conflicts of interest

1342

01:05:06,400 --> 01:05:09,039

and in both cases you have a fundamental

1343

01:05:09,039 --> 01:05:11,520

conflict between the advising portion

1344

01:05:11,520 --> 01:05:13,039

consulting portion

1345

01:05:13,039 --> 01:05:16,319

and the rating or auditing function okay

1346

01:05:16,319 --> 01:05:20,240

so the same issues

1347

01:05:20,799 --> 01:05:24,960

appear with both types of institution

1348

01:05:24,960 --> 01:05:27,760

ariane asked me whether the global

1349

01:05:27,760 --> 01:05:29,599

financial crisis was

1350

01:05:29,599 --> 01:05:33,200

caused by their bond rating agencies no

1351

01:05:33,200 --> 01:05:35,920

they did not cause it they contributed

1352

01:05:35,920 --> 01:05:36,720

to

1353

01:05:36,720 --> 01:05:40,160

to the disaster uh because

1354

01:05:40,160 --> 01:05:42,480

um one of the challenges for rating

1355

01:05:42,480 --> 01:05:43,359

agencies

1356

01:05:43,359 --> 01:05:46,400

is traditionally they are very good

1357

01:05:46,400 --> 01:05:50,079

at understanding um basic

1358

01:05:50,079 --> 01:05:53,119

credit so basic cash flows

1359

01:05:53,119 --> 01:05:56,640

but during the global financial crisis

1360

01:05:56,640 --> 01:06:00,240

one of the sectors the sector that

1361

01:06:00,240 --> 01:06:02,960

started the financial crisis was the

1362

01:06:02,960 --> 01:06:04,079

subprime mortgage

1363

01:06:04,079 --> 01:06:07,599

market and it started the crisis because

1364

01:06:07,599 --> 01:06:12,000

these supply mortgages had been packaged

1365

01:06:12,000 --> 01:06:15,920

into uh securitizations which was not so

1366

01:06:15,920 --> 01:06:18,520

bad but then you had securitizations of

1367

01:06:18,520 --> 01:06:20,720

securitizations

1368

01:06:20,720 --> 01:06:23,200

so the first derivatives is generally

1369

01:06:23,200 --> 01:06:25,039

not a problem the second

1370

01:06:25,039 --> 01:06:26,960

and when you get to the third derivative

1371

01:06:26,960 --> 01:06:29,920

it can go in any kind of direction

1372

01:06:29,920 --> 01:06:31,920

so the problem was that the rating

1373

01:06:31,920 --> 01:06:34,640

agencies started grading

1374

01:06:34,640 --> 01:06:38,079

derivatives of securities and that's

1375

01:06:38,079 --> 01:06:40,799

really not that expertise so they got it

1376

01:06:40,799 --> 01:06:41,599

badly wrong

1377

01:06:41,599 --> 01:06:44,799

and then we run into issues of liquidity

1378

01:06:44,799 --> 01:06:47,920

so long answer for

1379

01:06:47,920 --> 01:06:50,400

your question aryan no they did not

1380

01:06:50,400 --> 01:06:52,160

cause it but they definitely

1381

01:06:52,160 --> 01:06:55,680

contributed to it and they accelerated

1382

01:06:55,680 --> 01:06:57,200

it when they downgraded

1383

01:06:57,200 --> 01:07:00,319

all their so-called a

1384

01:07:00,319 --> 01:07:04,480

uh cds or cc

1385

01:07:04,480 --> 01:07:08,640

pdos okay

1386

01:07:08,640 --> 01:07:11,680

all right so now what time is it

1387

01:07:11,680 --> 01:07:15,359

5 34 i should have enough time

1388

01:07:15,359 --> 01:07:19,599

so i'm going to uh put you guys into

1389

01:07:19,599 --> 01:07:22,960

three breakout rooms and

1390

01:07:22,960 --> 01:07:25,839

what i want the three breakout rooms to

1391

01:07:25,839 --> 01:07:27,599

discuss

1392

01:07:27,599 --> 01:07:32,079

it's the objectives and incentives

1393

01:07:32,079 --> 01:07:34,720

of some of the players in the market so

1394

01:07:34,720 --> 01:07:36,240

i'm going to create

1395

01:07:36,240 --> 01:07:40,000

a breakout room where you will all be

1396

01:07:40,000 --> 01:07:43,440

issuers so you will imagine that you're

1397

01:07:43,440 --> 01:07:45,920

the cfo the chief financial officer of a

1398

01:07:45,920 --> 01:07:47,599

large corporation

1399

01:07:47,599 --> 01:07:50,799

that needs to raise financing

1400

01:07:50,799 --> 01:07:54,079

and i want you to think about what is

1401

01:07:54,079 --> 01:07:56,160

important to you what are you trying to

1402

01:07:56,160 --> 01:07:57,520

achieve

1403

01:07:57,520 --> 01:08:00,160

in the second breakout room you will all

1404

01:08:00,160 --> 01:08:00,559

be

1405

01:08:00,559 --> 01:08:04,480

investors so you will all be the chief

1406

01:08:04,480 --> 01:08:08,720

investment officer of a very large

1407

01:08:08,720 --> 01:08:11,920

fund management company and i want you

1408

01:08:11,920 --> 01:08:13,599

to think about

1409

01:08:13,599 --> 01:08:16,080

what is it that i'm trying to do what

1410

01:08:16,080 --> 01:08:18,880

are my objectives what are my incentives

1411

01:08:18,880 --> 01:08:21,120

in the third breakout room you will be

1412

01:08:21,120 --> 01:08:22,799

regulators

1413

01:08:22,799 --> 01:08:26,560

you're going to be the um

1414

01:08:26,560 --> 01:08:30,000

the head of the securities regulator

1415

01:08:30,000 --> 01:08:32,880

in your country so imagine you're the

1416

01:08:32,880 --> 01:08:34,158

head of the sfc

1417

01:08:34,158 --> 01:08:37,040

the head of the sec and i want you to

1418

01:08:37,040 --> 01:08:38,640

think about

1419

01:08:38,640 --> 01:08:40,799

what are my goals what are my objectives

1420

01:08:40,799 --> 01:08:42,719

what are my incentives

1421

01:08:42,719 --> 01:08:46,479

okay everybody's on board

1422

01:08:46,479 --> 01:08:49,600

i'm going to start the process see if i

1423

01:08:49,600 --> 01:08:52,000

can make it

1424

01:08:52,000 --> 01:08:55,359

do i do the breakout room

1425

01:08:55,759 --> 01:09:00,480

um where does it work

1426

01:09:04,719 --> 01:09:07,679

men's ah there we go back rooms three

1427

01:09:07,679 --> 01:09:09,279

breakout rooms

1428

01:09:09,279 --> 01:09:12,640

and assign automatically boom

1429

01:09:12,640 --> 01:09:18,400

here you go and you'll have ten minutes

1430

01:09:18,479 --> 01:09:35,838

and you have to join the breakout rooms

1431

01:10:11,679 --> 01:10:14,080

i have three students here can you join

1432

01:10:14,080 --> 01:10:17,840

your breakout room please

1433

01:10:18,080 --> 01:10:20,640

chingloon

1434

01:10:21,440 --> 01:10:23,920

hello

1435

01:10:24,800 --> 01:10:31,110

jingloon are you there for you

1436

01:10:31,110 --> 01:10:34,149

[Music]

1437

01:10:42,840 --> 01:10:45,840

kingdom

1438

01:10:56,840 --> 01:10:59,840

wow

1439

01:12:06,840 --> 01:12:09,840

so

1440

01:12:46,480 --> 01:12:51,120

jinglung are you here

1441

01:12:51,120 --> 01:13:05,840

king known

1442

01:13:30,840 --> 01:13:33,840

so

1443

01:13:44,840 --> 01:13:47,840

so

1444

01:13:58,840 --> 01:14:01,840

so

1445

01:14:54,840 --> 01:14:57,840

this

1446

01:15:36,840 --> 01:15:39,840

so

1447

01:16:04,840 --> 01:16:07,840

so

1448

01:16:32,840 --> 01:16:35,840

so

1449

01:16:46,840 --> 01:16:49,840

so

1450

01:17:00,840 --> 01:17:03,840

so

1451

01:17:28,840 --> 01:17:31,840

so

1452

01:18:10,840 --> 01:18:13,840

okay

1453

01:18:24,840 --> 01:18:27,840

uh

1454

01:19:06,840 --> 01:19:09,840

so

1455

01:19:20,840 --> 01:19:23,840

uh

1456

01:19:24,560 --> 01:19:28,560

welcome back we still have a few

1457

01:19:28,560 --> 01:19:37,840

uh finishing off

1458

01:19:39,920 --> 01:19:41,840

okay so did you see the broadcast

1459

01:19:41,840 --> 01:19:43,360

messages

1460

01:19:43,360 --> 01:19:45,520

you could see the broadcast messages i

1461

01:19:45,520 --> 01:19:48,080

put broadcast messages with the timing

1462

01:19:48,080 --> 01:19:48,800

and

1463

01:19:48,800 --> 01:19:51,520

asking you to make notes right so that

1464

01:19:51,520 --> 01:19:54,159

you can debrief because it's of

1465

01:19:54,159 --> 01:19:58,159

5 47 and we are supposed to finish at 5

1466

01:19:58,159 --> 01:20:00,880

50 so i don't want to keep you too long

1467

01:20:00,880 --> 01:20:02,560

so we'll do the debrief

1468

01:20:02,560 --> 01:20:06,080

now and also for the next class

1469

01:20:06,080 --> 01:20:08,320

okay do we have everybody back now i

1470

01:20:08,320 --> 01:20:10,960

think so

1471

01:20:11,440 --> 01:20:14,639

yeah okay so

1472

01:20:14,639 --> 01:20:19,840

i'm room one my issuers talk to me

1473

01:20:21,280 --> 01:20:24,320

okay roman go ahead go ahead okay

1474

01:20:24,320 --> 01:20:27,679

um so we came up with a lot of things

1475

01:20:27,679 --> 01:20:30,000

and the first thing obviously is to

1476

01:20:30,000 --> 01:20:31,280

raise capital

1477

01:20:31,280 --> 01:20:34,639

yeah but at the same time like if for

1478

01:20:34,639 --> 01:20:36,560

example if an issuer

1479

01:20:36,560 --> 01:20:40,159

a company wants to go public then maybe

1480

01:20:40,159 --> 01:20:42,960

an interest is also to maintain control

1481

01:20:42,960 --> 01:20:44,239

of management

1482

01:20:44,239 --> 01:20:46,080

so not to give away like a majority

1483

01:20:46,080 --> 01:20:47,840

stake so that there might be like a

1484

01:20:47,840 --> 01:20:50,000

takeover by someone

1485

01:20:50,000 --> 01:20:52,159

um also increase the power of the

1486

01:20:52,159 --> 01:20:53,120

company

1487

01:20:53,120 --> 01:20:57,360

and attract investors obviously um

1488

01:20:57,360 --> 01:20:59,120

similar to raising capital we also said

1489

01:20:59,120 --> 01:21:02,480

improve the liquidity of the company

1490

01:21:02,480 --> 01:21:05,360

and do that to grow the company or make

1491

01:21:05,360 --> 01:21:06,400

investments

1492

01:21:06,400 --> 01:21:10,239

or improvements at the company we also

1493

01:21:10,239 --> 01:21:11,920

said that it can be used to attract

1494

01:21:11,920 --> 01:21:15,679

awareness and create publicity

1495

01:21:15,679 --> 01:21:19,679

and also um in a similar sense

1496

01:21:19,679 --> 01:21:22,400

um attract human capital because for

1497

01:21:22,400 --> 01:21:24,320

example if a company goes public

1498

01:21:24,320 --> 01:21:28,320

then it will definitely need a crucifix

1499

01:21:28,320 --> 01:21:30,639

and that might attract human capital if

1500

01:21:30,639 --> 01:21:31,440

it's big

1501

01:21:31,440 --> 01:21:33,360

if it's big investors then they probably

1502

01:21:33,360 --> 01:21:34,639

know what they're doing and they have a

1503

01:21:34,639 --> 01:21:35,520

lot of knowledge that they can

1504

01:21:35,520 --> 01:21:38,159

contribute to the company

1505

01:21:38,159 --> 01:21:42,320

um and also it's a way

1506

01:21:42,320 --> 01:21:45,440

it by going by issuing stock

1507

01:21:45,440 --> 01:21:47,360

companies will have a new way to pay

1508

01:21:47,360 --> 01:21:49,040

employees

1509

01:21:49,040 --> 01:21:52,239

and which will also work as a way to

1510

01:21:52,239 --> 01:21:55,840

increase employee retention

1511

01:21:55,840 --> 01:21:58,400

then the last thing we had was that if

1512

01:21:58,400 --> 01:22:00,320

the company is bigger through more money

1513

01:22:00,320 --> 01:22:01,280

then

1514

01:22:01,280 --> 01:22:03,040

um it'll it'll probably have lower

1515

01:22:03,040 --> 01:22:06,239

interest rates on bank loans

1516

01:22:06,239 --> 01:22:10,400

okay thank you roman

1517

01:22:10,400 --> 01:22:14,719

uh yen

1518

01:22:14,719 --> 01:22:17,040

yeah and it's also about sending a

1519

01:22:17,040 --> 01:22:18,800

message to the market that the company

1520

01:22:18,800 --> 01:22:20,639

is actually having a stable financial

1521

01:22:20,639 --> 01:22:21,360

growth

1522

01:22:21,360 --> 01:22:23,520

so this can help the building of brand

1523

01:22:23,520 --> 01:22:25,520

name and give the

1524

01:22:25,520 --> 01:22:29,040

confidence to the shareholders

1525

01:22:36,840 --> 01:22:38,000

checkpoint

1526

01:22:38,000 --> 01:22:40,400

yeah for start-up companies raising

1527

01:22:40,400 --> 01:22:41,760

funds can increase

1528

01:22:41,760 --> 01:22:44,800

equity and can attract angel investors

1529

01:22:44,800 --> 01:22:45,120

so

1530

01:22:45,120 --> 01:22:48,320

that they can be on track

1531

01:22:48,320 --> 01:22:50,880

faster

1532

01:22:51,600 --> 01:22:54,880

okay uh

1533

01:22:54,880 --> 01:22:56,639

so you're taking it from the point of

1534

01:22:56,639 --> 01:22:59,360

view of the startup right

1535

01:22:59,360 --> 01:23:07,840

right okay

1536

01:23:08,530 --> 01:23:11,280

[Music]

1537

01:23:11,280 --> 01:23:14,000

yes basically i have some some few

1538

01:23:14,000 --> 01:23:15,360

points to add

1539

01:23:15,360 --> 01:23:18,400

for raising capital we mean a large

1540

01:23:18,400 --> 01:23:20,000

amount of cash

1541

01:23:20,000 --> 01:23:22,560

and um for awareness we mean like kind

1542

01:23:22,560 --> 01:23:25,040

of potential potential customers

1543

01:23:25,040 --> 01:23:27,840

and like suppliers and that that kind of

1544

01:23:27,840 --> 01:23:30,080

thing

1545

01:23:30,080 --> 01:23:32,840

we're tracking attracting investors

1546

01:23:32,840 --> 01:23:34,800

right

1547

01:23:34,800 --> 01:23:39,280

okay i want to add a point that

1548

01:23:39,360 --> 01:23:41,040

yeah i also want to at a point that

1549

01:23:41,040 --> 01:23:43,440

liquidity is very important for

1550

01:23:43,440 --> 01:23:47,440

the current investor to exit okay

1551

01:23:47,440 --> 01:23:51,760

so we've had liquidity there very good

1552

01:23:51,760 --> 01:23:55,199

uh any other things that you want to

1553

01:23:55,199 --> 01:23:57,600

mention

1554

01:23:58,480 --> 01:24:02,080

well this is all very good

1555

01:24:02,080 --> 01:24:05,120

i attract customers i could put attract

1556

01:24:05,120 --> 01:24:06,639

customers

1557

01:24:06,639 --> 01:24:08,880

that's indirect right so when you're

1558

01:24:08,880 --> 01:24:10,400

raising

1559

01:24:10,400 --> 01:24:13,360

uh when you're raising financing it's

1560

01:24:13,360 --> 01:24:14,400

not so much

1561

01:24:14,400 --> 01:24:17,679

with the perspective of attracting

1562

01:24:17,679 --> 01:24:18,800

customers

1563

01:24:18,800 --> 01:24:22,560

it's more attracting investors but

1564

01:24:22,560 --> 01:24:25,360

uh indirectly you are also attracting

1565

01:24:25,360 --> 01:24:26,560

customers

1566

01:24:26,560 --> 01:24:30,080

now you said okay we want to raise

1567

01:24:30,080 --> 01:24:33,040

a lot of capital we want to raise money

1568

01:24:33,040 --> 01:24:33,920

we want to go

1569

01:24:33,920 --> 01:24:37,040

public well you're not talking says

1570

01:24:37,040 --> 01:24:39,760

somebody said a lower interest rate i

1571

01:24:39,760 --> 01:24:41,600

can't remember if it was

1572

01:24:41,600 --> 01:24:45,280

roman or somebody else

1573

01:24:45,280 --> 01:24:48,880

um when you want to raise

1574

01:24:48,880 --> 01:24:52,800

capital you also have

1575

01:24:52,800 --> 01:24:54,719

you want to raise money but you want you

1576

01:24:54,719 --> 01:24:57,600

want to raise it at a low cost

1577

01:24:57,600 --> 01:24:59,679

okay so this is something very very

1578

01:24:59,679 --> 01:25:01,440

important to think about so you've

1579

01:25:01,440 --> 01:25:02,719

talked about money

1580

01:25:02,719 --> 01:25:05,760

dilution power trust etc but you also

1581

01:25:05,760 --> 01:25:07,760

need to think you're the cfo

1582

01:25:07,760 --> 01:25:10,320

the chief financial officer so you want

1583

01:25:10,320 --> 01:25:12,400

to minimize your cost when you're

1584

01:25:12,400 --> 01:25:13,760

raising capital

1585

01:25:13,760 --> 01:25:16,000

you want to make sure you have liquidity

1586

01:25:16,000 --> 01:25:18,239

which you to put about here

1587

01:25:18,239 --> 01:25:20,159

and i know i'm running out of time so

1588

01:25:20,159 --> 01:25:21,600

those of you who have to run you're

1589

01:25:21,600 --> 01:25:22,719

welcome to leave

1590

01:25:22,719 --> 01:25:25,920

it's okay i will not mine i just want to

1591

01:25:25,920 --> 01:25:29,199

point out one thing here

1592

01:25:29,440 --> 01:25:31,040

you've looked at it from the point of

1593

01:25:31,040 --> 01:25:32,639

view of the company

1594

01:25:32,639 --> 01:25:36,400

what about the cfo himself or herself

1595

01:25:36,400 --> 01:25:40,159

what are his incentive or her incentives

1596

01:25:40,159 --> 01:25:44,719

all right so you need to think about

1597

01:25:44,719 --> 01:25:48,080

you know what is the cfo's point of view

1598

01:25:48,080 --> 01:25:49,600

in all that

1599

01:25:49,600 --> 01:25:53,280

so sometimes you find situations where

1600

01:25:53,280 --> 01:25:55,920

you talk to a cfo and what they really

1601

01:25:55,920 --> 01:25:56,560

want

1602

01:25:56,560 --> 01:25:59,840

is to be famous so

1603

01:25:59,840 --> 01:26:02,920

they want to do this say very

1604

01:26:02,920 --> 01:26:04,960

sophisticated transaction

1605

01:26:04,960 --> 01:26:06,960

so that they're the first one to do a

1606

01:26:06,960 --> 01:26:09,480

green bond they're the first one to do

1607

01:26:09,480 --> 01:26:11,520

securitization they're the first

1608

01:26:11,520 --> 01:26:14,560

or they talk to their

1609

01:26:14,560 --> 01:26:17,520

to their buddy the other cfo who's they

1610

01:26:17,520 --> 01:26:19,520

were playing golf over the weekend

1611

01:26:19,520 --> 01:26:22,400

and this other cfo says oh my bank has

1612

01:26:22,400 --> 01:26:24,239

been talking to me about that and then

1613

01:26:24,239 --> 01:26:25,760

the cfo is not upset

1614

01:26:25,760 --> 01:26:27,760

because his bank has not been talking to

1615

01:26:27,760 --> 01:26:29,440

him about that

1616

01:26:29,440 --> 01:26:33,920

and then don't forget that sometimes

1617

01:26:33,920 --> 01:26:38,400

uh the personal paycheck of the cfo or

1618

01:26:38,400 --> 01:26:39,760

the ceo

1619

01:26:39,760 --> 01:26:43,440

is tied to financing decisions

1620

01:26:43,440 --> 01:26:46,199

so when you're talking in terms of

1621

01:26:46,199 --> 01:26:47,679

incentives

1622

01:26:47,679 --> 01:26:50,000

and objectives don't forget that you

1623

01:26:50,000 --> 01:26:50,800

have

1624

01:26:50,800 --> 01:26:52,800

two parties involved you have the

1625

01:26:52,800 --> 01:26:54,320

company itself

1626

01:26:54,320 --> 01:26:56,000

but you also have the person you're

1627

01:26:56,000 --> 01:26:57,520

dealing with

1628

01:26:57,520 --> 01:27:00,639

and what are they trying to do

1629

01:27:00,639 --> 01:27:04,800

okay chen day you still have a question

1630

01:27:04,800 --> 01:27:08,159

because your hand is up oh sorry i have

1631

01:27:08,159 --> 01:27:08,960

i forgot to

1632

01:27:08,960 --> 01:27:11,360

put my hand don't worry don't worry just

1633

01:27:11,360 --> 01:27:13,520

checking that i'm not missing you out

1634

01:27:13,520 --> 01:27:16,960

okay so thank you for staying uh it's 5

1635

01:27:16,960 --> 01:27:19,679

54 so i've exceeded my time thank you

1636

01:27:19,679 --> 01:27:20,560

very much

1637

01:27:20,560 --> 01:27:23,679

i will debrief uh investors

1638

01:27:23,679 --> 01:27:27,440

and regulators at our next

1639

01:27:27,440 --> 01:27:30,159

class which because it's chinese new

1640

01:27:30,159 --> 01:27:32,639

year will be next week

1641

01:27:32,639 --> 01:27:36,080

so kong hey fa choi happy

1642

01:27:36,080 --> 01:27:39,679

chinese new year happy year of the bowl

1643

01:27:39,679 --> 01:27:42,960

uh don't eat too many sweets

1644

01:27:42,960 --> 01:27:46,080

be careful be safe and i will see you

1645

01:27:46,080 --> 01:27:50,080

a long time from now gonci fatsai

1646

01:27:50,080 --> 01:27:53,980

kung hey fa choi happy chinese new year

1647

01:27:53,980 --> 01:27:57,210

[Music]

1648

01:27:58,840 --> 01:28:01,840

bye

1649

01:28:12,040 --> 01:28:15,040

uh

==end 0208==

==start 0219==

1

00:00:28,840 --> 00:00:31,840

my

2

00:03:44,840 --> 00:03:47,519

uh

3

00:03:47,519 --> 00:03:52,000

wow hello everybody good afternoon

4

00:03:52,000 --> 00:03:55,439

i've missed you it's been a long

5

00:03:55,439 --> 00:03:58,840

time since i last saw you hi is

6

00:03:58,840 --> 00:04:01,760

everybody

7

00:04:01,760 --> 00:04:05,519

good okay i'd like to see a few more of

8

00:04:05,519 --> 00:04:06,080

those

9

00:04:06,080 --> 00:04:09,439

beautiful and handsome faces rather than

10

00:04:09,439 --> 00:04:14,799

a black screen

11

00:04:14,799 --> 00:04:19,040

that you are so nice to see you again

12

00:04:19,040 --> 00:04:21,519

hello

13

00:04:22,800 --> 00:04:26,479

okay wonderful

14

00:04:27,120 --> 00:04:29,280

in some cases i'm seeing just a bit of

15

00:04:29,280 --> 00:04:30,639

hair

16

00:04:30,639 --> 00:04:34,080

this is funny okay la

17

00:04:34,080 --> 00:04:38,240

good to have you back so

18

00:04:38,240 --> 00:04:41,040

when we left off uh we went deep

19

00:04:41,040 --> 00:04:42,080

briefing you remember

20

00:04:42,080 --> 00:04:45,840

we had brainstorming session on

21

00:04:45,840 --> 00:04:49,280

some of you were issuers some of you

22

00:04:49,280 --> 00:04:50,639

were investors

23

00:04:50,639 --> 00:04:53,520

and some of you were regulators so i'm

24

00:04:53,520 --> 00:04:54,320

hoping

25

00:04:54,320 --> 00:04:57,520

that you will remember what we talked

26

00:04:57,520 --> 00:05:00,160

about and you will have taken notes

27

00:05:00,160 --> 00:05:02,639

uh because we only had time to debrief

28

00:05:02,639 --> 00:05:03,360

one group

29

00:05:03,360 --> 00:05:07,360

which was the issuers group and i took

30

00:05:07,360 --> 00:05:10,440

notes as you were speaking of the

31

00:05:10,440 --> 00:05:11,680

objectives

32

00:05:11,680 --> 00:05:15,280

and incentives of issuers so

33

00:05:15,280 --> 00:05:19,039

just to refresh your memories as a cfo

34

00:05:19,039 --> 00:05:21,120

of a large group

35

00:05:21,120 --> 00:05:23,759

you are interested in raising capital

36

00:05:23,759 --> 00:05:25,039

possibly going

37

00:05:25,039 --> 00:05:29,759

public you want to avoid dilution

38

00:05:29,759 --> 00:05:31,520

increase the power of the company

39

00:05:31,520 --> 00:05:34,240

maintain the trust of investors

40

00:05:34,240 --> 00:05:37,440

grow the company grow the liquidity

41

00:05:37,440 --> 00:05:40,320

attract positive awareness publicity and

42

00:05:40,320 --> 00:05:42,800

brand and human capital

43

00:05:42,800 --> 00:05:45,039

finding new ways to acquire retained

44

00:05:45,039 --> 00:05:46,639

employees

45

00:05:46,639 --> 00:05:50,000

a lower cost of capital increasing

46

00:05:50,000 --> 00:05:51,440

shareholder competence

47

00:05:51,440 --> 00:05:55,199

attractive investors and customers so we

48

00:05:55,199 --> 00:05:57,919

covered a lot of ground but one of the

49

00:05:57,919 --> 00:05:59,919

things we also talked about

50

00:05:59,919 --> 00:06:04,160

was when you are negotiating with

51

00:06:04,160 --> 00:06:08,080

a company and a cfo remember that

52

00:06:08,080 --> 00:06:10,639

you have the interest and the incentives

53

00:06:10,639 --> 00:06:12,240

for the company

54

00:06:12,240 --> 00:06:14,720

but not forget the person you're

55

00:06:14,720 --> 00:06:16,960

negotiating with because they might have

56

00:06:16,960 --> 00:06:18,319

their own

57

00:06:18,319 --> 00:06:21,600

incentives and objectives so

58

00:06:21,600 --> 00:06:24,960

for a cfo or a ceo this might actually

59

00:06:24,960 --> 00:06:28,880

include uh you know the ability to earn

60

00:06:28,880 --> 00:06:31,360

a good bonus stock options and stuff

61

00:06:31,360 --> 00:06:32,639

like that

62

00:06:32,639 --> 00:06:35,600

by making decisions that will increase

63

00:06:35,600 --> 00:06:36,800

the stock price but

64

00:06:36,800 --> 00:06:39,520

might have negative consequences in

65

00:06:39,520 --> 00:06:41,680

terms of the long-term viability of the

66

00:06:41,680 --> 00:06:44,160

business

67

00:06:44,160 --> 00:06:47,440

so hopefully

68

00:06:47,440 --> 00:06:51,440

there's some of you who were in the

69

00:06:51,440 --> 00:06:52,720

investor group

70

00:06:52,720 --> 00:06:55,199

and who are going to give me some

71

00:06:55,199 --> 00:06:57,919

feedback hopefully you took some notes

72

00:06:57,919 --> 00:07:01,280

uh as an investor so remember you would

73

00:07:01,280 --> 00:07:02,160

the role play

74

00:07:02,160 --> 00:07:04,479

was you were the chief investment

75

00:07:04,479 --> 00:07:05,759

officer

76

00:07:05,759 --> 00:07:09,680

of a large institutional investors

77

00:07:09,680 --> 00:07:13,280

and the question was what are your

78

00:07:13,280 --> 00:07:15,680

objectives what are your incentives

79

00:07:15,680 --> 00:07:18,639

can some of you who were in that second

80

00:07:18,639 --> 00:07:19,520

group

81

00:07:19,520 --> 00:07:22,720

uh give me some feedback

82

00:07:22,720 --> 00:07:25,680

so you can raise it yeah yeah oh okay

83

00:07:25,680 --> 00:07:26,479

visit chai

84

00:07:26,479 --> 00:07:29,199

go ahead go ahead um yes so i think that

85

00:07:29,199 --> 00:07:30,160

some of the

86

00:07:30,160 --> 00:07:32,560

uh the objectives would be to make money

87

00:07:32,560 --> 00:07:33,520

from investment

88

00:07:33,520 --> 00:07:36,800

that's probably the most important one

89

00:07:36,800 --> 00:07:40,240

and um also to support the

90

00:07:40,240 --> 00:07:43,440

development of different sectors as well

91

00:07:43,440 --> 00:07:46,479

and to um secure

92

00:07:46,479 --> 00:07:49,840

their financial security in the future

93

00:07:49,840 --> 00:07:53,199

who is financial security um of

94

00:07:53,199 --> 00:07:56,960

the investors of yeah of their own

95

00:07:56,960 --> 00:08:01,199

as well as the companies as well

96

00:08:02,080 --> 00:08:04,000

okay that's great when you said support

97

00:08:04,000 --> 00:08:05,759

development of different sectors what

98

00:08:05,759 --> 00:08:08,319

did you have in mind do you remember

99

00:08:08,319 --> 00:08:11,520

um i i thought about you know like

100

00:08:11,520 --> 00:08:12,000

different

101

00:08:12,000 --> 00:08:15,280

um for example um the environmental

102

00:08:15,280 --> 00:08:18,879

um development like maybe if if they

103

00:08:18,879 --> 00:08:21,520

really uh support you know solar energy

104

00:08:21,520 --> 00:08:23,520

or renewable energy they would

105

00:08:23,520 --> 00:08:27,039

uh invest in them into you know further

106

00:08:27,039 --> 00:08:31,599

that okay great

107

00:08:31,599 --> 00:08:33,599

anybody else in that group who wants to

108

00:08:33,599 --> 00:08:35,679

give me feedback

109

00:08:35,679 --> 00:08:40,559

uh yes professor i can i can go ahead

110

00:08:41,760 --> 00:08:44,640

so one was i think maintaining liquidity

111

00:08:44,640 --> 00:08:46,560

of the investors they want to make sure

112

00:08:46,560 --> 00:08:47,440

they have

113

00:08:47,440 --> 00:08:50,480

cash flow yes and

114

00:08:50,480 --> 00:08:52,160

they want to minimize their risk too

115

00:08:52,160 --> 00:08:54,640

with their investments so i guess

116

00:08:54,640 --> 00:08:57,040

uh that ties into financial security as

117

00:08:57,040 --> 00:08:59,200

well

118

00:08:59,200 --> 00:09:02,640

then if we talk about uh banks and uh

119

00:09:02,640 --> 00:09:06,240

even the sovereigns and quasi sovereigns

120

00:09:06,240 --> 00:09:07,519

if we talk about like suppose the

121

00:09:07,519 --> 00:09:09,360

federal reserve of

122

00:09:09,360 --> 00:09:11,120

uh us they want to maintain the

123

00:09:11,120 --> 00:09:12,720

stability of the market and

124

00:09:12,720 --> 00:09:16,800

ensure growth investors

125

00:09:16,800 --> 00:09:20,560

uh i think you had in included

126

00:09:20,560 --> 00:09:24,080

sovereigns and quasi sovereignty as yeah

127

00:09:24,080 --> 00:09:27,680

okay okay good point point so from their

128

00:09:27,680 --> 00:09:28,480

perspective

129

00:09:28,480 --> 00:09:30,720

uh like the federal reserve uh like

130

00:09:30,720 --> 00:09:31,839

jerome powell he

131

00:09:31,839 --> 00:09:34,480

pumped money into the economy to make

132

00:09:34,480 --> 00:09:37,519

sure it uh it maintains stability so i

133

00:09:37,519 --> 00:09:37,920

guess

134

00:09:37,920 --> 00:09:40,480

in in a sense they're also investing uh

135

00:09:40,480 --> 00:09:42,160

in the economy i'm not sure if

136

00:09:42,160 --> 00:09:45,440

that that thought process is correct but

137

00:09:45,440 --> 00:09:48,800

that was one uh idea

138

00:09:48,800 --> 00:09:50,959

then the other was also protecting

139

00:09:50,959 --> 00:09:51,920

against

140

00:09:51,920 --> 00:09:54,080

inflation uh so they want to beat

141

00:09:54,080 --> 00:09:55,760

inflation and even

142

00:09:55,760 --> 00:09:59,040

uh market indexes like the s p 500 if

143

00:09:59,040 --> 00:10:00,720

you want to beat that then you have to

144

00:10:00,720 --> 00:10:01,600

ensure growth

145

00:10:01,600 --> 00:10:04,320

so growth of investments that was again

146

00:10:04,320 --> 00:10:06,240

making money

147

00:10:06,240 --> 00:10:09,680

and minimizing tax also so investing in

148

00:10:09,680 --> 00:10:10,720

a way

149

00:10:10,720 --> 00:10:13,920

that would uh reduce your capital gains

150

00:10:13,920 --> 00:10:15,200

tax or

151

00:10:15,200 --> 00:10:18,000

in that sense so investing along those

152

00:10:18,000 --> 00:10:18,880

lines

153

00:10:18,880 --> 00:10:22,079

and uh some people also resort on

154

00:10:22,079 --> 00:10:23,120

dividend base

155

00:10:23,120 --> 00:10:25,839

uh income so so it could also be a

156

00:10:25,839 --> 00:10:27,120

source of income

157

00:10:27,120 --> 00:10:30,320

uh for certain people and uh

158

00:10:30,320 --> 00:10:33,519

fund managers will definitely

159

00:10:33,519 --> 00:10:36,959

allow for instruments that uh that

160

00:10:36,959 --> 00:10:40,240

that enforce trust of other investors to

161

00:10:40,240 --> 00:10:41,920

invest in their funds

162

00:10:41,920 --> 00:10:45,440

so so they need to also ensure

163

00:10:45,440 --> 00:10:48,640

the trust of their investors and the

164

00:10:48,640 --> 00:10:50,960

reliability of their fund

165

00:10:50,960 --> 00:10:52,320

[Music]

166

00:10:52,320 --> 00:10:54,800

i think uh that was most of the

167

00:10:54,800 --> 00:10:55,920

professor

168

00:10:55,920 --> 00:10:59,120

this is great great thanks

169

00:10:59,120 --> 00:11:02,320

ariane and fizzy chai

170

00:11:02,320 --> 00:11:04,399

and yeah anybody else in that group

171

00:11:04,399 --> 00:11:07,920

wants to add anything

172

00:11:08,720 --> 00:11:11,120

so you can also raise your hand or type

173

00:11:11,120 --> 00:11:13,200

things in the chat whichever way you

174

00:11:13,200 --> 00:11:15,600

prefer

175

00:11:15,600 --> 00:11:18,079

but that's really really good i really

176

00:11:18,079 --> 00:11:18,959

like that

177

00:11:18,959 --> 00:11:22,480

you brought up some of the key uh

178

00:11:22,480 --> 00:11:26,160

you know the three key words actually

179

00:11:26,160 --> 00:11:29,839

so return

180

00:11:32,399 --> 00:11:35,839

so in finance we have three

181

00:11:35,839 --> 00:11:39,760

keywords return

182

00:11:40,839 --> 00:11:42,640

risk

183

00:11:42,640 --> 00:11:45,600

and liquidity

184

00:11:45,920 --> 00:11:48,720

all right so these are these are key

185

00:11:48,720 --> 00:11:50,639

words that we need to

186

00:11:50,639 --> 00:11:54,160

um always take into consideration and i

187

00:11:54,160 --> 00:11:54,959

realize i've

188

00:11:54,959 --> 00:11:58,160

got one thing here

189

00:11:58,160 --> 00:12:01,760

okay i'll move it that on the other side

190

00:12:01,760 --> 00:12:03,839

so we can all see it

191

00:12:03,839 --> 00:12:08,079

there we go okay so

192

00:12:08,079 --> 00:12:11,200

uh great debrief on that point so look

193

00:12:11,200 --> 00:12:11,600

at

194

00:12:11,600 --> 00:12:14,959

three key words okay return

195

00:12:14,959 --> 00:12:18,000

risk and liquidity when we talk about

196

00:12:18,000 --> 00:12:20,160

finance we will keep coming back on

197

00:12:20,160 --> 00:12:20,959

those words

198

00:12:20,959 --> 00:12:24,480

so very very critical fundamental

199

00:12:24,480 --> 00:12:27,440

three words and those three words

200

00:12:27,440 --> 00:12:28,399

concepts

201

00:12:28,399 --> 00:12:31,440

have relationships with each other all

202

00:12:31,440 --> 00:12:32,560

right so

203

00:12:32,560 --> 00:12:37,920

broadly speaking the more risk you have

204

00:12:37,920 --> 00:12:41,760

the more return you should expect

205

00:12:41,760 --> 00:12:44,320

the more liquid the investment generally

206

00:12:44,320 --> 00:12:45,920

the lower the return

207

00:12:45,920 --> 00:12:47,680

okay there are some relationship with

208

00:12:47,680 --> 00:12:49,920

this things not always but broadly

209

00:12:49,920 --> 00:12:52,079

speaking there are some relationships so

210

00:12:52,079 --> 00:12:52,639

this is

211

00:12:52,639 --> 00:12:56,800

very good also don't forget that as

212

00:12:56,800 --> 00:13:00,800

a ceo cio chief investment officer

213

00:13:00,800 --> 00:13:04,399

you yourself may have an agenda okay

214

00:13:04,399 --> 00:13:07,279

so we will talk at length about fund

215

00:13:07,279 --> 00:13:08,320

management

216

00:13:08,320 --> 00:13:12,160

uh mutual funds etc and the challenges

217

00:13:12,160 --> 00:13:15,600

that are involved in managing funds on

218

00:13:15,600 --> 00:13:19,440

other people's money uh and one of those

219

00:13:19,440 --> 00:13:22,880

is how do you measure return

220

00:13:22,880 --> 00:13:26,160

and performance and for many fund

221

00:13:26,160 --> 00:13:26,880

managers

222

00:13:26,880 --> 00:13:29,680

it's performance measured on a relative

223

00:13:29,680 --> 00:13:30,880

basis that is

224

00:13:30,880 --> 00:13:33,680

by reference to something generally an

225

00:13:33,680 --> 00:13:35,040

index

226

00:13:35,040 --> 00:13:38,399

however for the end investor as you said

227

00:13:38,399 --> 00:13:41,680

you know the ultimate investors you

228

00:13:41,680 --> 00:13:44,639

want absolute returns in other words you

229

00:13:44,639 --> 00:13:46,240

don't want to lose money

230

00:13:46,240 --> 00:13:49,279

okay so that creates a very inherent

231

00:13:49,279 --> 00:13:51,839

conflict of interest between portfolio

232

00:13:51,839 --> 00:13:53,040

managers who are

233

00:13:53,040 --> 00:13:56,079

measured on a relative basis and the

234

00:13:56,079 --> 00:13:58,000

ultimate investors who are looking to

235

00:13:58,000 --> 00:13:58,720

make money

236

00:13:58,720 --> 00:14:01,440

and we'll talk a lot about this when we

237

00:14:01,440 --> 00:14:02,000

move

238

00:14:02,000 --> 00:14:06,000

to uh institutional investors discussion

239

00:14:06,000 --> 00:14:07,600

before that let's talk about my

240

00:14:07,600 --> 00:14:10,720

regulators so regulators who wants to

241

00:14:10,720 --> 00:14:13,440

debrief me

242

00:14:14,079 --> 00:14:17,440

yeah so i'll do it so the first thing is

243

00:14:17,440 --> 00:14:18,800

that we have to

244

00:14:18,800 --> 00:14:20,880

we would like to establish stability in

245

00:14:20,880 --> 00:14:22,240

the market

246

00:14:22,240 --> 00:14:25,839

as well as build up trust with both the

247

00:14:25,839 --> 00:14:29,040

buyers and the sellers and we'd also

248

00:14:29,040 --> 00:14:30,800

like to build up the attractiveness of

249

00:14:30,800 --> 00:14:31,440

the market

250

00:14:31,440 --> 00:14:34,880

for potential

251

00:14:34,880 --> 00:14:38,480

investors and customers as well as

252

00:14:38,480 --> 00:14:42,079

um we'd like to make you know

253

00:14:42,079 --> 00:14:44,800

transparency is a focus when it comes to

254

00:14:44,800 --> 00:14:47,120

our policies as well as the

255

00:14:47,120 --> 00:14:50,000

strict enforcement of those policies and

256

00:14:50,000 --> 00:14:50,720

our

257

00:14:50,720 --> 00:14:53,760

main goal is to balance the interest of

258

00:14:53,760 --> 00:14:54,399

both the

259

00:14:54,399 --> 00:14:59,839

buyers and sellers yeah that's all i got

260

00:15:01,120 --> 00:15:04,560

that's really good shiraz thank you

261

00:15:04,560 --> 00:15:07,760

anybody else

262

00:15:07,760 --> 00:15:10,839

wants to tell me about what this group

263

00:15:10,839 --> 00:15:13,839

discussed

264

00:15:16,880 --> 00:15:22,480

no any raised hands any contributions

265

00:15:22,959 --> 00:15:26,079

okay so if not then we will

266

00:15:26,079 --> 00:15:28,480

discuss a lot of this when we go to the

267

00:15:28,480 --> 00:15:30,399

last part of the course which is on on

268

00:15:30,399 --> 00:15:31,759

regulation

269

00:15:31,759 --> 00:15:34,480

but at this stage one very important

270

00:15:34,480 --> 00:15:35,920

thing to remember

271

00:15:35,920 --> 00:15:39,519

is broadly speaking the

272

00:15:39,519 --> 00:15:42,800

regulators financial regulators

273

00:15:42,800 --> 00:15:45,839

tend to have one overarching

274

00:15:45,839 --> 00:15:50,560

objective and that objective

275

00:15:50,560 --> 00:15:54,320

is to protect the little guy

276

00:15:54,320 --> 00:15:56,560

so i want you to come out of this class

277

00:15:56,560 --> 00:15:57,680

thinking about

278

00:15:57,680 --> 00:16:01,279

you know the knight with the shining

279

00:16:01,279 --> 00:16:04,720

armor racing to rescue

280

00:16:04,720 --> 00:16:07,519

the widow and offering that's your

281

00:16:07,519 --> 00:16:09,120

regulator

282

00:16:09,120 --> 00:16:13,360

so that's the mission of the regulator

283

00:16:13,360 --> 00:16:16,399

they are charged with protecting the

284

00:16:16,399 --> 00:16:17,120

little guy

285

00:16:17,120 --> 00:16:20,240

the widows and the orphans the

286

00:16:20,240 --> 00:16:23,440

retail investors and

287

00:16:23,440 --> 00:16:26,800

the reason for that is the little guys

288

00:16:26,800 --> 00:16:30,000

tends to have less information than the

289

00:16:30,000 --> 00:16:32,000

big institutions

290

00:16:32,000 --> 00:16:34,240

so a large part of the work of the

291

00:16:34,240 --> 00:16:36,800

regulators will be to make sure

292

00:16:36,800 --> 00:16:41,360

that the information is available

293

00:16:41,360 --> 00:16:44,880

to investors to make

294

00:16:44,880 --> 00:16:48,880

informed decisions okay so we will talk

295

00:16:48,880 --> 00:16:52,240

at length about the objectives of the

296

00:16:52,240 --> 00:16:53,199

regulators

297

00:16:53,199 --> 00:16:56,399

all of what you've mentioned is good and

298

00:16:56,399 --> 00:16:57,600

correct

299

00:16:57,600 --> 00:17:01,360

but the primary objective is to protect

300

00:17:01,360 --> 00:17:04,959

consumers the little guys okay

301

00:17:04,959 --> 00:17:09,119

the assumption behind this

302

00:17:09,119 --> 00:17:12,160

is that institutionals

303

00:17:12,160 --> 00:17:15,280

they are professionals they know what

304

00:17:15,280 --> 00:17:17,039

they're doing

305

00:17:17,039 --> 00:17:20,000

okay so they don't need as much

306

00:17:20,000 --> 00:17:21,119

protection

307

00:17:21,119 --> 00:17:24,240

as the little guys

308

00:17:24,240 --> 00:17:27,359

okay so

309

00:17:27,359 --> 00:17:30,960

that is and also you know there's one

310

00:17:30,960 --> 00:17:31,760

point here

311

00:17:31,760 --> 00:17:34,480

that's uh very important so i'll just

312

00:17:34,480 --> 00:17:36,880

jot that down

313

00:17:36,880 --> 00:17:40,799

protect consumers

314

00:17:41,440 --> 00:17:47,840

by which we mean retail investors

315

00:17:50,799 --> 00:17:55,360

and the other thing that we need

316

00:17:55,360 --> 00:17:58,880

to talk about here is who

317

00:17:58,880 --> 00:18:02,080

are the regulators so

318

00:18:02,080 --> 00:18:05,840

in terms of their profile

319

00:18:05,840 --> 00:18:10,720

who is typically acting as regulators

320

00:18:10,720 --> 00:18:12,640

anybody want to jump in yes roman go

321

00:18:12,640 --> 00:18:14,000

ahead um

322

00:18:14,000 --> 00:18:16,559

governments or like government appointed

323

00:18:16,559 --> 00:18:19,280

institutions like the sec for example

324

00:18:19,280 --> 00:18:22,080

right so in terms of the individuals

325

00:18:22,080 --> 00:18:23,919

involved

326

00:18:23,919 --> 00:18:27,360

what kind of professionals are insurance

327

00:18:27,360 --> 00:18:30,559

in regulators

328

00:18:31,840 --> 00:18:35,120

auditors auditors

329

00:18:35,120 --> 00:18:37,039

now i'm thinking more in terms of the

330

00:18:37,039 --> 00:18:38,880

kind of career

331

00:18:38,880 --> 00:18:42,480

that these people come from law

332

00:18:42,480 --> 00:18:45,760

right it could be law right

333

00:18:45,760 --> 00:18:48,240

but the point i'm trying to make if you

334

00:18:48,240 --> 00:18:49,200

think about

335

00:18:49,200 --> 00:18:51,600

as roman said a lot of the regulators

336

00:18:51,600 --> 00:18:52,559

are actually

337

00:18:52,559 --> 00:18:56,320

government institutions right so

338

00:18:56,320 --> 00:18:59,799

it comes from that that a lot of the

339

00:18:59,799 --> 00:19:03,120

regulators tend to be civil

340

00:19:03,120 --> 00:19:06,480

servants okay they

341

00:19:06,480 --> 00:19:09,120

are part of the government body part of

342

00:19:09,120 --> 00:19:10,480

the administration

343

00:19:10,480 --> 00:19:13,760

in many cases not always because

344

00:19:13,760 --> 00:19:16,160

we will talk about the fact that

345

00:19:16,160 --> 00:19:17,039

particularly

346

00:19:17,039 --> 00:19:20,320

in the u.s you have what we call the

347

00:19:20,320 --> 00:19:22,480

revolving door

348

00:19:22,480 --> 00:19:26,640

between regulators and the industry

349

00:19:26,640 --> 00:19:29,039

right so the point i'm trying to make

350

00:19:29,039 --> 00:19:29,919

here if you

351

00:19:29,919 --> 00:19:32,559

think about who are you regulators the

352

00:19:32,559 --> 00:19:34,880

individuals themselves

353

00:19:34,880 --> 00:19:39,679

very often they employ bureaucrats civil

354

00:19:39,679 --> 00:19:40,559

servants

355

00:19:40,559 --> 00:19:44,160

right and as a result these people are

356

00:19:44,160 --> 00:19:46,480

not paid a lot of money

357

00:19:46,480 --> 00:19:48,720

they could make a lot more money if they

358

00:19:48,720 --> 00:19:52,000

were working for the private sector

359

00:19:52,000 --> 00:19:55,440

and the second point is as regulators

360

00:19:55,440 --> 00:19:57,360

are part of government bodies

361

00:19:57,360 --> 00:20:01,520

in many cases the budget they have

362

00:20:01,520 --> 00:20:05,600

is not huge right so think about that

363

00:20:05,600 --> 00:20:06,720

right

364

00:20:06,720 --> 00:20:10,080

they are regulating very

365

00:20:10,080 --> 00:20:15,200

big powerful rich financial institutions

366

00:20:15,200 --> 00:20:18,880

who have access to money

367

00:20:18,880 --> 00:20:22,080

skills technology

368

00:20:22,080 --> 00:20:26,000

so it is a hard job to be a regulator

369

00:20:26,000 --> 00:20:29,760

because you are trying to keep up

370

00:20:29,760 --> 00:20:33,360

with developments in the market with

371

00:20:33,360 --> 00:20:36,919

not a lot of money maybe not a lot of

372

00:20:36,919 --> 00:20:38,480

experience

373

00:20:38,480 --> 00:20:41,039

and your career prospects may not be all

374

00:20:41,039 --> 00:20:43,200

that great

375

00:20:43,200 --> 00:20:46,880

okay so one of the challenges of

376

00:20:46,880 --> 00:20:50,080

regulators is you know how do i

377

00:20:50,080 --> 00:20:53,120

attract the right people how do i have

378

00:20:53,120 --> 00:20:57,120

enough budget to investigate everything

379

00:20:57,120 --> 00:20:59,919

right how do i keep up with technology

380

00:20:59,919 --> 00:21:02,240

and financial innovation

381

00:21:02,240 --> 00:21:08,320

so we often call it catch me if you can

382

00:21:11,919 --> 00:21:15,600

this is a big challenge of regulators is

383

00:21:15,600 --> 00:21:19,280

a lot of them are you know probably

384

00:21:19,280 --> 00:21:22,720

not very well equipped to catch

385

00:21:22,720 --> 00:21:26,000

these guys the industry tends to be

386

00:21:26,000 --> 00:21:27,280

ahead of the game

387

00:21:27,280 --> 00:21:30,880

okay so this is a a bit of an issue

388

00:21:30,880 --> 00:21:32,960

and then you have to think again my

389

00:21:32,960 --> 00:21:34,640

recurring theme is

390

00:21:34,640 --> 00:21:37,600

the person you're dealing with or the

391

00:21:37,600 --> 00:21:39,200

regulator you're dealing with

392

00:21:39,200 --> 00:21:41,120

what is their objective what's their

393

00:21:41,120 --> 00:21:42,320

career

394

00:21:42,320 --> 00:21:45,840

what's their prospect so in a market

395

00:21:45,840 --> 00:21:48,320

like the united states where regulators

396

00:21:48,320 --> 00:21:51,760

often come from the industry

397

00:21:51,760 --> 00:21:55,200

and then eventually after serving for a

398

00:21:55,200 --> 00:21:57,679

number of years want to return to the

399

00:21:57,679 --> 00:21:59,760

industry

400

00:21:59,760 --> 00:22:03,280

that creates what

401

00:22:04,640 --> 00:22:08,720

the yes roman creates an incentive for

402

00:22:08,720 --> 00:22:10,320

them not to regulate their future

403

00:22:10,320 --> 00:22:12,880

employers that much that's right it's a

404

00:22:12,880 --> 00:22:13,760

potential

405

00:22:13,760 --> 00:22:17,120

conflict of interest right so you always

406

00:22:17,120 --> 00:22:18,880

have this thing at the back of your mind

407

00:22:18,880 --> 00:22:19,600

you need to

408

00:22:19,600 --> 00:22:23,559

be aware that you are dealing with an

409

00:22:23,559 --> 00:22:26,159

institution but you're also dealing with

410

00:22:26,159 --> 00:22:27,600

people

411

00:22:27,600 --> 00:22:30,640

and when you're negotiating you need to

412

00:22:30,640 --> 00:22:31,679

think about that

413

00:22:31,679 --> 00:22:34,000

so what is these people's objectives

414

00:22:34,000 --> 00:22:36,159

what are their incentives what are they

415

00:22:36,159 --> 00:22:39,600

measured on okay not to say

416

00:22:39,600 --> 00:22:42,960

that you know regulators are you know

417

00:22:42,960 --> 00:22:45,280

backwards and ignorant or anything like

418

00:22:45,280 --> 00:22:48,000

that but you have to be aware of the

419

00:22:48,000 --> 00:22:50,159

the environment in which they operate

420

00:22:50,159 --> 00:22:52,240

and you know what is

421

00:22:52,240 --> 00:22:57,120

what is the reality of that rule

422

00:22:57,120 --> 00:23:00,320

okay so we've debriefed

423

00:23:00,320 --> 00:23:03,600

all three big categories uh

424

00:23:03,600 --> 00:23:06,559

does anybody have anything else that

425

00:23:06,559 --> 00:23:08,080

you'd like to add

426

00:23:08,080 --> 00:23:10,880

complement

427

00:23:12,240 --> 00:23:16,320

no all right so

428

00:23:16,320 --> 00:23:18,799

with this we're going to be moving on to

429

00:23:18,799 --> 00:23:20,400

the last part which is

430

00:23:20,400 --> 00:23:23,120

how does it all work but before i do

431

00:23:23,120 --> 00:23:25,039

that i wanted to share

432

00:23:25,039 --> 00:23:28,400

a few tidbits from

433

00:23:28,400 --> 00:23:32,559

the press i so the first thing

434

00:23:32,559 --> 00:23:35,760

remember i gave you some warnings about

435

00:23:35,760 --> 00:23:38,640

what you put on social media

436

00:23:38,640 --> 00:23:40,799

all right so this is an article from

437

00:23:40,799 --> 00:23:42,240

bloomberg back

438

00:23:42,240 --> 00:23:46,480

in january which talks about

439

00:23:46,480 --> 00:23:49,360

how you must be careful what you're

440

00:23:49,360 --> 00:23:50,080

putting

441

00:23:50,080 --> 00:23:52,480

on social media particularly when you're

442

00:23:52,480 --> 00:23:54,799

employed by a company

443

00:23:54,799 --> 00:23:57,120

if you want to keep your job you have to

444

00:23:57,120 --> 00:23:58,720

be very careful

445

00:23:58,720 --> 00:24:01,279

what you put out there so the the the

446

00:24:01,279 --> 00:24:02,080

article

447

00:24:02,080 --> 00:24:05,200

talks about some comments

448

00:24:05,200 --> 00:24:08,960

that one guy had put

449

00:24:08,960 --> 00:24:12,320

on twitter about biden and

450

00:24:12,320 --> 00:24:16,559

lynching mike pence

451

00:24:16,559 --> 00:24:20,080

which uh is a really bad joke

452

00:24:20,080 --> 00:24:23,279

but uh it was picked up and then

453

00:24:23,279 --> 00:24:26,880

the guy was fired okay so

454

00:24:26,880 --> 00:24:30,240

you have to be very careful uh social

455

00:24:30,240 --> 00:24:31,840

media can be

456

00:24:31,840 --> 00:24:34,960

quite dangerous if you're relying on a

457

00:24:34,960 --> 00:24:36,080

paycheck

458

00:24:36,080 --> 00:24:39,760

so again this is to warn you

459

00:24:39,760 --> 00:24:42,320

to be very careful what you put out

460

00:24:42,320 --> 00:24:43,440

there

461

00:24:43,440 --> 00:24:46,720

look at it through the eyes of an

462

00:24:46,720 --> 00:24:51,039

employer and if you're not yet employed

463

00:24:51,039 --> 00:24:56,159

think about what a prospective employer

464

00:24:56,159 --> 00:24:59,440

might find if they're digging into your

465

00:24:59,440 --> 00:25:00,000

social

466

00:25:00,000 --> 00:25:03,440

media profiles okay

467

00:25:03,440 --> 00:25:05,679

so the second thing i wanted to share

468

00:25:05,679 --> 00:25:07,720

with you remember when we

469

00:25:07,720 --> 00:25:11,120

brainstormed about what are the

470

00:25:11,120 --> 00:25:13,679

ingredients we need for financial

471

00:25:13,679 --> 00:25:15,200

markets to work and

472

00:25:15,200 --> 00:25:17,880

operate and we talked about

473

00:25:17,880 --> 00:25:19,760

infrastructure

474

00:25:19,760 --> 00:25:22,960

well there's been um very interesting

475

00:25:22,960 --> 00:25:25,120

developments

476

00:25:25,120 --> 00:25:28,720

you probably know that in the united

477

00:25:28,720 --> 00:25:30,080

states there is

478

00:25:30,080 --> 00:25:33,600

a huge snowstorm

479

00:25:33,600 --> 00:25:37,039

and that snowstorm has created

480

00:25:37,039 --> 00:25:41,120

huge problems with the power grid in

481

00:25:41,120 --> 00:25:44,320

texas so the power grid in texas went

482

00:25:44,320 --> 00:25:45,600

down

483

00:25:45,600 --> 00:25:48,720

and there are like a lot of people who

484

00:25:48,720 --> 00:25:50,080

have

485

00:25:50,080 --> 00:25:52,480

no power so remember we talked about

486

00:25:52,480 --> 00:25:53,440

blackouts

487

00:25:53,440 --> 00:25:56,640

in asia well guess what it happened in

488

00:25:56,640 --> 00:25:57,279

the us

489

00:25:57,279 --> 00:26:00,400

right after we talked about it um and

490

00:26:00,400 --> 00:26:01,760

and this is a really

491

00:26:01,760 --> 00:26:05,039

interesting situation because

492

00:26:05,039 --> 00:26:09,440

it addresses the problem of how do you

493

00:26:09,440 --> 00:26:12,559

plan for a resilient

494

00:26:12,559 --> 00:26:15,520

infrastructure

495

00:26:15,919 --> 00:26:19,279

given all the uncertainty related to

496

00:26:19,279 --> 00:26:21,039

climate change

497

00:26:21,039 --> 00:26:23,760

and one of the impacts of climate change

498

00:26:23,760 --> 00:26:24,080

is

499

00:26:24,080 --> 00:26:27,520

that it creates unpredictable weather

500

00:26:27,520 --> 00:26:28,880

events

501

00:26:28,880 --> 00:26:31,279

i have friends in texas they hadn't seen

502

00:26:31,279 --> 00:26:33,039

snow

503

00:26:33,039 --> 00:26:36,240

in all their lives so you know and

504

00:26:36,240 --> 00:26:39,679

and the temperature was below freezing

505

00:26:39,679 --> 00:26:44,000

i mean imagine what it is below freezing

506

00:26:44,000 --> 00:26:47,600

texas is designed for hot weather

507

00:26:47,600 --> 00:26:51,200

their whole pipes water pipes

508

00:26:51,200 --> 00:26:54,000

are not insulated like in hong kong

509

00:26:54,000 --> 00:26:56,080

imagine if we had below freezing in hong

510

00:26:56,080 --> 00:26:58,320

kong

511

00:26:58,960 --> 00:27:01,120

imagine what would that be below

512

00:27:01,120 --> 00:27:02,159

freezing

513

00:27:02,159 --> 00:27:04,400

i mean mongolian temperature in hong

514

00:27:04,400 --> 00:27:05,440

kong

515

00:27:05,440 --> 00:27:08,559

all the water pipes froze and then

516

00:27:08,559 --> 00:27:12,240

burst so now you have no water

517

00:27:12,240 --> 00:27:14,640

so you have no electricity you have no

518

00:27:14,640 --> 00:27:15,600

water

519

00:27:15,600 --> 00:27:18,320

and you can't go out to access is

520

00:27:18,320 --> 00:27:20,480

becoming very difficult

521

00:27:20,480 --> 00:27:23,840

the point of making here is we

522

00:27:23,840 --> 00:27:27,440

need to think about this in terms of the

523

00:27:27,440 --> 00:27:28,880

risks

524

00:27:28,880 --> 00:27:32,000

that it creates for businesses for the

525

00:27:32,000 --> 00:27:33,200

environment

526

00:27:33,200 --> 00:27:36,799

and resilient infrastructure is going to

527

00:27:36,799 --> 00:27:37,399

be

528

00:27:37,399 --> 00:27:40,559

absolutely key

529

00:27:40,559 --> 00:27:43,120

in relation with that let me point out

530

00:27:43,120 --> 00:27:44,880

that some of the most developed

531

00:27:44,880 --> 00:27:46,159

countries in the world

532

00:27:46,159 --> 00:27:50,720

have very bad infrastructure

533

00:27:50,720 --> 00:27:52,880

so this is an article from the guardian

534

00:27:52,880 --> 00:27:55,919

which is one of the uk newspapers

535

00:27:55,919 --> 00:27:59,440

where it talks about some of the bridges

536

00:27:59,440 --> 00:28:02,480

in london and if you know london

537

00:28:02,480 --> 00:28:05,279

has a big river called the thanes that

538

00:28:05,279 --> 00:28:06,399

flows through it

539

00:28:06,399 --> 00:28:08,960

and in order to go from one point of

540

00:28:08,960 --> 00:28:11,039

london to another you have to go across

541

00:28:11,039 --> 00:28:11,600

a bridge

542

00:28:11,600 --> 00:28:13,760

well you know some of these bridges are

543

00:28:13,760 --> 00:28:16,159

actually falling down

544

00:28:16,159 --> 00:28:19,200

uh you know there's a childhood rhyme

545

00:28:19,200 --> 00:28:20,960

called london bridge is falling down

546

00:28:20,960 --> 00:28:21,600

while it's

547

00:28:21,600 --> 00:28:24,960

actually falling down and they haven't

548

00:28:24,960 --> 00:28:27,120

maintained this infrastructure

549

00:28:27,120 --> 00:28:30,159

and there's this article points out the

550

00:28:30,159 --> 00:28:30,640

mess

551

00:28:30,640 --> 00:28:32,720

with the hammersmith bridge which

552

00:28:32,720 --> 00:28:34,799

creates all kinds

553

00:28:34,799 --> 00:28:37,360

of problems for people living on both

554

00:28:37,360 --> 00:28:39,440

sides of the bridge that we're relying

555

00:28:39,440 --> 00:28:42,159

on being able to walk across

556

00:28:42,159 --> 00:28:45,360

and now they can't

557

00:28:45,360 --> 00:28:48,080

long story short this is all to point

558

00:28:48,080 --> 00:28:49,039

out to you

559

00:28:49,039 --> 00:28:51,440

that the things we are discussing in

560

00:28:51,440 --> 00:28:52,399

this class

561

00:28:52,399 --> 00:28:56,000

make a lot of sense and

562

00:28:56,000 --> 00:29:00,399

are actually happening as we speak

563

00:29:00,399 --> 00:29:03,760

okay so now we're going to move on to

564

00:29:03,760 --> 00:29:05,840

the part of the course where we talk

565

00:29:05,840 --> 00:29:06,720

about how it

566

00:29:06,720 --> 00:29:09,440

all works and in particular what i'm

567

00:29:09,440 --> 00:29:12,320

going to talk about now

568

00:29:12,320 --> 00:29:14,799

is how we cut and slice financial

569

00:29:14,799 --> 00:29:15,919

markets so

570

00:29:15,919 --> 00:29:19,120

this part is really about understanding

571

00:29:19,120 --> 00:29:20,279

a lot of the

572

00:29:20,279 --> 00:29:23,679

terminology a lot of the language

573

00:29:23,679 --> 00:29:27,440

that we use in markets and so that

574

00:29:27,440 --> 00:29:31,360

you can become fluent in market speak

575

00:29:31,360 --> 00:29:34,559

so we tend to cut and slice markets in

576

00:29:34,559 --> 00:29:36,000

different ways

577

00:29:36,000 --> 00:29:38,840

so we're going to talk about what is a

578

00:29:38,840 --> 00:29:40,320

primary and

579

00:29:40,320 --> 00:29:43,520

a secondary market

580

00:29:43,600 --> 00:29:46,720

then we'll talk about debt market

581

00:29:46,720 --> 00:29:50,000

and equity markets

582

00:29:50,000 --> 00:29:54,799

then we'll talk about exchanges and

583

00:29:54,799 --> 00:29:59,760

over the counter otc

584

00:30:01,120 --> 00:30:03,919

we'll talk about domestic and

585

00:30:03,919 --> 00:30:04,799

international

586

00:30:04,799 --> 00:30:08,159

markets and we'll finish

587

00:30:08,159 --> 00:30:12,640

with public and private markets

588

00:30:12,640 --> 00:30:16,559

now there are other classifications

589

00:30:16,559 --> 00:30:21,279

for example cash and derivatives market

590

00:30:21,279 --> 00:30:25,000

but i'm going to cover these five

591

00:30:25,000 --> 00:30:28,159

differentiations because otherwise we'll

592

00:30:28,159 --> 00:30:30,960

run out of time

593

00:30:31,360 --> 00:30:35,440

okay so let's start with primary

594

00:30:35,440 --> 00:30:38,799

and secondary

595

00:30:38,960 --> 00:30:42,159

so what do we mean by that the primary

596

00:30:42,159 --> 00:30:43,039

markets

597

00:30:43,039 --> 00:30:46,080

is where you raise money and

598

00:30:46,080 --> 00:30:49,200

capital okay

599

00:30:49,200 --> 00:30:52,320

the secondary market is

600

00:30:52,320 --> 00:30:55,679

like secondhand where investors

601

00:30:55,679 --> 00:30:58,720

buy and sell securities from

602

00:30:58,720 --> 00:31:01,519

each other

603

00:31:02,720 --> 00:31:05,760

so in a primary market

604

00:31:05,760 --> 00:31:09,440

a borrower or an issuer raises capital

605

00:31:09,440 --> 00:31:14,279

from investors in the secondary market

606

00:31:14,279 --> 00:31:18,720

investors buy and sell securities

607

00:31:18,720 --> 00:31:21,919

from each other

608

00:31:22,960 --> 00:31:26,080

financial markets generally but

609

00:31:26,080 --> 00:31:30,080

not always not always have a primary

610

00:31:30,080 --> 00:31:33,440

and a secondary market the easiest way

611

00:31:33,440 --> 00:31:34,240

to think about

612

00:31:34,240 --> 00:31:37,600

it is think about a car

613

00:31:37,600 --> 00:31:40,640

so you can buy your car first hand

614

00:31:40,640 --> 00:31:43,840

from the manufacturer or you can buy

615

00:31:43,840 --> 00:31:47,200

a car hand from

616

00:31:47,200 --> 00:31:50,399

a car dealer okay so when the

617

00:31:50,399 --> 00:31:52,880

manufacturer sells the car to you it's a

618

00:31:52,880 --> 00:31:54,799

primary market when you buy it

619

00:31:54,799 --> 00:31:56,799

secondhand it's a secondary market it's

620

00:31:56,799 --> 00:31:57,600

very simple

621

00:31:57,600 --> 00:32:01,279

okay nothing very complicated about that

622

00:32:01,279 --> 00:32:04,799

now when companies

623

00:32:04,799 --> 00:32:08,080

raise capital in the market

624

00:32:08,080 --> 00:32:11,919

for the first time this is called

625

00:32:11,919 --> 00:32:15,200

an initial public

626

00:32:15,200 --> 00:32:19,200

offering okay so

627

00:32:19,200 --> 00:32:21,519

that's when they raise money for the

628

00:32:21,519 --> 00:32:23,919

first

629

00:32:24,960 --> 00:32:28,960

questions i hear some noise here okay

630

00:32:28,960 --> 00:32:32,559

all right so let's see

631

00:32:32,559 --> 00:32:36,399

everything clear so far yeah

632

00:32:36,399 --> 00:32:39,919

okay well let's find out

633

00:32:39,919 --> 00:32:44,799

benson do we have prs

634

00:32:47,600 --> 00:32:51,440

and son oh yeah

635

00:32:51,440 --> 00:32:54,240

okay people log on to prs let me give

636

00:32:54,240 --> 00:32:57,840

you some time to do that

637

00:32:58,880 --> 00:33:01,200

whoops

638

00:33:07,519 --> 00:33:09,519

make sure they have time to log on

639

00:33:09,519 --> 00:33:11,840

benson

640

00:33:36,840 --> 00:33:39,840

so

641

00:34:04,840 --> 00:34:07,840

so

642

00:34:32,839 --> 00:34:35,839

so

643

00:35:14,839 --> 00:35:17,839

oh

644

00:35:44,720 --> 00:35:48,640

all right very good so

645

00:35:48,640 --> 00:35:51,599

overwhelmingly found the first answer

646

00:35:51,599 --> 00:35:52,240

correctly

647

00:35:52,240 --> 00:35:56,560

next answer next question sorry

648

00:35:56,560 --> 00:35:59,760

if you buy shares from another investor

649

00:35:59,760 --> 00:36:13,839

is it primary or secondary market

650

00:36:24,839 --> 00:36:27,839

so

651

00:36:38,839 --> 00:36:41,839

ah

652

00:36:53,839 --> 00:36:55,920

you

653

00:37:16,079 --> 00:37:19,359

very good excellent so you got it so

654

00:37:19,359 --> 00:37:22,160

it's a pretty simple concept right

655

00:37:22,160 --> 00:37:26,400

okay so let me stop my participant

656

00:37:26,400 --> 00:37:30,240

sharing and reclaim the screen

657

00:37:30,240 --> 00:37:33,599

here we go okay

658

00:37:33,599 --> 00:37:37,760

very good so you got the idea huh

659

00:37:37,760 --> 00:37:42,240

all right so let me use the chat where's

660

00:37:42,240 --> 00:37:42,800

the chat

661

00:37:42,800 --> 00:37:46,880

okay okay will you upload these

662

00:37:46,880 --> 00:37:47,520

questions

663

00:37:47,520 --> 00:37:52,320

on canvas later they are in the slides

664

00:37:52,400 --> 00:37:56,079

and recording uh gives you the answer

665

00:37:56,079 --> 00:38:00,240

okay good all right

666

00:38:00,240 --> 00:38:02,800

so now we're going to talk about the

667

00:38:02,800 --> 00:38:05,040

second classification

668

00:38:05,040 --> 00:38:08,400

which is debt and equity so

669

00:38:08,400 --> 00:38:12,079

to understand how we divide between

670

00:38:12,079 --> 00:38:14,640

the debt market and the equity markets

671

00:38:14,640 --> 00:38:16,800

first we need to know what is that

672

00:38:16,800 --> 00:38:19,599

and what is equity now we touched upon

673

00:38:19,599 --> 00:38:20,480

this at the

674

00:38:20,480 --> 00:38:23,440

beginning of the class when we talked

675

00:38:23,440 --> 00:38:24,320

about

676

00:38:24,320 --> 00:38:28,640

the accounting right now

677

00:38:28,640 --> 00:38:32,880

that is basically a contract

678

00:38:32,880 --> 00:38:36,160

okay it's a legally binding

679

00:38:36,160 --> 00:38:40,119

obligation therefore

680

00:38:40,119 --> 00:38:43,200

whenever you are dealing with

681

00:38:43,200 --> 00:38:46,480

debt and credit markets

682

00:38:46,480 --> 00:38:49,599

you first need to look at what

683

00:38:49,599 --> 00:38:52,720

is the legal system

684

00:38:52,720 --> 00:38:55,760

that governs the contract

685

00:38:55,760 --> 00:38:59,359

okay so because

686

00:38:59,359 --> 00:39:01,760

the rights and obligations of the

687

00:39:01,760 --> 00:39:02,800

parties

688

00:39:02,800 --> 00:39:06,320

are part of the legal system and how

689

00:39:06,320 --> 00:39:09,599

those rights and obligations

690

00:39:09,599 --> 00:39:13,680

are enforced depends

691

00:39:13,680 --> 00:39:17,200

on the legal system

692

00:39:17,839 --> 00:39:22,160

when you are a creditor of the company

693

00:39:22,160 --> 00:39:25,440

and the company owes you money

694

00:39:25,440 --> 00:39:28,880

that does not give you a say in the

695

00:39:28,880 --> 00:39:30,079

management

696

00:39:30,079 --> 00:39:33,760

of the company you do not have the right

697

00:39:33,760 --> 00:39:37,680

to vote and you do not have the right

698

00:39:37,680 --> 00:39:41,200

to get involved in strategic management

699

00:39:41,200 --> 00:39:45,440

of the company with one exception

700

00:39:45,440 --> 00:39:48,560

what is that exception

701

00:39:48,960 --> 00:39:51,839

does anybody know

702

00:39:52,320 --> 00:39:55,920

what is the one exception when creditors

703

00:39:55,920 --> 00:39:58,720

get involved

704

00:40:05,280 --> 00:40:08,880

yes very good black prey

705

00:40:08,880 --> 00:40:11,920

and nothing very good

706

00:40:11,920 --> 00:40:15,200

when the company is in trouble

707

00:40:15,200 --> 00:40:18,240

then the creditors can organize

708

00:40:18,240 --> 00:40:22,000

and work out the situation

709

00:40:22,000 --> 00:40:25,599

with the company so again that depends

710

00:40:25,599 --> 00:40:28,880

on the legal system

711

00:40:28,880 --> 00:40:31,839

in the united states there is something

712

00:40:31,839 --> 00:40:32,720

called

713

00:40:32,720 --> 00:40:36,319

chapter 11. chapter 11

714

00:40:36,319 --> 00:40:39,760

is basically a

715

00:40:39,760 --> 00:40:43,839

process where the judges

716

00:40:43,839 --> 00:40:47,920

can impose a reorganization of the debt

717

00:40:47,920 --> 00:40:49,119

to the creditors

718

00:40:49,119 --> 00:40:52,640

okay so it's a courts ordered

719

00:40:52,640 --> 00:40:56,240

process we don't have this in hong kong

720

00:40:56,240 --> 00:41:00,079

so in hong kong yes terry and i'll get

721

00:41:00,079 --> 00:41:00,960

to your point

722

00:41:00,960 --> 00:41:03,680

in hong kong when the company gets in

723

00:41:03,680 --> 00:41:05,200

trouble

724

00:41:05,200 --> 00:41:09,599

either it ends up being liquidated

725

00:41:09,599 --> 00:41:13,040

or it has to work out with the creditors

726

00:41:13,040 --> 00:41:16,800

ahead of time and then together with the

727

00:41:16,800 --> 00:41:17,599

creditors

728

00:41:17,599 --> 00:41:19,440

get to the court and get the call to

729

00:41:19,440 --> 00:41:21,440

sign off on the

730

00:41:21,440 --> 00:41:25,359

negotiation it is not a court-ordered

731

00:41:25,359 --> 00:41:26,880

process

732

00:41:26,880 --> 00:41:30,240

in the mainland there is a bankruptcy

733

00:41:30,240 --> 00:41:30,720

law

734

00:41:30,720 --> 00:41:34,240

similar to chapter 11. what's the point

735

00:41:34,240 --> 00:41:38,480

the point is to give breathing space

736

00:41:38,480 --> 00:41:41,599

to companies that are going through a

737

00:41:41,599 --> 00:41:44,960

temporary problem give them

738

00:41:44,960 --> 00:41:48,400

time to work out the situation

739

00:41:48,400 --> 00:41:51,839

so that they can continue to exist

740

00:41:51,839 --> 00:41:55,040

if you don't have any organized process

741

00:41:55,040 --> 00:41:57,040

to do that well the other choice is

742

00:41:57,040 --> 00:41:59,440

liquidation and the company ceases to

743

00:41:59,440 --> 00:42:00,319

exist

744

00:42:00,319 --> 00:42:04,240

okay now uh tyrion asked me can a

745

00:42:04,240 --> 00:42:06,880

creditor convert the debt into equity

746

00:42:06,880 --> 00:42:10,960

yes under certain circumstances

747

00:42:10,960 --> 00:42:14,480

so um there are financial

748

00:42:14,480 --> 00:42:17,440

instruments that include that options

749

00:42:17,440 --> 00:42:18,599

they are called

750

00:42:18,599 --> 00:42:21,680

convertibles or hybrids

751

00:42:21,680 --> 00:42:26,160

and in the bankruptcy process

752

00:42:26,160 --> 00:42:30,079

there are often debt to equity

753

00:42:30,079 --> 00:42:34,240

swaps where the process entails

754

00:42:34,240 --> 00:42:37,520

creditors becoming shareholders

755

00:42:37,520 --> 00:42:41,359

of the company okay

756

00:42:41,599 --> 00:42:45,520

so again whenever we talk about

757

00:42:45,520 --> 00:42:48,880

debt we're talking about

758

00:42:48,880 --> 00:42:52,640

contracts so we need to know

759

00:42:52,640 --> 00:42:56,240

what is the legal system the creditors

760

00:42:56,240 --> 00:42:58,000

don't get involved in the management of

761

00:42:58,000 --> 00:42:59,839

the company except

762

00:42:59,839 --> 00:43:03,839

in really bad circumstances and that

763

00:43:03,839 --> 00:43:07,359

generally but not always requires the

764

00:43:07,359 --> 00:43:08,560

repayment

765

00:43:08,560 --> 00:43:12,079

of the principal so please note how we

766

00:43:12,079 --> 00:43:12,640

spell

767

00:43:12,640 --> 00:43:16,720

principle okay uh-huh

768

00:43:16,720 --> 00:43:19,520

what is my thing

769

00:43:22,560 --> 00:43:26,480

principle a l

770

00:43:26,480 --> 00:43:30,000

not l e they're two different words okay

771

00:43:30,000 --> 00:43:33,200

the principle is the money

772

00:43:33,200 --> 00:43:35,839

that the company has effectively

773

00:43:35,839 --> 00:43:37,359

borrowed

774

00:43:37,359 --> 00:43:40,880

okay so in a debt contract

775

00:43:40,880 --> 00:43:44,640

it will specify how much the company is

776

00:43:44,640 --> 00:43:48,560

borrowing or issuing and when it has to

777

00:43:48,560 --> 00:43:50,800

pay back

778

00:43:50,800 --> 00:43:54,480

so though

779

00:43:54,480 --> 00:43:58,079

payback can be in different bits

780

00:43:58,079 --> 00:44:01,200

and amortization or it can be in one

781

00:44:01,200 --> 00:44:02,640

amount at the end

782

00:44:02,640 --> 00:44:06,160

sometimes sometimes

783

00:44:06,160 --> 00:44:08,800

there are financial instruments that do

784

00:44:08,800 --> 00:44:11,040

not require

785

00:44:11,040 --> 00:44:14,720

the repayment of principle has anybody

786

00:44:14,720 --> 00:44:17,280

heard of that

787

00:44:17,599 --> 00:44:20,880

what instruments dead instruments

788

00:44:20,880 --> 00:44:24,640

actually they're hybrids do not require

789

00:44:24,640 --> 00:44:28,240

the repayment of principal

790

00:44:29,040 --> 00:44:32,720

bonds no taxpayer bonds

791

00:44:32,720 --> 00:44:35,040

unless they're very very very specific

792

00:44:35,040 --> 00:44:35,760

instruments

793

00:44:35,760 --> 00:44:38,000

bonds normally require the repayment

794

00:44:38,000 --> 00:44:40,640

shares okay stock and shares is not

795

00:44:40,640 --> 00:44:43,920

debt it's equity

796

00:44:43,920 --> 00:44:47,440

options is derivatives

797

00:44:49,680 --> 00:44:53,760

futures is a derivative instrument

798

00:44:54,400 --> 00:44:58,400

okay now there is a financial

799

00:44:58,400 --> 00:45:02,400

instrument which is called a perpetual

800

00:45:02,400 --> 00:45:04,720

and in the next part of the course when

801

00:45:04,720 --> 00:45:08,640

we talk about interest rates and dcf

802

00:45:08,640 --> 00:45:12,560

perpetuals or consoles

803

00:45:12,560 --> 00:45:15,680

or perpetuities are financial

804

00:45:15,680 --> 00:45:19,599

instruments where there is no maturity

805

00:45:19,599 --> 00:45:23,920

no end date it goes on forever

806

00:45:23,920 --> 00:45:26,480

so there is no required repayment of

807

00:45:26,480 --> 00:45:27,599

principle

808

00:45:27,599 --> 00:45:29,599

okay we'll talk about this when we talk

809

00:45:29,599 --> 00:45:31,440

about dcf

810

00:45:31,440 --> 00:45:34,640

and different cash flow

811

00:45:34,640 --> 00:45:38,560

discounted cash flow calculations

812

00:45:39,040 --> 00:45:42,560

all right um the second point

813

00:45:42,560 --> 00:45:45,280

is that that normally and again i

814

00:45:45,280 --> 00:45:46,480

emphasize normally

815

00:45:46,480 --> 00:45:50,319

requires payment of interest

816

00:45:50,319 --> 00:45:52,319

now this is probably more familiar to

817

00:45:52,319 --> 00:45:53,760

you

818

00:45:53,760 --> 00:45:56,800

do you know what financial instrument do

819

00:45:56,800 --> 00:46:00,319

not require and i mean debt instrument

820

00:46:00,319 --> 00:46:04,560

do not require payment of interest

821

00:46:13,040 --> 00:46:15,839

anybody

822

00:46:17,760 --> 00:46:20,640

ah again that's creative accounts

823

00:46:20,640 --> 00:46:21,520

payable

824

00:46:21,520 --> 00:46:25,760

zeros and what do you mean so y

825

00:46:25,760 --> 00:46:29,520

zero what

826

00:46:29,520 --> 00:46:32,480

zero coupon bond very good very good

827

00:46:32,480 --> 00:46:33,599

very good

828

00:46:33,599 --> 00:46:36,960

zero coupon bonds means no coupon

829

00:46:36,960 --> 00:46:39,440

and coupon in the bond market is

830

00:46:39,440 --> 00:46:40,560

interest

831

00:46:40,560 --> 00:46:43,920

okay so you have a whole range

832

00:46:43,920 --> 00:46:47,040

of debt instruments where you don't pay

833

00:46:47,040 --> 00:46:49,839

interest it's all built in the cash

834

00:46:49,839 --> 00:46:52,240

flows at the beginning and at the end

835

00:46:52,240 --> 00:46:54,800

okay so zero coupon bonds are bonds that

836

00:46:54,800 --> 00:46:56,400

do not pay any

837

00:46:56,400 --> 00:46:59,520

interest right so you can see that

838

00:46:59,520 --> 00:47:02,800

debt normally

839

00:47:02,800 --> 00:47:06,400

are contracts that require payment of

840

00:47:06,400 --> 00:47:10,000

the principal eventually at some

841

00:47:10,000 --> 00:47:12,480

point but not always and normally

842

00:47:12,480 --> 00:47:14,160

requires payment of interest

843

00:47:14,160 --> 00:47:18,240

okay now third important point

844

00:47:18,240 --> 00:47:21,359

nudging no derivatives are not debt or

845

00:47:21,359 --> 00:47:23,119

equity derivatives

846

00:47:23,119 --> 00:47:26,400

financial instruments whose price

847

00:47:26,400 --> 00:47:29,520

is derived that is to say based

848

00:47:29,520 --> 00:47:32,800

on other financial instruments

849

00:47:32,800 --> 00:47:36,400

so they're not strictly speaking debt

850

00:47:36,400 --> 00:47:39,760

or equity okay they are

851

00:47:39,760 --> 00:47:43,280

derivatives all right so

852

00:47:43,280 --> 00:47:47,280

um we survived we will talk about the

853

00:47:47,280 --> 00:47:49,680

returns on zero coupon bond we will

854

00:47:49,680 --> 00:47:51,119

actually calculate that

855

00:47:51,119 --> 00:47:54,800

in the first quantitative part of the

856

00:47:54,800 --> 00:47:57,119

course

857

00:47:59,520 --> 00:48:02,720

uh roman there are quite a lot of zero

858

00:48:02,720 --> 00:48:03,599

coupon

859

00:48:03,599 --> 00:48:06,340

perpetual that would be a bit tricky

860

00:48:06,340 --> 00:48:09,359

[Laughter]

861

00:48:09,359 --> 00:48:13,599

okay but perpetual they are all right uh

862

00:48:13,599 --> 00:48:15,920

the next point about debt and it's a

863

00:48:15,920 --> 00:48:17,280

very interesting point

864

00:48:17,280 --> 00:48:20,319

is that normally again i emphasize

865

00:48:20,319 --> 00:48:22,000

normally

866

00:48:22,000 --> 00:48:24,720

interest expense as you will recall when

867

00:48:24,720 --> 00:48:26,000

we talked about

868

00:48:26,000 --> 00:48:28,640

the financial statement interest expense

869

00:48:28,640 --> 00:48:30,319

is normally

870

00:48:30,319 --> 00:48:34,319

tax deductible so when companies

871

00:48:34,319 --> 00:48:38,240

raise debt capital

872

00:48:38,960 --> 00:48:42,160

when companies raise that capital

873

00:48:42,160 --> 00:48:45,119

they can deduct the interest expense

874

00:48:45,119 --> 00:48:46,400

from the taxable

875

00:48:46,400 --> 00:48:50,559

income okay which means that you have a

876

00:48:50,559 --> 00:48:53,839

tax advantage of debt because by

877

00:48:53,839 --> 00:48:58,079

contrast dividend payments

878

00:48:58,079 --> 00:49:02,720

happen after tax however

879

00:49:02,720 --> 00:49:06,559

this is designed by the tax

880

00:49:06,559 --> 00:49:09,520

and legal system of the country in which

881

00:49:09,520 --> 00:49:09,920

you

882

00:49:09,920 --> 00:49:14,720

operate currently

883

00:49:14,720 --> 00:49:17,920

most countries have tax deductibility

884

00:49:17,920 --> 00:49:22,240

of interest and dividends are paid after

885

00:49:22,240 --> 00:49:24,240

tax but not all of them

886

00:49:24,240 --> 00:49:25,800

in some countries you can have

887

00:49:25,800 --> 00:49:27,920

deductibility of

888

00:49:27,920 --> 00:49:31,119

dividend and there is a lot of

889

00:49:31,119 --> 00:49:32,319

discussion

890

00:49:32,319 --> 00:49:36,440

about is this

891

00:49:36,440 --> 00:49:39,119

encouraging leverage that means the

892

00:49:39,119 --> 00:49:40,000

amount of

893

00:49:40,000 --> 00:49:43,680

debt in the system in fact

894

00:49:43,680 --> 00:49:47,200

under president trump he passed

895

00:49:47,200 --> 00:49:50,319

a tax act which

896

00:49:50,319 --> 00:49:53,440

limited the amount of interest

897

00:49:53,440 --> 00:49:56,079

that companies could deduct from their

898

00:49:56,079 --> 00:49:56,839

taxable

899

00:49:56,839 --> 00:50:00,640

income all this to say

900

00:50:00,640 --> 00:50:03,760

is current corporate finance

901

00:50:03,760 --> 00:50:08,480

theories rely on the tax deductibility

902

00:50:08,480 --> 00:50:08,880

of

903

00:50:08,880 --> 00:50:12,000

interest do not take

904

00:50:12,000 --> 00:50:15,440

this for granted

905

00:50:15,440 --> 00:50:19,280

it can change and

906

00:50:19,280 --> 00:50:22,640

it might change so

907

00:50:22,640 --> 00:50:25,760

always be very very careful this is not

908

00:50:25,760 --> 00:50:27,920

written in stone

909

00:50:27,920 --> 00:50:30,720

last part about debt contracts is there

910

00:50:30,720 --> 00:50:31,040

are

911

00:50:31,040 --> 00:50:34,480

contracts contracts have conditions

912

00:50:34,480 --> 00:50:38,480

built into them and those conditions

913

00:50:38,480 --> 00:50:42,319

can impose restrictions on the company's

914

00:50:42,319 --> 00:50:43,280

management

915

00:50:43,280 --> 00:50:46,160

remember i said as a creditor you don't

916

00:50:46,160 --> 00:50:48,480

get involved in the strategy

917

00:50:48,480 --> 00:50:50,960

and the management of the company but

918

00:50:50,960 --> 00:50:51,599

the debt

919

00:50:51,599 --> 00:50:55,119

contract can impose

920

00:50:55,119 --> 00:50:58,079

on the management of the company certain

921

00:50:58,079 --> 00:50:59,359

conditions

922

00:50:59,359 --> 00:51:01,920

can you think of the kind of conditions

923

00:51:01,920 --> 00:51:02,480

you would

924

00:51:02,480 --> 00:51:09,839

expect to see in a debt contract

925

00:51:15,359 --> 00:51:19,359

cost cutting nyan not generally as part

926

00:51:19,359 --> 00:51:20,720

of a debt contract

927

00:51:20,720 --> 00:51:24,240

pay back that yes that will specify the

928

00:51:24,240 --> 00:51:26,559

maturity when you have to pay back

929

00:51:26,559 --> 00:51:27,359

collateral

930

00:51:27,359 --> 00:51:31,040

very good the cost yes

931

00:51:31,040 --> 00:51:34,839

limited market limiting marketing

932

00:51:34,839 --> 00:51:37,440

strategy

933

00:51:37,440 --> 00:51:41,119

not quite sure what you mean by that

934

00:51:41,380 --> 00:51:44,539

[Music]

935

00:51:45,280 --> 00:51:48,319

any other thoughts

936

00:51:49,440 --> 00:51:52,240

allocation of the debt by this do you

937

00:51:52,240 --> 00:51:53,119

mean

938

00:51:53,119 --> 00:51:56,079

use of proceeds what you use the debt

939

00:51:56,079 --> 00:51:56,800

for

940

00:51:56,800 --> 00:51:58,559

if that's what you mean yes it is

941

00:51:58,559 --> 00:52:00,079

correct

942

00:52:00,079 --> 00:52:02,240

sometimes you have restrictions on what

943

00:52:02,240 --> 00:52:03,760

you can use the

944

00:52:03,760 --> 00:52:08,079

money for good yes

945

00:52:08,079 --> 00:52:11,440

yes limit the cash flow yes you can have

946

00:52:11,440 --> 00:52:14,800

restrictions on cash flow for example

947

00:52:14,800 --> 00:52:18,240

creditors want to know that the

948

00:52:18,240 --> 00:52:20,720

money the company generates in cash flow

949

00:52:20,720 --> 00:52:22,160

is going to be used

950

00:52:22,160 --> 00:52:25,680

to pay back that act first so you might

951

00:52:25,680 --> 00:52:26,720

for example

952

00:52:26,720 --> 00:52:29,280

require the company to set up special

953

00:52:29,280 --> 00:52:30,559

accounts

954

00:52:30,559 --> 00:52:32,400

and the money flows first to that

955

00:52:32,400 --> 00:52:35,359

account to pay the debt and then for the

956

00:52:35,359 --> 00:52:37,520

rest of the purposes of the company

957

00:52:37,520 --> 00:52:41,920

yes retained earnings so retained

958

00:52:41,920 --> 00:52:42,800

earnings

959

00:52:42,800 --> 00:52:46,800

is basically the bottom line right so

960

00:52:46,800 --> 00:52:48,800

the net earnings and then you decide

961

00:52:48,800 --> 00:52:49,920

what you do with that

962

00:52:49,920 --> 00:52:53,680

so debt contracts typically do not

963

00:52:53,680 --> 00:52:56,400

address the net earning their retained

964

00:52:56,400 --> 00:52:57,680

earnings

965

00:52:57,680 --> 00:53:01,599

um they do address the level of leverage

966

00:53:01,599 --> 00:53:04,960

so songhaq is putting equity level

967

00:53:04,960 --> 00:53:08,319

so often you will have leverage

968

00:53:08,319 --> 00:53:11,839

ratios in the contract that say

969

00:53:11,839 --> 00:53:15,520

limit how much debt you have in the

970

00:53:15,520 --> 00:53:17,040

capital structure

971

00:53:17,040 --> 00:53:21,920

very good anything else

972

00:53:21,920 --> 00:53:24,800

these are very good suggestions repay

973

00:53:24,800 --> 00:53:26,400

proportion of principle and

974

00:53:26,400 --> 00:53:28,559

interest yes so the contract will

975

00:53:28,559 --> 00:53:30,880

specify when you have to pay back how

976

00:53:30,880 --> 00:53:32,160

you paid back

977

00:53:32,160 --> 00:53:34,079

how much it costs when do you pay

978

00:53:34,079 --> 00:53:35,359

interest and all of that

979

00:53:35,359 --> 00:53:39,920

yes anything else

980

00:53:40,400 --> 00:53:42,240

so imagine you're the banker you're

981

00:53:42,240 --> 00:53:44,319

going to be lending money to a company

982

00:53:44,319 --> 00:53:45,920

what would you like to see in the

983

00:53:45,920 --> 00:53:48,160

contract yes the cost of the interest

984

00:53:48,160 --> 00:53:51,440

and how it's calculated and all that

985

00:53:51,440 --> 00:53:54,480

what else i'm talking in terms of

986

00:53:54,480 --> 00:53:56,880

you know how you might limit what the

987

00:53:56,880 --> 00:53:58,800

management of the company can do did

988

00:53:58,800 --> 00:54:00,079

somebody raise a hand and then

989

00:54:00,079 --> 00:54:01,599

disappeared

990

00:54:01,599 --> 00:54:03,839

oh

991

00:54:05,839 --> 00:54:08,079

company's cash flow yes you are going to

992

00:54:08,079 --> 00:54:10,079

be watching the company's cash flow and

993

00:54:10,079 --> 00:54:11,359

you will have

994

00:54:11,359 --> 00:54:15,040

often financial covenants

995

00:54:15,040 --> 00:54:17,680

that say

996

00:54:18,720 --> 00:54:21,839

you need to have a minimum amount of

997

00:54:21,839 --> 00:54:25,040

interest coverage ratio okay

998

00:54:25,040 --> 00:54:27,760

uh roman audit opinion has to be clean

999

00:54:27,760 --> 00:54:28,240

yes

1000

00:54:28,240 --> 00:54:32,000

very good credit rating very good

1001

00:54:32,000 --> 00:54:34,880

very good sangha the credit rating might

1002

00:54:34,880 --> 00:54:35,200

be

1003

00:54:35,200 --> 00:54:38,720

a trigger for increasing

1004

00:54:38,720 --> 00:54:42,200

or decreasing the cost of the debt

1005

00:54:42,200 --> 00:54:45,280

profitability of the company indeed if

1006

00:54:45,280 --> 00:54:48,000

profitability ratios fall beyond a

1007

00:54:48,000 --> 00:54:49,200

certain level

1008

00:54:49,200 --> 00:54:52,400

then you might see some action how

1009

00:54:52,400 --> 00:54:53,760

liquid their assets

1010

00:54:53,760 --> 00:54:56,079

are so that's an interesting suggestion

1011

00:54:56,079 --> 00:54:57,599

robin

1012

00:54:57,599 --> 00:55:02,000

um you might possibly i haven't seen it

1013

00:55:02,000 --> 00:55:02,880

but you might

1014

00:55:02,880 --> 00:55:05,680

impose a certain amount of liquidity on

1015

00:55:05,680 --> 00:55:08,000

the company

1016

00:55:08,000 --> 00:55:11,839

so that would be some liquidity ratios

1017

00:55:11,839 --> 00:55:14,079

anything else that you would want to

1018

00:55:14,079 --> 00:55:21,839

prevent the company from doing

1019

00:55:24,480 --> 00:55:27,040

taking too much risk definitely so that

1020

00:55:27,040 --> 00:55:29,599

could be through the leverage ratio

1021

00:55:29,599 --> 00:55:33,520

anything else that you might want uh

1022

00:55:33,520 --> 00:55:38,160

to work on terminating

1023

00:55:38,880 --> 00:55:41,839

what do you mean by that oh shiva is

1024

00:55:41,839 --> 00:55:43,920

very good

1025

00:55:43,920 --> 00:55:46,720

selling the company to the competition

1026

00:55:46,720 --> 00:55:47,680

almost there

1027

00:55:47,680 --> 00:55:51,040

okay so one trick that

1028

00:55:51,040 --> 00:55:53,359

creditors like to protect against is the

1029

00:55:53,359 --> 00:55:55,520

company management

1030

00:55:55,520 --> 00:55:58,799

taking some of the assets of the company

1031

00:55:58,799 --> 00:56:02,000

and giving them to other creditors

1032

00:56:02,000 --> 00:56:05,040

to raise more money or

1033

00:56:05,040 --> 00:56:07,920

changing the business of the company so

1034

00:56:07,920 --> 00:56:08,880

for example

1035

00:56:08,880 --> 00:56:11,040

in hong kong it's very or china it's

1036

00:56:11,040 --> 00:56:12,160

pretty common

1037

00:56:12,160 --> 00:56:15,200

that companies change their business

1038

00:56:15,200 --> 00:56:17,920

as um but no i can't remember 15 years

1039

00:56:17,920 --> 00:56:19,760

ago i can't remember exactly but there

1040

00:56:19,760 --> 00:56:20,400

was this

1041

00:56:20,400 --> 00:56:24,240

uh uh telecom company

1042

00:56:24,240 --> 00:56:25,920

hong kong telecom no not hong kong

1043

00:56:25,920 --> 00:56:27,599

telecom whatever it was whatever i can't

1044

00:56:27,599 --> 00:56:28,400

remember

1045

00:56:28,400 --> 00:56:32,559

taken over by a company called pccw

1046

00:56:32,559 --> 00:56:34,960

and so creditors assume that we're

1047

00:56:34,960 --> 00:56:35,920

lending to

1048

00:56:35,920 --> 00:56:39,599

a utility except richard lee decides to

1049

00:56:39,599 --> 00:56:41,839

go into real estate

1050

00:56:41,839 --> 00:56:43,599

so all of a sudden the business of the

1051

00:56:43,599 --> 00:56:45,760

company has changed

1052

00:56:45,760 --> 00:56:48,960

very drastically so this is the kind of

1053

00:56:48,960 --> 00:56:49,520

thing

1054

00:56:49,520 --> 00:56:54,079

where you want to pre protect yourself

1055

00:56:54,079 --> 00:56:56,000

against the risk that the company

1056

00:56:56,000 --> 00:56:58,240

management changes their business model

1057

00:56:58,240 --> 00:57:00,640

completely so the risk you're taking is

1058

00:57:00,640 --> 00:57:02,319

completely different

1059

00:57:02,319 --> 00:57:04,720

or that they take the assets of the

1060

00:57:04,720 --> 00:57:05,920

company

1061

00:57:05,920 --> 00:57:08,640

and sell them to somebody else or use

1062

00:57:08,640 --> 00:57:10,799

them to raise all the capital so there's

1063

00:57:10,799 --> 00:57:14,319

all kinds of covenants

1064

00:57:14,319 --> 00:57:16,960

that you can put in the contract that

1065

00:57:16,960 --> 00:57:18,160

restrict

1066

00:57:18,160 --> 00:57:20,240

the ability of the companies management

1067

00:57:20,240 --> 00:57:22,000

to do certain things

1068

00:57:22,000 --> 00:57:24,480

so really really good discussion i'm

1069

00:57:24,480 --> 00:57:25,200

really

1070

00:57:25,200 --> 00:57:27,920

impressed with your thoughts okay so

1071

00:57:27,920 --> 00:57:28,400

that's

1072

00:57:28,400 --> 00:57:32,000

debt and then you have equity so equity

1073

00:57:32,000 --> 00:57:33,359

capital so what is

1074

00:57:33,359 --> 00:57:37,440

equity so i want to be very clear here

1075

00:57:37,440 --> 00:57:38,079

because there's

1076

00:57:38,079 --> 00:57:41,599

so many misconceptions about what is

1077

00:57:41,599 --> 00:57:42,960

equity

1078

00:57:42,960 --> 00:57:46,400

so sanghak says ownership yes

1079

00:57:46,400 --> 00:57:49,680

and no it is a form of

1080

00:57:49,680 --> 00:57:52,559

ownership i think maybe we discussed it

1081

00:57:52,559 --> 00:57:53,599

a little bit when i

1082

00:57:53,599 --> 00:57:56,960

when we started the class back a few

1083

00:57:56,960 --> 00:58:00,319

weeks ago it is a very specific form of

1084

00:58:00,319 --> 00:58:01,680

ownership

1085

00:58:01,680 --> 00:58:06,160

when you're talking about large public

1086

00:58:06,160 --> 00:58:10,000

limited liability corporations why

1087

00:58:10,000 --> 00:58:13,599

because you own

1088

00:58:13,599 --> 00:58:18,160

a piece of a legal entity

1089

00:58:18,240 --> 00:58:21,839

it's very different from ownership of a

1090

00:58:21,839 --> 00:58:23,760

business

1091

00:58:23,760 --> 00:58:27,760

for example if you own

1092

00:58:27,760 --> 00:58:31,680

a bakery you can go

1093

00:58:31,680 --> 00:58:34,839

and eat all the products and become very

1094

00:58:34,839 --> 00:58:36,319

fat but

1095

00:58:36,319 --> 00:58:38,079

nobody's stopping you because it's your

1096

00:58:38,079 --> 00:58:39,839

business so you can do whatever you want

1097

00:58:39,839 --> 00:58:41,680

with it

1098

00:58:41,680 --> 00:58:44,799

if you are a shareholder of apple

1099

00:58:44,799 --> 00:58:48,720

you cannot go into an apple store

1100

00:58:48,720 --> 00:58:52,240

and just take any of the products okay

1101

00:58:52,240 --> 00:58:54,480

they're not yours they belong to the

1102

00:58:54,480 --> 00:58:55,520

company

1103

00:58:55,520 --> 00:58:57,680

and you own a piece of the company so

1104

00:58:57,680 --> 00:58:59,599

you see how

1105

00:58:59,599 --> 00:59:02,480

shareholder ownership is fundamentally

1106

00:59:02,480 --> 00:59:03,440

different from

1107

00:59:03,440 --> 00:59:06,480

business ownership all right this is a

1108

00:59:06,480 --> 00:59:10,079

very very important point to

1109

00:59:10,079 --> 00:59:13,599

consider now

1110

00:59:13,599 --> 00:59:17,119

owning a piece of a company

1111

00:59:17,119 --> 00:59:21,200

gives you theoretically certain rights

1112

00:59:21,200 --> 00:59:26,319

okay what are the rights of

1113

00:59:30,839 --> 00:59:33,839

shareholders

1114

00:59:35,200 --> 00:59:39,200

right yeah

1115

00:59:39,200 --> 00:59:42,160

so you have theoretically the right to

1116

00:59:42,160 --> 00:59:43,599

vote

1117

00:59:43,599 --> 00:59:47,040

okay and because you have the right to

1118

00:59:47,040 --> 00:59:48,480

vote

1119

00:59:48,480 --> 00:59:51,599

ultimately decide how the net

1120

00:59:51,599 --> 00:59:55,119

earnings will be divided between

1121

00:59:55,119 --> 00:59:58,400

reinvestment and paying dividends and if

1122

00:59:58,400 --> 00:59:59,839

dividends are paid

1123

00:59:59,839 --> 01:00:03,599

you'll have a right to the dividends

1124

01:00:04,000 --> 01:00:08,319

that's the theory because

1125

01:00:08,319 --> 01:00:13,520

it depends what kind of shares you have

1126

01:00:13,520 --> 01:00:15,839

theoretically common shares give you

1127

01:00:15,839 --> 01:00:16,799

voting rights

1128

01:00:16,799 --> 01:00:19,760

but not always in fact there are

1129

01:00:19,760 --> 01:00:23,760

companies with the limited voting rights

1130

01:00:23,760 --> 01:00:25,760

you even have some companies with no

1131

01:00:25,760 --> 01:00:27,680

voting rights

1132

01:00:27,680 --> 01:00:30,559

does anybody know which very famous

1133

01:00:30,559 --> 01:00:33,119

company

1134

01:00:33,280 --> 01:00:36,799

went ipo a few years ago

1135

01:00:36,799 --> 01:00:39,920

with no voting rights at

1136

01:00:39,920 --> 01:00:42,640

all for shareholders and no it's not

1137

01:00:42,640 --> 01:00:45,040

tesla

1138

01:00:45,040 --> 01:00:47,599

not apple

1139

01:00:50,240 --> 01:00:53,359

no have you ever

1140

01:00:53,359 --> 01:00:56,480

used an app that allows you to put big

1141

01:00:56,480 --> 01:00:59,760

ears and big nose and the long tone

1142

01:00:59,760 --> 01:01:03,680

that's right roman snapchat

1143

01:01:03,680 --> 01:01:06,720

snap went ipo with

1144

01:01:06,720 --> 01:01:10,240

no voting rights at all

1145

01:01:10,240 --> 01:01:14,160

okay so shareholders in snap have no

1146

01:01:14,160 --> 01:01:15,839

rights

1147

01:01:15,839 --> 01:01:19,119

at all okay they cannot

1148

01:01:19,119 --> 01:01:21,440

there is no voting rights so they have

1149

01:01:21,440 --> 01:01:23,440

to blindly trust

1150

01:01:23,440 --> 01:01:27,599

the founders and amazingly this company

1151

01:01:27,599 --> 01:01:31,200

is doing pretty well

1152

01:01:32,079 --> 01:01:35,599

now again um the dividend so

1153

01:01:35,599 --> 01:01:37,280

some of you put dividends right to

1154

01:01:37,280 --> 01:01:39,359

dividends well

1155

01:01:39,359 --> 01:01:41,599

that assumes the company is actually

1156

01:01:41,599 --> 01:01:43,839

paying dividends

1157

01:01:43,839 --> 01:01:47,440

okay so when you think about it

1158

01:01:47,440 --> 01:01:51,599

to get dividends what needs to happen

1159

01:01:51,599 --> 01:01:54,079

what's the first condition for a company

1160

01:01:54,079 --> 01:01:54,720

to

1161

01:01:54,720 --> 01:01:57,920

actually pay dividends yeah that's right

1162

01:01:57,920 --> 01:01:59,680

it has to make money it has to be

1163

01:01:59,680 --> 01:02:00,960

profitable

1164

01:02:00,960 --> 01:02:07,839

and what's the second condition

1165

01:02:07,839 --> 01:02:10,559

that's right roman they have to declare

1166

01:02:10,559 --> 01:02:11,280

a dividend

1167

01:02:11,280 --> 01:02:14,720

which is subject to

1168

01:02:14,720 --> 01:02:17,920

the board and the shareholders

1169

01:02:17,920 --> 01:02:22,480

right now theoretically

1170

01:02:22,960 --> 01:02:26,160

the investors have a say in that except

1171

01:02:26,160 --> 01:02:27,760

when they have no voting rights

1172

01:02:27,760 --> 01:02:30,799

and except for the fact that in reality

1173

01:02:30,799 --> 01:02:35,039

very very few cases

1174

01:02:35,039 --> 01:02:38,240

of shareholders voting

1175

01:02:38,240 --> 01:02:40,960

against management and forcing a

1176

01:02:40,960 --> 01:02:42,799

dividend declaration

1177

01:02:42,799 --> 01:02:46,839

this is generally the realm of activists

1178

01:02:46,839 --> 01:02:49,680

investors okay

1179

01:02:49,680 --> 01:02:52,640

so net net what am i saying i am saying

1180

01:02:52,640 --> 01:02:53,760

that

1181

01:02:53,760 --> 01:02:57,200

in the case of equity

1182

01:02:57,200 --> 01:03:00,720

it is a very specific form of ownership

1183

01:03:00,720 --> 01:03:03,280

that gives you very limited rights when

1184

01:03:03,280 --> 01:03:03,920

they even

1185

01:03:03,920 --> 01:03:08,640

exist and

1186

01:03:09,599 --> 01:03:11,839

the only real right you have there's one

1187

01:03:11,839 --> 01:03:13,760

right that you have what is the real

1188

01:03:13,760 --> 01:03:17,820

right that you have

1189

01:03:17,820 --> 01:03:19,280

[Music]

1190

01:03:19,280 --> 01:03:21,520

if you're a shareholder what's the one

1191

01:03:21,520 --> 01:03:23,039

that's correct very

1192

01:03:23,039 --> 01:03:26,559

good you can sell the stock

1193

01:03:26,559 --> 01:03:29,839

okay very good very good so guys are

1194

01:03:29,839 --> 01:03:31,839

really smart and i'm having so much fun

1195

01:03:31,839 --> 01:03:32,640

with you

1196

01:03:32,640 --> 01:03:35,839

that's fantastic okay so now we set the

1197

01:03:35,839 --> 01:03:36,640

picture

1198

01:03:36,640 --> 01:03:39,760

okay we have two very different worlds

1199

01:03:39,760 --> 01:03:41,039

we have the world

1200

01:03:41,039 --> 01:03:46,319

of dead we have the world of equity

1201

01:03:47,440 --> 01:03:49,920

now this is very important so pay

1202

01:03:49,920 --> 01:03:51,280

attention

1203

01:03:51,280 --> 01:03:54,960

this is terminology that we use

1204

01:03:54,960 --> 01:03:57,520

in financial markets so if you interview

1205

01:03:57,520 --> 01:03:59,359

for jobs in finance you need to

1206

01:03:59,359 --> 01:04:01,200

understand this

1207

01:04:01,200 --> 01:04:05,839

the first thing okay

1208

01:04:05,839 --> 01:04:09,119

is securities now

1209

01:04:09,119 --> 01:04:11,119

textbooks generally confuse you

1210

01:04:11,119 --> 01:04:12,720

endlessly

1211

01:04:12,720 --> 01:04:16,799

what are securities there are negotiable

1212

01:04:16,799 --> 01:04:20,240

tradable financial instruments

1213

01:04:20,240 --> 01:04:22,720

in finance when we talk about securities

1214

01:04:22,720 --> 01:04:24,039

we talk about

1215

01:04:24,039 --> 01:04:27,280

negotiable tradable financial

1216

01:04:27,280 --> 01:04:31,359

instruments we then separate that

1217

01:04:31,359 --> 01:04:35,599

between equity securities

1218

01:04:35,599 --> 01:04:39,839

and debt securities okay

1219

01:04:39,839 --> 01:04:43,119

equity securities is stocks and shares

1220

01:04:43,119 --> 01:04:46,640

that securities is bonds and notes

1221

01:04:46,640 --> 01:04:50,960

okay remember it has to be negotiable

1222

01:04:50,960 --> 01:04:54,480

tradeable financial instruments

1223

01:04:54,480 --> 01:04:59,680

all right the capital markets

1224

01:04:59,680 --> 01:05:03,720

are financial markets where you trade

1225

01:05:03,720 --> 01:05:06,720

securities

1226

01:05:06,880 --> 01:05:10,960

and where firms can raise capital

1227

01:05:10,960 --> 01:05:14,319

in the form of debt or

1228

01:05:14,319 --> 01:05:17,760

equity therefore we have

1229

01:05:17,760 --> 01:05:21,680

equity capital markets ecm

1230

01:05:21,680 --> 01:05:26,079

and debt capital markets dcm

1231

01:05:26,079 --> 01:05:28,400

so later we will talk about investment

1232

01:05:28,400 --> 01:05:29,200

banking

1233

01:05:29,200 --> 01:05:31,920

we'll talk about ecm and bcm you need to

1234

01:05:31,920 --> 01:05:34,319

be familiar with the terms

1235

01:05:34,319 --> 01:05:38,000

all right now

1236

01:05:38,000 --> 01:05:41,280

financial markets include but are not

1237

01:05:41,280 --> 01:05:43,440

limited to capital markets

1238

01:05:43,440 --> 01:05:46,720

all right there are many other types of

1239

01:05:46,720 --> 01:05:49,760

financial markets which are not strictly

1240

01:05:49,760 --> 01:05:50,480

speaking

1241

01:05:50,480 --> 01:05:53,599

capital market these include in

1242

01:05:53,599 --> 01:05:55,839

particular the foreign exchange

1243

01:05:55,839 --> 01:05:58,880

market the foreign exchange market

1244

01:05:58,880 --> 01:06:03,200

fx for short fx market or forex market

1245

01:06:03,200 --> 01:06:06,240

is the market for currencies

1246

01:06:06,240 --> 01:06:10,079

okay it is the biggest deepest

1247

01:06:10,079 --> 01:06:13,039

most liquid financial market in the

1248

01:06:13,039 --> 01:06:14,000

world

1249

01:06:14,000 --> 01:06:17,280

by a big order of magnitude

1250

01:06:17,280 --> 01:06:20,799

now every day gazillions

1251

01:06:20,799 --> 01:06:23,920

of currencies are changing hand and very

1252

01:06:23,920 --> 01:06:24,799

very fast

1253

01:06:24,799 --> 01:06:28,240

okay so the foreign exchange market

1254

01:06:28,240 --> 01:06:31,200

is not a capital market because you do

1255

01:06:31,200 --> 01:06:31,599

not

1256

01:06:31,599 --> 01:06:34,640

raise capital in foreign exchange okay

1257

01:06:34,640 --> 01:06:35,520

you convert

1258

01:06:35,520 --> 01:06:39,280

currencies against another currency

1259

01:06:39,280 --> 01:06:41,520

either today or at some point of time in

1260

01:06:41,520 --> 01:06:43,039

the future

1261

01:06:43,039 --> 01:06:45,680

then you have commodities market so this

1262

01:06:45,680 --> 01:06:46,720

is where

1263

01:06:46,720 --> 01:06:50,680

commodities change hands and this can be

1264

01:06:50,680 --> 01:06:55,520

agricultural commodity precious metals

1265

01:06:55,520 --> 01:06:58,799

metals etc

1266

01:06:58,799 --> 01:07:02,200

you have as part of the

1267

01:07:02,200 --> 01:07:05,599

overall debt and credit markets you have

1268

01:07:05,599 --> 01:07:06,559

markets

1269

01:07:06,559 --> 01:07:09,039

of debt instruments which are not

1270

01:07:09,039 --> 01:07:11,039

securities

1271

01:07:11,039 --> 01:07:13,760

like the loan market the private

1272

01:07:13,760 --> 01:07:14,400

placement

1273

01:07:14,400 --> 01:07:17,760

market these debt instruments are

1274

01:07:17,760 --> 01:07:20,559

not bad securities they're not

1275

01:07:20,559 --> 01:07:23,599

negotiable tradable

1276

01:07:23,599 --> 01:07:26,799

the money market includes some debt

1277

01:07:26,799 --> 01:07:28,079

securities and

1278

01:07:28,079 --> 01:07:30,720

others which are not that security and

1279

01:07:30,720 --> 01:07:32,000

then derivatives

1280

01:07:32,000 --> 01:07:34,960

so derivatives are not securities now

1281

01:07:34,960 --> 01:07:36,559

there is

1282

01:07:36,559 --> 01:07:38,880

argument about that i don't consider

1283

01:07:38,880 --> 01:07:41,039

them securities

1284

01:07:41,039 --> 01:07:43,760

you could say that list of derivatives

1285

01:07:43,760 --> 01:07:44,160

like

1286

01:07:44,160 --> 01:07:46,720

futures and listed options could be

1287

01:07:46,720 --> 01:07:47,440

considered

1288

01:07:47,440 --> 01:07:50,720

securities but i don't strictly speaking

1289

01:07:50,720 --> 01:07:54,160

consider them security okay so what you

1290

01:07:54,160 --> 01:07:55,760

need to remember

1291

01:07:55,760 --> 01:07:59,359

securities negotiable tradable financial

1292

01:07:59,359 --> 01:08:00,640

instruments

1293

01:08:00,640 --> 01:08:03,119

you have equity securities that's

1294

01:08:03,119 --> 01:08:04,480

security

1295

01:08:04,480 --> 01:08:07,920

capital markets is where securities

1296

01:08:07,920 --> 01:08:10,400

are traded and where companies raise

1297

01:08:10,400 --> 01:08:11,119

capital

1298

01:08:11,119 --> 01:08:14,640

hence the word capital markets

1299

01:08:14,640 --> 01:08:16,719

equity capital market that capital

1300

01:08:16,719 --> 01:08:18,158

market

1301

01:08:18,158 --> 01:08:20,479

and these capital markets are part of

1302

01:08:20,479 --> 01:08:21,920

financial markets

1303

01:08:21,920 --> 01:08:26,560

okay any questions on this

1304

01:08:30,479 --> 01:08:33,120

all right now this is really important

1305

01:08:33,120 --> 01:08:35,439

okay

1306

01:08:35,439 --> 01:08:38,479

okay so if i look at the

1307

01:08:38,479 --> 01:08:41,839

overall debt markets part of

1308

01:08:41,839 --> 01:08:44,158

it is debt capital markets which we've

1309

01:08:44,158 --> 01:08:45,679

just talked about

1310

01:08:45,679 --> 01:08:48,158

but you also have money markets which is

1311

01:08:48,158 --> 01:08:49,359

debt instruments

1312

01:08:49,359 --> 01:08:52,560

less than one year loan markets and

1313

01:08:52,560 --> 01:08:53,439

private

1314

01:08:53,439 --> 01:08:57,600

markets and then you have the equity

1315

01:08:57,600 --> 01:08:58,719

markets

1316

01:08:58,719 --> 01:09:02,158

and then you have here a little bit of

1317

01:09:02,158 --> 01:09:05,600

overlap which i call hybrids

1318

01:09:05,600 --> 01:09:08,560

so what are hybrids well they are

1319

01:09:08,560 --> 01:09:09,359

financial

1320

01:09:09,359 --> 01:09:13,120

instruments which have some

1321

01:09:13,120 --> 01:09:16,319

of the characteristics of depth

1322

01:09:16,319 --> 01:09:19,279

and some of the characteristics of

1323

01:09:19,279 --> 01:09:21,198

equity

1324

01:09:21,198 --> 01:09:25,198

for example convertible bonds

1325

01:09:25,198 --> 01:09:29,279

are bonds with an equity option

1326

01:09:29,279 --> 01:09:32,799

that allows the investor

1327

01:09:32,799 --> 01:09:36,080

to convert the bond into

1328

01:09:36,080 --> 01:09:39,120

shares under certain conditions

1329

01:09:39,120 --> 01:09:40,799

obviously

1330

01:09:40,799 --> 01:09:44,158

there are other kind of hybrids

1331

01:09:44,158 --> 01:09:47,359

such as perpetuals

1332

01:09:47,359 --> 01:09:50,719

that are instruments dead instruments

1333

01:09:50,719 --> 01:09:54,800

issued by companies and banks

1334

01:09:54,800 --> 01:09:58,320

with no maturity and where

1335

01:09:58,320 --> 01:10:01,679

the issuer has the

1336

01:10:01,679 --> 01:10:05,280

option to convert that instrument

1337

01:10:05,280 --> 01:10:08,640

into equity so they're very different

1338

01:10:08,640 --> 01:10:13,199

okay so

1339

01:10:14,840 --> 01:10:19,280

um what are you writing about

1340

01:10:21,920 --> 01:10:24,719

yes there is a secondary market for the

1341

01:10:24,719 --> 01:10:25,760

bond market

1342

01:10:25,760 --> 01:10:30,239

there's a secondary market for equity

1343

01:10:30,239 --> 01:10:33,440

uh loan markets not so much

1344

01:10:33,440 --> 01:10:36,480

it's very illiquid uh some of the money

1345

01:10:36,480 --> 01:10:37,360

markets do

1346

01:10:37,360 --> 01:10:41,040

some of the money markets don't okay so

1347

01:10:41,040 --> 01:10:44,320

in different financial markets you may

1348

01:10:44,320 --> 01:10:45,440

or may not have

1349

01:10:45,440 --> 01:10:49,520

secondary markets but by nature

1350

01:10:49,520 --> 01:10:52,320

securities can be negotiable have to be

1351

01:10:52,320 --> 01:10:54,080

negotiable and tradable

1352

01:10:54,080 --> 01:10:58,880

so the potential is there

1353

01:10:58,880 --> 01:11:03,520

the question then becomes how actively

1354

01:11:03,520 --> 01:11:06,640

is it traded how liquid

1355

01:11:06,640 --> 01:11:08,880

is the secondary market and we'll talk

1356

01:11:08,880 --> 01:11:10,880

about that later

1357

01:11:10,880 --> 01:11:12,880

okay so do you get the debt and equity

1358

01:11:12,880 --> 01:11:16,159

thing any questions on debt and equity

1359

01:11:16,159 --> 01:11:19,600

uh professor i had one doubt

1360

01:11:19,600 --> 01:11:22,719

uh our derivatives also

1361

01:11:22,719 --> 01:11:24,239

are pretty prominent in the secondary

1362

01:11:24,239 --> 01:11:26,719

market right it depends on the

1363

01:11:26,719 --> 01:11:28,239

derivatives

1364

01:11:28,239 --> 01:11:30,719

okay so if you're talking about futures

1365

01:11:30,719 --> 01:11:31,679

so futures

1366

01:11:31,679 --> 01:11:35,520

are very specific derivatives

1367

01:11:35,520 --> 01:11:38,800

instruments because they are specific to

1368

01:11:38,800 --> 01:11:41,280

a particular exchange and i'll talk

1369

01:11:41,280 --> 01:11:42,880

about that later

1370

01:11:42,880 --> 01:11:45,520

so they are traded on exchange which is

1371

01:11:45,520 --> 01:11:46,239

why i said

1372

01:11:46,239 --> 01:11:48,560

if you are talking about derivatives

1373

01:11:48,560 --> 01:11:50,480

that are listed

1374

01:11:50,480 --> 01:11:52,719

and traded on exchange then there is a

1375

01:11:52,719 --> 01:11:54,159

secondary market

1376

01:11:54,159 --> 01:11:57,760

but most and the vast bulk of otc

1377

01:11:57,760 --> 01:11:59,840

derivatives like swipes do not have a

1378

01:11:59,840 --> 01:12:02,159

secondary market

1379

01:12:02,159 --> 01:12:05,360

okay and another doubt i had professor

1380

01:12:05,360 --> 01:12:05,840

was

1381

01:12:05,840 --> 01:12:08,960

regarding the dividend declaration and

1382

01:12:08,960 --> 01:12:12,000

how it is that uh they get to the

1383

01:12:12,000 --> 01:12:13,840

decision of how much

1384

01:12:13,840 --> 01:12:16,239

uh a dividend percentage they should

1385

01:12:16,239 --> 01:12:18,080

declare for the investors and

1386

01:12:18,080 --> 01:12:20,880

what all factors that takes into account

1387

01:12:20,880 --> 01:12:21,600

so

1388

01:12:21,600 --> 01:12:23,840

if you think about it right so it's a

1389

01:12:23,840 --> 01:12:25,199

matter of what we call

1390

01:12:25,199 --> 01:12:29,040

corporate governance so remember as a

1391

01:12:29,040 --> 01:12:30,480

company

1392

01:12:30,480 --> 01:12:33,360

the investors put money in the company

1393

01:12:33,360 --> 01:12:33,679

as

1394

01:12:33,679 --> 01:12:37,280

shareholders right the shareholders are

1395

01:12:37,280 --> 01:12:39,920

represented in the structure of the

1396

01:12:39,920 --> 01:12:41,679

company by the board

1397

01:12:41,679 --> 01:12:45,199

of directors okay the board of directors

1398

01:12:45,199 --> 01:12:48,400

is supposed to set the strategy

1399

01:12:48,400 --> 01:12:51,040

so the board of directors is the one who

1400

01:12:51,040 --> 01:12:53,840

is going to decide

1401

01:12:53,840 --> 01:12:56,640

whether to pay dividends or not based on

1402

01:12:56,640 --> 01:12:57,199

the

1403

01:12:57,199 --> 01:13:00,400

the recommendation from the management

1404

01:13:00,400 --> 01:13:02,840

or the ceo and the management of the

1405

01:13:02,840 --> 01:13:05,120

company and then

1406

01:13:05,120 --> 01:13:08,880

the shareholders meeting will

1407

01:13:08,880 --> 01:13:12,000

vote on the proposals from

1408

01:13:12,000 --> 01:13:14,159

the management of the company and the

1409

01:13:14,159 --> 01:13:16,320

board of directors

1410

01:13:16,320 --> 01:13:21,120

right but the difficulty here

1411

01:13:21,120 --> 01:13:24,480

is that do does the board of directors

1412

01:13:24,480 --> 01:13:27,600

really represent the interest of the

1413

01:13:27,600 --> 01:13:29,840

shareholders

1414

01:13:29,840 --> 01:13:34,159

and who appoints the directors on the

1415

01:13:34,159 --> 01:13:35,520

board

1416

01:13:35,520 --> 01:13:38,000

in fact when you have the beginning of

1417

01:13:38,000 --> 01:13:39,840

the company

1418

01:13:39,840 --> 01:13:43,440

who appoints the board of directors

1419

01:13:43,440 --> 01:13:47,920

is generally the ceo founder

1420

01:13:47,920 --> 01:13:50,640

okay and then after that shareholders

1421

01:13:50,640 --> 01:13:52,800

have to vote for the directors on the

1422

01:13:52,800 --> 01:13:54,239

board

1423

01:13:54,239 --> 01:13:57,440

the reality though in modern markets

1424

01:13:57,440 --> 01:14:01,360

is that there are so many

1425

01:14:01,360 --> 01:14:04,480

okay no problem uh

1426

01:14:04,480 --> 01:14:07,360

there are so uh so many passive

1427

01:14:07,360 --> 01:14:08,320

investors that

1428

01:14:08,320 --> 01:14:10,320

shareholders actually don't vote that

1429

01:14:10,320 --> 01:14:11,679

much so

1430

01:14:11,679 --> 01:14:13,840

the management and the board pretty much

1431

01:14:13,840 --> 01:14:15,679

make the decisions that they want

1432

01:14:15,679 --> 01:14:19,120

very rarely do you have opposition

1433

01:14:19,120 --> 01:14:21,440

from investors but this is a long

1434

01:14:21,440 --> 01:14:22,239

discussion

1435

01:14:22,239 --> 01:14:25,360

which would take too much time arya okay

1436

01:14:25,360 --> 01:14:26,960

if you're interested in that you have to

1437

01:14:26,960 --> 01:14:29,199

read about corporate covenants

1438

01:14:29,199 --> 01:14:32,560

okay thank you all right any other

1439

01:14:32,560 --> 01:14:34,960

questions

1440

01:14:35,760 --> 01:14:38,719

all right so we've talked about primary

1441

01:14:38,719 --> 01:14:40,239

and secondary

1442

01:14:40,239 --> 01:14:43,360

we've just talked about debt

1443

01:14:43,360 --> 01:14:46,400

and equity so you're clear on the

1444

01:14:46,400 --> 01:14:50,000

difference between that and equity

1445

01:14:51,440 --> 01:14:55,199

let's see benson we're on

1446

01:14:55,199 --> 01:14:59,600

for the next iprs

1447

01:15:08,840 --> 01:15:11,840

pension

1448

01:15:12,400 --> 01:15:15,920

oh mention

1449

01:15:17,840 --> 01:15:21,600

okay here we go

1450

01:15:22,080 --> 01:15:25,840

next question

1451

01:15:29,360 --> 01:15:31,760

all right first question if a company

1452

01:15:31,760 --> 01:15:33,440

issues bonds

1453

01:15:33,440 --> 01:15:36,840

which type of market does it use ecm

1454

01:15:36,840 --> 01:15:39,840

odcm

1455

01:16:04,840 --> 01:16:07,840

so

1456

01:16:32,880 --> 01:16:35,840

okay

1457

01:16:46,840 --> 01:16:49,840

um

1458

01:17:00,840 --> 01:17:03,840

um

1459

01:17:14,840 --> 01:17:17,840

true

1460

01:17:18,000 --> 01:17:20,800

very good so it is indeed dead capital

1461

01:17:20,800 --> 01:17:21,760

market

1462

01:17:21,760 --> 01:17:25,600

next question the fx market

1463

01:17:25,600 --> 01:17:31,840

is a capital market financial market

1464

01:17:56,840 --> 01:17:59,840

so

1465

01:18:10,840 --> 01:18:13,840

foreign

1466

01:19:16,320 --> 01:19:19,199

all right indeed it's a financial market

1467

01:19:19,199 --> 01:19:19,760

not

1468

01:19:19,760 --> 01:19:23,040

a capital market very good

1469

01:19:23,040 --> 01:19:27,840

okay so let me stop this and reclaim

1470

01:19:27,840 --> 01:19:28,960

this year

1471

01:19:28,960 --> 01:19:32,800

we go all right so i had a question from

1472

01:19:32,800 --> 01:19:37,840

sawai uh in slide 72

1473

01:19:40,480 --> 01:19:45,440

75 this is primary and secondary market

1474

01:19:46,560 --> 01:19:49,600

you say money market means fx so this is

1475

01:19:49,600 --> 01:19:53,040

primary and secondary

1476

01:19:54,400 --> 01:19:58,000

so foreign exchange as specified in

1477

01:19:58,000 --> 01:20:00,239

slide 78

1478

01:20:00,239 --> 01:20:04,000

is fx market it's not money markets

1479

01:20:04,000 --> 01:20:05,920

okay money markets is part of the debt

1480

01:20:05,920 --> 01:20:07,199

markets

1481

01:20:07,199 --> 01:20:12,159

but it is not per se a security market

1482

01:20:12,159 --> 01:20:17,280

all right so here this is debt markets

1483

01:20:17,280 --> 01:20:22,080

okay this is equity markets

1484

01:20:22,080 --> 01:20:24,960

so money market is part of that markets

1485

01:20:24,960 --> 01:20:27,840

under one year

1486

01:20:31,199 --> 01:20:33,600

all right so that's not fx market fx is

1487

01:20:33,600 --> 01:20:34,480

different it's

1488

01:20:34,480 --> 01:20:37,840

it's kind of like over there

1489

01:20:41,520 --> 01:20:46,960

all right any other questions

1490

01:20:46,960 --> 01:20:50,239

so we're clear so we are if we're

1491

01:20:50,239 --> 01:20:50,800

issuing

1492

01:20:50,800 --> 01:20:53,520

bonds we're doing debt capital markets

1493

01:20:53,520 --> 01:20:55,520

if we're doing foreign exchange it's a

1494

01:20:55,520 --> 01:20:57,440

financial markets because we do not

1495

01:20:57,440 --> 01:20:59,600

raise capital

1496

01:20:59,600 --> 01:21:03,360

okie dokie almost all clear

1497

01:21:03,360 --> 01:21:06,800

good all right so next we're going to

1498

01:21:06,800 --> 01:21:07,520

move on

1499

01:21:07,520 --> 01:21:10,400

to something a bit complicated okay

1500

01:21:10,400 --> 01:21:12,480

we're going to be talking about market

1501

01:21:12,480 --> 01:21:15,600

organization and market structure

1502

01:21:15,600 --> 01:21:19,040

so i'm again i'm going to be debunking a

1503

01:21:19,040 --> 01:21:19,920

lot of

1504

01:21:19,920 --> 01:21:23,360

uh misconceptions so first

1505

01:21:23,360 --> 01:21:26,400

thing is we're going to talk about

1506

01:21:26,400 --> 01:21:30,000

four types of market organization

1507

01:21:30,000 --> 01:21:32,880

so by which i mean you remember when we

1508

01:21:32,880 --> 01:21:34,639

talk about the main functions of

1509

01:21:34,639 --> 01:21:38,320

financial markets which is to connect

1510

01:21:38,320 --> 01:21:40,960

sources of funds and users of funds

1511

01:21:40,960 --> 01:21:42,000

right so how do

1512

01:21:42,000 --> 01:21:44,639

we do that how do we get organized how

1513

01:21:44,639 --> 01:21:45,360

does it

1514

01:21:45,360 --> 01:21:48,960

work to connect those two signs so

1515

01:21:48,960 --> 01:21:52,080

the first way the simplest way is

1516

01:21:52,080 --> 01:21:53,520

directly

1517

01:21:53,520 --> 01:21:57,520

so let's say chai wants to

1518

01:21:57,520 --> 01:22:01,199

buy some shores in what you want to buy

1519

01:22:01,199 --> 01:22:02,400

fizzy charm

1520

01:22:02,400 --> 01:22:04,480

let's say you want to buy uh like an

1521

01:22:04,480 --> 01:22:06,080

airline or something i like plates

1522

01:22:06,080 --> 01:22:10,000

an airline okay you want to buy cafe

1523

01:22:10,000 --> 01:22:13,840

pacific or thailand yeah

1524

01:22:13,840 --> 01:22:16,560

i'll go with i'll go with cafe all right

1525

01:22:16,560 --> 01:22:18,159

okay so you want to myself

1526

01:22:18,159 --> 01:22:20,960

cafe and let's imagine for a minute that

1527

01:22:20,960 --> 01:22:22,320

packed way

1528

01:22:22,320 --> 01:22:25,679

uh is the owner of a few shares that he

1529

01:22:25,679 --> 01:22:28,400

actually wants to sell

1530

01:22:28,400 --> 01:22:30,400

how is that going to happen so one

1531

01:22:30,400 --> 01:22:32,320

simple way is that

1532

01:22:32,320 --> 01:22:36,080

physics i uh talks to factory taxpayers

1533

01:22:36,080 --> 01:22:38,000

sells the shares to visit china that

1534

01:22:38,000 --> 01:22:40,960

is direct okay the buyer and the seller

1535

01:22:40,960 --> 01:22:42,960

meet and agree

1536

01:22:42,960 --> 01:22:46,400

that's the simplest of all but it's also

1537

01:22:46,400 --> 01:22:47,520

complicated

1538

01:22:47,520 --> 01:22:49,679

why because hey you know what that

1539

01:22:49,679 --> 01:22:50,719

phrase and

1540

01:22:50,719 --> 01:22:52,719

where are you taking are you in hong

1541

01:22:52,719 --> 01:22:55,520

kong china

1542

01:22:56,400 --> 01:22:59,040

can't hear you

1543

01:23:01,040 --> 01:23:03,280

i'm in hong kong yes okay so we have

1544

01:23:03,280 --> 01:23:05,199

chat with hong kong and fiji chai are

1545

01:23:05,199 --> 01:23:07,360

you in thailand or somewhere

1546

01:23:07,360 --> 01:23:09,360

i'm in hong kong as well oh yeah but

1547

01:23:09,360 --> 01:23:10,880

you're in a different part of hong kong

1548

01:23:10,880 --> 01:23:12,400

right so you don't know each other

1549

01:23:12,400 --> 01:23:15,120

you cannot meet so it's complicated so

1550

01:23:15,120 --> 01:23:16,639

how are you going to find each other

1551

01:23:16,639 --> 01:23:17,760

right so direct

1552

01:23:17,760 --> 01:23:21,040

search is both simple and complicated

1553

01:23:21,040 --> 01:23:23,280

because unless you know the other party

1554

01:23:23,280 --> 01:23:24,719

how are you going to connect

1555

01:23:24,719 --> 01:23:28,159

right so you need some help and some

1556

01:23:28,159 --> 01:23:28,560

help

1557

01:23:28,560 --> 01:23:32,000

means you can use brokers

1558

01:23:32,000 --> 01:23:35,600

or you can use dealers okay so let me

1559

01:23:35,600 --> 01:23:37,440

walk you through that and we'll come

1560

01:23:37,440 --> 01:23:39,280

back to that

1561

01:23:39,280 --> 01:23:42,480

again okay so direct search very simple

1562

01:23:42,480 --> 01:23:45,280

buy and seller meet and agree together

1563

01:23:45,280 --> 01:23:46,840

okay

1564

01:23:46,840 --> 01:23:49,760

simple broker

1565

01:23:49,760 --> 01:23:53,360

is different so we still have fizzy chai

1566

01:23:53,360 --> 01:23:55,440

who wants to buy shares and parkway who

1567

01:23:55,440 --> 01:23:57,280

wants to sell shares they don't know

1568

01:23:57,280 --> 01:23:59,040

each other they're in different parts of

1569

01:23:59,040 --> 01:24:01,520

hong kong

1570

01:24:01,520 --> 01:24:04,480

how are they going to connect well they

1571

01:24:04,480 --> 01:24:04,960

they

1572

01:24:04,960 --> 01:24:08,320

happen to both know roman and roman

1573

01:24:08,320 --> 01:24:11,600

is a broker his job

1574

01:24:11,600 --> 01:24:14,800

is to connect people

1575

01:24:14,800 --> 01:24:17,199

because he doesn't do it just because

1576

01:24:17,199 --> 01:24:18,639

he's a nice guy

1577

01:24:18,639 --> 01:24:21,440

he also does it to make some money there

1578

01:24:21,440 --> 01:24:22,639

you go

1579

01:24:22,639 --> 01:24:26,080

so visit chai can call roman

1580

01:24:26,080 --> 01:24:28,560

and say hey you know i want to buy some

1581

01:24:28,560 --> 01:24:30,110

shares in apple and

1582

01:24:30,110 --> 01:24:31,520

[Music]

1583

01:24:31,520 --> 01:24:34,880

roman whose job it is to know all the

1584

01:24:34,880 --> 01:24:37,199

players in the market will contact her

1585

01:24:37,199 --> 01:24:38,000

and say hey

1586

01:24:38,000 --> 01:24:39,600

you know those shares you mentioned in

1587

01:24:39,600 --> 01:24:41,360

apple would you be interested in selling

1588

01:24:41,360 --> 01:24:42,400

them

1589

01:24:42,400 --> 01:24:45,840

and then he will put the two parties

1590

01:24:45,840 --> 01:24:47,520

together

1591

01:24:47,520 --> 01:24:50,320

the transaction will happen between the

1592

01:24:50,320 --> 01:24:51,199

two parties

1593

01:24:51,199 --> 01:24:54,560

not through roman roman will just

1594

01:24:54,560 --> 01:24:57,280

charge a fee or a commission for the

1595

01:24:57,280 --> 01:24:59,520

service

1596

01:24:59,520 --> 01:25:02,000

okay so the buyer and the sellers still

1597

01:25:02,000 --> 01:25:02,880

transact

1598

01:25:02,880 --> 01:25:06,400

together but they've been introduced by

1599

01:25:06,400 --> 01:25:08,320

the broker

1600

01:25:08,320 --> 01:25:11,600

who helped them to reach that

1601

01:25:11,600 --> 01:25:13,440

transaction

1602

01:25:13,440 --> 01:25:17,360

in consideration of a commission

1603

01:25:17,360 --> 01:25:22,000

or fee okay so roman makes money by

1604

01:25:22,000 --> 01:25:23,920

connecting people

1605

01:25:23,920 --> 01:25:28,320

nice job right sometimes

1606

01:25:28,320 --> 01:25:31,360

you can actually also go through a

1607

01:25:31,360 --> 01:25:32,080

dealer

1608

01:25:32,080 --> 01:25:35,440

so what is a dealer okay now let's

1609

01:25:35,440 --> 01:25:38,159

see john day is going to be our dealer

1610

01:25:38,159 --> 01:25:38,719

today

1611

01:25:38,719 --> 01:25:41,840

hello gem day how are you

1612

01:25:41,840 --> 01:25:45,440

all right so jongdae is a dealer

1613

01:25:45,440 --> 01:25:48,800

in apple shares uh casey pacific

1614

01:25:48,800 --> 01:25:51,920

sorry so his job is

1615

01:25:51,920 --> 01:25:55,360

really to know the cathay pacific shares

1616

01:25:55,360 --> 01:25:57,280

market

1617

01:25:57,280 --> 01:26:00,800

and participants in the market know

1618

01:26:00,800 --> 01:26:04,239

that john day is actively buying and

1619

01:26:04,239 --> 01:26:05,920

selling shares

1620

01:26:05,920 --> 01:26:09,199

all the time so why is zhang day buying

1621

01:26:09,199 --> 01:26:11,040

and selling shares

1622

01:26:11,040 --> 01:26:14,080

not because it's just fun but hopefully

1623

01:26:14,080 --> 01:26:17,360

he wants to make money okay

1624

01:26:17,360 --> 01:26:20,159

so how do we make money by buying and

1625

01:26:20,159 --> 01:26:23,840

selling stuff

1626

01:26:27,199 --> 01:26:30,800

dang day how do you make money

1627

01:26:32,320 --> 01:26:34,880

that's right you can talk you know

1628

01:26:34,880 --> 01:26:36,080

that's right

1629

01:26:36,080 --> 01:26:38,560

difference between the you don't want to

1630

01:26:38,560 --> 01:26:40,719

talk all right that's okay

1631

01:26:40,719 --> 01:26:42,800

it so it's a difference between the

1632

01:26:42,800 --> 01:26:44,880

price at which you buy and the price at

1633

01:26:44,880 --> 01:26:46,719

which you sell so hopefully you sell

1634

01:26:46,719 --> 01:26:48,800

higher than you bought and you make some

1635

01:26:48,800 --> 01:26:49,360

money

1636

01:26:49,360 --> 01:26:52,480

all right okay okay now

1637

01:26:52,480 --> 01:26:55,280

i'm not talking about shorting right now

1638

01:26:55,280 --> 01:26:55,679

okay

1639

01:26:55,679 --> 01:26:58,800

let's keep it simple so my friend

1640

01:26:58,800 --> 01:27:02,880

is a child here he could either look for

1641

01:27:02,880 --> 01:27:05,840

where

1642

01:27:08,159 --> 01:27:11,440

or he can call roman or

1643

01:27:11,440 --> 01:27:15,280

he can call gender and buy the shares

1644

01:27:15,280 --> 01:27:20,080

from chengdu who will then turn around

1645

01:27:20,080 --> 01:27:21,920

oh if he doesn't have them already he

1646

01:27:21,920 --> 01:27:24,159

will buy them from tech

1647

01:27:24,159 --> 01:27:28,239

okay so notice how different roman's job

1648

01:27:28,239 --> 01:27:31,280

as a broker is from

1649

01:27:31,280 --> 01:27:35,440

gengdy's job as a dealer chang day

1650

01:27:35,440 --> 01:27:39,600

is buying and selling stuff

1651

01:27:39,600 --> 01:27:41,520

and make money from the difference we

1652

01:27:41,520 --> 01:27:44,800

call this the spread

1653

01:27:44,800 --> 01:27:47,600

but chang day takes risk what is the

1654

01:27:47,600 --> 01:27:48,159

risk

1655

01:27:48,159 --> 01:27:51,360

that genji is taking

1656

01:27:57,920 --> 01:28:01,679

that's right chang day is taking

1657

01:28:01,679 --> 01:28:05,199

a market risk he's taking the risk

1658

01:28:05,199 --> 01:28:07,920

that if he boards things at a certain

1659

01:28:07,920 --> 01:28:10,159

price the price will fall

1660

01:28:10,159 --> 01:28:13,600

okay and that mark

1661

01:28:13,600 --> 01:28:15,679

that change in price when it goes

1662

01:28:15,679 --> 01:28:16,880

against you is called

1663

01:28:16,880 --> 01:28:20,719

market risk okay so the risk arising

1664

01:28:20,719 --> 01:28:21,360

from

1665

01:28:21,360 --> 01:28:25,120

price changes in the market does roman

1666

01:28:25,120 --> 01:28:29,840

take risk

1667

01:28:29,920 --> 01:28:33,520

no okay well it takes a risk that he

1668

01:28:33,520 --> 01:28:34,960

might not

1669

01:28:34,960 --> 01:28:37,120

get any business done if he cannot find

1670

01:28:37,120 --> 01:28:38,320

two parties

1671

01:28:38,320 --> 01:28:41,360

but he's not buying and selling stuff

1672

01:28:41,360 --> 01:28:43,520

okay he's just introducing people for

1673

01:28:43,520 --> 01:28:45,199

free so

1674

01:28:45,199 --> 01:28:48,159

very important to understand the

1675

01:28:48,159 --> 01:28:49,199

difference between

1676

01:28:49,199 --> 01:28:52,320

a broker who is an

1677

01:28:52,320 --> 01:28:56,320

agent and a dealer

1678

01:28:56,320 --> 01:28:59,520

who is a principal okay

1679

01:28:59,520 --> 01:29:02,960

acting in his own name using his own

1680

01:29:02,960 --> 01:29:05,280

balance sheet

1681

01:29:05,280 --> 01:29:07,360

okay now there's another way you can

1682

01:29:07,360 --> 01:29:09,600

find buyers and sellers is putting them

1683

01:29:09,600 --> 01:29:10,719

all together

1684

01:29:10,719 --> 01:29:13,760

in an auction market so

1685

01:29:13,760 --> 01:29:16,560

auction markets is when you put buyers

1686

01:29:16,560 --> 01:29:18,960

and sellers together

1687

01:29:18,960 --> 01:29:22,639

and you have an auction mechanism

1688

01:29:22,639 --> 01:29:25,120

and by the way it's 125 so if you need

1689

01:29:25,120 --> 01:29:27,280

to leave that's okay with me

1690

01:29:27,280 --> 01:29:30,320

i'm going to rub up in a second

1691

01:29:30,320 --> 01:29:32,400

auction markets put all the buyers and

1692

01:29:32,400 --> 01:29:33,679

sellers together

1693

01:29:33,679 --> 01:29:36,080

and have an auction mechanism to

1694

01:29:36,080 --> 01:29:37,600

determine the price

1695

01:29:37,600 --> 01:29:41,440

okay so four ways that we can make a

1696

01:29:41,440 --> 01:29:43,679

deal between a buy and a seller

1697

01:29:43,679 --> 01:29:45,679

directly through a broker through a

1698

01:29:45,679 --> 01:29:46,880

dealer or

1699

01:29:46,880 --> 01:29:50,320

through an auction market okay we will

1700

01:29:50,320 --> 01:29:53,520

talk next time about how

1701

01:29:53,520 --> 01:29:57,360

that impacts price determination

1702

01:29:57,360 --> 01:30:01,199

all right thank you very much

1703

01:30:01,199 --> 01:30:04,800

have a great weekend

1704

01:30:04,880 --> 01:30:07,920

oh my god the questions you're putting

1705

01:30:07,920 --> 01:30:09,600

in here

1706

01:30:09,600 --> 01:30:11,840

uh i will answer those questions but you

1707

01:30:11,840 --> 01:30:12,719

are free to go

1708

01:30:12,719 --> 01:30:15,040

have a wonderful weekend i will see you

1709

01:30:15,040 --> 01:30:16,239

whenever that

1710

01:30:16,239 --> 01:30:19,760

monday right yeah

1711

01:30:19,760 --> 01:30:35,840

bye okay what was that question

1712

01:30:37,120 --> 01:30:40,120

okay yitong uh how do auction

1713

01:30:40,120 --> 01:30:41,280

institutions

1714

01:30:41,280 --> 01:30:45,040

earn money they basically charging fees

1715

01:30:45,040 --> 01:30:48,400

um commissions that kind of thing

1716

01:30:48,400 --> 01:30:51,440

um but i i'll have to check

1717

01:30:51,440 --> 01:30:53,840

in more detail because it really depends

1718

01:30:53,840 --> 01:30:54,960

on which

1719

01:30:54,960 --> 01:30:57,520

auction institution we're talking about

1720

01:30:57,520 --> 01:31:00,239

i'll shares are stockholders responsible

1721

01:31:00,239 --> 01:31:00,639

for

1722

01:31:00,639 --> 01:31:03,920

crimes committed by the company no

1723

01:31:03,920 --> 01:31:07,520

uh the corporate limited liability

1724

01:31:07,520 --> 01:31:08,639

corporations

1725

01:31:08,639 --> 01:31:12,000

the reliability of stockholders is

1726

01:31:12,000 --> 01:31:13,040

limited to the

1727

01:31:13,040 --> 01:31:15,040

investment that they've made that's the

1728

01:31:15,040 --> 01:31:16,239

whole point

1729

01:31:16,239 --> 01:31:19,600

so when you're buying shares you're just

1730

01:31:19,600 --> 01:31:21,520

putting money in the company

1731

01:31:21,520 --> 01:31:22,960

you're not responsible for what the

1732

01:31:22,960 --> 01:31:25,760

company is doing but you can sue

1733

01:31:25,760 --> 01:31:28,320

the company and the management for

1734

01:31:28,320 --> 01:31:30,639

crimes committed by the company

1735

01:31:30,639 --> 01:31:33,920

this is what we call securities fraud

1736

01:31:33,920 --> 01:31:36,239

in the united states and if you read

1737

01:31:36,239 --> 01:31:38,080

some of the newsletters

1738

01:31:38,080 --> 01:31:40,880

that i have recommended uh like matt

1739

01:31:40,880 --> 01:31:41,920

levin

1740

01:31:41,920 --> 01:31:44,639

uh matt levin talks a lot about

1741

01:31:44,639 --> 01:31:46,480

securities card

1742

01:31:46,480 --> 01:31:49,600

okay uh can retail

1743

01:31:49,600 --> 01:31:52,639

investors also be considered dealers

1744

01:31:52,639 --> 01:31:55,120

in real life there are many examples of

1745

01:31:55,120 --> 01:31:56,639

dealers so we will

1746

01:31:56,639 --> 01:32:00,080

talk about this in more detail uh

1747

01:32:00,080 --> 01:32:02,320

next time what's your name my only

1748

01:32:02,320 --> 01:32:03,280

professor

1749

01:32:03,280 --> 01:32:05,600

yes yeah i want to ask like what's the

1750

01:32:05,600 --> 01:32:06,480

point of

1751

01:32:06,480 --> 01:32:08,960

buying zero interest bonds for the

1752

01:32:08,960 --> 01:32:10,080

investor

1753

01:32:10,080 --> 01:32:14,719

since you don't get any think about it

1754

01:32:15,360 --> 01:32:19,280

think about it why would you buy a zero

1755

01:32:19,280 --> 01:32:22,560

coupon bond oh

1756

01:32:22,560 --> 01:32:28,000

because like the um

1757

01:32:28,000 --> 01:32:30,880

if you put in a bank maybe it's more

1758

01:32:30,880 --> 01:32:31,760

risky

1759

01:32:31,760 --> 01:32:35,040

i'm not sure so you have to think about

1760

01:32:35,040 --> 01:32:38,239

how do you make money on a bond okay

1761

01:32:38,239 --> 01:32:42,320

part of it is the return from the coupon

1762

01:32:42,320 --> 01:32:44,560

but what's the other part of your return

1763

01:32:44,560 --> 01:32:45,520

where's the other

1764

01:32:45,520 --> 01:32:49,040

part of your return come from

1765

01:32:50,800 --> 01:32:54,320

is it because we cannot attack jacques i

1766

01:32:54,320 --> 01:32:56,239

cannot hear you very well

1767

01:32:56,239 --> 01:32:58,400

it is because we can lower the tax after

1768

01:32:58,400 --> 01:33:00,719

buy the syracuse

1769

01:33:00,719 --> 01:33:03,120

then why

1770

01:33:04,880 --> 01:33:07,600

that's because he's saying uh are we not

1771

01:33:07,600 --> 01:33:08,239

taxed

1772

01:33:08,239 --> 01:33:10,639

under the bonds that's a joke finger

1773

01:33:10,639 --> 01:33:12,560

saying

1774

01:33:12,560 --> 01:33:15,199

now when i was answering where you

1775

01:33:15,199 --> 01:33:16,960

should rise right

1776

01:33:16,960 --> 01:33:18,880

and you think about the return from the

1777

01:33:18,880 --> 01:33:20,400

bond there's two parts

1778

01:33:20,400 --> 01:33:23,840

what is the interest and the other part

1779

01:33:23,840 --> 01:33:28,239

is the price that you pay for the bond

1780

01:33:28,239 --> 01:33:31,280

and the money you get at the end so the

1781

01:33:31,280 --> 01:33:33,520

difference between the price at which

1782

01:33:33,520 --> 01:33:37,120

you buy the bond and the final payment

1783

01:33:37,120 --> 01:33:40,560

or if you sell before maturity the price

1784

01:33:40,560 --> 01:33:42,239

that you sell it up

1785

01:33:42,239 --> 01:33:43,840

okay so you have to look at those two

1786

01:33:43,840 --> 01:33:45,920

components and this is not the same

1787

01:33:45,920 --> 01:33:49,199

like if i buy a zero interest bond for

1788

01:33:49,199 --> 01:33:51,760

one dollar later on it's not going to be

1789

01:33:51,760 --> 01:33:53,040

one dollar

1790

01:33:53,040 --> 01:33:54,800

one day this is a whole question about

1791

01:33:54,800 --> 01:33:56,880

bond bond pricing which we will

1792

01:33:56,880 --> 01:34:00,159

get to eventually but

1793

01:34:00,159 --> 01:34:02,960

first par first question is if you have

1794

01:34:02,960 --> 01:34:04,560

a bond with the coupon

1795

01:34:04,560 --> 01:34:06,960

it depends on what the interest rate is

1796

01:34:06,960 --> 01:34:08,320

in the market

1797

01:34:08,320 --> 01:34:10,880

right so maybe your coupon is pretty

1798

01:34:10,880 --> 01:34:11,520

high

1799

01:34:11,520 --> 01:34:14,719

and currently the market rates are

1800

01:34:14,719 --> 01:34:18,159

very low okay so you have a difference

1801

01:34:18,159 --> 01:34:20,239

between the interest that the bond pays

1802

01:34:20,239 --> 01:34:21,920

and what you would get otherwise in the

1803

01:34:21,920 --> 01:34:23,120

market

1804

01:34:23,120 --> 01:34:25,679

so if you think about it a zero coupon

1805

01:34:25,679 --> 01:34:28,000

bond in a normal market would not be

1806

01:34:28,000 --> 01:34:29,199

terribly attractive

1807

01:34:29,199 --> 01:34:32,239

apart from the price difference

1808

01:34:32,239 --> 01:34:35,520

but if you have negative interest rates

1809

01:34:35,520 --> 01:34:38,880

zero is better than less than zero

1810

01:34:38,880 --> 01:34:41,920

right most importantly zero coupon bonds

1811

01:34:41,920 --> 01:34:44,480

sell at a discount to park

1812

01:34:44,480 --> 01:34:47,600

so you buy them at a price

1813

01:34:47,600 --> 01:34:50,159

that reflects the difference so in other

1814

01:34:50,159 --> 01:34:52,159

words the return that you get is the

1815

01:34:52,159 --> 01:34:54,159

difference between the price at which

1816

01:34:54,159 --> 01:34:54,800

you buy

1817

01:34:54,800 --> 01:34:57,520

the zero one bond and the payment that

1818

01:34:57,520 --> 01:35:00,960

you get at the end

1819

01:35:00,960 --> 01:35:03,520

okay so the answer to the question why

1820

01:35:03,520 --> 01:35:05,520

would i buy a zero coupon bond

1821

01:35:05,520 --> 01:35:09,520

it it depends on the price

1822

01:35:12,320 --> 01:35:17,119

oh wait yen i love the cat on your photo

1823

01:35:17,119 --> 01:35:20,719

thank you i love it as well

1824

01:35:20,800 --> 01:35:23,440

all right any other questions uh

1825

01:35:23,440 --> 01:35:24,159

professor i

1826

01:35:24,159 --> 01:35:27,920

want to ask questions uh uh what's an

1827

01:35:27,920 --> 01:35:30,239

example of an auction market

1828

01:35:30,239 --> 01:35:32,800

uh but we'll talk about that next week

1829

01:35:32,800 --> 01:35:35,119

okay

1830

01:35:35,760 --> 01:35:37,679

may ask what's the major difference

1831

01:35:37,679 --> 01:35:41,199

between the relatives and securities

1832

01:35:41,199 --> 01:35:44,480

yeah so some people say derivatives are

1833

01:35:44,480 --> 01:35:46,560

part of securities i don't particularly

1834

01:35:46,560 --> 01:35:49,880

agree because securities is negotiable

1835

01:35:49,880 --> 01:35:53,040

transferable financial instrument

1836

01:35:53,040 --> 01:35:55,199

so if you think about derivatives

1837

01:35:55,199 --> 01:35:56,080

there's four

1838

01:35:56,080 --> 01:36:00,080

main kinds of derivatives swaps

1839

01:36:00,080 --> 01:36:04,159

are definitely not securities

1840

01:36:04,159 --> 01:36:07,360

options can be

1841

01:36:07,360 --> 01:36:10,719

if they are listed if you have

1842

01:36:10,719 --> 01:36:13,360

listed options then you can buy and sell

1843

01:36:13,360 --> 01:36:14,480

them

1844

01:36:14,480 --> 01:36:17,600

but if they're otc they're not

1845

01:36:17,600 --> 01:36:20,800

negotiable and tradable okay then you

1846

01:36:20,800 --> 01:36:22,080

have

1847

01:36:22,080 --> 01:36:26,159

forwards so forwards are not securities

1848

01:36:26,159 --> 01:36:28,239

there are agreements to buy or sell

1849

01:36:28,239 --> 01:36:29,840

something in the future

1850

01:36:29,840 --> 01:36:33,119

and then you have futures futures are

1851

01:36:33,119 --> 01:36:34,000

basically

1852

01:36:34,000 --> 01:36:38,159

forwards but they're exchanged specific

1853

01:36:38,159 --> 01:36:41,199

contracts so because the futures are

1854

01:36:41,199 --> 01:36:43,840

listed and traded on exchange

1855

01:36:43,840 --> 01:36:47,520

they are effectively securities

1856

01:36:47,520 --> 01:36:50,719

okay that clear

1857

01:36:50,719 --> 01:36:54,159

yeah i get it thanks okay good good

1858

01:36:54,159 --> 01:36:57,520

any other questions

1859

01:36:57,520 --> 01:37:00,159

uh i have a question that is uh not

1860

01:37:00,159 --> 01:37:02,080

quite related to the

1861

01:37:02,080 --> 01:37:04,800

course materials because uh actually i

1862

01:37:04,800 --> 01:37:06,000

am new to this course

1863

01:37:06,000 --> 01:37:08,560

and i just enter it using another

1864

01:37:08,560 --> 01:37:09,679

account because i

1865

01:37:09,679 --> 01:37:12,800

cannot enter this zoom meeting with my

1866

01:37:12,800 --> 01:37:14,800

usd account

1867

01:37:14,800 --> 01:37:18,400

where should i seek help for this

1868

01:37:18,400 --> 01:37:21,760

sorry i didn't understand your question

1869

01:37:21,760 --> 01:37:25,119

that means i just cannot enter this

1870

01:37:25,119 --> 01:37:29,679

meeting with my usd account

1871

01:37:29,679 --> 01:37:33,360

oh okay email benson oh okay okay for

1872

01:37:33,360 --> 01:37:35,040

technical suffrage i don't i don't

1873

01:37:35,040 --> 01:37:35,679

really

1874

01:37:35,679 --> 01:37:37,920

he knows way more than i do okay if you

1875

01:37:37,920 --> 01:37:40,159

have technical difficulties with access

1876

01:37:40,159 --> 01:37:40,480

to

1877

01:37:40,480 --> 01:37:42,880

our systems please email benson you have

1878

01:37:42,880 --> 01:37:44,080

his email right

1879

01:37:44,080 --> 01:37:47,199

uh can i find it on

1880

01:37:47,199 --> 01:37:50,480

canvas it's on the syllabus okay

1881

01:37:50,480 --> 01:37:55,280

okay oh thank you all right okay

1882

01:37:55,280 --> 01:37:58,000

anything else

1883

01:37:58,400 --> 01:38:02,320

all right if not now have a lovely

1884

01:38:02,320 --> 01:38:08,000

weekend and i see you on monday

==end 0219==

==start 0222==

1

00:00:31,840 --> 00:00:34,640

good afternoon

2

00:00:42,160 --> 00:00:45,840

hello hello everybody

3

00:00:47,680 --> 00:00:50,879

can you see the slides

4

00:00:50,960 --> 00:00:55,120

yeah good you can hear me clearly

5

00:00:55,120 --> 00:01:01,039

okay wonderful okay couple of minutes to

6

00:01:10,840 --> 00:01:13,840

go

7

00:01:52,840 --> 00:01:55,200

laughs

8

00:01:55,200 --> 00:01:58,560

i think let's see what's the weather

9

00:01:58,560 --> 00:02:00,799

like

10

00:02:02,240 --> 00:02:06,079

nice weather generally bullish

11

00:02:06,079 --> 00:02:08,639

there is a strong correlation in traders

12

00:02:08,639 --> 00:02:10,000

minds

13

00:02:10,000 --> 00:02:14,000

between the weather and their attitude

14

00:02:14,000 --> 00:02:18,000

rule as experienced in the trading floor

15

00:02:18,000 --> 00:02:23,840

in london

16

00:02:25,200 --> 00:02:37,840

all right

17

00:02:40,800 --> 00:02:43,519

okay how many people do that oh only

18

00:02:43,519 --> 00:02:45,599

about half of the participants have

19

00:02:45,599 --> 00:02:51,840

signed in

20

00:03:02,239 --> 00:03:05,840

gotta open the other one

21

00:03:25,280 --> 00:03:28,319

okay all right well

22

00:03:28,319 --> 00:03:31,599

it's 4 30 on my computer clock so

23

00:03:31,599 --> 00:03:34,720

let's get this started i

24

00:03:34,720 --> 00:03:38,879

so remember last time we talked about

25

00:03:38,879 --> 00:03:42,080

direct search where buyer and seller

26

00:03:42,080 --> 00:03:44,840

meet each other and trade with each

27

00:03:44,840 --> 00:03:47,360

other then we talked about

28

00:03:47,360 --> 00:03:50,879

brokers so we had if i remember

29

00:03:50,879 --> 00:03:52,080

correctly our friend

30

00:03:52,080 --> 00:03:55,439

roman was the broker and was

31

00:03:55,439 --> 00:03:57,760

basically connecting parties and

32

00:03:57,760 --> 00:04:00,560

charging a fee for the service

33

00:04:00,560 --> 00:04:04,000

and then we had dealers and

34

00:04:04,000 --> 00:04:07,120

i think it was jenga who was our dealer

35

00:04:07,120 --> 00:04:10,319

and jiang day was basically buying and

36

00:04:10,319 --> 00:04:10,879

selling

37

00:04:10,879 --> 00:04:13,840

securities and hoping to make some money

38

00:04:13,840 --> 00:04:15,920

on the spread which is the difference

39

00:04:15,920 --> 00:04:17,120

between

40

00:04:17,120 --> 00:04:19,759

the price at which it sold and the price

41

00:04:19,759 --> 00:04:20,399

at which

42

00:04:20,399 --> 00:04:24,160

we bought and we identified

43

00:04:24,160 --> 00:04:28,080

the fact that uh chang day as a dealer

44

00:04:28,080 --> 00:04:31,120

takes on more risk than roman

45

00:04:31,120 --> 00:04:34,960

as a broker because gen day takes

46

00:04:34,960 --> 00:04:38,800

market risk and market risk is the risk

47

00:04:38,800 --> 00:04:42,400

that the price of the security

48

00:04:42,400 --> 00:04:45,680

will move in a direction which

49

00:04:45,680 --> 00:04:48,880

uh is not good for you

50

00:04:48,880 --> 00:04:52,960

right and there is another

51

00:04:52,960 --> 00:04:55,919

way to put buyers and sellers together

52

00:04:55,919 --> 00:04:57,040

and that is to put

53

00:04:57,040 --> 00:04:59,600

all the buyers and the sellers in one

54

00:04:59,600 --> 00:05:01,039

place

55

00:05:01,039 --> 00:05:04,880

and to hold an auction

56

00:05:04,880 --> 00:05:09,600

so can you think of some examples

57

00:05:09,600 --> 00:05:13,199

in real life outside finance of

58

00:05:13,199 --> 00:05:17,360

auction market you can raise your hand

59

00:05:17,360 --> 00:05:20,479

or type in ebay so the b is very very

60

00:05:20,479 --> 00:05:21,039

good

61

00:05:21,039 --> 00:05:24,080

all right fish market yeah and

62

00:05:24,080 --> 00:05:27,680

some fish markets uh are actually using

63

00:05:27,680 --> 00:05:30,960

options so you have many many examples

64

00:05:30,960 --> 00:05:34,639

in real life where you have

65

00:05:34,639 --> 00:05:38,080

uh auctions so the idea is to get

66

00:05:38,080 --> 00:05:40,400

everybody together

67

00:05:40,400 --> 00:05:43,520

and there will be something that is up

68

00:05:43,520 --> 00:05:46,960

for trading and then people will

69

00:05:46,960 --> 00:05:50,160

you know uh put in

70

00:05:50,160 --> 00:05:54,240

uh bids and the auction mechanism will

71

00:05:54,240 --> 00:05:56,240

determine the price so you have

72

00:05:56,240 --> 00:05:59,360

different types of auction mechanisms

73

00:05:59,360 --> 00:06:01,199

that can be used

74

00:06:01,199 --> 00:06:04,400

in financial markets generally

75

00:06:04,400 --> 00:06:09,039

we use the discriminatory price

76

00:06:09,039 --> 00:06:12,800

auction which is that the highest price

77

00:06:12,800 --> 00:06:15,840

wins and then depending on what is being

78

00:06:15,840 --> 00:06:16,880

sold you fill

79

00:06:16,880 --> 00:06:20,240

in the offer until you have no more

80

00:06:20,240 --> 00:06:22,160

supply left

81

00:06:22,160 --> 00:06:25,440

or what is called the dutch auction

82

00:06:25,440 --> 00:06:27,199

mechanism

83

00:06:27,199 --> 00:06:30,479

which is an equilibrium of supply

84

00:06:30,479 --> 00:06:33,280

and demand so the price is set at the

85

00:06:33,280 --> 00:06:35,039

equilibrium

86

00:06:35,039 --> 00:06:38,800

this is the mechanism that is used

87

00:06:38,800 --> 00:06:42,240

in auctions of u.s

88

00:06:42,240 --> 00:06:45,919

government securities i'll explain more

89

00:06:45,919 --> 00:06:47,280

in a minute

90

00:06:47,280 --> 00:06:50,160

all right so four different searches why

91

00:06:50,160 --> 00:06:51,919

is that important

92

00:06:51,919 --> 00:06:56,080

because the resulting price

93

00:06:56,080 --> 00:06:59,199

may not be the same depending on

94

00:06:59,199 --> 00:07:02,960

which market structure we are using

95

00:07:02,960 --> 00:07:06,479

so as i mentioned

96

00:07:06,479 --> 00:07:10,479

in auction market the price

97

00:07:10,479 --> 00:07:13,440

is determined by the auction mechanism

98

00:07:13,440 --> 00:07:15,360

that we use

99

00:07:15,360 --> 00:07:19,759

so if you are using the dutch

100

00:07:19,759 --> 00:07:23,840

auction mechanism the price that is set

101

00:07:23,840 --> 00:07:27,199

will be the equilibrium point between

102

00:07:27,199 --> 00:07:30,639

supply and demand if on the other hand

103

00:07:30,639 --> 00:07:34,400

you use the discriminatory price option

104

00:07:34,400 --> 00:07:38,479

which for example is used in hong kong

105

00:07:38,479 --> 00:07:41,639

for hong kong exchange fund

106

00:07:41,639 --> 00:07:44,879

securities then

107

00:07:44,879 --> 00:07:48,000

we fill in from the highest price

108

00:07:48,000 --> 00:07:51,120

down until we run out of supply

109

00:07:51,120 --> 00:07:53,280

okay so you will have different prices

110

00:07:53,280 --> 00:07:55,440

effectively

111

00:07:55,440 --> 00:07:59,520

now if you are in a broken market

112

00:07:59,520 --> 00:08:02,800

remember roman doesn't buy and sell uh

113

00:08:02,800 --> 00:08:05,280

securities he just connects the two

114

00:08:05,280 --> 00:08:05,840

buyers

115

00:08:05,840 --> 00:08:08,160

so the buyer and the seller so in a

116

00:08:08,160 --> 00:08:09,759

market like that

117

00:08:09,759 --> 00:08:12,960

the price is directly a function of

118

00:08:12,960 --> 00:08:15,520

supply and demand

119

00:08:15,520 --> 00:08:18,160

however when we talk about jiang day and

120

00:08:18,160 --> 00:08:19,199

dealers

121

00:08:19,199 --> 00:08:23,440

there are more variables

122

00:08:23,440 --> 00:08:26,720

than just supply and demand why because

123

00:08:26,720 --> 00:08:31,840

gender is buying and selling securities

124

00:08:31,840 --> 00:08:35,440

in that process he puts on what we call

125

00:08:35,440 --> 00:08:38,839

a position that is he has some

126

00:08:38,839 --> 00:08:42,880

inventory okay so let's imagine for a

127

00:08:42,880 --> 00:08:44,240

minute

128

00:08:44,240 --> 00:08:46,800

that it was i think if i recall

129

00:08:46,800 --> 00:08:47,839

correctly

130

00:08:47,839 --> 00:08:51,519

pacqui and visitrai who were our

131

00:08:51,519 --> 00:08:54,560

buyers and sellers now let's imagine

132

00:08:54,560 --> 00:08:57,440

that they were trying to buy and sell

133

00:08:57,440 --> 00:08:59,440

apple shares from each other

134

00:08:59,440 --> 00:09:03,760

and uh zhengdae is our apple dealer

135

00:09:03,760 --> 00:09:06,720

now imagine jane day sitting on a big

136

00:09:06,720 --> 00:09:07,760

position

137

00:09:07,760 --> 00:09:10,880

of apple shares okay so he's already

138

00:09:10,880 --> 00:09:14,160

bought quite a lot of apple shares

139

00:09:14,160 --> 00:09:17,760

and he's a little bit worried he's heard

140

00:09:17,760 --> 00:09:18,720

that the latest

141

00:09:18,720 --> 00:09:21,680

iphone has some trouble and so he's

142

00:09:21,680 --> 00:09:22,080

quite

143

00:09:22,080 --> 00:09:25,440

bearish right so he's got quite a lot of

144

00:09:25,440 --> 00:09:27,760

apple shares and he's kind of bearish on

145

00:09:27,760 --> 00:09:29,440

the trade

146

00:09:29,440 --> 00:09:32,240

and then of course he's got uh fizzy

147

00:09:32,240 --> 00:09:34,080

child who is interested in

148

00:09:34,080 --> 00:09:38,399

selling some shares right so

149

00:09:38,399 --> 00:09:40,720

let's think about how chiang dai is

150

00:09:40,720 --> 00:09:43,519

going to price

151

00:09:43,519 --> 00:09:46,560

the shares compare let's say

152

00:09:46,560 --> 00:09:49,680

with uh songhaq

153

00:09:49,680 --> 00:09:53,120

and songhak is also an apple trader but

154

00:09:53,120 --> 00:09:55,839

he doesn't have many shares and he's

155

00:09:55,839 --> 00:09:57,200

more positive

156

00:09:57,200 --> 00:10:04,800

on apple well they quote the same price

157

00:10:04,800 --> 00:10:08,320

no of course not right because

158

00:10:08,320 --> 00:10:10,560

they might want to get rid of some of

159

00:10:10,560 --> 00:10:11,519

his

160

00:10:11,519 --> 00:10:14,399

own position so he doesn't want to add

161

00:10:14,399 --> 00:10:14,720

to

162

00:10:14,720 --> 00:10:17,600

his position so he'll quote a price that

163

00:10:17,600 --> 00:10:18,880

will be

164

00:10:18,880 --> 00:10:22,000

not so attractive for

165

00:10:22,000 --> 00:10:25,440

visitor so when you look at

166

00:10:25,440 --> 00:10:28,480

prices set by dealers

167

00:10:28,480 --> 00:10:31,120

you may have as many different prices as

168

00:10:31,120 --> 00:10:32,720

you have dealers

169

00:10:32,720 --> 00:10:35,519

because it's not just supply and demand

170

00:10:35,519 --> 00:10:36,880

but it's also

171

00:10:36,880 --> 00:10:40,720

what is their existing position

172

00:10:40,720 --> 00:10:44,800

and what is their view of the market

173

00:10:44,800 --> 00:10:48,320

right so if my trader is bullish

174

00:10:48,320 --> 00:10:51,120

he will quote more aggressive prices

175

00:10:51,120 --> 00:10:52,800

than if the trader is

176

00:10:52,800 --> 00:10:56,480

bearish bullish means very positive on

177

00:10:56,480 --> 00:10:57,680

the market

178

00:10:57,680 --> 00:11:01,040

bearish means not very optimistic about

179

00:11:01,040 --> 00:11:02,399

the market

180

00:11:02,399 --> 00:11:06,880

all right so that's why

181

00:11:06,880 --> 00:11:10,320

with the same information you may have

182

00:11:10,320 --> 00:11:13,920

very different price determinations

183

00:11:13,920 --> 00:11:15,920

depending on the

184

00:11:15,920 --> 00:11:18,079

type of search that you are using what

185

00:11:18,079 --> 00:11:19,200

kind of market

186

00:11:19,200 --> 00:11:23,040

organization may end up resulting in

187

00:11:23,040 --> 00:11:27,440

very different price results all right

188

00:11:27,440 --> 00:11:30,800

any questions on that

189

00:11:31,200 --> 00:11:33,839

now we're going to move on to talking

190

00:11:33,839 --> 00:11:35,680

about exchanges

191

00:11:35,680 --> 00:11:39,760

and over-the-counter so

192

00:11:39,760 --> 00:11:42,959

in the world there are many exchanges

193

00:11:42,959 --> 00:11:47,600

some of them operate as dealer markets

194

00:11:47,600 --> 00:11:51,200

some of them are auction markets

195

00:11:51,200 --> 00:11:54,800

some of them have both so when you're

196

00:11:54,800 --> 00:11:55,600

looking at

197

00:11:55,600 --> 00:11:58,639

trading on an exchange it's

198

00:11:58,639 --> 00:12:01,680

very important to look at the small

199

00:12:01,680 --> 00:12:02,639

print

200

00:12:02,639 --> 00:12:06,320

how does it work the types of

201

00:12:06,320 --> 00:12:09,519

orders you can put in how those orders

202

00:12:09,519 --> 00:12:10,160

will be

203

00:12:10,160 --> 00:12:13,360

executed who are the players how does it

204

00:12:13,360 --> 00:12:14,639

all work

205

00:12:14,639 --> 00:12:18,240

okay so every exchange have their own

206

00:12:18,240 --> 00:12:19,920

set of rules

207

00:12:19,920 --> 00:12:22,480

and if you don't look at the rules

208

00:12:22,480 --> 00:12:23,200

before you

209

00:12:23,200 --> 00:12:27,120

actively engage in trading you may end

210

00:12:27,120 --> 00:12:28,560

up with some pretty

211

00:12:28,560 --> 00:12:33,440

nasty surprises okay

212

00:12:33,440 --> 00:12:36,480

right so now we're going to compare

213

00:12:36,480 --> 00:12:40,399

and contrast exchanges

214

00:12:40,399 --> 00:12:43,440

and over the counter so

215

00:12:43,440 --> 00:12:46,480

over the counter is o t c

216

00:12:46,480 --> 00:12:50,079

that's the letters o t c

217

00:12:50,079 --> 00:12:53,519

so what are exchanges this is

218

00:12:53,519 --> 00:12:56,880

a centralized location all right so

219

00:12:56,880 --> 00:12:59,040

trying to put all the buyers and sellers

220

00:12:59,040 --> 00:13:00,480

together

221

00:13:00,480 --> 00:13:04,240

in one place so in the old days

222

00:13:04,240 --> 00:13:06,800

it was a physical place like the fish

223

00:13:06,800 --> 00:13:08,000

market

224

00:13:08,000 --> 00:13:11,519

they were typically called bruce

225

00:13:11,519 --> 00:13:15,440

or borsa and they were a building

226

00:13:15,440 --> 00:13:18,800

generally around one where people would

227

00:13:18,800 --> 00:13:21,600

congregate to buy and sell from each

228

00:13:21,600 --> 00:13:22,959

other

229

00:13:22,959 --> 00:13:26,320

well nowadays it's mostly

230

00:13:26,320 --> 00:13:29,600

an electronic location an electronic

231

00:13:29,600 --> 00:13:31,440

platform

232

00:13:31,440 --> 00:13:34,399

now two main types but there's also

233

00:13:34,399 --> 00:13:36,800

commodity exchanges and other kinds of

234

00:13:36,800 --> 00:13:38,639

exchanges but in

235

00:13:38,639 --> 00:13:40,800

our class we're going to talk mostly

236

00:13:40,800 --> 00:13:42,480

about stock exchanges

237

00:13:42,480 --> 00:13:46,079

and derivatives exchanges

238

00:13:46,079 --> 00:13:48,639

and in terms of market structure they

239

00:13:48,639 --> 00:13:49,199

can be

240

00:13:49,199 --> 00:13:54,160

auction markets or dealer markets oboes

241

00:13:54,720 --> 00:13:57,839

by contrast otc is

242

00:13:57,839 --> 00:14:01,120

not localized it's very diffuse

243

00:14:01,120 --> 00:14:05,120

it's generally dealer markets

244

00:14:05,120 --> 00:14:09,040

and there are many examples including

245

00:14:09,040 --> 00:14:13,120

the bond market foreign exchange market

246

00:14:13,120 --> 00:14:16,880

etc okay now one of the

247

00:14:16,880 --> 00:14:20,079

challenges is now that we've moved to

248

00:14:20,079 --> 00:14:22,560

digital everything and electronic it's

249

00:14:22,560 --> 00:14:25,040

kind of hard to distinguish

250

00:14:25,040 --> 00:14:28,079

between exchanges and otc

251

00:14:28,079 --> 00:14:30,320

exchanges in the old days was physical

252

00:14:30,320 --> 00:14:31,920

so you know exactly what you were

253

00:14:31,920 --> 00:14:32,959

dealing with

254

00:14:32,959 --> 00:14:36,079

um nowadays it's a little bit more

255

00:14:36,079 --> 00:14:40,720

uh difficult to distinguish

256

00:14:40,720 --> 00:14:42,560

all right so let's play a little game

257

00:14:42,560 --> 00:14:44,639

these are four

258

00:14:44,639 --> 00:14:49,120

asian securities exchanges

259

00:14:49,920 --> 00:14:52,800

and these pictures are a little bit old

260

00:14:52,800 --> 00:14:53,839

but let's see

261

00:14:53,839 --> 00:14:59,839

if you can identify them

262

00:15:01,920 --> 00:15:06,399

japan is number one uh no

263

00:15:08,720 --> 00:15:12,160

two is hong kong yes japan

264

00:15:12,160 --> 00:15:15,839

is for indeed very good

265

00:15:15,839 --> 00:15:18,959

so you've identified number two number

266

00:15:18,959 --> 00:15:21,279

four

267

00:15:21,600 --> 00:15:25,440

for singapore no shanghai is number one

268

00:15:25,440 --> 00:15:27,839

very good

269

00:15:28,320 --> 00:15:31,839

okay three nope it's not shenzhen

270

00:15:31,839 --> 00:15:35,279

three is singapore all right so number

271

00:15:35,279 --> 00:15:35,600

one

272

00:15:35,600 --> 00:15:38,800

is shanghai number two is hong kong was

273

00:15:38,800 --> 00:15:40,079

hong kong number three

274

00:15:40,079 --> 00:15:43,279

why singapore number four is tokyo

275

00:15:43,279 --> 00:15:46,480

okay now

276

00:15:46,639 --> 00:15:49,360

eliminate picture number three because

277

00:15:49,360 --> 00:15:51,360

it's completely outdated and i

278

00:15:51,360 --> 00:15:53,519

unfortunately don't have a more recent

279

00:15:53,519 --> 00:15:54,160

picture

280

00:15:54,160 --> 00:15:57,680

but what do you see on those pictures

281

00:15:57,680 --> 00:16:01,680

what do you see on these photos

282

00:16:03,199 --> 00:16:06,000

you see a sticker hand raised well

283

00:16:06,000 --> 00:16:06,399

that's

284

00:16:06,399 --> 00:16:09,759

in singapore but yeah computers

285

00:16:09,759 --> 00:16:13,360

a lot of computers right

286

00:16:13,360 --> 00:16:17,199

so the reality though

287

00:16:17,199 --> 00:16:20,720

is that today you see nothing okay

288

00:16:20,720 --> 00:16:24,480

actually the hong kong stock exchange

289

00:16:24,480 --> 00:16:27,120

floor has closed down has been

290

00:16:27,120 --> 00:16:29,759

demolished and now there is a museum in

291

00:16:29,759 --> 00:16:31,199

its place

292

00:16:31,199 --> 00:16:34,959

uh and now all of these exchanges

293

00:16:34,959 --> 00:16:38,079

uh shanghai hong kong singapore

294

00:16:38,079 --> 00:16:41,120

and tokyo are basically

295

00:16:41,120 --> 00:16:43,920

just a place to take a photograph

296

00:16:43,920 --> 00:16:45,440

there's no more people

297

00:16:45,440 --> 00:16:47,600

and the computers are actually not even

298

00:16:47,600 --> 00:16:49,199

there anymore

299

00:16:49,199 --> 00:16:54,480

okay so these places have basically gone

300

00:16:54,480 --> 00:16:57,600

what has happened

301

00:16:58,399 --> 00:17:01,360

okay before i explain what has been

302

00:17:01,360 --> 00:17:02,800

going on

303

00:17:02,800 --> 00:17:06,000

i need to clarify a few terms

304

00:17:06,000 --> 00:17:08,439

because there's a lot of

305

00:17:08,439 --> 00:17:11,039

misunderstanding

306

00:17:11,039 --> 00:17:16,400

when we talk about securities exchanges

307

00:17:16,400 --> 00:17:19,439

we talk about two different things

308

00:17:19,439 --> 00:17:23,679

first we talk about listing

309

00:17:23,679 --> 00:17:28,480

listing a security on an exchange

310

00:17:28,480 --> 00:17:32,960

is the process by which

311

00:17:32,960 --> 00:17:36,880

the firm that issues the securities

312

00:17:36,880 --> 00:17:40,000

will meet the requirement of the

313

00:17:40,000 --> 00:17:41,520

exchange

314

00:17:41,520 --> 00:17:45,120

so that the securities can be shown

315

00:17:45,120 --> 00:17:48,320

on the list of the exchange

316

00:17:48,320 --> 00:17:52,160

to do that you need to meet the specific

317

00:17:52,160 --> 00:17:55,200

rules and requirements

318

00:17:55,200 --> 00:18:00,080

of that particular exchange

319

00:18:00,080 --> 00:18:02,640

i told you before you do anything with

320

00:18:02,640 --> 00:18:03,520

an exchange you

321

00:18:03,520 --> 00:18:06,000

better read the rules okay and those

322

00:18:06,000 --> 00:18:08,080

rules can change

323

00:18:08,080 --> 00:18:12,640

for example hong kong exchange

324

00:18:12,640 --> 00:18:16,160

has changed the listing rules

325

00:18:16,160 --> 00:18:19,760

to accommodate dual

326

00:18:19,760 --> 00:18:23,760

class shares okay in the old days

327

00:18:23,760 --> 00:18:27,600

you could only list shares in hong kong

328

00:18:27,600 --> 00:18:30,640

if there was one share

329

00:18:30,640 --> 00:18:34,080

one vote no more

330

00:18:34,080 --> 00:18:37,280

now we can list if we have different

331

00:18:37,280 --> 00:18:38,880

classes of share

332

00:18:38,880 --> 00:18:42,160

so the rules have changed

333

00:18:42,160 --> 00:18:46,480

why do companies want their securities

334

00:18:46,480 --> 00:18:49,840

listed on an exchange

335

00:18:49,840 --> 00:18:52,880

that is because many

336

00:18:52,880 --> 00:18:56,799

investors can only buy

337

00:18:56,799 --> 00:19:00,320

listed securities okay

338

00:19:00,320 --> 00:19:03,520

many investors cannot buy securities

339

00:19:03,520 --> 00:19:04,480

that are not

340

00:19:04,480 --> 00:19:08,640

listed on a recognized stock exchange

341

00:19:08,640 --> 00:19:12,320

so by listing your securities

342

00:19:12,320 --> 00:19:14,960

you're getting a stamp of approval which

343

00:19:14,960 --> 00:19:18,240

means that your securities can now

344

00:19:18,240 --> 00:19:22,640

be bought and traded eventually

345

00:19:22,640 --> 00:19:26,400

in the market the second thing

346

00:19:26,400 --> 00:19:29,520

is trading now

347

00:19:29,520 --> 00:19:32,720

trading relies

348

00:19:32,720 --> 00:19:36,400

on liquidity

349

00:19:37,520 --> 00:19:40,640

so securities that are

350

00:19:40,640 --> 00:19:43,840

listed on an exchange are

351

00:19:43,840 --> 00:19:46,880

not necessarily traded

352

00:19:46,880 --> 00:19:50,960

on the exchange and in fact

353

00:19:50,960 --> 00:19:54,080

in the bond market most

354

00:19:54,080 --> 00:19:57,280

bonds are actually listed on

355

00:19:57,280 --> 00:19:59,919

a particular exchange very often

356

00:19:59,919 --> 00:20:02,960

actually luxembourg

357

00:20:02,960 --> 00:20:05,600

but are not traded on the exchange they

358

00:20:05,600 --> 00:20:06,559

are traded

359

00:20:06,559 --> 00:20:09,919

over the counter okay there are two

360

00:20:09,919 --> 00:20:12,720

different things say you need to be very

361

00:20:12,720 --> 00:20:13,200

clear

362

00:20:13,200 --> 00:20:16,480

listing is one thing trading

363

00:20:16,480 --> 00:20:19,600

is another so if you have securities

364

00:20:19,600 --> 00:20:20,159

that are

365

00:20:20,159 --> 00:20:23,120

listed on the exchange but there is very

366

00:20:23,120 --> 00:20:25,039

little liquidity

367

00:20:25,039 --> 00:20:28,159

those securities will not trade because

368

00:20:28,159 --> 00:20:30,240

for security to be traded

369

00:20:30,240 --> 00:20:33,840

there has to be enough supply and demand

370

00:20:33,840 --> 00:20:35,120

in other words

371

00:20:35,120 --> 00:20:38,559

liquidity okay

372

00:20:38,559 --> 00:20:41,679

now there are some financial instruments

373

00:20:41,679 --> 00:20:42,320

that

374

00:20:42,320 --> 00:20:46,559

only trade on exchanges

375

00:20:46,559 --> 00:20:50,159

and that is futures the futures

376

00:20:50,159 --> 00:20:55,600

is one of four big types of derivatives

377

00:20:55,600 --> 00:21:00,559

futures are exchange specific

378

00:21:00,559 --> 00:21:04,640

financial instruments and a future is

379

00:21:04,640 --> 00:21:08,080

basically the same thing as a forward

380

00:21:08,080 --> 00:21:11,280

you are buying the right

381

00:21:11,280 --> 00:21:15,120

to buy or sell a certain thing

382

00:21:15,120 --> 00:21:19,039

at a certain price at a certain date

383

00:21:19,039 --> 00:21:23,200

futures contracts are exchange specific

384

00:21:23,200 --> 00:21:27,360

okay they don't trade ogc

385

00:21:27,360 --> 00:21:30,480

forwards trade ogc but

386

00:21:30,480 --> 00:21:34,159

not futures options can be

387

00:21:34,159 --> 00:21:39,120

either listed or otc

388

00:21:39,120 --> 00:21:44,799

all right okay you're clear on that

389

00:21:44,799 --> 00:21:48,480

okay so there are many more

390

00:21:48,480 --> 00:21:51,760

who can regulate over-the-counter if it

391

00:21:51,760 --> 00:21:52,159

is

392

00:21:52,159 --> 00:21:55,200

not localized in one place that is a

393

00:21:55,200 --> 00:21:57,039

very good question

394

00:21:57,039 --> 00:21:59,200

okay so it also depends on what

395

00:21:59,200 --> 00:22:00,159

financial

396

00:22:00,159 --> 00:22:03,360

instrument you are using okay because

397

00:22:03,360 --> 00:22:04,320

the financial

398

00:22:04,320 --> 00:22:08,240

instrument is issued by somebody

399

00:22:08,240 --> 00:22:11,520

okay yes forwards do trade otc

400

00:22:11,520 --> 00:22:15,280

okay so it will depend on the financial

401

00:22:15,280 --> 00:22:17,360

instrument and who are the players

402

00:22:17,360 --> 00:22:18,559

because the players

403

00:22:18,559 --> 00:22:22,159

are localized somewhere

404

00:22:22,159 --> 00:22:25,280

okay any other

405

00:22:25,280 --> 00:22:27,919

questions okay so remember that okay

406

00:22:27,919 --> 00:22:30,000

there are financial instruments that

407

00:22:30,000 --> 00:22:31,039

trade

408

00:22:31,039 --> 00:22:33,360

over the counter there are financial

409

00:22:33,360 --> 00:22:35,679

instruments that trade only on exchange

410

00:22:35,679 --> 00:22:38,840

and there are some that are on both

411

00:22:38,840 --> 00:22:40,799

right

412

00:22:40,799 --> 00:22:44,240

okay now pay attention because

413

00:22:44,240 --> 00:22:46,799

i'm going to tell you the story

414

00:22:46,799 --> 00:22:48,240

basically of

415

00:22:48,240 --> 00:22:51,679

evolution of exchanges all right

416

00:22:51,679 --> 00:22:54,960

so there are lots of important things to

417

00:22:54,960 --> 00:22:55,760

know

418

00:22:55,760 --> 00:22:59,919

about exchanges and market organization

419

00:22:59,919 --> 00:23:05,520

the first thing is that over the last

420

00:23:06,960 --> 00:23:11,120

few decades we have seen

421

00:23:11,120 --> 00:23:15,760

the advent of electronic trading

422

00:23:15,760 --> 00:23:18,559

so clearly electronic trading needs

423

00:23:18,559 --> 00:23:19,440

computers

424

00:23:19,440 --> 00:23:24,400

and computers are a fairly recent thing

425

00:23:24,400 --> 00:23:28,000

not in your life but in mine and so

426

00:23:28,000 --> 00:23:31,200

over time we have seen the development

427

00:23:31,200 --> 00:23:34,960

of electronic trading

428

00:23:34,960 --> 00:23:38,080

and that has had a very profound

429

00:23:38,080 --> 00:23:41,120

impact on exchanges because remember

430

00:23:41,120 --> 00:23:43,840

exchanges used to be physical places

431

00:23:43,840 --> 00:23:46,320

where people would get together

432

00:23:46,320 --> 00:23:50,159

and would trade with each other

433

00:23:50,159 --> 00:23:53,760

okay and with computers

434

00:23:53,760 --> 00:23:57,200

you don't need to be in a physical space

435

00:23:57,200 --> 00:24:00,400

anymore so let me share with you a

436

00:24:00,400 --> 00:24:05,840

couple of things that i have

437

00:24:06,720 --> 00:24:10,159

yeah okay

438

00:24:10,159 --> 00:24:13,760

so this one is basically about one of

439

00:24:13,760 --> 00:24:14,159

the

440

00:24:14,159 --> 00:24:17,440

last few trading floors

441

00:24:17,440 --> 00:24:20,720

that is about to close down

442

00:24:20,720 --> 00:24:23,760

and this is the london metal

443

00:24:23,760 --> 00:24:27,039

exchange which is a commodity

444

00:24:27,039 --> 00:24:31,200

exchange based in london but now owned

445

00:24:31,200 --> 00:24:35,200

by the hong kong exchange and they

446

00:24:35,200 --> 00:24:38,960

are closing down that trading pit

447

00:24:38,960 --> 00:24:42,080

which is called the ring and

448

00:24:42,080 --> 00:24:45,919

it's a big story because it's it was one

449

00:24:45,919 --> 00:24:48,080

of the few trading floors

450

00:24:48,080 --> 00:24:51,440

that still existed so what you should

451

00:24:51,440 --> 00:24:52,080

know

452

00:24:52,080 --> 00:24:55,600

is that around the world there are now

453

00:24:55,600 --> 00:24:58,799

very very very few active

454

00:24:58,799 --> 00:25:02,159

trading floors uh the ring was one of

455

00:25:02,159 --> 00:25:03,360

the last ones

456

00:25:03,360 --> 00:25:06,880

in commodities uh but that knot was

457

00:25:06,880 --> 00:25:10,159

that was not always the case and i have

458

00:25:10,159 --> 00:25:13,679

a little movie to show you

459

00:25:13,679 --> 00:25:18,559

if i can manage to go away

460

00:25:18,559 --> 00:25:21,600

if i can manage to

461

00:25:21,600 --> 00:25:29,840

get it bear with me a second

462

00:25:30,320 --> 00:25:33,760

i what is it

463

00:25:33,760 --> 00:25:36,640

ah here we go

464

00:25:37,760 --> 00:25:43,760

the things i do for you okay

465

00:25:43,760 --> 00:25:48,640

so why are you doing this to me

466

00:25:50,559 --> 00:25:53,679

okay you guys are going

467

00:25:53,679 --> 00:25:57,840

and where's my other one

468

00:25:58,640 --> 00:26:00,960

no

469

00:26:02,080 --> 00:26:05,679

okay let's see if it's going to work

470

00:26:05,679 --> 00:26:10,159

so this is a scene from trading places

471

00:26:10,159 --> 00:26:13,919

trading places i don't know if you can

472

00:26:13,919 --> 00:26:16,159

see it

473

00:26:16,159 --> 00:26:19,360

it's a movie okay

474

00:26:19,360 --> 00:26:22,720

um back in the 80s

475

00:26:22,720 --> 00:26:26,000

and it's all about bad guys doing

476

00:26:26,000 --> 00:26:28,559

wrong stuff on the trading group so let

477

00:26:28,559 --> 00:26:31,760

me see if we can get it

478

00:26:33,660 --> 00:26:36,759

[Music]

479

00:26:36,960 --> 00:26:38,799

last bastion rolling pure capitalism

480

00:26:38,799 --> 00:26:40,720

left on earth here in new york they

481

00:26:40,720 --> 00:26:41,760

trade everything

482

00:26:41,760 --> 00:26:45,200

gold silver platinum heating oil

483

00:26:45,200 --> 00:26:47,919

propane cocoa and sugar and of course

484

00:26:47,919 --> 00:26:48,480

frozen

485

00:26:48,480 --> 00:26:50,880

concentrated orange juice now the people

486

00:26:50,880 --> 00:26:52,400

on the phones are taking orders from

487

00:26:52,400 --> 00:26:54,720

brokerage houses all over the world

488

00:26:54,720 --> 00:26:56,799

runners then hand those orders to the

489

00:26:56,799 --> 00:26:59,919

traders in the pits

490

00:27:02,640 --> 00:27:05,120

they're trading cotton over there that's

491

00:27:05,120 --> 00:27:06,799

the silver pin

492

00:27:06,799 --> 00:27:08,320

or the dukes trader is going to be

493

00:27:08,320 --> 00:27:10,240

buying like crazy right from the opening

494

00:27:10,240 --> 00:27:11,919

and we wait until he drives a price up

495

00:27:11,919 --> 00:27:14,159

right i can't wait to see his face when

496

00:27:14,159 --> 00:27:17,200

they broadcast that genuine crop report

497

00:27:17,200 --> 00:27:20,080

oj training opens at nine let's go kick

498

00:27:20,080 --> 00:27:21,039

them back

499

00:27:21,039 --> 00:27:34,550

let's go

500

00:27:34,550 --> 00:28:00,029

[Music]

501

00:28:14,840 --> 00:28:17,840

oh

502

00:28:25,039 --> 00:28:26,480

hey the dukes are trying to corner the

503

00:28:26,480 --> 00:28:29,039

market they know something

504

00:28:29,039 --> 00:28:32,559

i can feel it let's get in on it 200

505

00:28:32,559 --> 00:28:33,000

take them

506

00:28:33,000 --> 00:28:36,150

[Applause]

507

00:28:36,640 --> 00:28:40,000

200 200.

508

00:28:40,000 --> 00:28:45,840

not yet almost

509

00:28:56,840 --> 00:28:59,840

142

510

00:29:10,799 --> 00:29:13,760

anyway it's a great movie i highly

511

00:29:13,760 --> 00:29:15,360

encourage you to

512

00:29:15,360 --> 00:29:18,880

uh watch it uh it's a great story

513

00:29:18,880 --> 00:29:19,760

actually

514

00:29:19,760 --> 00:29:22,640

it's kind of funny because things are

515

00:29:22,640 --> 00:29:24,000

always

516

00:29:24,000 --> 00:29:27,120

happening all over again

517

00:29:27,120 --> 00:29:30,480

and it's a story of insider trading

518

00:29:30,480 --> 00:29:33,039

cornering trying to corner the market

519

00:29:33,039 --> 00:29:34,159

and

520

00:29:34,159 --> 00:29:38,080

what bad guys getting what they deserve

521

00:29:38,080 --> 00:29:41,919

in terms of happiness

522

00:29:41,919 --> 00:29:45,600

so uh let's get back to

523

00:29:45,600 --> 00:29:49,279

my story so open outcry which is what

524

00:29:49,279 --> 00:29:50,559

you saw in the floor

525

00:29:50,559 --> 00:29:53,039

this is what i was used to when i was

526

00:29:53,039 --> 00:29:54,240

your age and

527

00:29:54,240 --> 00:29:57,279

starting in the financial markets so in

528

00:29:57,279 --> 00:29:58,080

order to

529

00:29:58,080 --> 00:30:01,039

buy and sell on the trading floor as you

530

00:30:01,039 --> 00:30:02,000

can see

531

00:30:02,000 --> 00:30:05,039

and here there was a terrible noise

532

00:30:05,039 --> 00:30:07,360

lots of people very very hard to

533

00:30:07,360 --> 00:30:09,200

exchange information

534

00:30:09,200 --> 00:30:11,679

so traders on the floor developed a

535

00:30:11,679 --> 00:30:12,320

system

536

00:30:12,320 --> 00:30:16,080

of hand signals so you can google up

537

00:30:16,080 --> 00:30:20,000

and see the vocabulary of hand signals

538

00:30:20,000 --> 00:30:23,679

but to make it very short this is cell

539

00:30:23,679 --> 00:30:26,720

and this is by and there are

540

00:30:26,720 --> 00:30:28,880

positions of hands that mean different

541

00:30:28,880 --> 00:30:31,279

things depending on how far you are from

542

00:30:31,279 --> 00:30:32,240

your face

543

00:30:32,240 --> 00:30:34,799

how close you are on your face how you

544

00:30:34,799 --> 00:30:36,320

position your hand

545

00:30:36,320 --> 00:30:39,919

around your face so this was designed

546

00:30:39,919 --> 00:30:43,039

to make communication possible around

547

00:30:43,039 --> 00:30:46,159

very very noisy trading floors

548

00:30:46,159 --> 00:30:49,200

open outcry has virtually disappeared

549

00:30:49,200 --> 00:30:52,480

uh basically if you google trading floor

550

00:30:52,480 --> 00:30:53,520

today

551

00:30:53,520 --> 00:30:55,679

uh pretty much the only one that comes

552

00:30:55,679 --> 00:30:56,720

up on google

553

00:30:56,720 --> 00:30:59,600

is the new york stock exchange trading

554

00:30:59,600 --> 00:31:00,320

floor that

555

00:31:00,320 --> 00:31:04,080

still has a small um

556

00:31:04,080 --> 00:31:07,120

a few floor traders but the number is

557

00:31:07,120 --> 00:31:08,159

only a fraction

558

00:31:08,159 --> 00:31:11,600

of what it used to be now

559

00:31:11,600 --> 00:31:14,640

i also need to explain what has happened

560

00:31:14,640 --> 00:31:15,360

in terms

561

00:31:15,360 --> 00:31:18,720

of corporate components of exchanges

562

00:31:18,720 --> 00:31:22,480

in the old days exchanges

563

00:31:22,480 --> 00:31:26,159

were mutual organizations so remember we

564

00:31:26,159 --> 00:31:27,279

talked about

565

00:31:27,279 --> 00:31:30,480

mutual organizations before

566

00:31:30,480 --> 00:31:34,000

and you can see the world mutual here

567

00:31:34,000 --> 00:31:38,080

okay so what does it mean

568

00:31:38,080 --> 00:31:41,919

it means that in the old days

569

00:31:41,919 --> 00:31:44,799

people or organization i should say who

570

00:31:44,799 --> 00:31:46,320

were trading

571

00:31:46,320 --> 00:31:50,480

on the exchange that is the customers

572

00:31:50,480 --> 00:31:53,519

were also the owners so

573

00:31:53,519 --> 00:31:56,480

in order to trade on an exchange you

574

00:31:56,480 --> 00:31:58,080

needed to have

575

00:31:58,080 --> 00:32:01,760

a seat on the exchange

576

00:32:01,760 --> 00:32:05,039

so exchanges were mutual organization

577

00:32:05,039 --> 00:32:08,000

which as we discussed before means that

578

00:32:08,000 --> 00:32:08,640

the

579

00:32:08,640 --> 00:32:12,960

management of the exchange is working

580

00:32:12,960 --> 00:32:15,760

for the customers because the customers

581

00:32:15,760 --> 00:32:18,080

are the shareholders

582

00:32:18,080 --> 00:32:22,159

right over time

583

00:32:22,159 --> 00:32:24,559

like a lot of other organizations

584

00:32:24,559 --> 00:32:26,840

exchanges have

585

00:32:26,840 --> 00:32:29,519

de-mutualized which means they have

586

00:32:29,519 --> 00:32:33,120

changed corporate structure and most of

587

00:32:33,120 --> 00:32:33,760

them

588

00:32:33,760 --> 00:32:36,880

nowadays are publicly listed

589

00:32:36,880 --> 00:32:40,880

organizations so if you take the case

590

00:32:40,880 --> 00:32:44,480

of hong kong exchange okay in the old

591

00:32:44,480 --> 00:32:46,480

days

592

00:32:46,480 --> 00:32:49,840

it was the hong kong stock exchange and

593

00:32:49,840 --> 00:32:53,440

crumbs had sit on the stock exchange

594

00:32:53,440 --> 00:32:56,240

and then the hong kong stock exchange

595

00:32:56,240 --> 00:32:57,600

listed

596

00:32:57,600 --> 00:33:00,159

on its own exchange so it is now a

597

00:33:00,159 --> 00:33:01,760

publicly listed

598

00:33:01,760 --> 00:33:06,159

organization so why is that important

599

00:33:06,159 --> 00:33:09,760

well as management now has to focus on

600

00:33:09,760 --> 00:33:10,880

shareholders

601

00:33:10,880 --> 00:33:14,720

rather than customers

602

00:33:15,039 --> 00:33:18,159

as managements are wanting to do they

603

00:33:18,159 --> 00:33:20,480

are going to want to grow the business

604

00:33:20,480 --> 00:33:23,840

right because management in western

605

00:33:23,840 --> 00:33:26,080

capitalism models

606

00:33:26,080 --> 00:33:29,440

until fairly recently was very

607

00:33:29,440 --> 00:33:33,840

focused on creating shareholder value

608

00:33:33,840 --> 00:33:37,919

now how do we create shareholder value

609

00:33:37,919 --> 00:33:38,960

think about it

610

00:33:38,960 --> 00:33:43,360

in really simple terms

611

00:33:44,320 --> 00:33:46,960

how does management generally for any

612

00:33:46,960 --> 00:33:48,720

kind of business

613

00:33:48,720 --> 00:33:52,799

create value for shareholders

614

00:33:52,799 --> 00:33:55,360

make profit right increase the share

615

00:33:55,360 --> 00:33:57,360

value but how do we increase the share

616

00:33:57,360 --> 00:33:58,799

value

617

00:33:58,799 --> 00:34:01,600

so making profit jasper is very good so

618

00:34:01,600 --> 00:34:02,720

you want to

619

00:34:02,720 --> 00:34:06,399

be profitable roman says more sales

620

00:34:06,399 --> 00:34:10,000

okay so how do we increase sales

621

00:34:10,000 --> 00:34:13,119

growing the company very good how do we

622

00:34:13,119 --> 00:34:15,440

increase sales what are two ways we can

623

00:34:15,440 --> 00:34:20,399

increase sales

624

00:34:20,399 --> 00:34:22,159

actually if you think about a business

625

00:34:22,159 --> 00:34:24,879

marketing spread good rules

626

00:34:24,879 --> 00:34:29,119

lower the price lower the price

627

00:34:29,119 --> 00:34:32,159

that means you know

628

00:34:32,159 --> 00:34:36,480

your profitability might decrease

629

00:34:37,119 --> 00:34:40,000

okay cutting cost is not a good idea

630

00:34:40,000 --> 00:34:40,879

okay

631

00:34:40,879 --> 00:34:43,040

if you cut costs it's going to work for

632

00:34:43,040 --> 00:34:44,399

a very short time

633

00:34:44,399 --> 00:34:46,320

and then you'll cut too much and then

634

00:34:46,320 --> 00:34:47,760

the company will die

635

00:34:47,760 --> 00:34:51,119

so growing the company

636

00:34:51,119 --> 00:34:54,879

growing revenues and profits

637

00:34:54,879 --> 00:34:57,920

is generally what management wants to do

638

00:34:57,920 --> 00:35:01,440

now how do we do that

639

00:35:01,440 --> 00:35:04,480

so we sell new products so that's one

640

00:35:04,480 --> 00:35:05,440

dimension

641

00:35:05,440 --> 00:35:09,040

okay new products to our existing

642

00:35:09,040 --> 00:35:13,280

customers what's the other dimension

643

00:35:15,119 --> 00:35:18,079

enter new markets right so finding new

644

00:35:18,079 --> 00:35:19,280

customers

645

00:35:19,280 --> 00:35:22,480

right so organically two ways you can

646

00:35:22,480 --> 00:35:23,440

grow

647

00:35:23,440 --> 00:35:26,240

by finding more customers for your

648

00:35:26,240 --> 00:35:27,359

products

649

00:35:27,359 --> 00:35:30,240

or selling new products to your existing

650

00:35:30,240 --> 00:35:30,960

customers

651

00:35:30,960 --> 00:35:33,599

and ideally you want to do both what

652

00:35:33,599 --> 00:35:36,400

other things could you do

653

00:35:36,400 --> 00:35:39,280

don't talk about cutting costs okay so

654

00:35:39,280 --> 00:35:40,560

getting more efficient

655

00:35:40,560 --> 00:35:43,440

is good cutting cost is not a very good

656

00:35:43,440 --> 00:35:45,280

strategy

657

00:35:45,280 --> 00:35:48,560

okay what else could we do

658

00:35:50,400 --> 00:35:52,560

expand the scale of the company which we

659

00:35:52,560 --> 00:35:53,520

talked about

660

00:35:53,520 --> 00:35:57,599

post customers oh man

661

00:35:57,599 --> 00:36:01,920

naughty boy all right find new market

662

00:36:01,920 --> 00:36:02,880

but how

663

00:36:02,880 --> 00:36:05,280

so we've all acquisitioned thank you

664

00:36:05,280 --> 00:36:06,000

typhoid

665

00:36:06,000 --> 00:36:09,599

acquisition so this is external growth

666

00:36:09,599 --> 00:36:12,800

okay so we can grow organically

667

00:36:12,800 --> 00:36:15,520

by adding customers or adding products

668

00:36:15,520 --> 00:36:17,119

or both

669

00:36:17,119 --> 00:36:20,160

or we can grow externally

670

00:36:20,160 --> 00:36:23,880

through acquisitions mergers

671

00:36:23,880 --> 00:36:28,000

partnerships etc right

672

00:36:28,000 --> 00:36:30,640

in very simple terms all right this is

673

00:36:30,640 --> 00:36:32,560

not a management class

674

00:36:32,560 --> 00:36:34,480

but in simple terms when you want to

675

00:36:34,480 --> 00:36:37,040

grow your business this is basically

676

00:36:37,040 --> 00:36:41,760

what you can do now think about this

677

00:36:41,760 --> 00:36:43,839

and put yourself in the shoes of the

678

00:36:43,839 --> 00:36:47,040

management of hong kong exchange

679

00:36:47,040 --> 00:36:50,320

hong kong stock exchange

680

00:36:50,880 --> 00:36:54,240

okay shiraz not a good idea

681

00:36:54,240 --> 00:36:56,400

okay not a good idea we don't want to

682

00:36:56,400 --> 00:36:58,800

artificially increase but we are not

683

00:36:58,800 --> 00:37:01,280

we are all very good people in this

684

00:37:01,280 --> 00:37:01,839

class

685

00:37:01,839 --> 00:37:05,760

okay we are all good people we don't

686

00:37:05,760 --> 00:37:08,480

commit fraud we don't manipulate

687

00:37:08,480 --> 00:37:10,880

we don't have this kind of thing huh not

688

00:37:10,880 --> 00:37:11,680

in my class

689

00:37:11,680 --> 00:37:15,599

not good okay now let's get back to

690

00:37:15,599 --> 00:37:19,200

put yourself in the shoes of the ceo of

691

00:37:19,200 --> 00:37:21,200

hong kong stock exchange

692

00:37:21,200 --> 00:37:24,240

now that is publicly listed you are

693

00:37:24,240 --> 00:37:27,119

tasked with growing the company

694

00:37:27,119 --> 00:37:31,839

so how do you grow the business

695

00:37:31,839 --> 00:37:34,480

my other exchanges start one in

696

00:37:34,480 --> 00:37:36,720

developing countries right

697

00:37:36,720 --> 00:37:38,640

so what did i just mention when we were

698

00:37:38,640 --> 00:37:41,839

talking about the lme

699

00:37:44,400 --> 00:37:48,560

i told you it belongs to hong kong

700

00:37:48,560 --> 00:37:50,000

exchange right so

701

00:37:50,000 --> 00:37:52,560

here's an example where hong kong

702

00:37:52,560 --> 00:37:53,520

exchange went

703

00:37:53,520 --> 00:37:56,640

and bought another exchange

704

00:37:56,640 --> 00:37:59,760

somewhere else in this case the lme and

705

00:37:59,760 --> 00:38:00,079

this

706

00:38:00,079 --> 00:38:03,200

is buys them in

707

00:38:03,200 --> 00:38:07,040

entry into another market cooperation

708

00:38:07,040 --> 00:38:07,440

with

709

00:38:07,440 --> 00:38:10,640

other exchanges very good naying can you

710

00:38:10,640 --> 00:38:12,720

give me an example in the case of hong

711

00:38:12,720 --> 00:38:19,040

kong exchange

712

00:38:19,040 --> 00:38:22,560

come on hong kong people you should know

713

00:38:22,560 --> 00:38:24,800

that

714

00:38:28,880 --> 00:38:32,640

okay cooperate yes yes yes

715

00:38:32,640 --> 00:38:36,640

what do we call it the shanghai

716

00:38:36,640 --> 00:38:39,040

[Music]

717

00:38:39,040 --> 00:38:43,040

and shenzhen what's the name

718

00:38:43,040 --> 00:38:47,760

yeah almost there northbound tech bay

719

00:38:47,760 --> 00:38:52,240

there's a southbound too oh

720

00:38:52,240 --> 00:38:56,160

not fair zheng day i can't read that

721

00:38:56,160 --> 00:38:59,200

yes yeah time very good the start

722

00:38:59,200 --> 00:39:02,640

connect okay stock connect allows hong

723

00:39:02,640 --> 00:39:03,920

kong exchange

724

00:39:03,920 --> 00:39:07,200

to expand by entering into

725

00:39:07,200 --> 00:39:09,440

a partnership with the shanghai stock

726

00:39:09,440 --> 00:39:13,440

exchange and the shanghai stock exchange

727

00:39:13,440 --> 00:39:16,720

which allows customer investors in hong

728

00:39:16,720 --> 00:39:18,800

kong to invest in the mainland and

729

00:39:18,800 --> 00:39:20,720

investors in the mainland to invest in

730

00:39:20,720 --> 00:39:22,560

hong kong so

731

00:39:22,560 --> 00:39:25,680

it's a big new market

732

00:39:25,680 --> 00:39:28,960

so yes there was an offer

733

00:39:28,960 --> 00:39:31,200

by the hong kong exchange to buy the

734

00:39:31,200 --> 00:39:32,880

london stock exchange

735

00:39:32,880 --> 00:39:34,960

and it was blocked and in fact the

736

00:39:34,960 --> 00:39:36,960

london stock exchange were not very

737

00:39:36,960 --> 00:39:39,839

interested and didn't like the idea very

738

00:39:39,839 --> 00:39:40,880

much

739

00:39:40,880 --> 00:39:44,560

okay so these are external growth

740

00:39:44,560 --> 00:39:47,920

okay what about organic growth

741

00:39:47,920 --> 00:39:51,119

how can an exchange like the hong kong

742

00:39:51,119 --> 00:39:52,480

exchange

743

00:39:52,480 --> 00:39:57,839

grow organically

744

00:39:58,079 --> 00:40:01,119

growing retail investors institutional

745

00:40:01,119 --> 00:40:03,920

investors new products so hong kong

746

00:40:03,920 --> 00:40:04,800

people

747

00:40:04,800 --> 00:40:07,359

what kind of new products has hong kong

748

00:40:07,359 --> 00:40:08,400

stock exchange

749

00:40:08,400 --> 00:40:11,760

hong kong exchanges introduced

750

00:40:11,760 --> 00:40:14,960

in the last few years very good

751

00:40:14,960 --> 00:40:18,079

attract more companies to list in hong

752

00:40:18,079 --> 00:40:19,520

kong

753

00:40:19,520 --> 00:40:22,240

cbbc

754

00:40:23,200 --> 00:40:26,560

what do you mean bc bbc

755

00:40:29,200 --> 00:40:32,400

so what new products

756

00:40:35,520 --> 00:40:37,280

i haven't seen the sparks in hong kong

757

00:40:37,280 --> 00:40:40,079

yet maybe you did

758

00:40:40,079 --> 00:40:43,920

weeds yeah this has been there for a

759

00:40:43,920 --> 00:40:45,280

while

760

00:40:45,280 --> 00:40:49,280

etfs very good

761

00:40:50,400 --> 00:40:53,599

very good

762

00:40:53,599 --> 00:40:56,400

yeah ls

763

00:40:57,359 --> 00:41:00,800

ex change link securities

764

00:41:00,800 --> 00:41:03,200

i haven't seen those okay xiaomi is a

765

00:41:03,200 --> 00:41:05,440

company

766

00:41:05,440 --> 00:41:09,440

so getting new companies to list in hong

767

00:41:09,440 --> 00:41:10,480

kong

768

00:41:10,480 --> 00:41:13,680

big growth introducing new products so

769

00:41:13,680 --> 00:41:14,000

this

770

00:41:14,000 --> 00:41:17,280

is more customers for our product

771

00:41:17,280 --> 00:41:20,160

new products include some of the things

772

00:41:20,160 --> 00:41:21,680

you have suggested but

773

00:41:21,680 --> 00:41:24,880

also renminbi denominated products

774

00:41:24,880 --> 00:41:25,760

anybody

775

00:41:25,760 --> 00:41:28,720

derivatives so remember in the old days

776

00:41:28,720 --> 00:41:30,319

well no you can't remember you're too

777

00:41:30,319 --> 00:41:32,160

young but in the old days

778

00:41:32,160 --> 00:41:34,800

there was hong kong stock exchange and

779

00:41:34,800 --> 00:41:37,280

hong kong futures exchange so you had a

780

00:41:37,280 --> 00:41:38,960

stock exchange in the derivatives

781

00:41:38,960 --> 00:41:39,680

exchange

782

00:41:39,680 --> 00:41:42,960

they emerged okay so that was the first

783

00:41:42,960 --> 00:41:45,839

stage of expansion hong kong exchange

784

00:41:45,839 --> 00:41:48,000

was the result of that merger

785

00:41:48,000 --> 00:41:51,599

okay so as you follow the history

786

00:41:51,599 --> 00:41:54,240

of hong kong exchanges you will see the

787

00:41:54,240 --> 00:41:55,359

consequences

788

00:41:55,359 --> 00:41:58,240

of all these things so last year they

789

00:41:58,240 --> 00:41:58,800

closed

790

00:41:58,800 --> 00:42:01,680

last year the year before they closed

791

00:42:01,680 --> 00:42:02,560

the floor

792

00:42:02,560 --> 00:42:05,040

it doesn't exist anymore okay it was

793

00:42:05,040 --> 00:42:07,760

very sad a lot of people were very sad

794

00:42:07,760 --> 00:42:11,040

but it doesn't exist anymore right

795

00:42:11,040 --> 00:42:16,160

so now you've got these exchanges are

796

00:42:16,160 --> 00:42:19,359

publicly listed organization with the

797

00:42:19,359 --> 00:42:21,920

management looking to ways to grow the

798

00:42:21,920 --> 00:42:23,280

business to

799

00:42:23,280 --> 00:42:26,560

make the shareholders happy but what

800

00:42:26,560 --> 00:42:28,000

does it mean for the

801

00:42:28,000 --> 00:42:30,160

investors what does it mean for the

802

00:42:30,160 --> 00:42:31,599

people trading

803

00:42:31,599 --> 00:42:35,760

on the exchange the customers

804

00:42:36,079 --> 00:42:38,079

what's the situation in hong kong how

805

00:42:38,079 --> 00:42:45,839

many exchanges do we have

806

00:42:46,000 --> 00:42:47,920

how many exchanges are there in hong

807

00:42:47,920 --> 00:42:50,160

kong

808

00:42:52,560 --> 00:42:55,839

there's only one okay

809

00:42:55,839 --> 00:42:59,040

there's only one so

810

00:42:59,040 --> 00:43:04,079

it's a monopoly so

811

00:43:04,079 --> 00:43:07,440

you know imagine your goldman sachs

812

00:43:07,440 --> 00:43:10,400

morgan stanley

813

00:43:10,400 --> 00:43:13,680

what does it mean

814

00:43:13,680 --> 00:43:16,720

if you have a monopoly

815

00:43:16,720 --> 00:43:19,200

trading apps is not an exchange it's a

816

00:43:19,200 --> 00:43:20,480

way

817

00:43:20,480 --> 00:43:23,760

to put trades to your broker who will

818

00:43:23,760 --> 00:43:26,240

eventually put them to the exchange

819

00:43:26,240 --> 00:43:29,839

that means no competition okay

820

00:43:29,839 --> 00:43:32,240

that means no competition which means

821

00:43:32,240 --> 00:43:32,880

also

822

00:43:32,880 --> 00:43:35,920

that they can charge you more

823

00:43:35,920 --> 00:43:39,520

right so as a customer

824

00:43:39,520 --> 00:43:42,079

you're not so happy about this evolution

825

00:43:42,079 --> 00:43:44,160

right

826

00:43:44,160 --> 00:43:46,880

yeah people have to use you no matter

827

00:43:46,880 --> 00:43:47,760

what

828

00:43:47,760 --> 00:43:50,880

a market power

829

00:43:51,680 --> 00:43:55,839

so what can you do

830

00:43:56,800 --> 00:43:59,119

well

831

00:44:00,160 --> 00:44:03,359

here we go we create our own

832

00:44:03,359 --> 00:44:07,680

we create our own private exchange

833

00:44:07,680 --> 00:44:11,359

we can internalize our orders

834

00:44:11,359 --> 00:44:14,720

we can create dark books and all of

835

00:44:14,720 --> 00:44:15,599

these things

836

00:44:15,599 --> 00:44:17,760

have been happening not so much in hong

837

00:44:17,760 --> 00:44:19,119

kong which is a small market

838

00:44:19,119 --> 00:44:22,240

but definitely in the us

839

00:44:22,240 --> 00:44:27,440

okay so makes sense so far

840

00:44:27,440 --> 00:44:30,960

yeah right so now you have double

841

00:44:30,960 --> 00:44:34,880

private exchanges so now who starts

842

00:44:34,880 --> 00:44:38,160

getting a little bit worried

843

00:44:44,079 --> 00:44:46,480

large exchanges well yes there's more

844

00:44:46,480 --> 00:44:48,000

competition

845

00:44:48,000 --> 00:44:51,599

but who is getting

846

00:44:51,599 --> 00:44:54,079

worried

847

00:44:56,160 --> 00:44:58,079

yeah so of course the incumbents are

848

00:44:58,079 --> 00:45:00,240

worried but who is more worried because

849

00:45:00,240 --> 00:45:01,119

now you have

850

00:45:01,119 --> 00:45:04,400

private exchanges dark pools

851

00:45:04,400 --> 00:45:07,960

which means that you trading with your

852

00:45:07,960 --> 00:45:11,760

counterparties outside of the exchange

853

00:45:11,760 --> 00:45:15,520

oh yes very good here on

854

00:45:15,520 --> 00:45:19,520

antarctica the regulators

855

00:45:19,520 --> 00:45:22,240

now they don't know what's going on

856

00:45:22,240 --> 00:45:22,800

because

857

00:45:22,800 --> 00:45:26,079

exchange is going to be very regulated

858

00:45:26,079 --> 00:45:29,839

but private exchanges and dog pools

859

00:45:29,839 --> 00:45:33,359

not so much so regulators start getting

860

00:45:33,359 --> 00:45:34,079

worried

861

00:45:34,079 --> 00:45:37,200

that they do not have information on

862

00:45:37,200 --> 00:45:39,599

what's going on over there

863

00:45:39,599 --> 00:45:43,040

right so they start getting a little bit

864

00:45:43,040 --> 00:45:46,560

worried and this worry is compounded

865

00:45:46,560 --> 00:45:51,280

by the emergence of new actors

866

00:45:51,280 --> 00:45:54,560

which are the high frequency traders

867

00:45:54,560 --> 00:45:58,240

okay so high frequency traders are firms

868

00:45:58,240 --> 00:46:01,800

that use extremely

869

00:46:01,800 --> 00:46:04,880

sophisticated technology

870

00:46:04,880 --> 00:46:08,079

to send a lot of

871

00:46:08,079 --> 00:46:10,800

orders small orders very quickly very

872

00:46:10,800 --> 00:46:11,599

very very

873

00:46:11,599 --> 00:46:15,040

fast and react very very fast to

874

00:46:15,040 --> 00:46:17,839

price movements so it's massive

875

00:46:17,839 --> 00:46:20,240

technology expenditure

876

00:46:20,240 --> 00:46:23,440

and a huge amount of orders

877

00:46:23,440 --> 00:46:27,599

and it's driven by i'll go

878

00:46:27,599 --> 00:46:30,160

algorithms not human traders but

879

00:46:30,160 --> 00:46:33,200

algorithms that react to certain

880

00:46:33,200 --> 00:46:36,480

indicators okay so high frequency

881

00:46:36,480 --> 00:46:37,920

traders

882

00:46:37,920 --> 00:46:41,520

have been uh cast as villains in some

883

00:46:41,520 --> 00:46:42,160

cases

884

00:46:42,160 --> 00:46:45,200

and good people in some other cases they

885

00:46:45,200 --> 00:46:46,240

do

886

00:46:46,240 --> 00:46:48,640

add a lot of liquidity to the market but

887

00:46:48,640 --> 00:46:49,680

they also add

888

00:46:49,680 --> 00:46:53,200

a lot of fragility because

889

00:46:53,200 --> 00:46:56,880

algos can react to in a very weird

890

00:46:56,880 --> 00:46:58,560

manner sometimes

891

00:46:58,560 --> 00:47:01,839

uh and for example there was

892

00:47:01,839 --> 00:47:05,680

uh the flash crash was caused by

893

00:47:05,680 --> 00:47:08,800

uh high frequency traders so the

894

00:47:08,800 --> 00:47:11,520

combination of these two things

895

00:47:11,520 --> 00:47:14,800

plus the global financial crisis and you

896

00:47:14,800 --> 00:47:15,359

have

897

00:47:15,359 --> 00:47:18,960

regulatory concerns so

898

00:47:18,960 --> 00:47:21,760

one of the things that regulators like

899

00:47:21,760 --> 00:47:23,280

about exchanges

900

00:47:23,280 --> 00:47:26,720

is information transparency

901

00:47:26,720 --> 00:47:30,079

and also the existence of

902

00:47:30,079 --> 00:47:34,559

clearing houses so clearing houses

903

00:47:34,559 --> 00:47:38,240

have become prominent in the news

904

00:47:38,240 --> 00:47:41,440

because of the gamestop

905

00:47:41,440 --> 00:47:45,200

story okay so what you need to know

906

00:47:45,200 --> 00:47:48,480

is when you trade on exchange

907

00:47:48,480 --> 00:47:51,440

and let's say visit chai and parkway uh

908

00:47:51,440 --> 00:47:54,800

buyers and sellers of shares

909

00:47:54,800 --> 00:47:56,640

they don't actually trade with each

910

00:47:56,640 --> 00:47:57,839

other

911

00:47:57,839 --> 00:48:01,040

they will trade with the exchange and

912

00:48:01,040 --> 00:48:02,559

more specifically

913

00:48:02,559 --> 00:48:06,160

in terms of the plumbing the trades will

914

00:48:06,160 --> 00:48:06,559

go

915

00:48:06,559 --> 00:48:08,880

through the clearing house of the

916

00:48:08,880 --> 00:48:10,319

exchange

917

00:48:10,319 --> 00:48:12,960

so that fijichai and pathway don't take

918

00:48:12,960 --> 00:48:13,680

each other's

919

00:48:13,680 --> 00:48:17,760

risk rather the clearing house

920

00:48:17,760 --> 00:48:20,720

ultimately takes the risk but since the

921

00:48:20,720 --> 00:48:23,440

clearing house does not want to take too

922

00:48:23,440 --> 00:48:24,960

much risk

923

00:48:24,960 --> 00:48:27,920

they require parties trading on the

924

00:48:27,920 --> 00:48:29,280

exchange

925

00:48:29,280 --> 00:48:32,800

to have enough money on the account

926

00:48:32,800 --> 00:48:36,000

to cover any price risk

927

00:48:36,000 --> 00:48:39,280

okay so this is why you might get

928

00:48:39,280 --> 00:48:42,400

margin calls all right so

929

00:48:42,400 --> 00:48:45,440

every day the stock exchange clearing

930

00:48:45,440 --> 00:48:46,319

house

931

00:48:46,319 --> 00:48:48,720

will look at the market value in the

932

00:48:48,720 --> 00:48:49,599

account

933

00:48:49,599 --> 00:48:52,000

and if there's not enough money they

934

00:48:52,000 --> 00:48:53,040

will call you

935

00:48:53,040 --> 00:48:54,960

to ask you to put more money in the

936

00:48:54,960 --> 00:48:56,079

account

937

00:48:56,079 --> 00:48:59,839

which is what happened to robinhood

938

00:48:59,839 --> 00:49:03,599

okay so this mechanism with

939

00:49:03,599 --> 00:49:06,240

clearinghouse is working pretty well

940

00:49:06,240 --> 00:49:08,720

and because it's been working pretty

941

00:49:08,720 --> 00:49:09,520

well

942

00:49:09,520 --> 00:49:12,680

and because exchanges bring so much

943

00:49:12,680 --> 00:49:14,240

transparency

944

00:49:14,240 --> 00:49:17,520

regulators like that system

945

00:49:17,520 --> 00:49:20,640

and they pushed after the global

946

00:49:20,640 --> 00:49:23,119

financial crisis

947

00:49:23,119 --> 00:49:26,400

to bring many deals that were done

948

00:49:26,400 --> 00:49:30,119

over the counter on

949

00:49:30,119 --> 00:49:34,160

exchanges the main reason

950

00:49:34,160 --> 00:49:38,480

was to get information

951

00:49:38,480 --> 00:49:42,160

why because the derivatives market

952

00:49:42,160 --> 00:49:45,680

was the source of the global financial

953

00:49:45,680 --> 00:49:48,160

crisis

954

00:49:49,280 --> 00:49:51,839

which firm collapsed during the global

955

00:49:51,839 --> 00:49:54,720

financial crisis and triggered

956

00:49:54,720 --> 00:49:58,240

lots of stuff very good

957

00:49:58,240 --> 00:50:01,359

lemon brothers okay why was this so

958

00:50:01,359 --> 00:50:03,200

critical

959

00:50:03,200 --> 00:50:07,599

what was lehman brothers involved in

960

00:50:08,319 --> 00:50:11,400

which kind of financial products

961

00:50:11,400 --> 00:50:14,400

cdos

962

00:50:14,640 --> 00:50:18,480

yeah cdos and

963

00:50:18,480 --> 00:50:21,920

not so much actually

964

00:50:23,280 --> 00:50:26,640

not so much

965

00:50:26,640 --> 00:50:32,160

one of the biggest problems with lehman

966

00:50:32,240 --> 00:50:35,920

was derivatives okay

967

00:50:35,920 --> 00:50:39,599

and the problem was that when lemon

968

00:50:39,599 --> 00:50:43,599

collapsed all the parties they were

969

00:50:43,599 --> 00:50:45,760

trading with

970

00:50:45,760 --> 00:50:49,280

were left with nothing so the collapse

971

00:50:49,280 --> 00:50:49,520

of

972

00:50:49,520 --> 00:50:52,800

women because they were involved in

973

00:50:52,800 --> 00:50:56,000

so many derivatives trade has

974

00:50:56,000 --> 00:51:00,800

a huge systemic impact

975

00:51:00,800 --> 00:51:03,839

and because it was derivatives which

976

00:51:03,839 --> 00:51:04,319

were

977

00:51:04,319 --> 00:51:08,960

mostly over the counter the regulators

978

00:51:08,960 --> 00:51:11,280

had no idea

979

00:51:11,280 --> 00:51:14,640

so they let lehman fail and that

980

00:51:14,640 --> 00:51:17,760

failure then treated massive failure in

981

00:51:17,760 --> 00:51:19,359

derivatives

982

00:51:19,359 --> 00:51:23,440

because of that regulators have

983

00:51:23,440 --> 00:51:27,760

pushed since the global financial crisis

984

00:51:27,760 --> 00:51:31,119

to move over the counter trades

985

00:51:31,119 --> 00:51:34,839

to exchanges and particularly

986

00:51:34,839 --> 00:51:38,880

derivatives so two main reasons

987

00:51:38,880 --> 00:51:43,520

one for information two

988

00:51:43,520 --> 00:51:48,079

for the counterparty risk

989

00:51:48,079 --> 00:51:50,319

and i'll explain more about counterparty

990

00:51:50,319 --> 00:51:51,359

later

991

00:51:51,359 --> 00:51:54,240

okay for the moment i want you to

992

00:51:54,240 --> 00:51:55,920

understand the logic

993

00:51:55,920 --> 00:52:00,480

of the evolution of exchanges and otc

994

00:52:00,480 --> 00:52:03,920

why the regulators got worried and what

995

00:52:03,920 --> 00:52:05,599

are some of the things that are

996

00:52:05,599 --> 00:52:08,160

happening today

997

00:52:08,160 --> 00:52:10,640

so of course there is a next point after

998

00:52:10,640 --> 00:52:13,520

this because it doesn't stop here

999

00:52:13,520 --> 00:52:16,839

as you moving more transactions to

1000

00:52:16,839 --> 00:52:19,200

exchanges

1001

00:52:19,200 --> 00:52:22,880

who becomes more important

1002

00:52:28,880 --> 00:52:32,480

just explain the mechanism so now

1003

00:52:32,480 --> 00:52:36,480

which is very very important in all this

1004

00:52:36,480 --> 00:52:39,520

the clearing house very good

1005

00:52:39,520 --> 00:52:42,880

okay so the clearing house has become

1006

00:52:42,880 --> 00:52:46,960

absolutely critical

1007

00:52:46,960 --> 00:52:51,040

who owns the clearing house

1008

00:52:55,440 --> 00:52:58,960

they're not owned by the government

1009

00:52:59,040 --> 00:53:04,000

the private sector they are for-profit

1010

00:53:05,599 --> 00:53:08,800

so you have a lot of questions now about

1011

00:53:08,800 --> 00:53:11,920

clearing houses which have become very

1012

00:53:11,920 --> 00:53:12,640

critical

1013

00:53:12,640 --> 00:53:16,400

so are they systemically important

1014

00:53:16,400 --> 00:53:20,400

they are private institutions

1015

00:53:20,400 --> 00:53:23,520

who owns the data because

1016

00:53:23,520 --> 00:53:27,440

all of this creates a lot of data right

1017

00:53:27,440 --> 00:53:29,040

it belongs to the exchange in the

1018

00:53:29,040 --> 00:53:32,720

clearinghouse not to the government

1019

00:53:32,720 --> 00:53:35,119

okay so now you have all kinds of issues

1020

00:53:35,119 --> 00:53:37,280

about who controls the data what can

1021

00:53:37,280 --> 00:53:38,000

they do with

1022

00:53:38,000 --> 00:53:40,880

it how much can they charge for it all

1023

00:53:40,880 --> 00:53:42,480

right so you can see

1024

00:53:42,480 --> 00:53:45,599

how every step can then trigger very

1025

00:53:45,599 --> 00:53:46,559

significant

1026

00:53:46,559 --> 00:53:50,319

consequences so we're by no means at the

1027

00:53:50,319 --> 00:53:51,440

end

1028

00:53:51,440 --> 00:53:54,400

of the saga

1029

00:53:55,040 --> 00:53:57,920

so let me show you first example and

1030

00:53:57,920 --> 00:53:58,960

this is not even

1031

00:53:58,960 --> 00:54:02,079

finished because it's going on but this

1032

00:54:02,079 --> 00:54:05,359

shows you how mergers and acquisitions

1033

00:54:05,359 --> 00:54:09,040

have concentrated uh

1034

00:54:09,040 --> 00:54:12,800

the industry of exchanges

1035

00:54:12,800 --> 00:54:16,400

and you can see this ends in 2013 i wish

1036

00:54:16,400 --> 00:54:18,720

i had a slide that goes further because

1037

00:54:18,720 --> 00:54:20,960

it gets even more narrow

1038

00:54:20,960 --> 00:54:24,319

and for example here we have

1039

00:54:24,319 --> 00:54:27,440

the ice okay so where they have the

1040

00:54:27,440 --> 00:54:28,720

merger with ice

1041

00:54:28,720 --> 00:54:32,000

and nyse but there's been more

1042

00:54:32,000 --> 00:54:34,800

more mergers since then and you can see

1043

00:54:34,800 --> 00:54:35,680

the

1044

00:54:35,680 --> 00:54:39,599

uh ice nyse uh

1045

00:54:39,599 --> 00:54:42,559

the first cross-border merger was you

1046

00:54:42,559 --> 00:54:43,359

were next

1047

00:54:43,359 --> 00:54:47,200

uh you are next and then

1048

00:54:47,200 --> 00:54:50,400

the nysc or next and then the big merger

1049

00:54:50,400 --> 00:54:51,599

with ice

1050

00:54:51,599 --> 00:54:55,440

so you can see massive concentration

1051

00:54:55,440 --> 00:54:58,079

now you understand why the private

1052

00:54:58,079 --> 00:55:00,000

sector wanted to have

1053

00:55:00,000 --> 00:55:04,400

private exchanges and dark pools

1054

00:55:05,520 --> 00:55:09,359

all right benson are you with us

1055

00:55:09,359 --> 00:55:12,480

yes all right we're going to have

1056

00:55:12,480 --> 00:55:17,760

iprs to see how much you have retained

1057

00:55:17,760 --> 00:55:22,000

let's roll benson okay

1058

00:55:27,359 --> 00:55:30,079

okay the first question is futures are

1059

00:55:30,079 --> 00:55:30,960

traded

1060

00:55:30,960 --> 00:55:49,839

on exchanges or otc

1061

00:57:10,839 --> 00:57:13,839

so

1062

00:57:34,319 --> 00:57:38,240

okay so very good

1063

00:57:38,240 --> 00:57:42,960

so futures are only traded on exchange

1064

00:57:42,960 --> 00:57:46,319

next question foreign exchange

1065

00:57:46,319 --> 00:57:49,359

fx is traded on exchange

1066

00:57:49,359 --> 00:57:55,839

or otc

1067

00:58:48,839 --> 00:58:51,839

foreign

1068

00:59:21,520 --> 00:59:25,440

very good indeed foreign exchange is

1069

00:59:25,440 --> 00:59:26,319

traded

1070

00:59:26,319 --> 00:59:29,359

on over the market very good

1071

00:59:29,359 --> 00:59:33,280

okay so let me reclaim

1072

00:59:33,280 --> 00:59:37,520

the share okay and here

1073

00:59:37,520 --> 00:59:41,599

and here we go all right

1074

00:59:41,599 --> 00:59:46,000

good welcome back

1075

00:59:46,000 --> 00:59:49,280

okay all right so

1076

00:59:49,280 --> 00:59:51,680

you got all the responses correct this

1077

00:59:51,680 --> 00:59:53,119

is very good

1078

00:59:53,119 --> 00:59:57,040

so foreign exchange is otc

1079

00:59:57,040 --> 01:00:00,400

and futures are on exchange so remember

1080

01:00:00,400 --> 01:00:00,799

that

1081

01:00:00,799 --> 01:00:03,680

futures are exchange specific contracts

1082

01:00:03,680 --> 01:00:05,040

okay

1083

01:00:05,040 --> 01:00:08,400

all right so we're going to move on to

1084

01:00:08,400 --> 01:00:12,400

another dimension another classification

1085

01:00:12,400 --> 01:00:14,400

of financial markets

1086

01:00:14,400 --> 01:00:17,920

which is along geographical lines

1087

01:00:17,920 --> 01:00:21,119

so again this is

1088

01:00:21,119 --> 01:00:24,000

terminology that is used in financial

1089

01:00:24,000 --> 01:00:25,680

markets so if you work

1090

01:00:25,680 --> 01:00:28,960

in investment banks and stuff like that

1091

01:00:28,960 --> 01:00:30,960

you need to be familiar with it

1092

01:00:30,960 --> 01:00:35,280

okay all right so we're going to talk

1093

01:00:35,280 --> 01:00:35,760

about

1094

01:00:35,760 --> 01:00:39,119

domestic foreign

1095

01:00:39,119 --> 01:00:42,799

and euro transactions

1096

01:00:42,799 --> 01:00:44,640

so you need to pay attention because

1097

01:00:44,640 --> 01:00:46,720

this is complicated

1098

01:00:46,720 --> 01:00:49,920

and if you don't pay attention you will

1099

01:00:49,920 --> 01:00:53,040

get it wrong and you don't want to get

1100

01:00:53,040 --> 01:00:54,079

it wrong

1101

01:00:54,079 --> 01:00:56,240

because it will be in the question and

1102

01:00:56,240 --> 01:00:58,000

in the exam

1103

01:00:58,000 --> 01:01:01,359

all right so you have to go step by step

1104

01:01:01,359 --> 01:01:03,440

and you have to follow the step in the

1105

01:01:03,440 --> 01:01:04,160

correct

1106

01:01:04,160 --> 01:01:08,839

order otherwise you will get it wrong

1107

01:01:08,839 --> 01:01:11,440

so when we look at

1108

01:01:11,440 --> 01:01:14,880

securities issues and

1109

01:01:14,880 --> 01:01:16,960

particularly for debt but also for

1110

01:01:16,960 --> 01:01:18,319

equity

1111

01:01:18,319 --> 01:01:21,680

we to decide if it's security is a

1112

01:01:21,680 --> 01:01:23,359

domestic

1113

01:01:23,359 --> 01:01:26,720

foreign or euro issue

1114

01:01:26,720 --> 01:01:30,640

we have to check three things first

1115

01:01:30,640 --> 01:01:33,680

what currency is the security

1116

01:01:33,680 --> 01:01:37,520

issued in so is it us dollar

1117

01:01:37,520 --> 01:01:40,640

is it euros is it hong kong dollar

1118

01:01:40,640 --> 01:01:43,839

singapore dollar indian rupee blah blah

1119

01:01:43,839 --> 01:01:44,559

blah

1120

01:01:44,559 --> 01:01:48,880

what currency first thing second

1121

01:01:48,880 --> 01:01:53,520

where is the security placed

1122

01:01:53,520 --> 01:01:56,799

so where are the investors

1123

01:01:56,799 --> 01:02:01,680

are there in the country of the currency

1124

01:02:01,680 --> 01:02:06,480

or not and last is

1125

01:02:06,480 --> 01:02:09,599

where is the issuer

1126

01:02:09,599 --> 01:02:13,119

is the issuer in the same country

1127

01:02:13,119 --> 01:02:17,599

as the currency or not

1128

01:02:17,599 --> 01:02:20,559

all right so when everything is in the

1129

01:02:20,559 --> 01:02:21,839

same country

1130

01:02:21,839 --> 01:02:25,839

we say it's a domestic issue

1131

01:02:25,839 --> 01:02:29,359

so you take a currency say the hong kong

1132

01:02:29,359 --> 01:02:31,119

dollar

1133

01:02:31,119 --> 01:02:33,839

it's in hong kong the investors are in

1134

01:02:33,839 --> 01:02:34,880

hong kong

1135

01:02:34,880 --> 01:02:37,520

the issuer is a hong kong company it's a

1136

01:02:37,520 --> 01:02:38,880

domestic issue

1137

01:02:38,880 --> 01:02:41,839

so you tick all the boxes if everything

1138

01:02:41,839 --> 01:02:43,200

is in the same country

1139

01:02:43,200 --> 01:02:48,000

it's easy we call it domestic

1140

01:02:48,000 --> 01:02:51,119

okay so far so good simple

1141

01:02:51,119 --> 01:02:54,480

it gets more complicated than that

1142

01:02:54,480 --> 01:02:58,079

all right next step you have the

1143

01:02:58,079 --> 01:02:58,880

currency

1144

01:02:58,880 --> 01:03:01,520

and its country the investors are in the

1145

01:03:01,520 --> 01:03:02,240

same

1146

01:03:02,240 --> 01:03:05,760

country but the issuer

1147

01:03:05,760 --> 01:03:08,960

is not we say it's a

1148

01:03:08,960 --> 01:03:12,799

foreign issue for example

1149

01:03:12,799 --> 01:03:16,559

hong kong land issues u.s dollar bond to

1150

01:03:16,559 --> 01:03:17,119

u.s

1151

01:03:17,119 --> 01:03:21,359

investors the currency is the us dollar

1152

01:03:21,359 --> 01:03:25,039

it's in the united states the investors

1153

01:03:25,039 --> 01:03:28,079

are in the united states but

1154

01:03:28,079 --> 01:03:31,200

the issuer is in hong kong so the issuer

1155

01:03:31,200 --> 01:03:33,359

is outside the country

1156

01:03:33,359 --> 01:03:38,160

so we call this a foreign issue

1157

01:03:39,119 --> 01:03:44,319

okay now it gets really complicated

1158

01:03:44,319 --> 01:03:47,359

now we're going to take the currency

1159

01:03:47,359 --> 01:03:51,359

out of its country so

1160

01:03:51,359 --> 01:03:54,480

we have a currency

1161

01:03:54,480 --> 01:03:57,359

but it's not being used in its own

1162

01:03:57,359 --> 01:03:58,559

country

1163

01:03:58,559 --> 01:04:01,920

it's being used outside

1164

01:04:01,920 --> 01:04:05,680

whenever a currency is not in its own

1165

01:04:05,680 --> 01:04:06,559

currency

1166

01:04:06,559 --> 01:04:09,839

not in its own country in financial

1167

01:04:09,839 --> 01:04:11,119

market we call that

1168

01:04:11,119 --> 01:04:14,240

a euro currency

1169

01:04:14,240 --> 01:04:17,359

it has nothing to do with the

1170

01:04:17,359 --> 01:04:21,839

euro okay so it's confusing

1171

01:04:21,839 --> 01:04:25,599

why because euro currencies

1172

01:04:25,599 --> 01:04:29,480

euro market euro issues

1173

01:04:29,480 --> 01:04:34,480

existed before the euro

1174

01:04:34,480 --> 01:04:37,920

and it all started with u.s dollars

1175

01:04:37,920 --> 01:04:42,240

being used outside the united states

1176

01:04:42,240 --> 01:04:45,599

okay so the euro dollar market

1177

01:04:45,599 --> 01:04:48,799

has nothing to do with euros it's

1178

01:04:48,799 --> 01:04:52,799

dollars outside the united states

1179

01:04:52,799 --> 01:04:55,920

so remember the three checkpoints

1180

01:04:55,920 --> 01:04:59,440

what is the currency where is it being

1181

01:04:59,440 --> 01:05:00,319

placed

1182

01:05:00,319 --> 01:05:03,359

if it's outside its own country then

1183

01:05:03,359 --> 01:05:08,000

we'll have a euro issue

1184

01:05:08,000 --> 01:05:10,400

okay

1185

01:05:11,440 --> 01:05:14,640

example hong kong land issues

1186

01:05:14,640 --> 01:05:18,079

a euro-denominated bond to hong kong

1187

01:05:18,079 --> 01:05:21,760

investors the currency is the euro but

1188

01:05:21,760 --> 01:05:22,000

it's

1189

01:05:22,000 --> 01:05:25,359

used outside the euro zone so it's a

1190

01:05:25,359 --> 01:05:28,160

euro euro

1191

01:05:28,799 --> 01:05:31,280

hong kong land issues us dollar

1192

01:05:31,280 --> 01:05:32,960

denominated bonds to

1193

01:05:32,960 --> 01:05:36,480

eu investors its u.s dollars outside the

1194

01:05:36,480 --> 01:05:38,079

united states

1195

01:05:38,079 --> 01:05:42,559

so it's a uh euro issue

1196

01:05:43,599 --> 01:05:51,839

okay you think you have understood

1197

01:05:52,160 --> 01:05:54,480

well let's complicate things a little

1198

01:05:54,480 --> 01:05:55,760

bit more

1199

01:05:55,760 --> 01:05:58,240

so you have these three dimensions which

1200

01:05:58,240 --> 01:05:59,440

is what we use in

1201

01:05:59,440 --> 01:06:02,000

financial markets then we look at

1202

01:06:02,000 --> 01:06:04,079

another way of classifying

1203

01:06:04,079 --> 01:06:06,400

which is the one used by the bank for

1204

01:06:06,400 --> 01:06:10,000

international settlements so the bis

1205

01:06:10,000 --> 01:06:13,440

the bis is one of these supranational

1206

01:06:13,440 --> 01:06:15,280

organizations remember the term

1207

01:06:15,280 --> 01:06:16,640

supranational

1208

01:06:16,640 --> 01:06:19,200

which was set up as one of the bretton

1209

01:06:19,200 --> 01:06:19,839

woods

1210

01:06:19,839 --> 01:06:23,839

institutions and it's a very important

1211

01:06:23,839 --> 01:06:27,039

organization one of their function

1212

01:06:27,039 --> 01:06:29,680

is to collect a lot of information about

1213

01:06:29,680 --> 01:06:32,720

financial markets so

1214

01:06:32,720 --> 01:06:35,680

the bis gets information about

1215

01:06:35,680 --> 01:06:36,559

securities

1216

01:06:36,559 --> 01:06:40,400

issues and then classifies them

1217

01:06:40,400 --> 01:06:43,920

in two major categories okay

1218

01:06:43,920 --> 01:06:48,960

so you have domestic and international

1219

01:06:48,960 --> 01:06:52,400

domestic okay and

1220

01:06:52,400 --> 01:06:56,480

international so

1221

01:06:56,960 --> 01:07:00,559

for the bis

1222

01:07:00,559 --> 01:07:02,559

they don't really make a distinction

1223

01:07:02,559 --> 01:07:05,119

between foreign and europe for them it's

1224

01:07:05,119 --> 01:07:05,520

all

1225

01:07:05,520 --> 01:07:10,319

international the domestic is the same

1226

01:07:10,319 --> 01:07:14,000

but the bis puts euro

1227

01:07:14,000 --> 01:07:17,039

and international and

1228

01:07:17,039 --> 01:07:19,760

foreign issues under international

1229

01:07:19,760 --> 01:07:22,160

issues

1230

01:07:22,799 --> 01:07:26,839

and finally you have a third

1231

01:07:26,839 --> 01:07:29,359

classification and this one is more of

1232

01:07:29,359 --> 01:07:31,920

an academic classification

1233

01:07:31,920 --> 01:07:35,359

which looks at internal and

1234

01:07:35,359 --> 01:07:38,319

external from the point of view of the

1235

01:07:38,319 --> 01:07:41,520

market where you're placing the issue

1236

01:07:41,520 --> 01:07:45,039

so from that perspective

1237

01:07:45,039 --> 01:07:48,240

internal means both domestic and foreign

1238

01:07:48,240 --> 01:07:49,359

because you look at

1239

01:07:49,359 --> 01:07:52,880

where you're placing the issue

1240

01:07:52,880 --> 01:07:57,839

external is basically europe

1241

01:07:58,319 --> 01:08:01,520

you think you understand

1242

01:08:02,079 --> 01:08:04,480

all right

1243

01:08:05,280 --> 01:08:11,839

let's try it with iprs

1244

01:08:14,480 --> 01:08:17,839

okay so this first question is

1245

01:08:17,839 --> 01:08:19,600

hong kong land which is a hong kong

1246

01:08:19,600 --> 01:08:20,880

company

1247

01:08:20,880 --> 01:08:24,080

issues a bond in hong kong dollars

1248

01:08:24,080 --> 01:08:27,520

placed to hong kong investors

1249

01:08:27,520 --> 01:08:32,480

what is this this is domestic euro

1250

01:08:36,839 --> 01:08:39,839

performing

1251

01:09:46,640 --> 01:09:49,920

wow very good okay

1252

01:09:49,920 --> 01:09:53,679

wow that was easy now next thing the

1253

01:09:53,679 --> 01:09:54,480

same

1254

01:09:54,480 --> 01:09:58,880

issue how will the bis record it

1255

01:09:58,880 --> 01:10:03,840

domestic or international

1256

01:10:29,840 --> 01:10:31,920

you

1257

01:11:28,320 --> 01:11:32,080

oh oh boy how about your boy

1258

01:11:32,080 --> 01:11:35,199

what are you doing okay so it's a hong

1259

01:11:35,199 --> 01:11:37,440

kong land issuing a hong kong dollar

1260

01:11:37,440 --> 01:11:37,840

bond

1261

01:11:37,840 --> 01:11:40,480

hong kong investors classified domestic

1262

01:11:40,480 --> 01:11:41,760

issue

1263

01:11:41,760 --> 01:11:45,520

and the bis will record it as a domestic

1264

01:11:45,520 --> 01:11:50,800

issue okay our last question

1265

01:11:50,800 --> 01:11:54,159

the same issue would we classify

1266

01:11:54,159 --> 01:12:09,840

it as internal or external

1267

01:12:20,840 --> 01:12:23,840

oops

1268

01:12:40,320 --> 01:12:44,719

uh oh what's going on benson

1269

01:12:44,800 --> 01:12:51,840

benson you're sharing your email

1270

01:13:13,600 --> 01:13:16,880

all right so it's an internal

1271

01:13:16,880 --> 01:13:20,000

transaction very good okay

1272

01:13:20,000 --> 01:13:23,120

so let me reclaim the

1273

01:13:23,120 --> 01:13:25,679

sharing

1274

01:13:26,560 --> 01:13:29,920

okay there we go all right

1275

01:13:29,920 --> 01:13:34,880

so this one was an easy one

1276

01:13:35,360 --> 01:13:38,640

because it was domestic now

1277

01:13:38,640 --> 01:13:42,480

let me make it more complicated

1278

01:13:45,280 --> 01:13:48,080

what if

1279

01:13:56,960 --> 01:14:00,080

what if hong kong land issues in

1280

01:14:00,080 --> 01:14:04,560

us dollars oh look at that

1281

01:14:04,560 --> 01:14:07,679

very good

1282

01:14:07,679 --> 01:14:10,719

all right the first answer would be a

1283

01:14:10,719 --> 01:14:15,840

euro issue okay

1284

01:14:15,920 --> 01:14:18,560

because it's us dollar outside of the

1285

01:14:18,560 --> 01:14:19,760

united states

1286

01:14:19,760 --> 01:14:23,600

from the bis what would it be

1287

01:14:24,960 --> 01:14:29,840

that's right it will be international

1288

01:14:29,920 --> 01:14:32,239

and from an academics perspective would

1289

01:14:32,239 --> 01:14:36,400

it be internal or external

1290

01:14:36,640 --> 01:14:40,960

external very good okay now let's make

1291

01:14:40,960 --> 01:14:43,840

it slightly different

1292

01:14:44,080 --> 01:14:46,480

okay

1293

01:14:52,320 --> 01:14:55,440

our bodies hong kong land is selling u.s

1294

01:14:55,440 --> 01:14:56,800

dollar bond to u.s

1295

01:14:56,800 --> 01:15:01,040

investors very good

1296

01:15:01,040 --> 01:15:04,480

it will be a foreign issue okay

1297

01:15:04,480 --> 01:15:07,840

now from the bis standpoint what would

1298

01:15:07,840 --> 01:15:10,800

it be

1299

01:15:10,800 --> 01:15:13,840

really good okay we have

1300

01:15:13,840 --> 01:15:19,440

international what about the academic

1301

01:15:22,840 --> 01:15:25,840

distinction

1302

01:15:26,640 --> 01:15:31,280

it would be internal okay

1303

01:15:33,040 --> 01:15:36,320

all right very good i guess you've

1304

01:15:36,320 --> 01:15:39,120

got in that one very good okay there

1305

01:15:39,120 --> 01:15:41,040

will be similar questions in there

1306

01:15:41,040 --> 01:15:43,760

by the prs questions is the kind of

1307

01:15:43,760 --> 01:15:45,040

questions you're going to get

1308

01:15:45,040 --> 01:15:49,280

getting in quizzes and in exam

1309

01:15:49,440 --> 01:15:52,840

all right the final

1310

01:15:52,840 --> 01:15:55,199

classification we are going to discuss

1311

01:15:55,199 --> 01:15:56,400

is private

1312

01:15:56,400 --> 01:16:00,480

and public okay so

1313

01:16:00,480 --> 01:16:04,840

when an issuer places an

1314

01:16:04,840 --> 01:16:07,880

issue only with

1315

01:16:07,880 --> 01:16:11,600

sophisticated investors this is

1316

01:16:11,600 --> 01:16:16,960

private markets if they place securities

1317

01:16:16,960 --> 01:16:20,239

with the general public

1318

01:16:20,239 --> 01:16:23,840

with individual retail investors

1319

01:16:23,840 --> 01:16:26,880

we call that public market

1320

01:16:26,880 --> 01:16:30,400

okay now i have to warn you

1321

01:16:30,400 --> 01:16:33,520

that in market problems

1322

01:16:33,520 --> 01:16:37,199

we use the term retail

1323

01:16:37,199 --> 01:16:40,640

when we talk about placing issues to

1324

01:16:40,640 --> 01:16:44,080

retail investors to the little guys

1325

01:16:44,080 --> 01:16:47,360

in academic terms we call that a public

1326

01:16:47,360 --> 01:16:51,120

issue okay so

1327

01:16:51,120 --> 01:16:55,760

we're going to use the academic terms

1328

01:16:55,840 --> 01:16:58,480

so why is there a distinction why do you

1329

01:16:58,480 --> 01:16:59,199

think

1330

01:16:59,199 --> 01:17:05,360

we distinguish public and private issues

1331

01:17:06,719 --> 01:17:10,480

why do you think we distinguish them

1332

01:17:11,440 --> 01:17:15,600

investment size not necessarily

1333

01:17:15,600 --> 01:17:18,800

you can have very large private issues

1334

01:17:18,800 --> 01:17:22,320

the number of investors in some cases

1335

01:17:22,320 --> 01:17:25,760

investment qualifications regulations

1336

01:17:25,760 --> 01:17:28,800

yes regulations and

1337

01:17:28,800 --> 01:17:31,360

somehow is correct to point out that we

1338

01:17:31,360 --> 01:17:34,000

want to protect small investors

1339

01:17:34,000 --> 01:17:37,120

so regulators are going to watch very

1340

01:17:37,120 --> 01:17:38,640

carefully

1341

01:17:38,640 --> 01:17:40,960

whenever you want to sell financial

1342

01:17:40,960 --> 01:17:41,760

products to

1343

01:17:41,760 --> 01:17:46,480

retail investors they want to make sure

1344

01:17:46,480 --> 01:17:49,920

that the retail small investors

1345

01:17:49,920 --> 01:17:53,280

widows and orphans are adequately

1346

01:17:53,280 --> 01:17:58,159

protected and one of the major ways is

1347

01:17:58,159 --> 01:18:02,719

by making sure that retail investors

1348

01:18:02,719 --> 01:18:07,840

have all the information that they need

1349

01:18:07,840 --> 01:18:11,199

so whenever you're talking about public

1350

01:18:11,199 --> 01:18:14,239

issues there will be

1351

01:18:14,239 --> 01:18:18,120

disclosure requirements and

1352

01:18:18,120 --> 01:18:21,360

registration requirements so those

1353

01:18:21,360 --> 01:18:24,880

depend on the market where you operate

1354

01:18:24,880 --> 01:18:27,520

for example in some markets the

1355

01:18:27,520 --> 01:18:28,560

regulators

1356

01:18:28,560 --> 01:18:31,679

will want to avoid too many issues

1357

01:18:31,679 --> 01:18:33,040

coming to the market

1358

01:18:33,040 --> 01:18:36,080

at the same time so they will have what

1359

01:18:36,080 --> 01:18:37,840

is called the curing

1360

01:18:37,840 --> 01:18:41,280

system okay so rule of thumb

1361

01:18:41,280 --> 01:18:44,159

no matter which market you're in there

1362

01:18:44,159 --> 01:18:45,280

will always be

1363

01:18:45,280 --> 01:18:48,159

more regulation whenever you want to

1364

01:18:48,159 --> 01:18:48,560

sell

1365

01:18:48,560 --> 01:18:52,159

things to retail to you and me

1366

01:18:52,159 --> 01:18:55,520

widows and orphans

1367

01:18:55,520 --> 01:18:59,400

the underlying assumptions is that

1368

01:18:59,400 --> 01:19:02,560

institutions and sophisticated

1369

01:19:02,560 --> 01:19:06,159

investors know what they're doing

1370

01:19:06,159 --> 01:19:09,920

okay sadly that's not really always the

1371

01:19:09,920 --> 01:19:11,280

case

1372

01:19:11,280 --> 01:19:14,800

all right so public issues are targeted

1373

01:19:14,800 --> 01:19:18,000

at the general public so we also say

1374

01:19:18,000 --> 01:19:21,199

retail issues

1375

01:19:21,199 --> 01:19:26,520

yes check him

1376

01:19:26,520 --> 01:19:30,239

speculatory phone no

1377

01:19:30,640 --> 01:19:32,719

sorry i i didn't catch what you were

1378

01:19:32,719 --> 01:19:34,960

saying

1379

01:19:35,280 --> 01:19:37,840

sorry sorry i just mute myself

1380

01:19:37,840 --> 01:19:39,679

accidentally

1381

01:19:39,679 --> 01:19:43,280

sorry okay okay fine all right

1382

01:19:43,280 --> 01:19:47,199

um so let's we public issues

1383

01:19:47,199 --> 01:19:50,640

retail are subject to regulatory

1384

01:19:50,640 --> 01:19:54,159

control typically will be underwritten

1385

01:19:54,159 --> 01:19:56,560

by investment banks what does it mean

1386

01:19:56,560 --> 01:19:58,719

we'll explain underwriting later

1387

01:19:58,719 --> 01:20:01,120

in more detail but basically what it

1388

01:20:01,120 --> 01:20:02,239

means

1389

01:20:02,239 --> 01:20:04,800

because you're selling to a very large

1390

01:20:04,800 --> 01:20:05,440

number of

1391

01:20:05,440 --> 01:20:08,719

small investors you cannot negotiate the

1392

01:20:08,719 --> 01:20:09,920

price with all of them

1393

01:20:09,920 --> 01:20:13,520

so you have to sell at a set price

1394

01:20:13,520 --> 01:20:16,800

in order to do that an investment bank

1395

01:20:16,800 --> 01:20:17,600

will step

1396

01:20:17,600 --> 01:20:21,440

in between the company and the investors

1397

01:20:21,440 --> 01:20:24,000

will buy the entire issue and then sell

1398

01:20:24,000 --> 01:20:25,040

it

1399

01:20:25,040 --> 01:20:27,360

okay that's what is called underwriting

1400

01:20:27,360 --> 01:20:30,560

which obviously is a risky proposition

1401

01:20:30,560 --> 01:20:32,480

so the investment bank wants to be

1402

01:20:32,480 --> 01:20:35,840

compensated for that

1403

01:20:36,400 --> 01:20:40,080

they will typically require registration

1404

01:20:40,080 --> 01:20:42,639

or filing so you need to let the

1405

01:20:42,639 --> 01:20:43,920

regulators know

1406

01:20:43,920 --> 01:20:47,360

that it is coming and they will ask you

1407

01:20:47,360 --> 01:20:50,639

to bring documents together

1408

01:20:50,639 --> 01:20:53,760

which is called prospectus

1409

01:20:53,760 --> 01:20:56,800

or information memorandum

1410

01:20:56,800 --> 01:21:00,000

or offering circular just three terms

1411

01:21:00,000 --> 01:21:02,960

are equivalent which is basically

1412

01:21:02,960 --> 01:21:05,440

information needed by

1413

01:21:05,440 --> 01:21:08,960

investors to make that decision and

1414

01:21:08,960 --> 01:21:12,080

they require the investment banks

1415

01:21:12,080 --> 01:21:15,120

to carry out what is called due

1416

01:21:15,120 --> 01:21:18,639

diligence what is due diligence

1417

01:21:18,639 --> 01:21:21,760

anybody can tell me

1418

01:21:24,159 --> 01:21:29,840

who can tell me what is due diligence

1419

01:21:31,679 --> 01:21:35,920

check company's profile

1420

01:21:36,000 --> 01:21:38,840

research the whole profile detailed

1421

01:21:38,840 --> 01:21:40,600

examination

1422

01:21:40,600 --> 01:21:44,800

no it's not a law

1423

01:21:45,199 --> 01:21:47,920

doing analysis of the company's annual

1424

01:21:47,920 --> 01:21:49,600

report

1425

01:21:49,600 --> 01:21:54,239

in a way appraisal research

1426

01:21:54,239 --> 01:21:57,679

okay make sure it's not a fraud yes

1427

01:21:57,679 --> 01:22:00,960

check credibility yes so due

1428

01:22:00,960 --> 01:22:05,280

diligence is the process of verifying

1429

01:22:05,280 --> 01:22:09,360

the information so the investment banks

1430

01:22:09,360 --> 01:22:11,840

are responsible

1431

01:22:11,840 --> 01:22:15,679

to make sure that the document

1432

01:22:15,679 --> 01:22:18,880

which contains all the information is

1433

01:22:18,880 --> 01:22:23,040

complete accurate

1434

01:22:23,040 --> 01:22:26,800

and not misleading in other words

1435

01:22:26,800 --> 01:22:30,080

the information must be complete so you

1436

01:22:30,080 --> 01:22:33,440

cannot miss any information so up until

1437

01:22:33,440 --> 01:22:34,000

the

1438

01:22:34,000 --> 01:22:36,639

moment where the shares are sold or the

1439

01:22:36,639 --> 01:22:38,080

bond is placed

1440

01:22:38,080 --> 01:22:40,480

you verify that all the relevant

1441

01:22:40,480 --> 01:22:41,440

information

1442

01:22:41,440 --> 01:22:44,639

is included it must be complete

1443

01:22:44,639 --> 01:22:47,920

no missing information two

1444

01:22:47,920 --> 01:22:51,520

it must be accurate so no fraud

1445

01:22:51,520 --> 01:22:55,440

no misrepresentation third it must not

1446

01:22:55,440 --> 01:22:56,800

be misleading

1447

01:22:56,800 --> 01:22:59,199

so you must not put information which

1448

01:22:59,199 --> 01:23:00,880

can be interpreted

1449

01:23:00,880 --> 01:23:04,239

in a different way so three standards of

1450

01:23:04,239 --> 01:23:04,800

care

1451

01:23:04,800 --> 01:23:07,920

in due diligence complete accurate

1452

01:23:07,920 --> 01:23:10,960

and not misleading

1453

01:23:10,960 --> 01:23:14,320

in some countries including the united

1454

01:23:14,320 --> 01:23:15,040

states

1455

01:23:15,040 --> 01:23:18,159

and hong kong and now in china

1456

01:23:18,159 --> 01:23:21,520

the investment banks the sponsors

1457

01:23:21,520 --> 01:23:24,639

for the issues are legally

1458

01:23:24,639 --> 01:23:28,159

responsible in other words

1459

01:23:28,159 --> 01:23:31,440

if one of these three criteria

1460

01:23:31,440 --> 01:23:34,880

is missing and investors lose money

1461

01:23:34,880 --> 01:23:38,000

they can sue the investment bank or the

1462

01:23:38,000 --> 01:23:39,600

sponsor

1463

01:23:39,600 --> 01:23:42,239

for not doing their job in the due

1464

01:23:42,239 --> 01:23:44,960

diligence process

1465

01:23:44,960 --> 01:23:48,080

okay so due diligence is a very

1466

01:23:48,080 --> 01:23:51,520

important process it's only recently

1467

01:23:51,520 --> 01:23:53,520

that hong kong has begun

1468

01:23:53,520 --> 01:23:55,360

hong kong regulators have started

1469

01:23:55,360 --> 01:23:58,239

holding investment banks responsible

1470

01:23:58,239 --> 01:24:02,159

but now it's a big issue okay

1471

01:24:02,159 --> 01:24:05,040

so due diligence is very very important

1472

01:24:05,040 --> 01:24:07,600

and regulators have started

1473

01:24:07,600 --> 01:24:10,719

uh coming down pretty hard on

1474

01:24:10,719 --> 01:24:13,760

uh sponsors and investment banks that

1475

01:24:13,760 --> 01:24:17,840

don't do their job properly

1476

01:24:18,159 --> 01:24:21,600

in some countries uh there has been

1477

01:24:21,600 --> 01:24:22,880

requirement for

1478

01:24:22,880 --> 01:24:27,199

debt issues uh for the companies to have

1479

01:24:27,199 --> 01:24:31,040

credit ratings so that was the case

1480

01:24:31,040 --> 01:24:34,320

in the united yes a circular

1481

01:24:34,320 --> 01:24:35,840

is the same thing as an offering

1482

01:24:35,840 --> 01:24:37,760

memorandum is the same thing as a

1483

01:24:37,760 --> 01:24:39,199

prospectus

1484

01:24:39,199 --> 01:24:42,080

different terms for the same thing the

1485

01:24:42,080 --> 01:24:43,679

document that contains all the

1486

01:24:43,679 --> 01:24:45,360

information

1487

01:24:45,360 --> 01:24:49,920

um so ratings used to be required

1488

01:24:49,920 --> 01:24:52,560

if you wanted to do debt issues public

1489

01:24:52,560 --> 01:24:55,199

debt issues in the united states

1490

01:24:55,199 --> 01:24:58,159

this is no longer a requirement but

1491

01:24:58,159 --> 01:24:59,400

rather a

1492

01:24:59,400 --> 01:25:04,320

recommendation and insulin

1493

01:25:04,320 --> 01:25:09,520

robin what you want hello

1494

01:25:09,520 --> 01:25:13,040

hello okay

1495

01:25:13,040 --> 01:25:16,800

this is funny um so and finally

1496

01:25:16,800 --> 01:25:19,360

in some countries you may need prior

1497

01:25:19,360 --> 01:25:21,520

approval from the regulators you might

1498

01:25:21,520 --> 01:25:22,000

have a

1499

01:25:22,000 --> 01:25:24,480

queuing system and this is designed to

1500

01:25:24,480 --> 01:25:26,000

prevent the market being

1501

01:25:26,000 --> 01:25:28,800

flooded with too many issues at the same

1502

01:25:28,800 --> 01:25:30,000

time

1503

01:25:30,000 --> 01:25:34,159

okay so we just exceeded the time by two

1504

01:25:34,159 --> 01:25:36,000

minutes but this is important to

1505

01:25:36,000 --> 01:25:37,280

understand

1506

01:25:37,280 --> 01:25:39,920

all right there is a logic behind it

1507

01:25:39,920 --> 01:25:41,520

there is a reason

1508

01:25:41,520 --> 01:25:44,639

behind it because you are targeting

1509

01:25:44,639 --> 01:25:48,159

small investors and sophisticated

1510

01:25:48,159 --> 01:25:49,360

investors

1511

01:25:49,360 --> 01:25:52,320

the regulators want to make sure you

1512

01:25:52,320 --> 01:25:54,480

have access to the information

1513

01:25:54,480 --> 01:25:57,280

you need to make your investment

1514

01:25:57,280 --> 01:25:58,560

decision

1515

01:25:58,560 --> 01:26:02,159

and they will come down really hard if

1516

01:26:02,159 --> 01:26:05,840

the arranges of the issue do not provide

1517

01:26:05,840 --> 01:26:06,159

that

1518

01:26:06,159 --> 01:26:10,080

information okay so are you free to go

1519

01:26:10,080 --> 01:26:12,560

i'm hanging around to take any questions

1520

01:26:12,560 --> 01:26:13,360

that you may have

1521

01:26:13,360 --> 01:26:18,639

benson you're free to go as well any

1522

01:26:20,840 --> 01:26:23,360

questions

1523

01:26:23,360 --> 01:26:37,840

thank you

1524

01:26:42,960 --> 01:26:45,440

uh professor i do have a question sure

1525

01:26:45,440 --> 01:26:46,719

go ahead

1526

01:26:46,719 --> 01:26:50,080

yeah um it's about the demutualization

1527

01:26:50,080 --> 01:26:52,320

uh when you say that it's a company's um

1528

01:26:52,320 --> 01:26:54,239

you know customer owned

1529

01:26:54,239 --> 01:26:56,719

what does that uh really mean because i

1530

01:26:56,719 --> 01:26:58,239

know that you know like if it's

1531

01:26:58,239 --> 01:26:59,840

if the shareholders own it like they

1532

01:26:59,840 --> 01:27:01,280

have like physical

1533

01:27:01,280 --> 01:27:03,360

shares and stuff like that but customer

1534

01:27:03,360 --> 01:27:05,280

owns i'm not quite sure

1535

01:27:05,280 --> 01:27:08,719

well for example if you one of the most

1536

01:27:08,719 --> 01:27:11,360

common mutual organizations in finance

1537

01:27:11,360 --> 01:27:13,600

is a mutual fund

1538

01:27:13,600 --> 01:27:16,639

so as an investor when you invest

1539

01:27:16,639 --> 01:27:18,719

in a mutual fund you're actually buying

1540

01:27:18,719 --> 01:27:21,199

shares in the mutual fund

1541

01:27:21,199 --> 01:27:24,239

so you're an investor and a shareholder

1542

01:27:24,239 --> 01:27:26,480

and there is we will see then when we

1543

01:27:26,480 --> 01:27:28,639

talk about mutual funds that mutual

1544

01:27:28,639 --> 01:27:30,719

funds are organized like companies they

1545

01:27:30,719 --> 01:27:31,120

have

1546

01:27:31,120 --> 01:27:34,719

boards shareholder boards

1547

01:27:34,719 --> 01:27:37,360

and they function like a company and as

1548

01:27:37,360 --> 01:27:40,880

an investor you are a shareholder

1549

01:27:40,880 --> 01:27:44,639

okay does that answer your question

1550

01:27:44,639 --> 01:27:46,719

right okay so uh so customers in this

1551

01:27:46,719 --> 01:27:50,080

case are investors

1552

01:27:50,239 --> 01:27:53,360

all right all right all right right okay

1553

01:27:53,360 --> 01:27:56,400

got it thank you okay you're welcome i

1554

01:27:56,400 --> 01:27:59,440

see you gem day you had a

1555

01:27:59,440 --> 01:28:01,440

um question i have a question about

1556

01:28:01,440 --> 01:28:03,040

mixed mode class

1557

01:28:03,040 --> 01:28:06,159

um i have read the email about mixed

1558

01:28:06,159 --> 01:28:07,520

mode class that

1559

01:28:07,520 --> 01:28:11,280

um the class with a student number below

1560

01:28:11,280 --> 01:28:14,800

75 has a probability to open a mixmo

1561

01:28:14,800 --> 01:28:15,679

class

1562

01:28:15,679 --> 01:28:20,080

and i wonder if our class is going to

1563

01:28:20,080 --> 01:28:25,040

no no because i have over 120 students

1564

01:28:25,040 --> 01:28:27,520

so this is a launch class so this is

1565

01:28:27,520 --> 01:28:29,600

going to stay online

1566

01:28:29,600 --> 01:28:32,880

okay thank you you're welcome and

1567

01:28:32,880 --> 01:28:35,840

sean hack you had a question yeah so i

1568

01:28:35,840 --> 01:28:37,199

have a question regarding the

1569

01:28:37,199 --> 01:28:39,920

assignment one that the group project

1570

01:28:39,920 --> 01:28:41,280

yes

1571

01:28:41,280 --> 01:28:46,159

we are assigned to the topics and

1572

01:28:46,159 --> 01:28:49,040

uh my question is the the article that

1573

01:28:49,040 --> 01:28:49,920

we find

1574

01:28:49,920 --> 01:28:52,880

should be like a recent one or is there

1575

01:28:52,880 --> 01:28:54,000

any time limit

1576

01:28:54,000 --> 01:28:56,719

resemblance no there's no real time

1577

01:28:56,719 --> 01:28:57,199

limit

1578

01:28:57,199 --> 01:28:59,360

because if you find an article that's

1579

01:28:59,360 --> 01:29:01,760

very relevant that is maybe a year

1580

01:29:01,760 --> 01:29:06,560

or so old but if it's like 20 years old

1581

01:29:06,560 --> 01:29:09,360

uh it's not like that not too much okay

1582

01:29:09,360 --> 01:29:10,560

so

1583

01:29:10,560 --> 01:29:13,840

within reason okay if you find something

1584

01:29:13,840 --> 01:29:14,320

that

1585

01:29:14,320 --> 01:29:16,400

is in like the past year or two that's

1586

01:29:16,400 --> 01:29:17,360

okay

1587

01:29:17,360 --> 01:29:20,639

but if you start going into and you know

1588

01:29:20,639 --> 01:29:22,639

it has to be relevant

1589

01:29:22,639 --> 01:29:25,760

so things change in the markets

1590

01:29:25,760 --> 01:29:27,760

so you might find an article that was

1591

01:29:27,760 --> 01:29:29,120

completely relevant

1592

01:29:29,120 --> 01:29:31,440

three years ago but it's completely

1593

01:29:31,440 --> 01:29:33,520

irrelevant today

1594

01:29:33,520 --> 01:29:36,480

okay so the the whole think about why

1595

01:29:36,480 --> 01:29:38,159

i'm giving you this exercise

1596

01:29:38,159 --> 01:29:41,440

right it's to force you to look into

1597

01:29:41,440 --> 01:29:45,520

big issues in terms of what is happening

1598

01:29:45,520 --> 01:29:48,880

uh today in in today's market

1599

01:29:48,880 --> 01:29:51,120

okay okay so there's another question

1600

01:29:51,120 --> 01:29:52,480

with our topic

1601

01:29:52,480 --> 01:29:54,880

uh our topic is a group five and it's

1602

01:29:54,880 --> 01:29:56,639

about the derivatives in asia what is

1603

01:29:56,639 --> 01:29:58,320

the level of development in

1604

01:29:58,320 --> 01:30:00,639

development uh derivatives markets in

1605

01:30:00,639 --> 01:30:02,320

asia and what about china

1606

01:30:02,320 --> 01:30:05,520

or the issues implications yeah and

1607

01:30:05,520 --> 01:30:07,440

i think i see there are many questions

1608

01:30:07,440 --> 01:30:08,639

in this one

1609

01:30:08,639 --> 01:30:11,840

question yeah you can can

1610

01:30:11,840 --> 01:30:14,159

should we find many articles or just one

1611

01:30:14,159 --> 01:30:15,840

not no you can pick one

1612

01:30:15,840 --> 01:30:18,080

what i try to do with the questions is

1613

01:30:18,080 --> 01:30:20,080

leave them big enough

1614

01:30:20,080 --> 01:30:23,520

that you can pick one aspect of it you

1615

01:30:23,520 --> 01:30:24,719

don't have to answer

1616

01:30:24,719 --> 01:30:28,080

all of them oh okay thank you

1617

01:30:28,080 --> 01:30:32,800

okay nayenn you had a question

1618

01:30:32,800 --> 01:30:36,719

uh yeah uh i you have this answer that

1619

01:30:36,719 --> 01:30:38,000

the article

1620

01:30:38,000 --> 01:30:40,000

can answer only one aspect or two

1621

01:30:40,000 --> 01:30:41,280

aspects but not all

1622

01:30:41,280 --> 01:30:44,000

so um if i found a video that answered

1623

01:30:44,000 --> 01:30:44,880

only what

1624

01:30:44,880 --> 01:30:48,320

or two aspect it is okay yes it is

1625

01:30:48,320 --> 01:30:51,440

yes it is it's sometimes i i give you

1626

01:30:51,440 --> 01:30:54,560

different angles because sometimes it

1627

01:30:54,560 --> 01:30:55,280

may not be

1628

01:30:55,280 --> 01:30:58,239

easy to find just one article that gives

1629

01:30:58,239 --> 01:30:58,480

an

1630

01:30:58,480 --> 01:31:02,239

answer so i try to give you

1631

01:31:02,239 --> 01:31:06,480

different possibilities okay

1632

01:31:06,480 --> 01:31:10,560

and uh is a personal question so

1633

01:31:10,560 --> 01:31:15,120

i want to ask how you value tesla

1634

01:31:15,120 --> 01:31:18,639

how do i work how do you

1635

01:31:18,639 --> 01:31:21,920

evaluate a better stock tesla

1636

01:31:21,920 --> 01:31:26,159

how do i value the stock dresser i don't

1637

01:31:26,239 --> 01:31:29,440

better people than me have tried

1638

01:31:29,440 --> 01:31:32,639

it's all over the place

1639

01:31:34,239 --> 01:31:38,480

okay this was your opinion

1640

01:31:38,480 --> 01:31:40,480

it is quite difficult to evaluate this

1641

01:31:40,480 --> 01:31:46,080

kind of stuff i'm not even trying okay

1642

01:31:46,880 --> 01:31:48,800

uh sometimes you still have another

1643

01:31:48,800 --> 01:31:50,239

question

1644

01:31:50,239 --> 01:31:52,639

oh no no i i didn't i didn't put my

1645

01:31:52,639 --> 01:31:54,400

hands down all right no problem

1646

01:31:54,400 --> 01:31:58,880

no problem okay uh

1647

01:31:58,880 --> 01:32:00,800

there were a few questions does it mean

1648

01:32:00,800 --> 01:32:03,120

that in hong kong

1649

01:32:03,120 --> 01:32:04,719

what does it mean to be a hong kong

1650

01:32:04,719 --> 01:32:06,639

company because hong kong land is

1651

01:32:06,639 --> 01:32:08,880

incorporated in bermuda and

1652

01:32:08,880 --> 01:32:10,639

are you still around is anson still

1653

01:32:10,639 --> 01:32:12,000

around no but

1654

01:32:12,000 --> 01:32:14,400

it's oh what a great question it is it's

1655

01:32:14,400 --> 01:32:16,000

such a great question i will have to

1656

01:32:16,000 --> 01:32:16,880

answer it

1657

01:32:16,880 --> 01:32:20,800

is an underwriter is she or still around

1658

01:32:20,800 --> 01:32:23,280

yeah is an underwriter different than an

1659

01:32:23,280 --> 01:32:24,320

advisor

1660

01:32:24,320 --> 01:32:26,480

so i don't know what you mean by an

1661

01:32:26,480 --> 01:32:28,080

advisor

1662

01:32:28,080 --> 01:32:30,080

uh i would have to look at the

1663

01:32:30,080 --> 01:32:31,120

definition

1664

01:32:31,120 --> 01:32:33,440

of the relevant term in the relevant

1665

01:32:33,440 --> 01:32:34,800

market

1666

01:32:34,800 --> 01:32:38,480

okay uh

1667

01:32:38,480 --> 01:32:41,280

is it legit there see she did not punish

1668

01:32:41,280 --> 01:32:43,040

robin hood for market

1669

01:32:43,040 --> 01:32:46,719

manipulation so who's that why saying is

1670

01:32:46,719 --> 01:32:48,320

why is things still here

1671

01:32:48,320 --> 01:32:51,520

yeah uh baingani um

1672

01:32:51,520 --> 01:32:55,440

yes uh there did not find any instance

1673

01:32:55,440 --> 01:32:58,320

of market manipulation by robin hood

1674

01:32:58,320 --> 01:32:59,520

itself

1675

01:32:59,520 --> 01:33:02,320

uh so in my opinion it was very

1676

01:33:02,320 --> 01:33:04,080

difficult for sec

1677

01:33:04,080 --> 01:33:07,199

to find a situation

1678

01:33:07,199 --> 01:33:10,080

of market manipulation in the case of

1679

01:33:10,080 --> 01:33:12,320

gamestop

1680

01:33:12,320 --> 01:33:16,400

there are very specific

1681

01:33:17,360 --> 01:33:19,280

conditions to find for market

1682

01:33:19,280 --> 01:33:20,840

manipulations

1683

01:33:20,840 --> 01:33:24,159

and there was not clear evidence of

1684

01:33:24,159 --> 01:33:26,159

market manipulation even though they

1685

01:33:26,159 --> 01:33:27,360

grilled

1686

01:33:27,360 --> 01:33:30,480

uh rowing kitten for wearing kitty for

1687

01:33:30,480 --> 01:33:32,080

quite a long time

1688

01:33:32,080 --> 01:33:35,040

but there was no evidence there was

1689

01:33:35,040 --> 01:33:38,000

actually market manipulation

1690

01:33:38,000 --> 01:33:40,960

uh rising protect the retail investor is

1691

01:33:40,960 --> 01:33:42,159

kind of like yeah

1692

01:33:42,159 --> 01:33:46,960

it is vague um it's trying to convey

1693

01:33:46,960 --> 01:33:50,639

the idea that the pro

1694

01:33:50,639 --> 01:33:54,639

the concept behind it is to make sure

1695

01:33:54,639 --> 01:33:58,400

that retail investors are not being

1696

01:33:58,400 --> 01:34:02,840

taken advantage of through information

1697

01:34:02,840 --> 01:34:05,360

asymmetry and we'll talk about this more

1698

01:34:05,360 --> 01:34:06,400

when we discuss

1699

01:34:06,400 --> 01:34:09,199

regulations

1700

01:34:09,679 --> 01:34:12,880

any more questions oh nain you still

1701

01:34:12,880 --> 01:34:18,719

have another question

1702

01:34:18,719 --> 01:34:21,199

the price of gme grows higher the more

1703

01:34:21,199 --> 01:34:24,639

investors suffer when it falls

1704

01:34:24,639 --> 01:34:28,000

depends on the investor then

1705

01:34:28,000 --> 01:34:30,840

they apparently knew what they were

1706

01:34:30,840 --> 01:34:33,840

doing

1707

01:34:36,560 --> 01:34:39,199

up to you

1708

01:34:39,840 --> 01:34:44,159

what if the short quiz really happens

1709

01:34:44,159 --> 01:34:47,840

it did

1710

01:34:49,280 --> 01:34:51,199

okay anyway if you're interested in

1711

01:34:51,199 --> 01:34:53,440

gamestop i don't know if you attended

1712

01:34:53,440 --> 01:34:55,840

the webinar we did a webinar discussion

1713

01:34:55,840 --> 01:34:56,320

on it

1714

01:34:56,320 --> 01:34:59,119

i'll post the link for you uh we had a

1715

01:34:59,119 --> 01:35:01,679

webinar discussion with professor abirup

1716

01:35:01,679 --> 01:35:03,679

and professor utval

1717

01:35:03,679 --> 01:35:06,960

moderated by my uh former

1718

01:35:06,960 --> 01:35:09,840

student sherry so i'll post the link if

1719

01:35:09,840 --> 01:35:10,159

you

1720

01:35:10,159 --> 01:35:12,960

were not able to attend have a look at

1721

01:35:12,960 --> 01:35:15,920

it okay

1722

01:35:15,920 --> 01:35:19,679

all right goodbye people

1723

01:35:19,679 --> 01:35:29,840

see you friday

==end 0222==

==start 0226==

1

00:03:53,630 --> 00:03:58,120

[Music]

2

00:04:07,360 --> 00:04:08,720

okay

3

00:04:08,720 --> 00:04:12,000

it's 12 o'clock and it's time for

4

00:04:12,000 --> 00:04:16,079

our class together good afternoon

5

00:04:16,079 --> 00:04:20,399

ladies and gentlemen welcome back

6

00:04:20,399 --> 00:04:24,320

any questions how many questions in the

7

00:04:24,320 --> 00:04:24,880

quiz

8

00:04:24,880 --> 00:04:29,040

i don't know yet

9

00:04:29,040 --> 00:04:33,120

but you can do them no worries

10

00:04:33,120 --> 00:04:37,120

good afternoon good afternoon everybody

11

00:04:37,120 --> 00:04:42,080

okay so let's uh get finished on the on

12

00:04:42,080 --> 00:04:42,680

the

13

00:04:42,680 --> 00:04:46,160

classifications we talked about public

14

00:04:46,160 --> 00:04:49,680

and private issues and we

15

00:04:49,680 --> 00:04:52,160

talked about the concept behind it which

16

00:04:52,160 --> 00:04:53,600

is that

17

00:04:53,600 --> 00:04:56,560

whenever you want to sell financial

18

00:04:56,560 --> 00:04:57,280

products

19

00:04:57,280 --> 00:05:01,039

to the general public to you and me

20

00:05:01,039 --> 00:05:03,919

widows and orphans regulators want to

21

00:05:03,919 --> 00:05:05,520

make sure

22

00:05:05,520 --> 00:05:09,280

that investors have the information they

23

00:05:09,280 --> 00:05:10,080

need

24

00:05:10,080 --> 00:05:13,120

to make an informed decision

25

00:05:13,120 --> 00:05:16,320

okay so that typically

26

00:05:16,320 --> 00:05:20,800

puts higher standards of disclosure

27

00:05:20,800 --> 00:05:24,400

and higher standards of care on the

28

00:05:24,400 --> 00:05:28,160

underwriters the sponsors of the issue

29

00:05:28,160 --> 00:05:30,800

and in some cases this higher standard

30

00:05:30,800 --> 00:05:32,320

of care

31

00:05:32,320 --> 00:05:35,600

comes with legal liabilities so we've

32

00:05:35,600 --> 00:05:36,160

talked

33

00:05:36,160 --> 00:05:40,160

about all this by contrast

34

00:05:40,160 --> 00:05:44,160

if you are only targeted specific

35

00:05:44,160 --> 00:05:47,199

types of investors

36

00:05:47,199 --> 00:05:51,479

such as sophisticated investors

37

00:05:51,479 --> 00:05:55,479

accredited investors qualified

38

00:05:55,479 --> 00:05:59,120

institutional buyers then

39

00:05:59,120 --> 00:06:03,919

the standard of care will will be lower

40

00:06:03,919 --> 00:06:06,960

because the assumption is

41

00:06:06,960 --> 00:06:10,319

that these types of investors

42

00:06:10,319 --> 00:06:13,919

know what they're doing okay so they

43

00:06:13,919 --> 00:06:17,440

are deemed sophisticated and this

44

00:06:17,440 --> 00:06:20,639

level of sophistication may be on

45

00:06:20,639 --> 00:06:23,840

two dimensions one is

46

00:06:23,840 --> 00:06:27,120

what these people know so if you have a

47

00:06:27,120 --> 00:06:29,600

phd in finance

48

00:06:29,600 --> 00:06:32,720

regulators will assume you know

49

00:06:32,720 --> 00:06:35,479

about finance right so you're

50

00:06:35,479 --> 00:06:37,199

sophisticated because of

51

00:06:37,199 --> 00:06:40,319

knowledge sometimes the

52

00:06:40,319 --> 00:06:43,520

other angle is you're sophisticated

53

00:06:43,520 --> 00:06:45,199

because this is what you do

54

00:06:45,199 --> 00:06:47,759

for living this is what you do as a job

55

00:06:47,759 --> 00:06:48,960

you're managing

56

00:06:48,960 --> 00:06:51,360

other people's money then you're

57

00:06:51,360 --> 00:06:53,360

supposed to know what you're doing

58

00:06:53,360 --> 00:06:57,039

okay so you're sophisticated because

59

00:06:57,039 --> 00:07:00,319

it's your profession it's your job

60

00:07:00,319 --> 00:07:03,120

all right so because you know what

61

00:07:03,120 --> 00:07:03,919

you're doing

62

00:07:03,919 --> 00:07:06,400

the regulators are not so worried about

63

00:07:06,400 --> 00:07:07,199

you

64

00:07:07,199 --> 00:07:09,520

and there are standards of care the

65

00:07:09,520 --> 00:07:13,039

standards of disclosure will be lower

66

00:07:13,039 --> 00:07:15,680

than when you're dealing with the

67

00:07:15,680 --> 00:07:18,720

general public

68

00:07:19,199 --> 00:07:22,960

so um when you selling only

69

00:07:22,960 --> 00:07:26,400

to sophisticated investors

70

00:07:26,400 --> 00:07:29,840

qualified institutional buyers there's a

71

00:07:29,840 --> 00:07:32,479

smaller number of investors because

72

00:07:32,479 --> 00:07:33,680

typically

73

00:07:33,680 --> 00:07:37,120

they manage quite a lot of money so

74

00:07:37,120 --> 00:07:40,960

generally in a private issue

75

00:07:40,960 --> 00:07:43,759

there is no need for underwriting

76

00:07:43,759 --> 00:07:46,560

there's no need for an investment bank

77

00:07:46,560 --> 00:07:50,400

to step in buy the whole issue and then

78

00:07:50,400 --> 00:07:54,319

sell it okay it can be a negotiated

79

00:07:54,319 --> 00:07:56,879

process

80

00:07:57,360 --> 00:08:00,400

all right so

81

00:08:00,400 --> 00:08:04,720

okay yes yes go ahead talk to me

82

00:08:04,720 --> 00:08:07,919

okay and share the screen first

83

00:08:07,919 --> 00:08:12,720

okay now

84

00:08:12,720 --> 00:08:16,800

okay people go on to iprs

85

00:08:16,800 --> 00:08:21,440

access code 57537

86

00:08:24,879 --> 00:08:29,039

okay so in this situation

87

00:08:29,039 --> 00:08:31,280

hong kong land which is a hong kong

88

00:08:31,280 --> 00:08:32,320

company

89

00:08:32,320 --> 00:08:35,760

issues a bond to hong kong investors

90

00:08:35,760 --> 00:08:38,839

the placing banks are targeting

91

00:08:38,839 --> 00:08:42,640

individual investors that means

92

00:08:42,640 --> 00:08:45,680

people like you and me in hong kong is

93

00:08:45,680 --> 00:08:46,480

this a

94

00:08:46,480 --> 00:08:55,839

public or private issue

95

00:09:20,839 --> 00:09:23,839

uh

96

00:09:34,839 --> 00:09:37,839

so

97

00:10:14,320 --> 00:10:18,079

okay so most of you got the correct

98

00:10:18,079 --> 00:10:21,279

answer which is a public issue because

99

00:10:21,279 --> 00:10:24,240

we're talking to people like you and me

100

00:10:24,240 --> 00:10:26,480

retail investors in hong kong

101

00:10:26,480 --> 00:10:29,920

okay so it's a public issue

102

00:10:29,920 --> 00:10:33,480

second question the

103

00:10:33,480 --> 00:10:37,200

mtrc places a u.s dollar bond

104

00:10:37,200 --> 00:10:40,560

with sophisticated investors in the u.s

105

00:10:40,560 --> 00:10:43,839

under rule 144a this is

106

00:10:43,839 --> 00:10:47,839

a public issue or private issue

107

00:11:12,839 --> 00:11:15,839

so

108

00:11:40,839 --> 00:11:43,839

so

109

00:11:51,120 --> 00:11:54,320

okay very very good this is indeed

110

00:11:54,320 --> 00:12:00,639

a private issue because we are targeting

111

00:12:00,639 --> 00:12:03,760

certain kinds of very sophisticated

112

00:12:03,760 --> 00:12:06,959

investors all right oh what am i doing

113

00:12:06,959 --> 00:12:10,160

and so no i want to share okay here we

114

00:12:10,160 --> 00:12:11,120

go

115

00:12:11,120 --> 00:12:14,639

okay good so with that

116

00:12:14,639 --> 00:12:18,639

basically any questions on that

117

00:12:19,120 --> 00:12:21,600

all right so the first one was public

118

00:12:21,600 --> 00:12:23,279

and the second one was

119

00:12:23,279 --> 00:12:26,800

private all right so the concept behind

120

00:12:26,800 --> 00:12:28,959

it is very simple so that when you're

121

00:12:28,959 --> 00:12:32,240

targeting the general public retail

122

00:12:32,240 --> 00:12:35,040

individual investors there is an

123

00:12:35,040 --> 00:12:35,920

assumption

124

00:12:35,920 --> 00:12:38,639

that they're not very sophisticated and

125

00:12:38,639 --> 00:12:39,360

that

126

00:12:39,360 --> 00:12:42,800

they need very detailed information

127

00:12:42,800 --> 00:12:44,639

for sophisticated investors the

128

00:12:44,639 --> 00:12:47,519

regulators are not so concerned

129

00:12:47,519 --> 00:12:51,600

caution this depends on the market where

130

00:12:51,600 --> 00:12:54,399

you operate so the rules are going to be

131

00:12:54,399 --> 00:12:54,959

different

132

00:12:54,959 --> 00:12:58,560

in each market so you need to really

133

00:12:58,560 --> 00:13:00,399

look at the rules

134

00:13:00,399 --> 00:13:03,839

what is defined as a sophisticated or

135

00:13:03,839 --> 00:13:07,680

accredited investors and in some markets

136

00:13:07,680 --> 00:13:10,000

there may be no differentiation

137

00:13:10,000 --> 00:13:12,560

so the regulators might decide that

138

00:13:12,560 --> 00:13:13,760

disclosure

139

00:13:13,760 --> 00:13:15,800

has to be very comprehensive

140

00:13:15,800 --> 00:13:18,320

irrespective of the investors that

141

00:13:18,320 --> 00:13:20,720

you're targeting

142

00:13:20,720 --> 00:13:23,839

okay any questions

143

00:13:23,839 --> 00:13:27,760

on this part of the course

144

00:13:32,839 --> 00:13:35,839

no

145

00:13:36,800 --> 00:13:39,839

okay this has changed all right

146

00:13:39,839 --> 00:13:43,199

i know i see the chat what's going on

147

00:13:43,199 --> 00:13:46,839

with my system it's so weird

148

00:13:46,839 --> 00:13:49,839

hello

149

00:13:52,240 --> 00:13:54,959

okay give me a second i'm having some ah

150

00:13:54,959 --> 00:13:56,720

here we go

151

00:13:56,720 --> 00:14:03,839

issues with this come back here

152

00:14:03,920 --> 00:14:06,240

all right

153

00:14:08,320 --> 00:14:12,079

okay now we got the message here

154

00:14:12,079 --> 00:14:14,839

and then i want to see my participants

155

00:14:14,839 --> 00:14:16,959

okay

156

00:14:16,959 --> 00:14:21,360

okay so how's this network

157

00:14:21,360 --> 00:14:23,519

if you don't have any questions then

158

00:14:23,519 --> 00:14:24,880

we're going to move

159

00:14:24,880 --> 00:14:27,600

to the next part of the course which is

160

00:14:27,600 --> 00:14:28,880

going to be

161

00:14:28,880 --> 00:14:32,560

our very first quantitative

162

00:14:32,560 --> 00:14:36,880

section okay and in this part

163

00:14:36,880 --> 00:14:40,160

we're going to be talking about interest

164

00:14:40,160 --> 00:14:41,040

rates

165

00:14:41,040 --> 00:14:45,040

and foundation theories

166

00:14:45,040 --> 00:14:49,040

all right okay so this is the map of the

167

00:14:49,040 --> 00:14:50,639

course we finished the

168

00:14:50,639 --> 00:14:54,000

long overview we're moving into

169

00:14:54,000 --> 00:14:56,079

foundations of interest we're going to

170

00:14:56,079 --> 00:14:58,480

talk about basics and discounted cash

171

00:14:58,480 --> 00:14:59,680

flow calculation

172

00:14:59,680 --> 00:15:03,120

so this is very very basic okay you will

173

00:15:03,120 --> 00:15:05,040

learn more when you take

174

00:15:05,040 --> 00:15:08,480

finance courses later all right

175

00:15:08,480 --> 00:15:10,560

so what are we going to talk about we're

176

00:15:10,560 --> 00:15:12,000

going to talk about

177

00:15:12,000 --> 00:15:15,279

time value of money present and future

178

00:15:15,279 --> 00:15:17,600

value discounted cash flow calculations

179

00:15:17,600 --> 00:15:20,800

and some basic formulas

180

00:15:20,800 --> 00:15:23,360

all right before we start a lot of

181

00:15:23,360 --> 00:15:24,079

students

182

00:15:24,079 --> 00:15:27,839

ask me how you

183

00:15:28,000 --> 00:15:30,880

can find out about finance besides the

184

00:15:30,880 --> 00:15:32,000

textbook

185

00:15:32,000 --> 00:15:34,160

so there's a lot of ways you can do that

186

00:15:34,160 --> 00:15:35,519

and one of the ways

187

00:15:35,519 --> 00:15:38,560

is by watching movies so

188

00:15:38,560 --> 00:15:41,839

i have put here a little selection

189

00:15:41,839 --> 00:15:45,519

of movies that i like very much okay

190

00:15:45,519 --> 00:15:48,639

i we had a look at

191

00:15:48,639 --> 00:15:51,680

uh trading places last week

192

00:15:51,680 --> 00:15:54,800

i played you a scene from this movie

193

00:15:54,800 --> 00:15:58,160

this one is about trading commodity

194

00:15:58,160 --> 00:15:59,120

futures

195

00:15:59,120 --> 00:16:02,639

in particular frozen orange juice

196

00:16:02,639 --> 00:16:05,680

and it's a very interesting insights in

197

00:16:05,680 --> 00:16:07,839

that world

198

00:16:07,839 --> 00:16:09,920

you're probably familiar with wall

199

00:16:09,920 --> 00:16:10,959

street so

200

00:16:10,959 --> 00:16:15,600

wall street is very

201

00:16:15,759 --> 00:16:18,800

significant in the 80s

202

00:16:18,800 --> 00:16:22,480

about corporate finance insider trading

203

00:16:22,480 --> 00:16:24,639

and all that kind of thing

204

00:16:24,639 --> 00:16:28,320

dealers is also from the 80s and it's

205

00:16:28,320 --> 00:16:28,720

about

206

00:16:28,720 --> 00:16:32,079

the bond market back in those days

207

00:16:32,079 --> 00:16:35,199

barbarians at the gate is the

208

00:16:35,199 --> 00:16:38,639

movie uh based on the true

209

00:16:38,639 --> 00:16:42,399

uh story of arjean nabisco's

210

00:16:42,399 --> 00:16:45,600

uh hostile takeover by kkr

211

00:16:45,600 --> 00:16:49,519

so kkr is a hedge fund

212

00:16:49,519 --> 00:16:52,079

actually leveraged buyout firm founded

213

00:16:52,079 --> 00:16:52,560

by

214

00:16:52,560 --> 00:16:55,440

colbert kravitz and roberts who kiko is

215

00:16:55,440 --> 00:16:56,079

active in

216

00:16:56,079 --> 00:16:59,440

asia as well and it's the film

217

00:16:59,440 --> 00:17:03,279

uh based on the book of the actual

218

00:17:03,279 --> 00:17:05,599

event which was one of the largest

219

00:17:05,599 --> 00:17:06,400

leveraged

220

00:17:06,400 --> 00:17:10,160

buy out ever rogue trader

221

00:17:10,160 --> 00:17:13,679

is the story of nick lissons it's a true

222

00:17:13,679 --> 00:17:14,720

story

223

00:17:14,720 --> 00:17:18,880

it's a story of the guy who basically

224

00:17:18,880 --> 00:17:22,160

uh caused the collapse of bering's bank

225

00:17:22,160 --> 00:17:23,119

in

226

00:17:23,119 --> 00:17:26,720

in the 90s uh so that was

227

00:17:26,720 --> 00:17:32,080

a rogue trader who put on positions

228

00:17:32,080 --> 00:17:35,520

that blew up and and caused the collapse

229

00:17:35,520 --> 00:17:39,760

of bearings other people's money

230

00:17:39,760 --> 00:17:43,280

is about vulture

231

00:17:43,280 --> 00:17:46,960

investing so this is the kind of private

232

00:17:46,960 --> 00:17:48,240

equity firms

233

00:17:48,240 --> 00:17:52,160

that swoop in uh when companies are in

234

00:17:52,160 --> 00:17:53,600

distress

235

00:17:53,600 --> 00:17:56,799

buy them out uh clean them up and

236

00:17:56,799 --> 00:17:59,600

eventually to hopefully turn them around

237

00:17:59,600 --> 00:18:02,559

it's a very interesting movie a lot of

238

00:18:02,559 --> 00:18:04,160

the very same arguments

239

00:18:04,160 --> 00:18:07,440

in the two key scenes in the movie are

240

00:18:07,440 --> 00:18:09,039

very very much

241

00:18:09,039 --> 00:18:12,320

still the case today working girl

242

00:18:12,320 --> 00:18:16,400

is a funny movie about corporate finance

243

00:18:16,400 --> 00:18:17,440

about

244

00:18:17,440 --> 00:18:20,480

advisory m a and

245

00:18:20,480 --> 00:18:24,320

boiler room is an excellent movie

246

00:18:24,320 --> 00:18:28,320

about very aggressive sales technique

247

00:18:28,320 --> 00:18:31,520

so this takes place in

248

00:18:31,520 --> 00:18:36,000

security firm that pedal penny stocks

249

00:18:36,000 --> 00:18:38,720

and the most interesting part of the

250

00:18:38,720 --> 00:18:39,360

movie

251

00:18:39,360 --> 00:18:43,600

is listening to the sales

252

00:18:43,600 --> 00:18:46,400

technique that they employ and it makes

253

00:18:46,400 --> 00:18:48,080

you realize

254

00:18:48,080 --> 00:18:51,600

how difficult it is to resist

255

00:18:51,600 --> 00:18:55,039

very good salespeople okay so

256

00:18:55,039 --> 00:18:57,440

this came way before the wolf of wall

257

00:18:57,440 --> 00:18:59,520

street is a much better movie in my

258

00:18:59,520 --> 00:19:00,480

opinion

259

00:19:00,480 --> 00:19:03,039

uh but the theme is very much the same

260

00:19:03,039 --> 00:19:04,400

one

261

00:19:04,400 --> 00:19:07,440

uh then you can also so this

262

00:19:07,440 --> 00:19:10,160

is a small selection there are many many

263

00:19:10,160 --> 00:19:11,919

others that you can watch

264

00:19:11,919 --> 00:19:15,600

that show you aspects of the financial

265

00:19:15,600 --> 00:19:16,720

markets

266

00:19:16,720 --> 00:19:19,600

uh you can also read books uh and this

267

00:19:19,600 --> 00:19:20,000

is

268

00:19:20,000 --> 00:19:23,200

uh but a small selection of

269

00:19:23,200 --> 00:19:25,840

the huge number of books that are

270

00:19:25,840 --> 00:19:26,559

available

271

00:19:26,559 --> 00:19:29,760

on finance and financial markets

272

00:19:29,760 --> 00:19:32,559

those of you who plan to go into

273

00:19:32,559 --> 00:19:34,240

investment banking

274

00:19:34,240 --> 00:19:38,160

should absolutely read liars poker

275

00:19:38,160 --> 00:19:40,480

tonight spoker is the book that made

276

00:19:40,480 --> 00:19:42,720

michael lewis

277

00:19:42,720 --> 00:19:47,200

famous and it it basically talks about

278

00:19:47,200 --> 00:19:50,320

his days in investment banking in the

279

00:19:50,320 --> 00:19:52,000

same line you have

280

00:19:52,000 --> 00:19:54,960

fiasco which was written by frank

281

00:19:54,960 --> 00:19:56,320

partner

282

00:19:56,320 --> 00:19:59,520

and also gives uh so that gives an eye

283

00:19:59,520 --> 00:20:02,559

on his time at morgan stanley

284

00:20:02,559 --> 00:20:06,559

so michael lewis was was with solomon

285

00:20:06,559 --> 00:20:09,440

and uh frank portnoy was with morgan

286

00:20:09,440 --> 00:20:10,799

stanley

287

00:20:10,799 --> 00:20:13,679

uh then you have a couple a monkey

288

00:20:13,679 --> 00:20:14,640

business also

289

00:20:14,640 --> 00:20:18,960

is is in about investment banking um

290

00:20:18,960 --> 00:20:22,559

fool's gold is a book about the global

291

00:20:22,559 --> 00:20:24,000

financial crisis

292

00:20:24,000 --> 00:20:27,440

as is michael lewis is the big short so

293

00:20:27,440 --> 00:20:29,440

michael lewis the same guy

294

00:20:29,440 --> 00:20:31,440

so both of these books are about the

295

00:20:31,440 --> 00:20:34,480

global financial crisis in 2008

296

00:20:34,480 --> 00:20:36,480

seen from two very different points of

297

00:20:36,480 --> 00:20:38,080

view

298

00:20:38,080 --> 00:20:40,720

when genius fail is the story of

299

00:20:40,720 --> 00:20:42,960

long-term capital management which was

300

00:20:42,960 --> 00:20:43,280

an

301

00:20:43,280 --> 00:20:45,360

arbitrage based hedge fund that

302

00:20:45,360 --> 00:20:47,039

collapsed

303

00:20:47,039 --> 00:20:50,480

and had a number of nobel prize

304

00:20:50,480 --> 00:20:53,679

winners on the team that didn't stop

305

00:20:53,679 --> 00:20:54,640

them from

306

00:20:54,640 --> 00:20:57,840

losing a huge amount of money barbarians

307

00:20:57,840 --> 00:20:59,120

at the gate is a book

308

00:20:59,120 --> 00:21:02,400

about that the movie was based on

309

00:21:02,400 --> 00:21:04,960

um hedgehogging is about hedge fund so

310

00:21:04,960 --> 00:21:06,480

it's written by

311

00:21:06,480 --> 00:21:09,679

a very very well-known investor in

312

00:21:09,679 --> 00:21:12,159

wall street called barton biggs the

313

00:21:12,159 --> 00:21:14,159

interesting thing about hedgehogging is

314

00:21:14,159 --> 00:21:16,880

it's not just a success stories but also

315

00:21:16,880 --> 00:21:19,360

talking about failures

316

00:21:19,360 --> 00:21:21,520

then you have the poker face of wall

317

00:21:21,520 --> 00:21:23,600

street so one of the interesting things

318

00:21:23,600 --> 00:21:25,280

about

319

00:21:25,280 --> 00:21:27,440

the jungle of wall street is there are a

320

00:21:27,440 --> 00:21:29,600

number of people who play poker

321

00:21:29,600 --> 00:21:31,679

so i don't know how many of you actually

322

00:21:31,679 --> 00:21:34,080

play poker but this is something that is

323

00:21:34,080 --> 00:21:35,039

pretty

324

00:21:35,039 --> 00:21:38,400

common in wall street uh and has some

325

00:21:38,400 --> 00:21:40,559

very interesting applications

326

00:21:40,559 --> 00:21:42,960

and last but not least you have traders

327

00:21:42,960 --> 00:21:44,799

guns and money

328

00:21:44,799 --> 00:21:46,960

it's about derivatives and it's written

329

00:21:46,960 --> 00:21:49,039

by a guy who was

330

00:21:49,039 --> 00:21:52,480

a derivatives trader in asia before the

331

00:21:52,480 --> 00:21:54,480

financial crisis the asian financial

332

00:21:54,480 --> 00:21:55,520

crisis so

333

00:21:55,520 --> 00:21:58,720

it has a lot of anecdotes

334

00:21:58,720 --> 00:22:01,120

about the derivative derivatives market

335

00:22:01,120 --> 00:22:02,320

in asia

336

00:22:02,320 --> 00:22:05,200

there are tons of other books that you

337

00:22:05,200 --> 00:22:06,640

can read

338

00:22:06,640 --> 00:22:09,679

on different parts of the industry

339

00:22:09,679 --> 00:22:13,159

and i also want to mention uh a few

340

00:22:13,159 --> 00:22:14,400

newsletters

341

00:22:14,400 --> 00:22:17,440

that you can uh read and i highly

342

00:22:17,440 --> 00:22:18,240

recommend

343

00:22:18,240 --> 00:22:22,080

uh this one is matt levin

344

00:22:22,080 --> 00:22:25,120

so matt levin is a columnist on

345

00:22:25,120 --> 00:22:27,280

bloomberg you can sign up

346

00:22:27,280 --> 00:22:30,720

for his newsletter for free

347

00:22:30,720 --> 00:22:33,600

he was an investment banker at goldman

348

00:22:33,600 --> 00:22:36,080

sachs he was a derivative structure

349

00:22:36,080 --> 00:22:39,679

and he's also a lawyer and he writes

350

00:22:39,679 --> 00:22:40,159

about

351

00:22:40,159 --> 00:22:42,960

events in the market in a very cynical

352

00:22:42,960 --> 00:22:44,480

and very funny way

353

00:22:44,480 --> 00:22:46,720

but also in terms that you can actually

354

00:22:46,720 --> 00:22:47,520

understand

355

00:22:47,520 --> 00:22:50,640

even if you're not in that market so i

356

00:22:50,640 --> 00:22:53,840

strongly strongly recommend his column

357

00:22:53,840 --> 00:22:55,679

another one that i recommend

358

00:22:55,679 --> 00:23:00,000

is mark rubinstein he writes

359

00:23:00,000 --> 00:23:03,679

net interest and he writes a lot

360

00:23:03,679 --> 00:23:06,880

about banking fintech and things like

361

00:23:06,880 --> 00:23:07,280

that

362

00:23:07,280 --> 00:23:11,760

so uh it's very interesting to dive into

363

00:23:11,760 --> 00:23:14,960

his columns if you have time uh more

364

00:23:14,960 --> 00:23:16,000

classically

365

00:23:16,000 --> 00:23:18,240

john arthur's is uh is actually an

366

00:23:18,240 --> 00:23:19,520

economist

367

00:23:19,520 --> 00:23:22,880

so he takes a more macro view

368

00:23:22,880 --> 00:23:24,880

of things which are going on so all

369

00:23:24,880 --> 00:23:26,960

these newsletters you can sign up for

370

00:23:26,960 --> 00:23:30,320

free uh there

371

00:23:30,320 --> 00:23:33,039

are also tv series that i highly

372

00:23:33,039 --> 00:23:34,840

recommend

373

00:23:34,840 --> 00:23:37,520

and uh one of those is billions

374

00:23:37,520 --> 00:23:39,760

if you haven't heard about it billions

375

00:23:39,760 --> 00:23:41,520

is a

376

00:23:41,520 --> 00:23:45,360

very funny uh very punchy

377

00:23:45,360 --> 00:23:50,400

series about a hedge fund guy called

378

00:23:51,120 --> 00:23:54,320

bobby axelrod who runs a company called

379

00:23:54,320 --> 00:23:58,720

axe capital which is a very aggressive

380

00:23:58,720 --> 00:24:00,860

somewhat shady um

381

00:24:00,860 --> 00:24:02,840

[Music]

382

00:24:02,840 --> 00:24:05,360

uh hedge fund

383

00:24:05,360 --> 00:24:08,400

it's pretty much modeled on

384

00:24:08,400 --> 00:24:11,440

sac capital uh and the

385

00:24:11,440 --> 00:24:15,279

personnel of bobby axelrod kind of like

386

00:24:15,279 --> 00:24:18,400

steve cohen but it's uh

387

00:24:18,400 --> 00:24:20,960

it's full of interesting tidbits about

388

00:24:20,960 --> 00:24:21,919

hedge funds

389

00:24:21,919 --> 00:24:25,440

about insider trading about

390

00:24:25,440 --> 00:24:27,520

the fight between the department of

391

00:24:27,520 --> 00:24:28,559

justice

392

00:24:28,559 --> 00:24:30,080

the very dirty fight between the

393

00:24:30,080 --> 00:24:32,720

department of justice and

394

00:24:32,720 --> 00:24:35,760

and the hedge fund um other

395

00:24:35,760 --> 00:24:39,919

fund series to watch if you haven't

396

00:24:39,919 --> 00:24:46,240

um and it's more on

397

00:24:46,240 --> 00:24:50,880

more about um tech startups

398

00:24:50,880 --> 00:24:53,919

uh and uh

399

00:24:53,919 --> 00:24:58,080

silicon valley and

400

00:24:58,080 --> 00:25:01,200

venture capital and all that is uh

401

00:25:01,200 --> 00:25:05,039

it's really funny uh it's extremely

402

00:25:05,039 --> 00:25:08,000

well documented very very well

403

00:25:08,000 --> 00:25:09,039

documented

404

00:25:09,039 --> 00:25:12,080

uh so if you're interested in tech

405

00:25:12,080 --> 00:25:13,520

startups and

406

00:25:13,520 --> 00:25:15,679

the whole world of venture capital and

407

00:25:15,679 --> 00:25:16,720

all that

408

00:25:16,720 --> 00:25:19,120

i highly recommend silicon valley it's

409

00:25:19,120 --> 00:25:20,960

it's hilarious

410

00:25:20,960 --> 00:25:23,919

okay so there's a lot of sources you can

411

00:25:23,919 --> 00:25:24,799

look at

412

00:25:24,799 --> 00:25:28,880

to um you know pick up information

413

00:25:28,880 --> 00:25:32,480

about financial markets and uh

414

00:25:32,480 --> 00:25:35,279

if you have any specific areas that you

415

00:25:35,279 --> 00:25:37,840

want to hear about i will be happy to

416

00:25:37,840 --> 00:25:41,679

share some sources with you okay

417

00:25:41,679 --> 00:25:44,880

so these are the now very serious

418

00:25:44,880 --> 00:25:47,200

newsletters on corporate finance for

419

00:25:47,200 --> 00:25:48,640

those of you who

420

00:25:48,640 --> 00:25:51,760

really interested in that uh i

421

00:25:51,760 --> 00:25:54,720

recommend damodaran damodaran professor

422

00:25:54,720 --> 00:25:56,559

damodaran is in professor

423

00:25:56,559 --> 00:25:59,440

at nyu student who's known as the king

424

00:25:59,440 --> 00:26:01,279

of graduation

425

00:26:01,279 --> 00:26:04,320

so he writes about valuation and

426

00:26:04,320 --> 00:26:05,840

there is another corporate finance

427

00:26:05,840 --> 00:26:07,440

website called verney men

428

00:26:07,440 --> 00:26:09,520

that's named after professor verneyman

429

00:26:09,520 --> 00:26:12,640

who passed away about a decade ago

430

00:26:12,640 --> 00:26:15,520

all right so now you have all the tools

431

00:26:15,520 --> 00:26:17,360

you need to

432

00:26:17,360 --> 00:26:20,400

learn more about finance beyond the

433

00:26:20,400 --> 00:26:23,520

classroom and the textbook

434

00:26:23,520 --> 00:26:27,520

okay so now let's dig into

435

00:26:27,520 --> 00:26:30,960

the agenda for today so we're going to

436

00:26:30,960 --> 00:26:33,360

start with the time value of money

437

00:26:33,360 --> 00:26:37,039

and uh moving on

438

00:26:37,039 --> 00:26:40,159

okay so we're going to be talking about

439

00:26:40,159 --> 00:26:43,279

interest that you should know that

440

00:26:43,279 --> 00:26:46,320

throughout history way before the 20th

441

00:26:46,320 --> 00:26:47,760

century

442

00:26:47,760 --> 00:26:49,919

uh money lenders and charging of

443

00:26:49,919 --> 00:26:50,799

interest

444

00:26:50,799 --> 00:26:53,919

was not a very good

445

00:26:53,919 --> 00:26:56,640

thing in fact money lenders were very

446

00:26:56,640 --> 00:26:57,600

very

447

00:26:57,600 --> 00:27:01,039

unpopular and

448

00:27:01,039 --> 00:27:05,360

under christianity charging of interest

449

00:27:05,360 --> 00:27:08,880

called usury was actually illegal

450

00:27:08,880 --> 00:27:11,600

okay and the only people who could do

451

00:27:11,600 --> 00:27:12,080

that

452

00:27:12,080 --> 00:27:15,840

were the jews today

453

00:27:15,840 --> 00:27:18,880

there are many parts of the world that

454

00:27:18,880 --> 00:27:22,240

apply islamic law called sharia

455

00:27:22,240 --> 00:27:24,720

and under sharia you cannot charge

456

00:27:24,720 --> 00:27:25,600

interest

457

00:27:25,600 --> 00:27:27,360

so the charging of interest is called

458

00:27:27,360 --> 00:27:29,200

reba and reba

459

00:27:29,200 --> 00:27:33,200

is not allowed under islamic law

460

00:27:33,200 --> 00:27:36,559

so when you do islamic finance you have

461

00:27:36,559 --> 00:27:37,600

to structure

462

00:27:37,600 --> 00:27:40,399

products in a way that you do not charge

463

00:27:40,399 --> 00:27:41,279

interest

464

00:27:41,279 --> 00:27:43,760

so mostly it's done through profit

465

00:27:43,760 --> 00:27:44,720

sharing

466

00:27:44,720 --> 00:27:47,840

and yet islamic finance is a big market

467

00:27:47,840 --> 00:27:50,080

in fact you'd be surprised to know that

468

00:27:50,080 --> 00:27:50,880

the hong kong

469

00:27:50,880 --> 00:27:53,120

scr government has actually issued

470

00:27:53,120 --> 00:27:54,720

islamic bonds

471

00:27:54,720 --> 00:27:57,760

in compliance with sharia law so

472

00:27:57,760 --> 00:28:00,640

the hong kong ser government has been an

473

00:28:00,640 --> 00:28:01,360

issuer

474

00:28:01,360 --> 00:28:05,039

in the islamic finance market

475

00:28:05,039 --> 00:28:08,240

okay sorry about that forgot to put it

476

00:28:08,240 --> 00:28:09,200

on silent

477

00:28:09,200 --> 00:28:12,000

bad girl

478

00:28:12,480 --> 00:28:15,520

okay all right

479

00:28:15,520 --> 00:28:18,080

now before we actually start with

480

00:28:18,080 --> 00:28:19,360

calculations

481

00:28:19,360 --> 00:28:22,880

um there are things you need to be very

482

00:28:22,880 --> 00:28:24,559

careful with when we talk about

483

00:28:24,559 --> 00:28:28,240

interest and interest rates

484

00:28:28,399 --> 00:28:30,640

in this section we're going to talk

485

00:28:30,640 --> 00:28:32,159

about annual

486

00:28:32,159 --> 00:28:35,200

or yearly interest rates in the market

487

00:28:35,200 --> 00:28:35,919

we use

488

00:28:35,919 --> 00:28:39,440

the terminology pa that stands for

489

00:28:39,440 --> 00:28:42,799

per annum which is latin for

490

00:28:42,799 --> 00:28:45,919

every year okay so yearly or

491

00:28:45,919 --> 00:28:50,000

annual interest rate we say pa

492

00:28:50,000 --> 00:28:52,880

okay and this is what we generally use

493

00:28:52,880 --> 00:28:55,200

but we will see that sometimes you will

494

00:28:55,200 --> 00:28:56,840

have

495

00:28:56,840 --> 00:29:00,240

monthly quarterly or semi-annual

496

00:29:00,240 --> 00:29:04,399

interest rates so you will have to adapt

497

00:29:04,399 --> 00:29:08,960

the rates depending on the periodicity

498

00:29:08,960 --> 00:29:12,159

second point financial institutions

499

00:29:12,159 --> 00:29:15,679

are generally required to indicate the

500

00:29:15,679 --> 00:29:16,960

rates they charge

501

00:29:16,960 --> 00:29:21,840

on an apr basis annual percentage rate

502

00:29:21,840 --> 00:29:25,200

basis the reason for that

503

00:29:25,200 --> 00:29:28,000

is to allow consumers particularly

504

00:29:28,000 --> 00:29:30,000

retail consumers

505

00:29:30,000 --> 00:29:33,120

to compare prices

506

00:29:33,120 --> 00:29:35,919

of financial products and let me give

507

00:29:35,919 --> 00:29:38,799

you another example

508

00:29:38,799 --> 00:29:42,080

i don't think i did that before did i

509

00:29:42,080 --> 00:29:45,520

okay i will show you a very interesting

510

00:29:45,520 --> 00:29:47,440

platform

511

00:29:47,440 --> 00:29:50,960

i don't think i did before just in case

512

00:29:50,960 --> 00:29:54,799

i do it in england english platform so

513

00:29:54,799 --> 00:29:57,360

this platform is called money hero

514

00:29:57,360 --> 00:30:01,039

and what it does is allow you to compare

515

00:30:01,039 --> 00:30:04,240

offers from different banks so you have

516

00:30:04,240 --> 00:30:05,840

different things different products

517

00:30:05,840 --> 00:30:07,039

personal loans

518

00:30:07,039 --> 00:30:10,799

credit cards insurance etc

519

00:30:10,799 --> 00:30:14,159

so let me look at personal loans

520

00:30:14,159 --> 00:30:17,520

so here is the tax season so we can look

521

00:30:17,520 --> 00:30:17,840

at

522

00:30:17,840 --> 00:30:21,279

tax loans and what you see here

523

00:30:21,279 --> 00:30:23,279

is different products from different

524

00:30:23,279 --> 00:30:24,960

banks and they

525

00:30:24,960 --> 00:30:28,720

are ranked by apr

526

00:30:28,720 --> 00:30:31,600

okay so this is the annual percentage

527

00:30:31,600 --> 00:30:32,640

rate

528

00:30:32,640 --> 00:30:35,919

so it's effectively what you are paying

529

00:30:35,919 --> 00:30:36,720

if you take

530

00:30:36,720 --> 00:30:40,559

into consideration all the fees and

531

00:30:40,559 --> 00:30:43,520

charges and everything so you will see

532

00:30:43,520 --> 00:30:45,039

that

533

00:30:45,039 --> 00:30:48,320

they also show you the monthly flat rate

534

00:30:48,320 --> 00:30:50,960

and they give you a lot of information

535

00:30:50,960 --> 00:30:52,000

as well

536

00:30:52,000 --> 00:30:55,200

so if you scroll down so you see like at

537

00:30:55,200 --> 00:30:59,039

citibank 1.78 of course conditions

538

00:30:59,039 --> 00:31:02,640

apply right but you can see there is a

539

00:31:02,640 --> 00:31:03,760

big difference

540

00:31:03,760 --> 00:31:07,559

in terms of rates we go down to

541

00:31:07,559 --> 00:31:10,320

16.47 quite

542

00:31:10,320 --> 00:31:13,440

massive difference so it's really

543

00:31:13,440 --> 00:31:14,799

important when you're looking at

544

00:31:14,799 --> 00:31:17,200

financial products that you compare

545

00:31:17,200 --> 00:31:20,880

apples to apples because the advertising

546

00:31:20,880 --> 00:31:22,880

that the banks do

547

00:31:22,880 --> 00:31:26,159

showcase the lowest thing

548

00:31:26,159 --> 00:31:28,240

that they can think they can get away

549

00:31:28,240 --> 00:31:29,519

with

550

00:31:29,519 --> 00:31:32,320

the reason why i'm sensitive to that is

551

00:31:32,320 --> 00:31:33,679

about a decade ago

552

00:31:33,679 --> 00:31:35,440

i started getting when interest rates

553

00:31:35,440 --> 00:31:37,760

were quite low i was getting

554

00:31:37,760 --> 00:31:41,200

uh publicity from

555

00:31:41,200 --> 00:31:43,279

different banks about tax loan and one

556

00:31:43,279 --> 00:31:44,720

of those was like an

557

00:31:44,720 --> 00:31:47,440

a4 sheet of paper with a big zero

558

00:31:47,440 --> 00:31:50,399

percent in front like 70.

559

00:31:50,399 --> 00:31:53,120

zero percent interest and i'm like wow

560

00:31:53,120 --> 00:31:54,399

free money

561

00:31:54,399 --> 00:31:57,440

but there was a little asterix right so

562

00:31:57,440 --> 00:32:00,799

at the bottom of the page in front four

563

00:32:00,799 --> 00:32:03,279

so you need a magnifying glass right it

564

00:32:03,279 --> 00:32:05,440

disclosed the apr it was something like

565

00:32:05,440 --> 00:32:07,039

two percent so i'm like

566

00:32:07,039 --> 00:32:10,080

huh how do i go from zero percent

567

00:32:10,080 --> 00:32:12,880

interest to two percent apr

568

00:32:12,880 --> 00:32:16,240

and of course the answer is fees

569

00:32:16,240 --> 00:32:19,519

charges blah blah blah so

570

00:32:19,519 --> 00:32:23,159

open account opening fee

571

00:32:23,159 --> 00:32:25,679

administrative charge blah blah blah

572

00:32:25,679 --> 00:32:26,320

blah blah

573

00:32:26,320 --> 00:32:30,399

so you have to be super careful because

574

00:32:30,399 --> 00:32:32,320

you have to take everything in

575

00:32:32,320 --> 00:32:35,120

consideration and it's very hard

576

00:32:35,120 --> 00:32:38,399

for people to do that so governments and

577

00:32:38,399 --> 00:32:40,200

regulators have started

578

00:32:40,200 --> 00:32:44,080

requiring banks to

579

00:32:44,080 --> 00:32:46,640

mention the apr of course they they put

580

00:32:46,640 --> 00:32:47,760

it at the bottom

581

00:32:47,760 --> 00:32:49,679

so if you don't if you're not paying

582

00:32:49,679 --> 00:32:51,919

attention but the little asterisks

583

00:32:51,919 --> 00:32:54,159

and the phone four then you don't know

584

00:32:54,159 --> 00:32:55,760

what you're missing

585

00:32:55,760 --> 00:32:58,720

all right so this is very very important

586

00:32:58,720 --> 00:33:00,159

to know

587

00:33:00,159 --> 00:33:02,799

that when we're talking with banks we

588

00:33:02,799 --> 00:33:03,519

have to

589

00:33:03,519 --> 00:33:06,640

talk in ways that we can

590

00:33:06,640 --> 00:33:10,240

compare the different products to each

591

00:33:10,240 --> 00:33:11,600

other so the apr

592

00:33:11,600 --> 00:33:14,799

is a very important tool to compare

593

00:33:14,799 --> 00:33:15,600

financial

594

00:33:15,600 --> 00:33:19,279

instruments third thing you need to know

595

00:33:19,279 --> 00:33:23,840

is the way you calculate

596

00:33:23,840 --> 00:33:27,519

interest differs depending on the

597

00:33:27,519 --> 00:33:30,880

financial instrument that you use

598

00:33:30,880 --> 00:33:34,159

this is very important if you ever work

599

00:33:34,159 --> 00:33:38,640

in debt markets in banks be very careful

600

00:33:38,640 --> 00:33:42,240

because certain instruments calculate

601

00:33:42,240 --> 00:33:45,840

interest in a very different way

602

00:33:45,840 --> 00:33:49,200

for example in particular under one year

603

00:33:49,200 --> 00:33:50,240

when we're dealing with

604

00:33:50,240 --> 00:33:53,679

money market instruments we don't use

605

00:33:53,679 --> 00:33:56,159

discounted cash flow calculation we use

606

00:33:56,159 --> 00:34:00,000

simple interest i will show you some of

607

00:34:00,000 --> 00:34:01,200

those later

608

00:34:01,200 --> 00:34:05,519

okay so for the moment be very careful

609

00:34:05,519 --> 00:34:09,280

verify what is the definition

610

00:34:09,280 --> 00:34:12,239

of interest the definition of interest

611

00:34:12,239 --> 00:34:13,199

payment

612

00:34:13,199 --> 00:34:16,719

and when is interest paid

613

00:34:16,719 --> 00:34:18,839

because that plays a role in the

614

00:34:18,839 --> 00:34:20,560

compounding

615

00:34:20,560 --> 00:34:25,520

and then effective rates okay

616

00:34:25,918 --> 00:34:28,158

good

617

00:34:29,040 --> 00:34:32,239

with this warning in mind let's start

618

00:34:32,239 --> 00:34:35,839

talking about the time value of money

619

00:34:35,839 --> 00:34:39,199

so the whole idea is okay

620

00:34:39,199 --> 00:34:42,960

so how can we compare

621

00:34:42,960 --> 00:34:45,918

the return on different financial

622

00:34:45,918 --> 00:34:47,520

instruments

623

00:34:47,520 --> 00:34:50,560

that have different cash flow streams

624

00:34:50,560 --> 00:34:54,399

at different times with

625

00:34:54,399 --> 00:34:57,599

uh it and in practical terms

626

00:34:57,599 --> 00:35:01,200

how and why is the promise to pay

627

00:35:01,200 --> 00:35:04,560

x dollar at time 1

628

00:35:04,560 --> 00:35:07,280

more or less valuable than the promise

629

00:35:07,280 --> 00:35:07,920

to pay

630

00:35:07,920 --> 00:35:11,280

y dollars at time 2.

631

00:35:11,280 --> 00:35:14,320

you cannot compare them directly

632

00:35:14,320 --> 00:35:18,320

so how do we find a way

633

00:35:18,320 --> 00:35:21,520

to compare apples to apples and this is

634

00:35:21,520 --> 00:35:22,800

basically

635

00:35:22,800 --> 00:35:27,200

discounted cash flow calculations

636

00:35:27,680 --> 00:35:30,720

so whenever you're dealing with payments

637

00:35:30,720 --> 00:35:34,320

in time the first thing you must do

638

00:35:34,320 --> 00:35:39,119

is draw a timeline this is important

639

00:35:39,119 --> 00:35:42,800

because one of the pitfalls of dcf

640

00:35:42,800 --> 00:35:46,079

is intervals okay

641

00:35:46,079 --> 00:35:49,440

when do we start when do we finish this

642

00:35:49,440 --> 00:35:52,880

is absolutely critical so

643

00:35:52,880 --> 00:35:56,800

there are conventions we use in bcf

644

00:35:56,800 --> 00:35:59,920

the timeline looks like this it starts

645

00:35:59,920 --> 00:36:04,400

at time zero that is the convention

646

00:36:04,400 --> 00:36:08,880

today is time zero

647

00:36:09,040 --> 00:36:12,480

the end of the first period in this case

648

00:36:12,480 --> 00:36:15,680

i'm using years okay the

649

00:36:15,680 --> 00:36:20,079

end of the first period is time one

650

00:36:20,079 --> 00:36:22,160

time one is also the beginning of the

651

00:36:22,160 --> 00:36:23,680

second period

652

00:36:23,680 --> 00:36:27,440

okay so you have the timeline okay

653

00:36:27,440 --> 00:36:30,960

and it starts at zero which is

654

00:36:30,960 --> 00:36:34,880

today the beginning of the first period

655

00:36:34,880 --> 00:36:37,680

one is the end of the first period and

656

00:36:37,680 --> 00:36:40,880

the beginning of the second

657

00:36:40,880 --> 00:36:43,040

then in the bottom part you put the cash

658

00:36:43,040 --> 00:36:45,119

flow that is the money coming in

659

00:36:45,119 --> 00:36:48,000

and out okay so you have the cash flows

660

00:36:48,000 --> 00:36:49,440

for each time

661

00:36:49,440 --> 00:36:53,440

at which money is coming in or out

662

00:36:53,440 --> 00:36:56,480

if it's money coming in it's a positive

663

00:36:56,480 --> 00:36:57,760

sign

664

00:36:57,760 --> 00:37:00,320

if it's money coming out it's a negative

665

00:37:00,320 --> 00:37:02,640

sign

666

00:37:02,960 --> 00:37:06,320

okay so if i'm investing

667

00:37:06,320 --> 00:37:09,280

it's money coming out of my pocket so

668

00:37:09,280 --> 00:37:11,280

it's negative

669

00:37:11,280 --> 00:37:14,720

if i'm receiving interest or dividends

670

00:37:14,720 --> 00:37:18,240

is money coming into my pocket so it's a

671

00:37:18,240 --> 00:37:20,079

positive sign

672

00:37:20,079 --> 00:37:23,200

okay so this is the convention

673

00:37:23,200 --> 00:37:26,000

you should label the time period so that

674

00:37:26,000 --> 00:37:26,720

you don't get

675

00:37:26,720 --> 00:37:31,119

confused and notice here i'm using years

676

00:37:31,119 --> 00:37:33,680

sometimes you'll be using month

677

00:37:33,680 --> 00:37:35,200

sometimes it can be

678

00:37:35,200 --> 00:37:38,720

quarterly or semi-annually

679

00:37:38,720 --> 00:37:42,720

so in order not to get all confused

680

00:37:42,720 --> 00:37:47,760

it's important to use timelines

681

00:37:48,720 --> 00:37:51,920

okay now the fundamental concept

682

00:37:51,920 --> 00:37:55,359

about dcf is the time value of

683

00:37:55,359 --> 00:38:00,320

money it is expressed in simple terms as

684

00:38:00,320 --> 00:38:03,680

a dollar is worth more today

685

00:38:03,680 --> 00:38:08,000

than tomorrow this is the basic idea

686

00:38:08,000 --> 00:38:10,079

of the time value of money that

687

00:38:10,079 --> 00:38:14,560

underpins a lot of the finance theories

688

00:38:14,560 --> 00:38:18,400

so why is it worth more today

689

00:38:18,400 --> 00:38:22,480

than the same dollar tomorrow well

690

00:38:22,480 --> 00:38:26,320

there are lots of reason but

691

00:38:26,320 --> 00:38:28,880

some of the reasons have to do with the

692

00:38:28,880 --> 00:38:31,359

preference for consuming today

693

00:38:31,359 --> 00:38:34,480

as opposed to consuming tomorrow

694

00:38:34,480 --> 00:38:38,079

since generally people prefer to consume

695

00:38:38,079 --> 00:38:41,760

today if they are asked to delay the

696

00:38:41,760 --> 00:38:43,280

consumption

697

00:38:43,280 --> 00:38:46,320

to the future they expect some reward

698

00:38:46,320 --> 00:38:47,680

for it

699

00:38:47,680 --> 00:38:50,960

okay that's one the second

700

00:38:50,960 --> 00:38:54,400

is that in normal markets

701

00:38:54,400 --> 00:38:57,599

you can invest the dollar today and then

702

00:38:57,599 --> 00:38:58,240

get

703

00:38:58,240 --> 00:39:01,359

it back with some return

704

00:39:01,359 --> 00:39:04,400

tomorrow okay now

705

00:39:04,400 --> 00:39:07,680

this all worked fine and well when

706

00:39:07,680 --> 00:39:11,079

interest rates were positive

707

00:39:11,079 --> 00:39:14,800

unfortunately in many parts of the world

708

00:39:14,800 --> 00:39:17,599

interest rates are negative and by

709

00:39:17,599 --> 00:39:19,200

interest rate being negative

710

00:39:19,200 --> 00:39:23,280

i don't just mean nominal interest rates

711

00:39:23,280 --> 00:39:25,920

i also mean real interest rates

712

00:39:25,920 --> 00:39:29,119

so uh unfortunately

713

00:39:29,119 --> 00:39:32,320

that has a complete

714

00:39:32,320 --> 00:39:35,440

distortion impact on financial markets

715

00:39:35,440 --> 00:39:37,200

because financial markets are not

716

00:39:37,200 --> 00:39:40,000

designed for negative interest rate

717

00:39:40,000 --> 00:39:41,440

market structure is

718

00:39:41,440 --> 00:39:44,160

not designed for negative interest rates

719

00:39:44,160 --> 00:39:46,240

so

720

00:39:46,240 --> 00:39:48,400

unfortunately because a large part of

721

00:39:48,400 --> 00:39:50,400

the market nowadays has negative

722

00:39:50,400 --> 00:39:51,760

interest rate this has had

723

00:39:51,760 --> 00:39:54,800

very very distorting

724

00:39:54,800 --> 00:39:57,280

impacts and the markets have had to

725

00:39:57,280 --> 00:39:57,839

adapt

726

00:39:57,839 --> 00:40:00,880

to this new environment however in the

727

00:40:00,880 --> 00:40:02,880

class we are just going to live in a

728

00:40:02,880 --> 00:40:04,960

very happy world where everything is

729

00:40:04,960 --> 00:40:05,920

hunky-dory

730

00:40:05,920 --> 00:40:07,440

interest rates are positive and

731

00:40:07,440 --> 00:40:10,720

everything works okay

732

00:40:10,720 --> 00:40:14,000

all right so just to illustrate that

733

00:40:14,000 --> 00:40:16,720

interest rates uh are not doing terribly

734

00:40:16,720 --> 00:40:17,680

well

735

00:40:17,680 --> 00:40:20,400

so this is the picture of u.s real

736

00:40:20,400 --> 00:40:22,240

interest rates so real interest rate

737

00:40:22,240 --> 00:40:25,040

is nominal rates which is the market

738

00:40:25,040 --> 00:40:25,839

rate

739

00:40:25,839 --> 00:40:28,720

adjusted for inflation okay so what you

740

00:40:28,720 --> 00:40:31,119

can see is a trend of declining

741

00:40:31,119 --> 00:40:34,160

interest rates real interest rates

742

00:40:34,160 --> 00:40:37,680

uh that you have about 17 trillion

743

00:40:37,680 --> 00:40:41,359

plus worth of debt instruments with

744

00:40:41,359 --> 00:40:45,440

negative interest rates um

745

00:40:45,440 --> 00:40:48,960

but interestingly it's not been

746

00:40:48,960 --> 00:40:53,520

uh that unusual it's happened before

747

00:40:53,520 --> 00:40:56,000

so if you look in the last couple of

748

00:40:56,000 --> 00:40:58,319

centuries it's happened before

749

00:40:58,319 --> 00:41:01,839

and if you go even further back it also

750

00:41:01,839 --> 00:41:03,200

happened before

751

00:41:03,200 --> 00:41:06,400

so no matter what economists say this is

752

00:41:06,400 --> 00:41:07,040

not

753

00:41:07,040 --> 00:41:09,440

a completely unusual phenomena it has

754

00:41:09,440 --> 00:41:10,960

happened before

755

00:41:10,960 --> 00:41:13,280

but it hasn't generally lasted as long

756

00:41:13,280 --> 00:41:16,079

as it has this timeline

757

00:41:16,079 --> 00:41:18,400

so i put a little cartoon for you with

758

00:41:18,400 --> 00:41:19,280

the

759

00:41:19,280 --> 00:41:21,839

the four shares of the fed and what

760

00:41:21,839 --> 00:41:22,720

happened with

761

00:41:22,720 --> 00:41:25,119

interest rates so it's kind of funny

762

00:41:25,119 --> 00:41:27,920

because paul volcker was a very tall guy

763

00:41:27,920 --> 00:41:30,960

alan greenspan was not quite a stall

764

00:41:30,960 --> 00:41:33,040

ben bernanke was smaller and janet

765

00:41:33,040 --> 00:41:34,160

yellen is very very

766

00:41:34,160 --> 00:41:36,960

tiny so you can see the progression of

767

00:41:36,960 --> 00:41:38,400

interest rates here

768

00:41:38,400 --> 00:41:41,440

just for fun okay

769

00:41:41,440 --> 00:41:45,119

now i want to type your brain

770

00:41:45,119 --> 00:41:48,480

i want to know what you think

771

00:41:48,480 --> 00:41:50,640

and it's very much in the news at the

772

00:41:50,640 --> 00:41:53,040

moment so i'm going to send you all off

773

00:41:53,040 --> 00:41:56,560

into breakout rooms if i can do that

774

00:41:56,560 --> 00:41:59,680

benson can i send them oh yeah i can i

775

00:41:59,680 --> 00:42:00,720

can do that

776

00:42:00,720 --> 00:42:05,359

so where is this saying breakout rooms

777

00:42:06,319 --> 00:42:09,440

okay breakout rooms here we go i'm going

778

00:42:09,440 --> 00:42:10,720

to put you

779

00:42:10,720 --> 00:42:13,359

into

780

00:42:14,880 --> 00:42:17,920

10 breakout rooms okay

781

00:42:17,920 --> 00:42:21,040

so i i'm going to give you about three

782

00:42:21,040 --> 00:42:21,359

to

783

00:42:21,359 --> 00:42:23,680

four minutes to discuss what do you

784

00:42:23,680 --> 00:42:25,599

think what do you think will happen to

785

00:42:25,599 --> 00:42:26,480

interest rates

786

00:42:26,480 --> 00:42:31,839

okay here you go

787

00:42:56,839 --> 00:42:59,839

so

788

00:43:05,359 --> 00:43:08,800

go into the breakup room

789

00:43:11,520 --> 00:43:27,839

okay good good

790

00:43:30,560 --> 00:43:33,920

chew han go to the breakout room

791

00:43:33,920 --> 00:43:41,119

jang day breakout room

792

00:43:41,119 --> 00:43:55,839

not listening

793

00:44:12,000 --> 00:44:15,520

you're supposed to go to your breakout

794

00:44:20,839 --> 00:44:23,839

rooms

795

00:44:34,839 --> 00:44:37,839

so

796

00:45:30,839 --> 00:45:33,839

so

797

00:46:32,480 --> 00:46:34,480

i think i accidentally came back to the

798

00:46:34,480 --> 00:46:36,480

main session

799

00:46:36,480 --> 00:46:39,760

hello so mean yes yes

800

00:46:39,760 --> 00:46:42,480

yes yeah i think i accidentally came

801

00:46:42,480 --> 00:46:44,079

back to the main room

802

00:46:44,079 --> 00:46:46,800

okay let me let me join which room were

803

00:46:46,800 --> 00:46:48,000

you in

804

00:46:48,000 --> 00:46:50,720

i can't remember you don't know i'm

805

00:46:50,720 --> 00:46:51,280

sorry

806

00:46:51,280 --> 00:46:55,200

hey my my where am i going well anyway

807

00:46:55,200 --> 00:46:56,319

i'm going to

808

00:46:56,319 --> 00:46:59,200

to close the uh oh okay i'm going to

809

00:46:59,200 --> 00:46:59,920

close the

810

00:46:59,920 --> 00:47:05,040

room anyway in a minute one sec you're

811

00:47:08,839 --> 00:47:11,839

wearing

812

00:47:36,839 --> 00:47:40,240

nice okay i think i'm getting

813

00:47:40,240 --> 00:47:43,839

more or less everybody back

814

00:47:43,839 --> 00:47:53,839

27 seconds

815

00:47:54,079 --> 00:48:07,839

okay so be ready to share your thoughts

816

00:48:08,319 --> 00:48:11,350

three two one boom

817

00:48:11,350 --> 00:48:13,200

[Music]

818

00:48:13,200 --> 00:48:15,920

okay and i'm going to start with the

819

00:48:15,920 --> 00:48:16,480

last

820

00:48:16,480 --> 00:48:19,839

room for a change so room 10

821

00:48:19,839 --> 00:48:23,520

we had aria warden

822

00:48:23,520 --> 00:48:26,240

shiraz

823

00:48:27,599 --> 00:48:30,720

safang roman using

824

00:48:30,720 --> 00:48:33,520

emmanuel

825

00:48:35,119 --> 00:48:36,800

i'm sure you're going to tell me lots of

826

00:48:36,800 --> 00:48:39,680

stuff go ahead

827

00:48:40,880 --> 00:48:44,319

okay let's start with uh who's put up

828

00:48:44,319 --> 00:48:47,520

roman and then chang day so we talked

829

00:48:47,520 --> 00:48:48,720

about and we said that

830

00:48:48,720 --> 00:48:51,200

um we looked at some trends of u.s

831

00:48:51,200 --> 00:48:52,319

interest rates and that they've been

832

00:48:52,319 --> 00:48:53,119

going down

833

00:48:53,119 --> 00:48:55,359

pretty consistently and we said that

834

00:48:55,359 --> 00:48:56,720

that's probably not going to change

835

00:48:56,720 --> 00:48:58,079

especially now with like

836

00:48:58,079 --> 00:49:01,280

corona like the financial troubles

837

00:49:01,280 --> 00:49:03,760

where there's no like there's a lot of

838

00:49:03,760 --> 00:49:05,440

risk right now

839

00:49:05,440 --> 00:49:07,440

and uh that's why a lot of people don't

840

00:49:07,440 --> 00:49:08,559

take loans that's why

841

00:49:08,559 --> 00:49:10,000

they have to be so low the interest

842

00:49:10,000 --> 00:49:12,079

rates and so

843

00:49:12,079 --> 00:49:15,119

we said that probably

844

00:49:15,119 --> 00:49:16,880

as long as there's still so much

845

00:49:16,880 --> 00:49:18,720

uncertainty they're going to stay low or

846

00:49:18,720 --> 00:49:20,240

even go down and then

847

00:49:20,240 --> 00:49:22,240

if their economy recovers they might go

848

00:49:22,240 --> 00:49:23,520

up or maybe not

849

00:49:23,520 --> 00:49:26,720

yeah okay uh thank you

850

00:49:26,720 --> 00:49:30,480

roman gender um our group talked about

851

00:49:30,480 --> 00:49:31,599

um the fed

852

00:49:31,599 --> 00:49:34,400

and the central bank are putting low

853

00:49:34,400 --> 00:49:34,960

lower

854

00:49:34,960 --> 00:49:38,319

um interest rates um to to to increase

855

00:49:38,319 --> 00:49:40,079

the money supply in the market

856

00:49:40,079 --> 00:49:42,640

and to encourage uh the commercial banks

857

00:49:42,640 --> 00:49:44,480

to borrow more money from

858

00:49:44,480 --> 00:49:47,680

more money from this on a fed to

859

00:49:47,680 --> 00:49:49,599

lower their interest rates as well and

860

00:49:49,599 --> 00:49:52,559

to recover and stimulate the economy

861

00:49:52,559 --> 00:49:58,079

due to the pandemic okay

862

00:49:58,079 --> 00:50:01,760

uh how do i have um

863

00:50:01,760 --> 00:50:04,960

aryan uh

864

00:50:04,960 --> 00:50:07,920

your professor our group also was uh i

865

00:50:07,920 --> 00:50:08,319

think

866

00:50:08,319 --> 00:50:11,359

extending one what roman said uh it

867

00:50:11,359 --> 00:50:14,160

it's been going uh low because of the

868

00:50:14,160 --> 00:50:14,640

the

869

00:50:14,640 --> 00:50:16,640

reducing the yield on the government

870

00:50:16,640 --> 00:50:19,440

bonds and so it will continue to go low

871

00:50:19,440 --> 00:50:21,359

to encourage growth i think uh

872

00:50:21,359 --> 00:50:24,640

in these hard times and i think slowly

873

00:50:24,640 --> 00:50:25,440

in

874

00:50:25,440 --> 00:50:27,359

in a year or so they'll start picking

875

00:50:27,359 --> 00:50:29,040

back up and they'll start

876

00:50:29,040 --> 00:50:32,480

increasing the interest rates okay

877

00:50:32,480 --> 00:50:35,359

annoying

878

00:50:37,440 --> 00:50:41,119

recently the federal um say that they

879

00:50:41,119 --> 00:50:42,720

want to increase the interest rate

880

00:50:42,720 --> 00:50:43,520

actually but

881

00:50:43,520 --> 00:50:45,680

i think that they will remain the

882

00:50:45,680 --> 00:50:47,440

interest rate and change because of the

883

00:50:47,440 --> 00:50:48,480

epidemic

884

00:50:48,480 --> 00:50:52,480

and even if the stock market has become

885

00:50:52,480 --> 00:50:55,599

overheated recently but as long as their

886

00:50:55,599 --> 00:50:56,160

word

887

00:50:56,160 --> 00:50:59,440

um has the effect um now the stock

888

00:50:59,440 --> 00:51:00,240

market

889

00:51:00,240 --> 00:51:03,200

uh goes down slightly um i think they

890

00:51:03,200 --> 00:51:03,680

won't

891

00:51:03,680 --> 00:51:06,880

actually take the action they just say

892

00:51:06,880 --> 00:51:08,079

it and sometimes

893

00:51:08,079 --> 00:51:10,480

as long as they have their effect that

894

00:51:10,480 --> 00:51:11,359

they want

895

00:51:11,359 --> 00:51:14,640

they will simply say it but not to

896

00:51:14,640 --> 00:51:16,400

take the action it's not the first time

897

00:51:16,400 --> 00:51:18,880

they do that

898

00:51:18,880 --> 00:51:22,640

okay songhaq

899

00:51:22,640 --> 00:51:25,119

so i think uh interest rate will move

900

00:51:25,119 --> 00:51:26,880

according to what kind of interest

901

00:51:26,880 --> 00:51:30,240

we are talking about so like uh

902

00:51:30,240 --> 00:51:33,280

some uh credit

903

00:51:33,280 --> 00:51:35,839

credit interest rate like corporate

904

00:51:35,839 --> 00:51:36,880

bonds are

905

00:51:36,880 --> 00:51:39,520

may increase because the because

906

00:51:39,520 --> 00:51:42,079

pandemic has caused many default rate

907

00:51:42,079 --> 00:51:43,280

rises

908

00:51:43,280 --> 00:51:47,040

so the risk of holding these bonds may

909

00:51:47,040 --> 00:51:48,079

increase so the

910

00:51:48,079 --> 00:51:50,559

interest rate may increase but some

911

00:51:50,559 --> 00:51:52,559

government bonds are still

912

00:51:52,559 --> 00:51:55,280

will still stay the same because they

913

00:51:55,280 --> 00:51:56,319

are these

914

00:51:56,319 --> 00:51:59,119

safe assets compared to the corporate

915

00:51:59,119 --> 00:52:00,400

bonds

916

00:52:00,400 --> 00:52:03,280

okay thank you i'll come to you in a

917

00:52:03,280 --> 00:52:05,280

second quote soon i want to give a

918

00:52:05,280 --> 00:52:05,760

chance

919

00:52:05,760 --> 00:52:08,880

uh so i don't know people been talking

920

00:52:08,880 --> 00:52:11,920

uh outside of their room i have uh so

921

00:52:11,920 --> 00:52:13,280

we're done with room 10

922

00:52:13,280 --> 00:52:16,559

album nine we have manu

923

00:52:16,559 --> 00:52:19,040

sini

924

00:52:31,920 --> 00:52:35,040

uh so jasper why don't you start

925

00:52:35,040 --> 00:52:38,160

quite soon like you later so

926

00:52:38,160 --> 00:52:39,839

our group basically just talked about

927

00:52:39,839 --> 00:52:41,920

like how the situation post covet is

928

00:52:41,920 --> 00:52:43,040

going to look like

929

00:52:43,040 --> 00:52:44,800

and some of our group may say that it's

930

00:52:44,800 --> 00:52:46,480

going to be well it's going to turn

931

00:52:46,480 --> 00:52:47,760

better because

932

00:52:47,760 --> 00:52:49,680

the whole culvert situation will be

933

00:52:49,680 --> 00:52:51,839

recovered but in my opinion i do not

934

00:52:51,839 --> 00:52:52,880

think so because

935

00:52:52,880 --> 00:52:55,200

the productivity level in the u.s is

936

00:52:55,200 --> 00:52:56,400

still quite bad

937

00:52:56,400 --> 00:52:58,240

as we see there is currently a blizzard

938

00:52:58,240 --> 00:53:00,240

going on in the us which

939

00:53:00,240 --> 00:53:03,440

is quite damaging to work uh

940

00:53:03,440 --> 00:53:05,520

towards the whole productivity scenes

941

00:53:05,520 --> 00:53:07,520

and the labors and stuff but as well

942

00:53:07,520 --> 00:53:09,359

as the like when we take a look at on

943

00:53:09,359 --> 00:53:11,040

the other side like it's the us

944

00:53:11,040 --> 00:53:13,119

diplomatic tension with the china's and

945

00:53:13,119 --> 00:53:14,079

stuff

946

00:53:14,079 --> 00:53:16,240

all of these are still quite unsure and

947

00:53:16,240 --> 00:53:17,680

there's so much uncertainty

948

00:53:17,680 --> 00:53:19,359

so in my opinion i do not believe that

949

00:53:19,359 --> 00:53:20,800

it will change

950

00:53:20,800 --> 00:53:23,280

positive and along in the short run it

951

00:53:23,280 --> 00:53:24,160

is going to

952

00:53:24,160 --> 00:53:26,160

remain low at the level as to say be

953

00:53:26,160 --> 00:53:29,200

safe as i think okay

954

00:53:29,200 --> 00:53:33,359

cute tone yeah apart from what uh

955

00:53:33,359 --> 00:53:35,599

jessica just mentioned i also think that

956

00:53:35,599 --> 00:53:37,440

uh because of the current graphic

957

00:53:37,440 --> 00:53:38,400

situation

958

00:53:38,400 --> 00:53:41,200

like um a lot of us people travel around

959

00:53:41,200 --> 00:53:41,920

so like the

960

00:53:41,920 --> 00:53:44,800

global aviation industry is having a

961

00:53:44,800 --> 00:53:45,280

lower

962

00:53:45,280 --> 00:53:48,079

like headcount right now so and also

963

00:53:48,079 --> 00:53:48,480

with

964

00:53:48,480 --> 00:53:50,880

all the pandemic around the world uh the

965

00:53:50,880 --> 00:53:52,720

economic activity will be a lot lower

966

00:53:52,720 --> 00:53:53,520

than usual

967

00:53:53,520 --> 00:53:56,640

which will cause like us a low

968

00:53:56,640 --> 00:53:58,800

interest rate for now but in the long

969

00:53:58,800 --> 00:53:59,920

run maybe after

970

00:53:59,920 --> 00:54:02,640

the population start to get vaccinated

971

00:54:02,640 --> 00:54:03,119

and

972

00:54:03,119 --> 00:54:05,839

as the impact of the pandemic diminishes

973

00:54:05,839 --> 00:54:06,400

uh

974

00:54:06,400 --> 00:54:08,240

the interest rate will eventually get

975

00:54:08,240 --> 00:54:09,599

better

976

00:54:09,599 --> 00:54:13,200

okay good thank you so much

977

00:54:13,200 --> 00:54:17,599

now let's move on to room nine

978

00:54:17,680 --> 00:54:20,800

which oh yeah nine

979

00:54:20,800 --> 00:54:24,640

no what am i doing no room eight sorry

980

00:54:24,640 --> 00:54:26,840

theo

981

00:54:26,840 --> 00:54:33,100

[Music]

982

00:54:34,559 --> 00:54:39,359

dominic tucked him and catching

983

00:54:39,359 --> 00:54:43,760

so which one of you wants to talk

984

00:54:45,200 --> 00:54:48,720

okay theo go ahead

985

00:54:49,200 --> 00:54:52,480

yeah so our group discussed that

986

00:54:52,480 --> 00:54:55,200

um that the interest rate will go down

987

00:54:55,200 --> 00:54:56,400

eventually

988

00:54:56,400 --> 00:54:58,960

because like the the u.s are printing

989

00:54:58,960 --> 00:55:00,880

more dollars and

990

00:55:00,880 --> 00:55:03,839

and as a result they the the the dollars

991

00:55:03,839 --> 00:55:05,040

are

992

00:55:05,040 --> 00:55:08,880

devaluating so i guess

993

00:55:08,880 --> 00:55:11,280

as the confidence level is decreasing

994

00:55:11,280 --> 00:55:12,240

then

995

00:55:12,240 --> 00:55:15,040

interest rate will also decrease

996

00:55:15,040 --> 00:55:16,319

[Music]

997

00:55:16,319 --> 00:55:20,079

okay thanks to you does anybody else in

998

00:55:20,079 --> 00:55:23,839

that room want to share their thought

999

00:55:23,920 --> 00:55:29,599

no okay so then we have room seven

1000

00:55:29,599 --> 00:55:32,799

seven is stu ming support

1001

00:55:32,799 --> 00:55:35,200

visit

1002

00:55:44,000 --> 00:55:47,599

thank you yeah um so we thought that

1003

00:55:47,599 --> 00:55:49,920

because of this current pandemic and

1004

00:55:49,920 --> 00:55:51,119

recession that

1005

00:55:51,119 --> 00:55:52,799

the interest rate may have been

1006

00:55:52,799 --> 00:55:54,400

declining but

1007

00:55:54,400 --> 00:55:57,680

uh as for the creditors they might

1008

00:55:57,680 --> 00:55:58,319

actually

1009

00:55:58,319 --> 00:56:01,200

start to increase the interest rates

1010

00:56:01,200 --> 00:56:02,400

because uh

1011

00:56:02,400 --> 00:56:05,280

they might become more risk averse uh

1012

00:56:05,280 --> 00:56:06,079

due to

1013

00:56:06,079 --> 00:56:09,839

the current um you know financial

1014

00:56:09,839 --> 00:56:12,319

kind of crisis at the moment economic

1015

00:56:12,319 --> 00:56:14,720

recession

1016

00:56:14,720 --> 00:56:18,480

good point anything else

1017

00:56:18,480 --> 00:56:21,920

from room seven um uh i do

1018

00:56:21,920 --> 00:56:25,119

yeah i do i think that uh it will

1019

00:56:25,119 --> 00:56:28,160

basically going back to the inflation

1020

00:56:28,160 --> 00:56:30,480

basically right now the fed is actually

1021

00:56:30,480 --> 00:56:32,720

trying to use quantitative easing to you

1022

00:56:32,720 --> 00:56:34,720

know generate more money to create more

1023

00:56:34,720 --> 00:56:36,000

supply

1024

00:56:36,000 --> 00:56:39,599

than the demand so that is trying to

1025

00:56:39,599 --> 00:56:41,839

simulate the economy so that the banks

1026

00:56:41,839 --> 00:56:42,559

could

1027

00:56:42,559 --> 00:56:45,839

land money more easily to those who are

1028

00:56:45,839 --> 00:56:47,760

desperately in need so that you know the

1029

00:56:47,760 --> 00:56:49,359

interest rate below that

1030

00:56:49,359 --> 00:56:52,480

gives them a very a good um

1031

00:56:52,480 --> 00:56:54,960

reason to grow their money and after a

1032

00:56:54,960 --> 00:56:56,160

period like five

1033

00:56:56,160 --> 00:56:58,640

or several years later the economy

1034

00:56:58,640 --> 00:57:00,160

eventually recovered

1035

00:57:00,160 --> 00:57:03,200

and uh you need to

1036

00:57:03,200 --> 00:57:06,400

low you need to keep the inflation in a

1037

00:57:06,400 --> 00:57:06,880

very

1038

00:57:06,880 --> 00:57:10,000

in a low level so

1039

00:57:10,000 --> 00:57:12,400

the boost update the interest rate to

1040

00:57:12,400 --> 00:57:13,040

keep it at

1041

00:57:13,040 --> 00:57:14,720

low as a low level because you know the

1042

00:57:14,720 --> 00:57:16,799

economy has been recovered

1043

00:57:16,799 --> 00:57:19,920

at that time period yeah yeah this is a

1044

00:57:19,920 --> 00:57:21,520

lot of discussion right now

1045

00:57:21,520 --> 00:57:24,480

taxpayers you know is inflation picking

1046

00:57:24,480 --> 00:57:24,799

up

1047

00:57:24,799 --> 00:57:27,200

is it going to pick up and and you know

1048

00:57:27,200 --> 00:57:29,440

when that happens how quickly will

1049

00:57:29,440 --> 00:57:30,880

regulators

1050

00:57:30,880 --> 00:57:33,280

uh get on the case because the classic

1051

00:57:33,280 --> 00:57:34,720

regulatory reaction

1052

00:57:34,720 --> 00:57:36,720

you know central bank reaction i should

1053

00:57:36,720 --> 00:57:39,520

say to rising inflation would be

1054

00:57:39,520 --> 00:57:42,160

to rise interest rates so we will it's a

1055

00:57:42,160 --> 00:57:42,559

very

1056

00:57:42,559 --> 00:57:45,599

very good point um

1057

00:57:45,599 --> 00:57:48,720

let's see room six we had elliot so

1058

00:57:48,720 --> 00:57:51,839

min toy wing adrian

1059

00:57:51,839 --> 00:57:55,520

ed ray and wendy adrian

1060

00:57:55,520 --> 00:57:58,720

chatlam soy in cover

1061

00:57:58,720 --> 00:58:00,880

and

1062

00:58:02,079 --> 00:58:05,680

so who's going to tell me what you guys

1063

00:58:05,680 --> 00:58:07,599

discussed

1064

00:58:07,599 --> 00:58:10,880

similar to the groups management people

1065

00:58:10,880 --> 00:58:13,680

we think that the employment rates will

1066

00:58:13,680 --> 00:58:15,119

remain known

1067

00:58:15,119 --> 00:58:17,040

in this period of time and therefore the

1068

00:58:17,040 --> 00:58:19,440

banks will lower the interest rate in

1069

00:58:19,440 --> 00:58:20,000

order to

1070

00:58:20,000 --> 00:58:23,280

attract more people to be involved in

1071

00:58:23,280 --> 00:58:26,640

economic activities yeah

1072

00:58:26,640 --> 00:58:30,400

okay good anyone else wants to share

1073

00:58:30,400 --> 00:58:32,799

from room six

1074

00:58:32,799 --> 00:58:35,839

um the interest rate is not really going

1075

00:58:35,839 --> 00:58:37,680

it's not likely to increase

1076

00:58:37,680 --> 00:58:40,480

in the upcoming future which is promised

1077

00:58:40,480 --> 00:58:41,200

by the

1078

00:58:41,200 --> 00:58:44,000

federal reserve in us they will keep the

1079

00:58:44,000 --> 00:58:45,680

interest rate as low

1080

00:58:45,680 --> 00:58:48,640

as possible to zero due to the pandemic

1081

00:58:48,640 --> 00:58:50,400

but i think the

1082

00:58:50,400 --> 00:58:53,200

after everyone i said most of the people

1083

00:58:53,200 --> 00:58:54,720

in the u.s have

1084

00:58:54,720 --> 00:58:57,680

got the fast scene and if they can get

1085

00:58:57,680 --> 00:58:58,720

rid of the pandemic

1086

00:58:58,720 --> 00:59:00,880

i think the interest rates that increase

1087

00:59:00,880 --> 00:59:03,040

back to the normal level

1088

00:59:03,040 --> 00:59:06,160

okay let's all

1089

00:59:06,160 --> 00:59:08,559

hope that the vaccines will work and we

1090

00:59:08,559 --> 00:59:11,760

can get back to a more normal style

1091

00:59:11,760 --> 00:59:14,559

all right let's go to room five and it's

1092

00:59:14,559 --> 00:59:16,720

okay if you have some of the same stuff

1093

00:59:16,720 --> 00:59:17,760

all right

1094

00:59:17,760 --> 00:59:22,400

weising ansen dhruv manwa

1095

00:59:22,400 --> 00:59:25,839

yen jun yike yat

1096

00:59:25,839 --> 00:59:29,040

tang hoi wan zaho

1097

00:59:29,040 --> 00:59:32,480

calvin george and

1098

00:59:32,880 --> 00:59:36,319

okay first and then

1099

00:59:36,319 --> 00:59:39,760

uk okay so we could talk

1100

00:59:39,760 --> 00:59:41,760

talk about two possibilities the first

1101

00:59:41,760 --> 00:59:44,640

one is that if the government intervene

1102

00:59:44,640 --> 00:59:46,799

then the central interest rate will be

1103

00:59:46,799 --> 00:59:48,319

lowered so the money supply will

1104

00:59:48,319 --> 00:59:50,400

increase and the nominal interest rate

1105

00:59:50,400 --> 00:59:52,160

in the market will be kept at a low

1106

00:59:52,160 --> 00:59:54,160

level so if the government do not

1107

00:59:54,160 --> 00:59:54,880

intervene

1108

00:59:54,880 --> 00:59:56,960

then the interest rate will increase

1109

00:59:56,960 --> 00:59:58,000

because more people

1110

00:59:58,000 --> 01:00:00,960

are asking for money a lot of

1111

01:00:00,960 --> 01:00:02,799

unemployment so they need to have more

1112

01:00:02,799 --> 01:00:04,799

borrowing and less saving

1113

01:00:04,799 --> 01:00:07,760

and to finance their daily spending so

1114

01:00:07,760 --> 01:00:09,760

the nominal and the number interest rate

1115

01:00:09,760 --> 01:00:11,440

in the market will increase if the

1116

01:00:11,440 --> 01:00:12,480

government

1117

01:00:12,480 --> 01:00:16,559

does not do anything interesting

1118

01:00:16,559 --> 01:00:19,599

uh uk um

1119

01:00:19,599 --> 01:00:21,520

i think even though we started off this

1120

01:00:21,520 --> 01:00:23,359

year with a record low

1121

01:00:23,359 --> 01:00:26,559

interest rate um and even though kova is

1122

01:00:26,559 --> 01:00:27,680

still sort of around

1123

01:00:27,680 --> 01:00:30,480

i think this year people generally have

1124

01:00:30,480 --> 01:00:32,319

better expectations about the

1125

01:00:32,319 --> 01:00:35,520

economy and because of the covet because

1126

01:00:35,520 --> 01:00:37,359

i mean because of the vaccines and

1127

01:00:37,359 --> 01:00:39,359

because the number of covert cases has

1128

01:00:39,359 --> 01:00:40,960

sort of peaked and people

1129

01:00:40,960 --> 01:00:44,720

are expecting it to decline i think

1130

01:00:44,720 --> 01:00:47,359

the interest rates may go up a little

1131

01:00:47,359 --> 01:00:48,240

bit this year

1132

01:00:48,240 --> 01:00:50,319

and i saw it on the news the other day

1133

01:00:50,319 --> 01:00:52,079

that the um

1134

01:00:52,079 --> 01:00:54,640

the us 10-year treasury yield or

1135

01:00:54,640 --> 01:00:55,280

something

1136

01:00:55,280 --> 01:00:58,720

has been rising so i don't know too much

1137

01:00:58,720 --> 01:01:00,400

about that but i just know it's

1138

01:01:00,400 --> 01:01:03,040

sort of important um so i guess

1139

01:01:03,040 --> 01:01:04,160

following that trend

1140

01:01:04,160 --> 01:01:07,359

it will sort of increase as well i am so

1141

01:01:07,359 --> 01:01:09,760

proud of you for connecting the dots

1142

01:01:09,760 --> 01:01:10,319

this is

1143

01:01:10,319 --> 01:01:12,480

nice you've been reading the news look

1144

01:01:12,480 --> 01:01:13,760

at that oh

1145

01:01:13,760 --> 01:01:17,599

i am happy i am happy

1146

01:01:17,839 --> 01:01:21,280

you guys made me happy what can i say oh

1147

01:01:21,280 --> 01:01:24,400

that is very good so i i'm you know

1148

01:01:24,400 --> 01:01:27,839

very nice room four we have someone

1149

01:01:27,839 --> 01:01:31,280

chew hun hoilands you on renee

1150

01:01:31,280 --> 01:01:34,640

chuck him cherie and jin kai ho yin

1151

01:01:34,640 --> 01:01:38,000

and wai lun okay see you

1152

01:01:38,000 --> 01:01:41,440

on go ahead so um just now

1153

01:01:41,440 --> 01:01:43,680

and they have talked about like uh the

1154

01:01:43,680 --> 01:01:45,200

bond yield going up

1155

01:01:45,200 --> 01:01:46,640

i could further like we have discussed

1156

01:01:46,640 --> 01:01:48,880

it in our room too so uh i want to

1157

01:01:48,880 --> 01:01:50,240

further elaborate that

1158

01:01:50,240 --> 01:01:52,079

so as per my understanding like when

1159

01:01:52,079 --> 01:01:53,839

born you growing up like this

1160

01:01:53,839 --> 01:01:55,200

provides sort of an arbitrary

1161

01:01:55,200 --> 01:01:57,359

opportunity like for bands because the

1162

01:01:57,359 --> 01:01:59,039

insurance is growing like pretty low

1163

01:01:59,039 --> 01:02:00,640

so they can borrow the money and they

1164

01:02:00,640 --> 01:02:02,799

can go to invest in the uh government

1165

01:02:02,799 --> 01:02:04,559

10-year treasury bill

1166

01:02:04,559 --> 01:02:07,280

so there is a average opportunity and

1167

01:02:07,280 --> 01:02:07,680

then

1168

01:02:07,680 --> 01:02:10,079

so it's likely that for fred is to

1169

01:02:10,079 --> 01:02:11,039

increase the

1170

01:02:11,039 --> 01:02:14,000

um interest rate to uh follow the

1171

01:02:14,000 --> 01:02:14,640

increased

1172

01:02:14,640 --> 01:02:18,839

rate of the bond you so to avoid any

1173

01:02:18,839 --> 01:02:20,000

arbitrage

1174

01:02:20,000 --> 01:02:23,680

okay i i get the arbitrage thing

1175

01:02:23,680 --> 01:02:26,720

i'm not sure whether the government will

1176

01:02:26,720 --> 01:02:28,799

intervene to prevent arbitrage

1177

01:02:28,799 --> 01:02:31,280

but this is a really good point and

1178

01:02:31,280 --> 01:02:33,760

there's always a lot of discussion about

1179

01:02:33,760 --> 01:02:36,880

you know the trend of interest rates and

1180

01:02:36,880 --> 01:02:39,359

the impact on bank's profitability

1181

01:02:39,359 --> 01:02:41,359

on net interest margin and things like

1182

01:02:41,359 --> 01:02:43,599

that right so we'll talk about

1183

01:02:43,599 --> 01:02:45,839

uh bank management later after we've

1184

01:02:45,839 --> 01:02:47,599

gone through the first um

1185

01:02:47,599 --> 01:02:50,640

coins period all right let's see room

1186

01:02:50,640 --> 01:02:54,640

three we had ito schlock

1187

01:02:54,640 --> 01:02:59,200

sinting timmy jin kwan

1188

01:02:59,920 --> 01:03:03,359

king aryan you already spoke

1189

01:03:03,359 --> 01:03:07,680

chu ching wing tsum and katherine

1190

01:03:07,680 --> 01:03:11,119

so one of you alrighty tom go ahead

1191

01:03:11,119 --> 01:03:13,520

okay we all agree that the interest

1192

01:03:13,520 --> 01:03:14,240

rates

1193

01:03:14,240 --> 01:03:17,039

may keep changing all the time we think

1194

01:03:17,039 --> 01:03:17,680

about

1195

01:03:17,680 --> 01:03:20,880

globalization development so we think

1196

01:03:20,880 --> 01:03:21,520

that

1197

01:03:21,520 --> 01:03:23,359

countries may have influence with each

1198

01:03:23,359 --> 01:03:25,119

other by some

1199

01:03:25,119 --> 01:03:28,480

policy makers

1200

01:03:28,480 --> 01:03:30,559

okay i didn't get that point eton you

1201

01:03:30,559 --> 01:03:32,680

talked about globalization

1202

01:03:32,680 --> 01:03:36,079

globalization yes yes i think

1203

01:03:36,079 --> 01:03:39,680

maybe because of that countries may have

1204

01:03:39,680 --> 01:03:42,720

more influence with each other on

1205

01:03:42,720 --> 01:03:45,920

interest rates okay so you're talking

1206

01:03:45,920 --> 01:03:48,559

about geopolitical issues having impact

1207

01:03:48,559 --> 01:03:50,640

on interest rates in different countries

1208

01:03:50,640 --> 01:03:53,200

yeah yeah okay that's an interesting

1209

01:03:53,200 --> 01:03:53,760

point

1210

01:03:53,760 --> 01:03:56,240

all right

1211

01:03:57,119 --> 01:03:59,839

okay

1212

01:04:00,640 --> 01:04:03,760

and then caffeine

1213

01:04:05,119 --> 01:04:08,160

i think low interest rates are

1214

01:04:08,160 --> 01:04:11,520

some kind of a way for governments to

1215

01:04:11,520 --> 01:04:14,559

increase the purchasing power community

1216

01:04:14,559 --> 01:04:18,400

and as a way to stimulate the market um

1217

01:04:18,400 --> 01:04:21,119

for me i think it takes time so that the

1218

01:04:21,119 --> 01:04:22,480

interest rates

1219

01:04:22,480 --> 01:04:25,599

can rebound up so i think uh

1220

01:04:25,599 --> 01:04:30,760

we can't expect a race uh sooner

1221

01:04:30,760 --> 01:04:32,880

[Music]

1222

01:04:32,880 --> 01:04:36,000

okay thanks kathleen

1223

01:04:36,000 --> 01:04:39,839

and then we have room 2 where we had

1224

01:04:39,839 --> 01:04:43,440

manchik wing yen win long tongue fight

1225

01:04:43,440 --> 01:04:44,240

chin leon

1226

01:04:44,240 --> 01:04:48,319

samson chingye wundser

1227

01:04:48,400 --> 01:04:52,480

po ching hoy kyu and

1228

01:04:53,280 --> 01:04:55,440

um in my cyrus of view i think like the

1229

01:04:55,440 --> 01:04:57,760

pandemic is still dominating

1230

01:04:57,760 --> 01:05:00,880

and so i think the interest maybe would

1231

01:05:00,880 --> 01:05:03,280

stay within those um in the coming

1232

01:05:03,280 --> 01:05:04,400

future because like

1233

01:05:04,400 --> 01:05:07,039

the economic problem is just appearing

1234

01:05:07,039 --> 01:05:09,359

i'm doing us for example like the high

1235

01:05:09,359 --> 01:05:12,400

um low and high unemployment rate so

1236

01:05:12,400 --> 01:05:12,960

like

1237

01:05:12,960 --> 01:05:15,200

the personal loan as well as like some

1238

01:05:15,200 --> 01:05:16,640

emergency needs or

1239

01:05:16,640 --> 01:05:19,839

likes and landing like the bank need to

1240

01:05:19,839 --> 01:05:21,920

lend money to the people in this

1241

01:05:21,920 --> 01:05:24,799

so like and in this kind of landing the

1242

01:05:24,799 --> 01:05:26,160

interest rate should be loads

1243

01:05:26,160 --> 01:05:28,000

in order to support people to survive

1244

01:05:28,000 --> 01:05:29,599

during um the pandemic

1245

01:05:29,599 --> 01:05:32,799

so i think um due to it and also

1246

01:05:32,799 --> 01:05:36,079

like the facing is still a

1247

01:05:36,079 --> 01:05:39,039

mystery if there is effective or not so

1248

01:05:39,039 --> 01:05:40,720

like i think there are so many

1249

01:05:40,720 --> 01:05:43,760

um unstable possibilities

1250

01:05:43,760 --> 01:05:47,680

in the future so i think the federal

1251

01:05:47,680 --> 01:05:50,079

will not increase the interest rates in

1252

01:05:50,079 --> 01:05:51,119

the coming future but

1253

01:05:51,119 --> 01:05:54,640

we means i'm still low okay thanks for

1254

01:05:54,640 --> 01:05:55,440

sharing

1255

01:05:55,440 --> 01:05:59,440

and last but not least room one we had

1256

01:05:59,440 --> 01:06:05,100

chocolate hollis yiphon jung day sun

1257

01:06:05,100 --> 01:06:08,139

[Music]

1258

01:06:15,039 --> 01:06:18,720

who's sharing

1259

01:06:18,720 --> 01:06:22,000

okay quote soon go ahead i

1260

01:06:22,000 --> 01:06:25,680

i want to analyze in a more economic

1261

01:06:25,680 --> 01:06:26,480

perspective

1262

01:06:26,480 --> 01:06:28,640

so a higher interest rate will increase

1263

01:06:28,640 --> 01:06:29,920

the value of

1264

01:06:29,920 --> 01:06:32,720

currency so because the harmony will

1265

01:06:32,720 --> 01:06:33,119

flow

1266

01:06:33,119 --> 01:06:36,720

into a bank that if our country then

1267

01:06:36,720 --> 01:06:38,640

providing more

1268

01:06:38,640 --> 01:06:40,799

higher interest rates so it will make

1269

01:06:40,799 --> 01:06:42,079

the export less

1270

01:06:42,079 --> 01:06:45,520

competitive and in a

1271

01:06:45,520 --> 01:06:49,280

economic uh in the pandemic economic

1272

01:06:49,280 --> 01:06:51,359

situation so i think the country will

1273

01:06:51,359 --> 01:06:52,720

want to have

1274

01:06:52,720 --> 01:06:55,039

increased the level of exports rather

1275

01:06:55,039 --> 01:06:55,839

than import

1276

01:06:55,839 --> 01:06:58,839

yeah so i think the interest rate will

1277

01:06:58,839 --> 01:07:01,039

keep

1278

01:07:01,039 --> 01:07:04,400

very good uh that's great i really enjoy

1279

01:07:04,400 --> 01:07:05,359

the sharing

1280

01:07:05,359 --> 01:07:08,079

so as you know it's interesting for me

1281

01:07:08,079 --> 01:07:09,200

because

1282

01:07:09,200 --> 01:07:12,799

you read a lot about analysts

1283

01:07:12,799 --> 01:07:14,799

expectations and things like that

1284

01:07:14,799 --> 01:07:17,520

and what you find is there's as many

1285

01:07:17,520 --> 01:07:18,640

different opinions as

1286

01:07:18,640 --> 01:07:21,520

analysts it's kind of showing up in uh

1287

01:07:21,520 --> 01:07:22,559

in this

1288

01:07:22,559 --> 01:07:26,240

sort of brainstorming discussion that uh

1289

01:07:26,240 --> 01:07:29,440

overall i think you're already

1290

01:07:29,440 --> 01:07:32,400

on the side of keeping things low but

1291

01:07:32,400 --> 01:07:35,359

watching out for the return of inflation

1292

01:07:35,359 --> 01:07:38,880

the global impact and the currency

1293

01:07:38,880 --> 01:07:42,400

impact whether the

1294

01:07:42,400 --> 01:07:44,720

will economies will recover from the

1295

01:07:44,720 --> 01:07:46,880

pandemic and the pace at which they will

1296

01:07:46,880 --> 01:07:47,760

do that

1297

01:07:47,760 --> 01:07:49,760

you highlighted the rules of central

1298

01:07:49,760 --> 01:07:51,680

banks and governments which is very very

1299

01:07:51,680 --> 01:07:52,640

important

1300

01:07:52,640 --> 01:07:54,720

uh and what they say as well as what

1301

01:07:54,720 --> 01:07:56,480

they do uh

1302

01:07:56,480 --> 01:07:58,480

we will talk about some of that when we

1303

01:07:58,480 --> 01:08:00,400

talk about central banking and monetary

1304

01:08:00,400 --> 01:08:01,760

policy so

1305

01:08:01,760 --> 01:08:04,880

great job people that was good

1306

01:08:04,880 --> 01:08:08,000

okay so

1307

01:08:08,079 --> 01:08:11,119

let's go back to uh

1308

01:08:11,119 --> 01:08:14,240

the slides all right so we were talking

1309

01:08:14,240 --> 01:08:17,120

about the time value of money and for

1310

01:08:17,120 --> 01:08:18,640

the rest of the class

1311

01:08:18,640 --> 01:08:21,120

we are going over this part of the class

1312

01:08:21,120 --> 01:08:22,158

we're going to talk

1313

01:08:22,158 --> 01:08:25,600

about uh posit a word of positive

1314

01:08:25,600 --> 01:08:27,759

interest rates where things work

1315

01:08:27,759 --> 01:08:31,359

normally okay so the interest rate is

1316

01:08:31,359 --> 01:08:32,560

basically

1317

01:08:32,560 --> 01:08:35,520

the tool that helps us to convert cash

1318

01:08:35,520 --> 01:08:36,080

across

1319

01:08:36,080 --> 01:08:40,399

time so we're going to be talking about

1320

01:08:40,399 --> 01:08:43,439

different variables that we use in

1321

01:08:43,439 --> 01:08:46,000

discounted cash flow calculation

1322

01:08:46,000 --> 01:08:49,439

the first is present value

1323

01:08:49,439 --> 01:08:52,799

so present value we use the

1324

01:08:52,799 --> 01:08:55,839

pv abbreviation so

1325

01:08:55,839 --> 01:08:58,960

that means the value today

1326

01:08:58,960 --> 01:09:02,960

dates zero okay so it's the value

1327

01:09:02,960 --> 01:09:06,399

of the cost of benefit in terms of cash

1328

01:09:06,399 --> 01:09:10,399

today future value as the name

1329

01:09:10,399 --> 01:09:14,960

says is the value in the future

1330

01:09:14,960 --> 01:09:18,080

okay so we're looking at money in the

1331

01:09:18,080 --> 01:09:19,279

future

1332

01:09:19,279 --> 01:09:22,560

all right so future value present value

1333

01:09:22,560 --> 01:09:25,600

all right so today and sometime in the

1334

01:09:25,600 --> 01:09:28,000

future

1335

01:09:28,880 --> 01:09:32,080

so how to put the two together so the

1336

01:09:32,080 --> 01:09:33,679

future value

1337

01:09:33,679 --> 01:09:36,719

is the value at some point of time

1338

01:09:36,719 --> 01:09:39,520

in the future of an investment we make

1339

01:09:39,520 --> 01:09:40,799

today

1340

01:09:40,799 --> 01:09:44,158

okay so how do we convert it

1341

01:09:44,158 --> 01:09:47,679

well we have to look at interest rates

1342

01:09:47,679 --> 01:09:50,479

so the third element is the interest

1343

01:09:50,479 --> 01:09:51,600

rate

1344

01:09:51,600 --> 01:09:55,040

all right so to convert an investment

1345

01:09:55,040 --> 01:09:55,840

today

1346

01:09:55,840 --> 01:09:59,520

present value into a future value

1347

01:09:59,520 --> 01:10:01,520

we have to do something with interest

1348

01:10:01,520 --> 01:10:02,640

rates

1349

01:10:02,640 --> 01:10:06,480

okay so of course it depends on

1350

01:10:06,480 --> 01:10:10,400

how often the interest is calculated and

1351

01:10:10,400 --> 01:10:11,280

credited

1352

01:10:11,280 --> 01:10:13,840

let's keep it simple let's look at one

1353

01:10:13,840 --> 01:10:15,360

year

1354

01:10:15,360 --> 01:10:18,880

and 10 annual interest so

1355

01:10:18,880 --> 01:10:22,880

notice 10 annual interest one year

1356

01:10:22,880 --> 01:10:26,480

so if i invest a hundred thousand dollar

1357

01:10:26,480 --> 01:10:28,320

today

1358

01:10:28,320 --> 01:10:31,199

one year from now i'll get a hundred and

1359

01:10:31,199 --> 01:10:33,040

ten thousand

1360

01:10:33,040 --> 01:10:36,000

which is the hundred thousand that i

1361

01:10:36,000 --> 01:10:38,000

invested today

1362

01:10:38,000 --> 01:10:42,840

plus ten thousand dollar in

1363

01:10:42,840 --> 01:10:44,320

interest

1364

01:10:44,320 --> 01:10:47,679

we say the hundred thousand dollar

1365

01:10:47,679 --> 01:10:52,560

investments yields ten thousand dollars

1366

01:10:52,560 --> 01:10:56,159

in return which is why we also called

1367

01:10:56,159 --> 01:10:57,360

interest rates

1368

01:10:57,360 --> 01:11:01,280

yield to maturity or yield so

1369

01:11:01,280 --> 01:11:03,199

we can call it interest rate or we can

1370

01:11:03,199 --> 01:11:05,679

call it the yield to maturity

1371

01:11:05,679 --> 01:11:08,960

it's the same thing just different names

1372

01:11:08,960 --> 01:11:13,280

okay so we have present value

1373

01:11:13,280 --> 01:11:16,800

future value interest rate and

1374

01:11:16,800 --> 01:11:18,960

because to calculate interest rate we

1375

01:11:18,960 --> 01:11:21,520

need to know the period we also have the

1376

01:11:21,520 --> 01:11:24,239

period so we have four variables

1377

01:11:24,239 --> 01:11:27,679

present value future value period

1378

01:11:27,679 --> 01:11:30,320

interest rate

1379

01:11:32,000 --> 01:11:36,080

so let's apply

1380

01:11:36,080 --> 01:11:39,040

we have a hundred thousand today we

1381

01:11:39,040 --> 01:11:39,840

invest at

1382

01:11:39,840 --> 01:11:42,960

six percent for one year

1383

01:11:42,960 --> 01:11:46,400

how much is our future value

1384

01:11:46,400 --> 01:11:49,760

you can type it in the box

1385

01:11:53,360 --> 01:11:58,640

okay all right

1386

01:12:04,159 --> 01:12:07,840

okay so

1387

01:12:07,840 --> 01:12:10,239

get back a hundred thousand which is our

1388

01:12:10,239 --> 01:12:12,159

principal amount plus the interest

1389

01:12:12,159 --> 01:12:14,239

that's six percent for one year

1390

01:12:14,239 --> 01:12:18,400

which is 106 000 altogether

1391

01:12:18,400 --> 01:12:22,159

all right so we can express it

1392

01:12:22,159 --> 01:12:25,199

as the principle which is the present

1393

01:12:25,199 --> 01:12:26,159

value

1394

01:12:26,159 --> 01:12:29,600

plus the pres the principle

1395

01:12:29,600 --> 01:12:33,520

times the rate of interest for the year

1396

01:12:33,520 --> 01:12:37,120

okay 106 000

1397

01:12:37,120 --> 01:12:38,640

now one interesting thing one

1398

01:12:38,640 --> 01:12:41,920

interesting concept is that 106

1399

01:12:41,920 --> 01:12:45,840

000 is also the opportunity cost of

1400

01:12:45,840 --> 01:12:47,199

spending 100

1401

01:12:47,199 --> 01:12:50,320

000 today right so you have a choice you

1402

01:12:50,320 --> 01:12:52,080

can spend a hundred thousand dollars

1403

01:12:52,080 --> 01:12:52,640

today

1404

01:12:52,640 --> 01:12:55,840

or you can invest it at six percent for

1405

01:12:55,840 --> 01:12:56,960

one year

1406

01:12:56,960 --> 01:12:58,960

but you cannot do both so you have to

1407

01:12:58,960 --> 01:13:00,800

check you have to decide

1408

01:13:00,800 --> 01:13:04,159

all right so you are giving

1409

01:13:04,159 --> 01:13:08,239

up by consuming today

1410

01:13:08,239 --> 01:13:09,920

the return that you would get in the

1411

01:13:09,920 --> 01:13:12,400

future

1412

01:13:14,560 --> 01:13:16,560

all right so putting the variables we

1413

01:13:16,560 --> 01:13:18,320

have the present value

1414

01:13:18,320 --> 01:13:22,080

100 000 today the number of period is

1415

01:13:22,080 --> 01:13:22,880

one year

1416

01:13:22,880 --> 01:13:25,280

the rate is six percent per annum the

1417

01:13:25,280 --> 01:13:26,320

future value

1418

01:13:26,320 --> 01:13:29,360

is a hundred and six thousand

1419

01:13:29,360 --> 01:13:31,679

so it's important to know the variables

1420

01:13:31,679 --> 01:13:32,800

okay in

1421

01:13:32,800 --> 01:13:35,360

dcf you'll have eventually five

1422

01:13:35,360 --> 01:13:36,800

variables

1423

01:13:36,800 --> 01:13:39,920

we are talking here we already have four

1424

01:13:39,920 --> 01:13:43,360

of the variables okay remember we're

1425

01:13:43,360 --> 01:13:44,159

talking about

1426

01:13:44,159 --> 01:13:47,199

one period of one year

1427

01:13:47,199 --> 01:13:49,040

we're going to complicate this a little

1428

01:13:49,040 --> 01:13:51,280

bit

1429

01:13:51,600 --> 01:13:54,960

okay so what you notice with those two

1430

01:13:54,960 --> 01:13:58,320

examples the only difference was

1431

01:13:58,320 --> 01:14:01,360

the rate it was the same initial

1432

01:14:01,360 --> 01:14:02,719

investment

1433

01:14:02,719 --> 01:14:05,679

the same period the same number of

1434

01:14:05,679 --> 01:14:07,760

periods but the rate of interest was

1435

01:14:07,760 --> 01:14:09,040

different

1436

01:14:09,040 --> 01:14:12,719

so if your rate was 10 you got 110

1437

01:14:12,719 --> 01:14:15,840

000 if your rate was six percent you got

1438

01:14:15,840 --> 01:14:19,360

a hundred and six thousand so the higher

1439

01:14:19,360 --> 01:14:20,320

the rate

1440

01:14:20,320 --> 01:14:23,040

the higher the future value all other

1441

01:14:23,040 --> 01:14:25,600

things being equal

1442

01:14:25,600 --> 01:14:29,199

right we can put it in a formula

1443

01:14:29,199 --> 01:14:33,520

okay our future value is equal to our

1444

01:14:33,520 --> 01:14:34,800

present value

1445

01:14:34,800 --> 01:14:37,840

times one plus the rate of interest

1446

01:14:37,840 --> 01:14:40,320

for one period okay we'll see for

1447

01:14:40,320 --> 01:14:43,840

multiple periods later

1448

01:14:44,159 --> 01:14:47,440

any questions so far

1449

01:14:48,480 --> 01:14:51,520

i'm taking it really slow

1450

01:14:51,520 --> 01:14:54,560

okay so

1451

01:14:54,560 --> 01:14:57,679

all other things being equal

1452

01:14:57,679 --> 01:15:01,199

the higher the interest rate the higher

1453

01:15:01,199 --> 01:15:03,760

the future value

1454

01:15:03,760 --> 01:15:07,120

the higher the present value that is the

1455

01:15:07,120 --> 01:15:08,960

amount invested

1456

01:15:08,960 --> 01:15:12,080

the higher the future value again

1457

01:15:12,080 --> 01:15:15,440

everything else stays the same

1458

01:15:15,440 --> 01:15:19,040

now it's not always that simple

1459

01:15:19,040 --> 01:15:22,400

all right so one of the very important

1460

01:15:22,400 --> 01:15:24,719

concepts we need to get our head around

1461

01:15:24,719 --> 01:15:25,760

is the concept

1462

01:15:25,760 --> 01:15:29,360

of compound interest compound

1463

01:15:29,360 --> 01:15:33,840

interest is interest on interest

1464

01:15:33,840 --> 01:15:38,880

okay and we will see how that works

1465

01:15:38,880 --> 01:15:41,360

so we've been looking at one period so

1466

01:15:41,360 --> 01:15:41,920

far

1467

01:15:41,920 --> 01:15:44,320

one period of one year and all we did

1468

01:15:44,320 --> 01:15:45,280

was change

1469

01:15:45,280 --> 01:15:48,320

the interest rates now we're going to go

1470

01:15:48,320 --> 01:15:50,080

to multiple periods

1471

01:15:50,080 --> 01:15:53,440

so what happens if i invest a hundred

1472

01:15:53,440 --> 01:15:54,320

dollar

1473

01:15:54,320 --> 01:15:57,840

at six percent per annum but i

1474

01:15:57,840 --> 01:16:01,120

leave the money in the account for

1475

01:16:01,120 --> 01:16:04,800

two years okay so the rate of interest

1476

01:16:04,800 --> 01:16:07,679

stays the same so we get six percent per

1477

01:16:07,679 --> 01:16:09,920

annum for two years

1478

01:16:09,920 --> 01:16:13,360

i don't touch the money okay

1479

01:16:13,360 --> 01:16:17,120

i touch it at the end of year two

1480

01:16:17,120 --> 01:16:20,320

so what happens now

1481

01:16:20,320 --> 01:16:23,120

so at the end of the first year you have

1482

01:16:23,120 --> 01:16:24,239

your hundred dollar

1483

01:16:24,239 --> 01:16:27,840

in your account plus the six percent

1484

01:16:27,840 --> 01:16:30,960

interest which is six dollars

1485

01:16:30,960 --> 01:16:34,159

so uh then

1486

01:16:34,159 --> 01:16:37,199

you leave that in the account

1487

01:16:37,199 --> 01:16:40,480

that money then earns interest

1488

01:16:40,480 --> 01:16:43,760

for another year so at the end of the

1489

01:16:43,760 --> 01:16:45,600

second year

1490

01:16:45,600 --> 01:16:48,800

you get your hundred dollar back plus

1491

01:16:48,800 --> 01:16:49,840

the interest you

1492

01:16:49,840 --> 01:16:53,199

earned in the first year plus interest

1493

01:16:53,199 --> 01:16:56,480

on the interest plus interest on the

1494

01:16:56,480 --> 01:16:58,719

principal for the second year

1495

01:16:58,719 --> 01:17:02,400

so all together you will get 112 dollars

1496

01:17:02,400 --> 01:17:04,800

and 36 cents

1497

01:17:04,800 --> 01:17:08,560

we can generalize this as an equation

1498

01:17:08,560 --> 01:17:12,080

where the future value at period n

1499

01:17:12,080 --> 01:17:15,120

is equal to the present value times 1

1500

01:17:15,120 --> 01:17:17,280

plus the rate of interest

1501

01:17:17,280 --> 01:17:21,679

at the power of the number of periods

1502

01:17:22,000 --> 01:17:25,600

so we can decompose it we start today

1503

01:17:25,600 --> 01:17:26,719

with 100

1504

01:17:26,719 --> 01:17:30,159

in the bank account at one year

1505

01:17:30,159 --> 01:17:33,760

the hundred dollars still there but it's

1506

01:17:33,760 --> 01:17:36,000

the amount has increased by the rate of

1507

01:17:36,000 --> 01:17:39,199

interest so now we have 106

1508

01:17:39,199 --> 01:17:41,360

i we don't touch anything we leave it in

1509

01:17:41,360 --> 01:17:42,719

the account

1510

01:17:42,719 --> 01:17:44,880

the next year the hundred dollar is

1511

01:17:44,880 --> 01:17:46,239

still there

1512

01:17:46,239 --> 01:17:49,040

it has earned interest at six percent

1513

01:17:49,040 --> 01:17:51,040

six dollars

1514

01:17:51,040 --> 01:17:53,040

we have the interest we earned in the

1515

01:17:53,040 --> 01:17:55,520

previous year six dollars

1516

01:17:55,520 --> 01:17:58,480

and that six dollar earns interest at

1517

01:17:58,480 --> 01:17:59,440

six percent

1518

01:17:59,440 --> 01:18:02,560

26 cents so if you add

1519

01:18:02,560 --> 01:18:04,880

all that up you get the hundred and

1520

01:18:04,880 --> 01:18:08,000

twelve dollars and 36 cents

1521

01:18:08,000 --> 01:18:10,719

the only way you're going to get that is

1522

01:18:10,719 --> 01:18:12,000

by leaving the money

1523

01:18:12,000 --> 01:18:14,880

in the account and if the rate of

1524

01:18:14,880 --> 01:18:16,239

interest on the account

1525

01:18:16,239 --> 01:18:19,360

stays the same

1526

01:18:20,640 --> 01:18:23,040

so surprise there is no three percent

1527

01:18:23,040 --> 01:18:24,000

interest so far

1528

01:18:24,000 --> 01:18:27,520

it's only six percent okay so

1529

01:18:27,520 --> 01:18:30,560

if you take the money out

1530

01:18:30,560 --> 01:18:32,159

you're not going to get the benefit of

1531

01:18:32,159 --> 01:18:35,679

the compound interest okay

1532

01:18:35,840 --> 01:18:39,199

all right so now let's look at what

1533

01:18:39,199 --> 01:18:41,040

happens

1534

01:18:41,040 --> 01:18:44,320

the longer we leave the money in so

1535

01:18:44,320 --> 01:18:47,360

here we are investing

1536

01:18:47,360 --> 01:18:51,199

a hundred dollar today at six percent

1537

01:18:51,199 --> 01:18:54,560

annual interest the rate of interest

1538

01:18:54,560 --> 01:18:56,239

stays the same

1539

01:18:56,239 --> 01:18:58,320

and we look at what we have in the

1540

01:18:58,320 --> 01:19:00,000

account at the end

1541

01:19:00,000 --> 01:19:03,040

of different number of years

1542

01:19:03,040 --> 01:19:05,360

so we've already calculated for one year

1543

01:19:05,360 --> 01:19:07,520

and two years we found 106

1544

01:19:07,520 --> 01:19:11,840

after one year 112.36 up to two years

1545

01:19:11,840 --> 01:19:14,880

and you can see that as

1546

01:19:14,880 --> 01:19:18,880

we go longer we get more money

1547

01:19:18,880 --> 01:19:21,440

okay so if you leave the money in the

1548

01:19:21,440 --> 01:19:22,640

account don't touch

1549

01:19:22,640 --> 01:19:25,199

anything and it keeps earning six

1550

01:19:25,199 --> 01:19:26,159

percent

1551

01:19:26,159 --> 01:19:28,159

at the end of ten years you now have a

1552

01:19:28,159 --> 01:19:29,760

hundred seventy nine dollar

1553

01:19:29,760 --> 01:19:33,600

and eight cents okay

1554

01:19:33,600 --> 01:19:37,040

so this is compounding

1555

01:19:37,040 --> 01:19:40,239

it's interest on interest

1556

01:19:40,239 --> 01:19:43,679

all right so let's see quick

1557

01:19:43,679 --> 01:19:45,920

check

1558

01:19:47,600 --> 01:19:50,640

the time value of money says

1559

01:19:50,640 --> 01:19:54,640

that a dollar is worth

1560

01:19:58,159 --> 01:20:02,400

very good more today than tomorrow

1561

01:20:02,400 --> 01:20:06,400

very good the second question

1562

01:20:06,400 --> 01:20:09,920

the higher the interest rate

1563

01:20:09,920 --> 01:20:13,920

the the future value

1564

01:20:14,080 --> 01:20:18,800

all other things being equal

1565

01:20:18,800 --> 01:20:21,520

yes so the higher the interest rates the

1566

01:20:21,520 --> 01:20:24,000

higher the future value

1567

01:20:24,000 --> 01:20:27,280

third point the higher the amount

1568

01:20:27,280 --> 01:20:28,080

invested

1569

01:20:28,080 --> 01:20:31,679

in other words the present value the

1570

01:20:31,679 --> 01:20:34,719

the future value

1571

01:20:40,800 --> 01:20:43,600

okay very good so the higher the amount

1572

01:20:43,600 --> 01:20:46,239

invested the higher the future value

1573

01:20:46,239 --> 01:20:49,360

all other things being equal

1574

01:20:49,360 --> 01:20:53,679

the present value is the value of a cost

1575

01:20:53,679 --> 01:21:00,400

or benefit computed in terms of cash

1576

01:21:00,400 --> 01:21:03,120

all right very good in terms of cash

1577

01:21:03,120 --> 01:21:04,239

today

1578

01:21:04,239 --> 01:21:08,639

very good compound interest is

1579

01:21:10,880 --> 01:21:14,960

very good

1580

01:21:14,960 --> 01:21:18,320

all right very very good okay

1581

01:21:18,320 --> 01:21:21,760

this is good you crossed all the notions

1582

01:21:21,760 --> 01:21:25,120

very good okay so compound interest

1583

01:21:25,120 --> 01:21:28,239

is indeed interest on interest

1584

01:21:28,239 --> 01:21:31,840

all right so now another important point

1585

01:21:31,840 --> 01:21:32,320

so we

1586

01:21:32,320 --> 01:21:34,400

we know that compound interest is

1587

01:21:34,400 --> 01:21:35,600

interest on interest

1588

01:21:35,600 --> 01:21:38,960

right now let's talk about

1589

01:21:38,960 --> 01:21:41,679

number of periods which has to do with

1590

01:21:41,679 --> 01:21:42,159

how

1591

01:21:42,159 --> 01:21:45,440

often we compound the interest

1592

01:21:45,440 --> 01:21:48,080

and obviously it's different depending

1593

01:21:48,080 --> 01:21:49,120

on

1594

01:21:49,120 --> 01:21:52,400

the period so if your annual

1595

01:21:52,400 --> 01:21:56,000

interest is six percent i want to

1596

01:21:56,000 --> 01:21:59,120

know what is the equivalent

1597

01:21:59,120 --> 01:22:02,080

monthly rate if my interest is

1598

01:22:02,080 --> 01:22:03,199

calculated

1599

01:22:03,199 --> 01:22:06,960

and credited on a monthly basis

1600

01:22:06,960 --> 01:22:09,360

in other words how do i convert my

1601

01:22:09,360 --> 01:22:12,239

annual rate into a monthly rate

1602

01:22:12,239 --> 01:22:16,000

so that i can have monthly compounding

1603

01:22:16,000 --> 01:22:19,520

so if j is a one month interest

1604

01:22:19,520 --> 01:22:22,880

and n is a number of months

1605

01:22:22,880 --> 01:22:27,120

one year is 12 periods

1606

01:22:27,120 --> 01:22:30,159

a one year deposit of a hundred dollar

1607

01:22:30,159 --> 01:22:33,440

will have a future value of 100

1608

01:22:33,440 --> 01:22:36,639

times one plus the monthly rate

1609

01:22:36,639 --> 01:22:39,520

at the power of 12. this is nothing more

1610

01:22:39,520 --> 01:22:42,560

than the formula we looked at it before

1611

01:22:42,560 --> 01:22:45,840

but we adapted for

1612

01:22:45,840 --> 01:22:49,120

the number of periods matching

1613

01:22:49,120 --> 01:22:52,800

the interest rate so one important thing

1614

01:22:52,800 --> 01:22:55,760

is that you need to bring everything

1615

01:22:55,760 --> 01:22:56,960

back

1616

01:22:56,960 --> 01:23:00,239

to the same things so if you have

1617

01:23:00,239 --> 01:23:02,159

monthly payments you need to have

1618

01:23:02,159 --> 01:23:05,280

monthly rates and monthly periods

1619

01:23:05,280 --> 01:23:08,719

okay everything has to be

1620

01:23:08,719 --> 01:23:12,480

matching okay

1621

01:23:13,280 --> 01:23:16,400

so in one year

1622

01:23:16,400 --> 01:23:20,120

your future value is 100 times

1623

01:23:20,120 --> 01:23:22,719

1.06 so we put

1624

01:23:22,719 --> 01:23:26,000

1 plus j at the power of 12

1625

01:23:26,000 --> 01:23:29,280

equal to 1.06 we

1626

01:23:29,280 --> 01:23:31,520

solve for j which you can do with the

1627

01:23:31,520 --> 01:23:33,280

calculator with spreadsheet

1628

01:23:33,280 --> 01:23:38,800

and you can find 49 basis points 0.49

1629

01:23:38,800 --> 01:23:43,199

okay so and bp is a financial market

1630

01:23:43,199 --> 01:23:44,800

notation

1631

01:23:44,800 --> 01:23:48,719

which means basis points is 1 100th

1632

01:23:48,719 --> 01:23:53,040

of a percentage point so 0.01

1633

01:23:53,040 --> 01:23:59,199

so 0.49 percent is 49 basis points

1634

01:24:00,880 --> 01:24:06,239

so the frequency of compounding

1635

01:24:06,239 --> 01:24:10,800

changes the future value significantly

1636

01:24:10,800 --> 01:24:13,840

okay so we're going to look at the

1637

01:24:13,840 --> 01:24:17,600

impact of the compounding period

1638

01:24:17,600 --> 01:24:19,840

so let's take a twelve percent annual

1639

01:24:19,840 --> 01:24:20,800

rate

1640

01:24:20,800 --> 01:24:23,679

a six percent semi-annual rate a three

1641

01:24:23,679 --> 01:24:24,239

percent

1642

01:24:24,239 --> 01:24:26,880

quarterly rate and a one percent monthly

1643

01:24:26,880 --> 01:24:27,760

rate

1644

01:24:27,760 --> 01:24:31,280

and look at

1645

01:24:31,280 --> 01:24:34,719

the future value

1646

01:24:34,719 --> 01:24:37,679

depending on the frequency of

1647

01:24:37,679 --> 01:24:38,480

compounding

1648

01:24:38,480 --> 01:24:41,679

so with an annual rate

1649

01:24:41,679 --> 01:24:44,719

okay it's 12 annual rate

1650

01:24:44,719 --> 01:24:46,800

we get paid at the end of the year

1651

01:24:46,800 --> 01:24:49,760

there's no interim compounding so it's a

1652

01:24:49,760 --> 01:24:52,080

one year rate a one year period

1653

01:24:52,080 --> 01:24:54,000

and the payment at the end we get a

1654

01:24:54,000 --> 01:24:56,639

hundred and twelve dollars

1655

01:24:56,639 --> 01:24:59,679

if it's six months so six months

1656

01:24:59,679 --> 01:25:02,159

semi-annual rate is six percent for

1657

01:25:02,159 --> 01:25:02,960

every six

1658

01:25:02,960 --> 01:25:06,400

months so you get paid and credited

1659

01:25:06,400 --> 01:25:09,120

interest at the end of six months and

1660

01:25:09,120 --> 01:25:09,760

again

1661

01:25:09,760 --> 01:25:13,120

at the end of the year now your future

1662

01:25:13,120 --> 01:25:13,840

value

1663

01:25:13,840 --> 01:25:17,040

is 112.36

1664

01:25:17,040 --> 01:25:20,239

notice the difference okay

1665

01:25:20,239 --> 01:25:23,520

that is entirely the result

1666

01:25:23,520 --> 01:25:26,080

of the compounding frequency if you

1667

01:25:26,080 --> 01:25:27,840

bring it to a quarterly

1668

01:25:27,840 --> 01:25:29,679

so now you get interest paid and

1669

01:25:29,679 --> 01:25:30,880

credited in your

1670

01:25:30,880 --> 01:25:33,280

calculated quarterly paid and credited

1671

01:25:33,280 --> 01:25:36,320

in your account every three months

1672

01:25:36,320 --> 01:25:40,080

your future value becomes 112.55

1673

01:25:40,080 --> 01:25:43,360

cents which is a 55 cents difference

1674

01:25:43,360 --> 01:25:46,560

to an annual compounding

1675

01:25:46,560 --> 01:25:48,719

and of course if you increase the

1676

01:25:48,719 --> 01:25:49,679

frequency

1677

01:25:49,679 --> 01:25:53,280

to monthly then the difference becomes

1678

01:25:53,280 --> 01:25:54,560

bigger

1679

01:25:54,560 --> 01:25:58,639

now the future value is 112.68 cents in

1680

01:25:58,639 --> 01:26:01,360

other words 69 cents higher

1681

01:26:01,360 --> 01:26:04,880

than the annual compounding

1682

01:26:04,880 --> 01:26:07,600

okay and this is only on small amounts

1683

01:26:07,600 --> 01:26:08,880

so you can imagine

1684

01:26:08,880 --> 01:26:11,679

that it would have a big impact if

1685

01:26:11,679 --> 01:26:12,560

you're looking

1686

01:26:12,560 --> 01:26:15,600

at large sums of money

1687

01:26:15,600 --> 01:26:18,960

okay so it's very very important to know

1688

01:26:18,960 --> 01:26:22,960

what is your frequency period

1689

01:26:22,960 --> 01:26:26,000

all right so this was

1690

01:26:26,000 --> 01:26:29,120

with a 12 annual rate if you

1691

01:26:29,120 --> 01:26:32,320

if your interest rate is shooting up to

1692

01:26:32,320 --> 01:26:36,560

incredible amounts like 24 of course

1693

01:26:36,560 --> 01:26:39,199

the impact will be higher so the higher

1694

01:26:39,199 --> 01:26:40,320

interest rate

1695

01:26:40,320 --> 01:26:43,040

the higher the impact of the frequency

1696

01:26:43,040 --> 01:26:45,440

period

1697

01:26:45,520 --> 01:26:49,040

okay so we are past the time it's 122

1698

01:26:49,040 --> 01:26:51,040

you're free to leave

1699

01:26:51,040 --> 01:26:53,040

if you have any questions i'll hang

1700

01:26:53,040 --> 01:26:54,639

around for a couple of minutes

1701

01:26:54,639 --> 01:26:56,159

but not very long because i have

1702

01:26:56,159 --> 01:26:58,080

something like

1703

01:26:58,080 --> 01:27:01,040

okay um

1704

01:27:01,280 --> 01:27:04,000

benson you are free to go as well if you

1705

01:27:04,000 --> 01:27:05,840

want

1706

01:27:05,840 --> 01:27:08,320

okay

1707

01:27:15,199 --> 01:27:19,120

okay so students make sure you respond

1708

01:27:19,120 --> 01:27:21,120

to your classmates

1709

01:27:21,120 --> 01:27:24,719

messages for the group work remember

1710

01:27:24,719 --> 01:27:25,840

group work

1711

01:27:25,840 --> 01:27:29,199

is rated and if you

1712

01:27:29,199 --> 01:27:31,360

don't do anything if you don't pull your

1713

01:27:31,360 --> 01:27:32,480

weight your

1714

01:27:32,480 --> 01:27:34,480

grade will be impacted by the peer

1715

01:27:34,480 --> 01:27:36,080

evaluation so

1716

01:27:36,080 --> 01:27:39,520

please respond to your

1717

01:27:39,520 --> 01:27:46,480

classmates messages

1718

01:27:46,480 --> 01:27:50,159

all right thank you everybody

1719

01:27:51,520 --> 01:27:55,440

okay so i'm going to leave now because i

1720

01:27:55,440 --> 01:27:57,040

have something else at two o'clock and i

1721

01:27:57,040 --> 01:27:58,639

need to eat my lunch so

1722

01:27:58,639 --> 01:28:15,840

have a great weekend bye

1723

01:28:16,679 --> 01:28:19,679

ah

==end 0226==

==start 0301==

1

00:00:14,920 --> 00:00:17,920

hmm

2

00:00:42,840 --> 00:00:45,840

so

3

00:00:56,840 --> 00:00:59,840

so

4

00:01:38,840 --> 00:01:41,840

ah

5

00:02:20,840 --> 00:02:23,840

uh

6

00:02:24,160 --> 00:02:37,840

good afternoon professor hello

7

00:03:16,840 --> 00:03:19,840

hmm

8

00:03:46,080 --> 00:03:49,599

okay everybody good afternoon

9

00:03:49,599 --> 00:03:53,120

let's get rolling so we

10

00:03:53,120 --> 00:03:56,080

are in the process of discussing

11

00:03:56,080 --> 00:03:58,840

discounted cash flow

12

00:03:58,840 --> 00:04:01,439

methodology all right so we've talked

13

00:04:01,439 --> 00:04:01,840

about

14

00:04:01,840 --> 00:04:04,959

compounding frequency last time

15

00:04:04,959 --> 00:04:07,760

now let's proceed a little bit further

16

00:04:07,760 --> 00:04:08,239

with

17

00:04:08,239 --> 00:04:13,840

our discussion so as i already mentioned

18

00:04:13,840 --> 00:04:17,279

present value is the value

19

00:04:17,279 --> 00:04:21,120

today date zero of a payment

20

00:04:21,120 --> 00:04:23,759

that will be received or paid sometime

21

00:04:23,759 --> 00:04:25,840

in the future

22

00:04:25,840 --> 00:04:28,880

so it is the equivalent to investing

23

00:04:28,880 --> 00:04:29,680

today

24

00:04:29,680 --> 00:04:32,240

in order to be equal to a specific

25

00:04:32,240 --> 00:04:32,960

amount

26

00:04:32,960 --> 00:04:36,000

on a given future day

27

00:04:36,000 --> 00:04:39,680

and we have to value payments under the

28

00:04:39,680 --> 00:04:40,720

same

29

00:04:40,720 --> 00:04:43,840

or consistent assumptions so

30

00:04:43,840 --> 00:04:45,840

it's going to be very important to

31

00:04:45,840 --> 00:04:49,840

compare apples to apples

32

00:04:51,520 --> 00:04:55,120

so when we know the future value

33

00:04:55,120 --> 00:04:58,479

we can find the present value all we

34

00:04:58,479 --> 00:04:59,680

need to do

35

00:04:59,680 --> 00:05:02,880

is work on the formula so we've

36

00:05:02,880 --> 00:05:05,919

established that for one period the

37

00:05:05,919 --> 00:05:06,960

future value

38

00:05:06,960 --> 00:05:10,000

is equal to the present value times

39

00:05:10,000 --> 00:05:14,080

one plus the rate so the present value

40

00:05:14,080 --> 00:05:16,960

is simply the future value divided by

41

00:05:16,960 --> 00:05:17,759

one plus

42

00:05:17,759 --> 00:05:20,720

r just the future value calculation

43

00:05:20,720 --> 00:05:23,120

inverted

44

00:05:23,120 --> 00:05:26,639

and you can generalize this for n period

45

00:05:26,639 --> 00:05:29,840

just like we did for the future value so

46

00:05:29,840 --> 00:05:32,880

that's the present value of a payment

47

00:05:32,880 --> 00:05:33,680

credited

48

00:05:33,680 --> 00:05:36,880

n years in the future

49

00:05:36,880 --> 00:05:39,840

with calculations at the end of each

50

00:05:39,840 --> 00:05:40,479

year

51

00:05:40,479 --> 00:05:43,680

is the future value divided one by one

52

00:05:43,680 --> 00:05:44,639

plus the rate

53

00:05:44,639 --> 00:05:49,199

at the power of the number of periods

54

00:05:49,360 --> 00:05:52,800

now this is very very important because

55

00:05:52,800 --> 00:05:56,319

it is the grounding for discounted

56

00:05:56,319 --> 00:05:58,479

category calculation

57

00:05:58,479 --> 00:06:02,400

so all of the things being equal

58

00:06:02,400 --> 00:06:05,680

the higher the future value

59

00:06:05,680 --> 00:06:09,520

the higher the present value

60

00:06:09,520 --> 00:06:13,199

the shorter the time period the higher

61

00:06:13,199 --> 00:06:14,080

the future

62

00:06:14,080 --> 00:06:18,400

the present value the lower the rate

63

00:06:18,400 --> 00:06:21,000

the higher the present value so these

64

00:06:21,000 --> 00:06:22,800

relationships are very

65

00:06:22,800 --> 00:06:26,000

very important it's important that you

66

00:06:26,000 --> 00:06:27,199

master them

67

00:06:27,199 --> 00:06:30,960

as a basis a foundation for

68

00:06:30,960 --> 00:06:33,120

finance and discounted cash flow

69

00:06:33,120 --> 00:06:35,120

analysis

70

00:06:35,120 --> 00:06:38,080

now what's also interesting to notice is

71

00:06:38,080 --> 00:06:38,639

if you

72

00:06:38,639 --> 00:06:41,759

graph the present value

73

00:06:41,759 --> 00:06:45,360

of 100 in the future at a six percent

74

00:06:45,360 --> 00:06:48,880

rate of interest per annum you will find

75

00:06:48,880 --> 00:06:50,800

that it's not a line

76

00:06:50,800 --> 00:06:54,000

rather it is a curve

77

00:06:54,000 --> 00:06:57,440

that is convex we're not going to do

78

00:06:57,440 --> 00:06:59,360

anything about convexity

79

00:06:59,360 --> 00:07:02,080

this will show up if you take finance

80

00:07:02,080 --> 00:07:02,800

classes

81

00:07:02,800 --> 00:07:05,840

a bit more advanced later on but this

82

00:07:05,840 --> 00:07:09,759

is an important point to bear in mind

83

00:07:09,759 --> 00:07:14,560

as you progress in finance courses

84

00:07:14,560 --> 00:07:17,440

you can see it right there so this

85

00:07:17,440 --> 00:07:19,039

spreadsheet

86

00:07:19,039 --> 00:07:23,120

basically tells you the present value

87

00:07:23,120 --> 00:07:27,120

of a 100 dollar payment

88

00:07:27,120 --> 00:07:30,400

one year from now five years from now

89

00:07:30,400 --> 00:07:34,000

or ten years from now with different

90

00:07:34,000 --> 00:07:37,680

rate assumptions so if we take the

91

00:07:37,680 --> 00:07:38,479

extreme

92

00:07:38,479 --> 00:07:41,520

you can see that a hundred dollar one

93

00:07:41,520 --> 00:07:42,720

year from now

94

00:07:42,720 --> 00:07:45,840

at a one percent annual rate

95

00:07:45,840 --> 00:07:48,160

has a present value of ninety nine

96

00:07:48,160 --> 00:07:50,560

dollar and one cent

97

00:07:50,560 --> 00:07:53,759

at the other extreme

98

00:07:53,759 --> 00:07:56,639

a press a payment of a hundred dollar

99

00:07:56,639 --> 00:07:58,639

ten years from now

100

00:07:58,639 --> 00:08:02,319

at a rate of 15 per annum

101

00:08:02,319 --> 00:08:09,919

gives you a present value of 24.72

102

00:08:09,919 --> 00:08:13,280

so you can see that hi the higher the

103

00:08:13,280 --> 00:08:14,160

rate

104

00:08:14,160 --> 00:08:17,199

the lower the present value everything

105

00:08:17,199 --> 00:08:20,560

else being equal and the longer the

106

00:08:20,560 --> 00:08:21,360

antenna

107

00:08:21,360 --> 00:08:23,520

the lower the present value again

108

00:08:23,520 --> 00:08:25,039

everything else being

109

00:08:25,039 --> 00:08:29,440

equal and you can also see that for a 1

110

00:08:29,440 --> 00:08:32,320

interest rate variation the difference

111

00:08:32,320 --> 00:08:34,000

in present value

112

00:08:34,000 --> 00:08:37,599

will vary with the rate and the channel

113

00:08:37,599 --> 00:08:41,839

which gives you the convexity

114

00:08:42,880 --> 00:08:45,920

all right so let's look at some examples

115

00:08:45,920 --> 00:08:49,120

let's uh think about what happened in

116

00:08:49,120 --> 00:08:50,000

the battle

117

00:08:50,000 --> 00:08:52,959

between sony and microsoft for gaming

118

00:08:52,959 --> 00:08:55,760

stations

119

00:08:55,760 --> 00:08:59,120

so back in 2005

120

00:08:59,120 --> 00:09:01,680

uh sony found out that they would have

121

00:09:01,680 --> 00:09:03,279

to delay the launch

122

00:09:03,279 --> 00:09:07,279

of the playstation 3 for one year until

123

00:09:07,279 --> 00:09:10,880

november 2006

124

00:09:10,880 --> 00:09:14,480

but microsoft was ready to launch the

125

00:09:14,480 --> 00:09:18,480

xbox 360. so they had one year without

126

00:09:18,480 --> 00:09:20,560

competition

127

00:09:20,560 --> 00:09:24,080

it is november 2005. you are the

128

00:09:24,080 --> 00:09:27,360

marketing manager for the playstation

129

00:09:27,360 --> 00:09:30,399

you estimate that if it had been ready

130

00:09:30,399 --> 00:09:31,320

to launch

131

00:09:31,320 --> 00:09:34,640

immediately you would have been able to

132

00:09:34,640 --> 00:09:35,120

sell

133

00:09:35,120 --> 00:09:38,240

two billion dollars worth of the console

134

00:09:38,240 --> 00:09:41,839

in the first year however

135

00:09:41,839 --> 00:09:45,440

with the launch delayed by one year

136

00:09:45,440 --> 00:09:48,640

the head start that microsoft has

137

00:09:48,640 --> 00:09:52,399

will reduce your first year sales by

138

00:09:52,399 --> 00:09:55,519

20 so your first

139

00:09:55,519 --> 00:09:58,640

year sales will now be 1.6 billion

140

00:09:58,640 --> 00:10:00,160

dollars

141

00:10:00,160 --> 00:10:02,959

if the rate of interest in the market is

142

00:10:02,959 --> 00:10:04,560

eight percent

143

00:10:04,560 --> 00:10:08,399

what is the cost of the delay

144

00:10:08,399 --> 00:10:11,519

to microsoft to uh

145

00:10:11,519 --> 00:10:14,480

sony sorry to sony what is the cost of

146

00:10:14,480 --> 00:10:16,800

that one-year delay

147

00:10:16,800 --> 00:10:19,920

so how do we go about this

148

00:10:19,920 --> 00:10:23,360

well we know that if we were able to

149

00:10:23,360 --> 00:10:24,640

launch today

150

00:10:24,640 --> 00:10:27,040

we would make two billion in the first

151

00:10:27,040 --> 00:10:28,240

year

152

00:10:28,240 --> 00:10:32,480

but because it's delayed one year later

153

00:10:32,480 --> 00:10:35,600

our revenue will be 1.6 billion

154

00:10:35,600 --> 00:10:38,720

20 percent less we know the rate eight

155

00:10:38,720 --> 00:10:39,360

percent

156

00:10:39,360 --> 00:10:43,120

per annum so we need to compute the

157

00:10:43,120 --> 00:10:44,079

revenues

158

00:10:44,079 --> 00:10:46,959

if the launch is delayed and compare

159

00:10:46,959 --> 00:10:47,440

them

160

00:10:47,440 --> 00:10:50,720

to the revenues from launching today

161

00:10:50,720 --> 00:10:53,839

which means we need to compare apples to

162

00:10:53,839 --> 00:10:55,760

apple we need to convert

163

00:10:55,760 --> 00:10:58,880

the future revenue of the playstation

164

00:10:58,880 --> 00:11:02,240

if it was delayed to an equivalent

165

00:11:02,240 --> 00:11:07,200

present value of those revenues today

166

00:11:07,600 --> 00:11:11,760

so we know that the revenues will drop

167

00:11:11,760 --> 00:11:12,079

by

168

00:11:12,079 --> 00:11:16,560

twenty percent so 1.6 billion

169

00:11:16,560 --> 00:11:19,839

if we were to compare it to the launch

170

00:11:19,839 --> 00:11:24,240

of 2005 we have to convert it

171

00:11:24,240 --> 00:11:27,920

using the interest rate of 8 percent

172

00:11:27,920 --> 00:11:31,120

in other words we calculate the present

173

00:11:31,120 --> 00:11:34,640

value of 1.6 billion

174

00:11:34,640 --> 00:11:37,920

dollars one year from now at the rate of

175

00:11:37,920 --> 00:11:42,160

8 which gives us 1.48

176

00:11:42,160 --> 00:11:45,519

billion in 2005.

177

00:11:45,519 --> 00:11:49,040

okay so the cost of the delay

178

00:11:49,040 --> 00:11:52,480

is the 2 billion we would have made in

179

00:11:52,480 --> 00:11:55,360

revenues with an immediate launch

180

00:11:55,360 --> 00:11:59,600

compared to the 1.481 billion

181

00:11:59,600 --> 00:12:01,920

present value of the revenue we make one

182

00:12:01,920 --> 00:12:03,360

year later

183

00:12:03,360 --> 00:12:07,680

in other words 519

184

00:12:07,680 --> 00:12:12,000

million dollars okay so the whole point

185

00:12:12,000 --> 00:12:15,040

is you cannot directly compare

186

00:12:15,040 --> 00:12:18,240

the 2 billion and the 1.6 billion to

187

00:12:18,240 --> 00:12:20,320

compare to the 2 billion you have to

188

00:12:20,320 --> 00:12:22,399

calculate the present value

189

00:12:22,399 --> 00:12:25,920

of the 1.6 billion okay

190

00:12:25,920 --> 00:12:28,480

and we know the formula we've seen it

191

00:12:28,480 --> 00:12:30,880

before

192

00:12:30,880 --> 00:12:35,279

all right so your 2005

193

00:12:35,279 --> 00:12:38,639

if you launch immediately after one year

194

00:12:38,639 --> 00:12:39,279

you get

195

00:12:39,279 --> 00:12:42,399

two billion if you wait a year you'll

196

00:12:42,399 --> 00:12:45,760

get 1.6 billion in 2007

197

00:12:45,760 --> 00:12:49,680

you have to compare apples to apples

198

00:12:49,680 --> 00:12:53,600

all right

199

00:12:53,600 --> 00:12:57,040

okay so this

200

00:12:57,040 --> 00:13:00,800

delay has cost you 519

201

00:13:00,800 --> 00:13:06,160

million dollars in dollars today

202

00:13:06,160 --> 00:13:10,720

turn so

203

00:13:11,920 --> 00:13:13,760

now we're playing with slightly

204

00:13:13,760 --> 00:13:15,200

different numbers

205

00:13:15,200 --> 00:13:20,079

so it is 2005.

206

00:13:20,079 --> 00:13:24,320

the marketing manager the playstation 3

207

00:13:24,320 --> 00:13:27,360

has to be delayed you estimate you could

208

00:13:27,360 --> 00:13:27,760

sell

209

00:13:27,760 --> 00:13:29,760

three billion dollars worth of the

210

00:13:29,760 --> 00:13:32,320

console in the first year

211

00:13:32,320 --> 00:13:36,079

but the launch will cost you 35 percent

212

00:13:36,079 --> 00:13:37,600

of the sales

213

00:13:37,600 --> 00:13:41,120

if the rate of interest is 6

214

00:13:41,120 --> 00:13:43,600

what is the cost of the delay so it's

215

00:13:43,600 --> 00:13:45,199

exactly the same problem

216

00:13:45,199 --> 00:13:49,680

with different numbers and we are going

217

00:13:49,680 --> 00:13:52,560

to use

218

00:14:00,839 --> 00:14:03,839

iprs

219

00:16:46,399 --> 00:16:51,680

oh most of you got the correct answer

220

00:16:51,680 --> 00:16:56,320

good all right so let me share

221

00:16:56,320 --> 00:17:00,720

the solution with you all right

222

00:17:00,720 --> 00:17:04,799

so it's exactly the same problem

223

00:17:04,799 --> 00:17:08,319

as we were talking about with

224

00:17:08,319 --> 00:17:12,000

uh the previous uh data

225

00:17:12,000 --> 00:17:14,959

all right but we just changed the number

226

00:17:14,959 --> 00:17:16,000

so

227

00:17:16,000 --> 00:17:18,559

if released today the sales at the end

228

00:17:18,559 --> 00:17:20,880

of one year would be three billion

229

00:17:20,880 --> 00:17:24,720

we have a 35 decline if it's delayed for

230

00:17:24,720 --> 00:17:25,839

one year

231

00:17:25,839 --> 00:17:28,720

and the rate is six percent so we need

232

00:17:28,720 --> 00:17:29,360

to bring

233

00:17:29,360 --> 00:17:32,400

everything onto the same

234

00:17:32,400 --> 00:17:35,760

date so we need to calculate the present

235

00:17:35,760 --> 00:17:38,000

value of the reduced

236

00:17:38,000 --> 00:17:42,240

sales and we should find

237

00:17:42,240 --> 00:17:46,559

the present value being 1.84

238

00:17:46,559 --> 00:17:49,440

billion which means that the cost of the

239

00:17:49,440 --> 00:17:50,160

delay

240

00:17:50,160 --> 00:17:53,919

is 1.16 billion

241

00:17:53,919 --> 00:17:57,280

so it's exactly the same question

242

00:17:57,280 --> 00:18:01,280

with slightly different numbers okay

243

00:18:01,280 --> 00:18:05,039

all right so we have been talking about

244

00:18:05,039 --> 00:18:07,520

some of the basic rules for discounted

245

00:18:07,520 --> 00:18:09,600

cash flow calculations

246

00:18:09,600 --> 00:18:12,960

first we can only compare

247

00:18:12,960 --> 00:18:16,960

values at the same point of time

248

00:18:16,960 --> 00:18:20,320

second to calculate a cash flow's

249

00:18:20,320 --> 00:18:23,919

future value we compound it

250

00:18:23,919 --> 00:18:28,080

to calculate a cash flow's present value

251

00:18:28,080 --> 00:18:31,520

we discount it

252

00:18:31,520 --> 00:18:34,960

all right so you compound

253

00:18:34,960 --> 00:18:37,200

interest when you're calculating a cash

254

00:18:37,200 --> 00:18:39,039

flow's future value

255

00:18:39,039 --> 00:18:42,480

and we have learned that compound

256

00:18:42,480 --> 00:18:45,919

interest is earning interest on

257

00:18:45,919 --> 00:18:51,200

interest and we have seen

258

00:18:51,200 --> 00:18:54,640

that the future value at

259

00:18:54,640 --> 00:18:57,679

period and of a cash flow is that cash

260

00:18:57,679 --> 00:18:58,080

flow

261

00:18:58,080 --> 00:19:03,200

times 1 plus the rate at the power of n

262

00:19:04,160 --> 00:19:08,160

however when we calculate the cash flow

263

00:19:08,160 --> 00:19:12,160

at a present value we have to discount

264

00:19:12,160 --> 00:19:12,799

so we go

265

00:19:12,799 --> 00:19:16,000

back the other way and the present value

266

00:19:16,000 --> 00:19:19,679

of a cash flow for n period is that cash

267

00:19:19,679 --> 00:19:22,000

flow divided by 1 plus r

268

00:19:22,000 --> 00:19:25,600

at the power of f this is what we've

269

00:19:25,600 --> 00:19:26,160

done

270

00:19:26,160 --> 00:19:29,760

okay i'm just summarizing

271

00:19:29,760 --> 00:19:33,520

all right so just an example

272

00:19:33,520 --> 00:19:38,480

if you invest today 826.45

273

00:19:38,480 --> 00:19:42,720

for two years at 10 the future value

274

00:19:42,720 --> 00:19:47,200

is 10 000 earth a thousand dollars

275

00:19:47,200 --> 00:19:52,080

if that 1 000 was three years from now

276

00:19:52,080 --> 00:19:55,200

the present value at 10

277

00:19:55,200 --> 00:20:00,480

would be 751.31

278

00:20:03,600 --> 00:20:06,799

okay now another little example

279

00:20:06,799 --> 00:20:11,760

for you to practice okay

280

00:20:11,760 --> 00:20:14,720

so you are considering investing in a

281

00:20:14,720 --> 00:20:16,400

savings ban

282

00:20:16,400 --> 00:20:19,679

that will pay you 15

283

00:20:19,679 --> 00:20:24,400

dollars ten years from now okay

284

00:20:24,400 --> 00:20:27,520

if the market rate is six percent

285

00:20:27,520 --> 00:20:32,240

what is the price of the bond today

286

00:20:32,840 --> 00:20:35,760

so what do we do

287

00:20:35,760 --> 00:20:40,240

first and always we do the timeline

288

00:20:40,240 --> 00:20:42,400

so we're going to buy the bond today

289

00:20:42,400 --> 00:20:43,919

time zero

290

00:20:43,919 --> 00:20:48,320

it will pay us fifteen thousand dollars

291

00:20:48,320 --> 00:20:52,320

ten years from now okay

292

00:20:52,320 --> 00:20:55,520

we know the market rate is six percent

293

00:20:55,520 --> 00:20:58,559

there are no interim payments we want to

294

00:20:58,559 --> 00:21:00,240

know

295

00:21:00,240 --> 00:21:03,600

how much do we pay today all we have to

296

00:21:03,600 --> 00:21:04,159

do

297

00:21:04,159 --> 00:21:07,600

is calculate the present value of this

298

00:21:07,600 --> 00:21:11,520

fifteen thousand dollars

299

00:21:11,760 --> 00:21:16,880

for ten years at six percent per annum

300

00:21:16,880 --> 00:21:20,000

we know the formula

301

00:21:20,000 --> 00:21:23,880

okay and we should find 8

302

00:21:23,880 --> 00:21:27,600

375 as 92 cents

303

00:21:27,600 --> 00:21:30,640

now we can do it with the formula

304

00:21:30,640 --> 00:21:33,760

we can do it with an excel spreadsheet

305

00:21:33,760 --> 00:21:35,840

or we can do it with the financial

306

00:21:35,840 --> 00:21:37,360

calculator

307

00:21:37,360 --> 00:21:40,799

so if you use a financial calculator

308

00:21:40,799 --> 00:21:43,039

what you have to do is input the

309

00:21:43,039 --> 00:21:45,280

relevant variables

310

00:21:45,280 --> 00:21:48,000

so you know the number of period and

311

00:21:48,000 --> 00:21:48,559

remember

312

00:21:48,559 --> 00:21:51,200

everything is on an annual basis here so

313

00:21:51,200 --> 00:21:52,559

we don't have to do any

314

00:21:52,559 --> 00:21:56,080

conversions this is 10 years

315

00:21:56,080 --> 00:21:59,520

six percent per year no

316

00:21:59,520 --> 00:22:02,640

entering payment so zero

317

00:22:02,640 --> 00:22:05,919

the future value is 15 000.

318

00:22:05,919 --> 00:22:09,360

we solve for the present value

319

00:22:09,360 --> 00:22:14,960

and it gives us 375.92

320

00:22:14,960 --> 00:22:27,840

why is there a negative sign here

321

00:22:28,080 --> 00:22:31,360

that's right catching it's an outflow we

322

00:22:31,360 --> 00:22:31,679

are

323

00:22:31,679 --> 00:22:35,039

buying the bond and we are receiving the

324

00:22:35,039 --> 00:22:36,720

money 10 years from now

325

00:22:36,720 --> 00:22:39,760

very good so we need to have a negative

326

00:22:39,760 --> 00:22:40,559

number

327

00:22:40,559 --> 00:22:44,480

okay so we have an outflow

328

00:22:44,480 --> 00:22:47,200

to buy the bond and then inflow when we

329

00:22:47,200 --> 00:22:49,120

receive the payment

330

00:22:49,120 --> 00:22:54,640

at the end of 10 years very good

331

00:22:54,640 --> 00:22:57,919

now remember we talked about zero

332

00:22:57,919 --> 00:22:58,799

coupons

333

00:22:58,799 --> 00:23:01,760

bonds that don't pay any interest

334

00:23:01,760 --> 00:23:03,919

remember when we discussed that way back

335

00:23:03,919 --> 00:23:04,640

a couple of

336

00:23:04,640 --> 00:23:07,840

a few sessions ago and somebody said why

337

00:23:07,840 --> 00:23:08,880

would i buy

338

00:23:08,880 --> 00:23:12,320

a bond that doesn't pay me any interest

339

00:23:12,320 --> 00:23:16,080

well this is why okay

340

00:23:16,080 --> 00:23:19,440

so we notice this bond doesn't pay any

341

00:23:19,440 --> 00:23:21,440

interest

342

00:23:21,440 --> 00:23:25,600

so with a market rate of six percent

343

00:23:25,600 --> 00:23:27,919

the bond is worth eight thousand three

344

00:23:27,919 --> 00:23:29,679

hundred and seventy five dollars

345

00:23:29,679 --> 00:23:33,120

ninety two cents the return is basically

346

00:23:33,120 --> 00:23:34,880

the difference between the price at

347

00:23:34,880 --> 00:23:37,120

which you buy and the price at which

348

00:23:37,120 --> 00:23:39,200

and the money that you receive at the

349

00:23:39,200 --> 00:23:41,360

end

350

00:23:42,720 --> 00:23:45,039

okay

351

00:23:46,400 --> 00:23:48,840

all right your turn you're going to

352

00:23:48,840 --> 00:23:51,039

practice xyz

353

00:23:51,039 --> 00:23:54,559

company expects to receive

354

00:23:54,559 --> 00:23:58,400

a cash flow of two million dollars

355

00:23:58,400 --> 00:24:02,320

in five years with the market rate at

356

00:24:02,320 --> 00:24:06,559

four percent how much can they borrow

357

00:24:06,559 --> 00:24:10,640

today in order to be able to repay the

358

00:24:10,640 --> 00:24:11,600

loan

359

00:24:11,600 --> 00:24:18,000

in its entirety with that cash flow

360

00:24:18,000 --> 00:24:21,120

and it will be the ipr

361

00:24:21,120 --> 00:24:33,840

so that's in

362

00:26:09,200 --> 00:26:11,840

okay

363

00:26:12,240 --> 00:26:16,400

okay slowly and let me see

364

00:26:16,400 --> 00:26:19,440

all right so thank you very much i

365

00:26:19,440 --> 00:26:20,480

noticed that

366

00:26:20,480 --> 00:26:23,039

four of you agree with me that boring is

367

00:26:23,039 --> 00:26:25,919

bad and leads to trouble

368

00:26:25,919 --> 00:26:29,039

good okay so let's look

369

00:26:29,039 --> 00:26:33,760

at the solution here

370

00:26:33,760 --> 00:26:36,240

all right

371

00:26:36,960 --> 00:26:41,039

so the timeline from zero to five

372

00:26:41,039 --> 00:26:43,279

at the end of five years we're going to

373

00:26:43,279 --> 00:26:44,720

get a cash flow

374

00:26:44,720 --> 00:26:48,320

right and we want to be able to pay back

375

00:26:48,320 --> 00:26:50,559

the loan with this cash flow so we want

376

00:26:50,559 --> 00:26:53,360

to know how much we can borrow today

377

00:26:53,360 --> 00:26:56,480

given a market rate of four percent it

378

00:26:56,480 --> 00:26:59,279

boils down to finding the present value

379

00:26:59,279 --> 00:27:02,960

of this two million for five years

380

00:27:02,960 --> 00:27:06,080

at a four percent annual rate

381

00:27:06,080 --> 00:27:10,880

and we should indeed find around 1.6

382

00:27:10,880 --> 00:27:14,799

million so with the financial calculator

383

00:27:14,799 --> 00:27:17,919

the number of period is five the annual

384

00:27:17,919 --> 00:27:18,640

rate is

385

00:27:18,640 --> 00:27:22,000

four percent no interim payment

386

00:27:22,000 --> 00:27:24,799

the future value is two million we solve

387

00:27:24,799 --> 00:27:26,960

for the present value

388

00:27:26,960 --> 00:27:29,440

we get one million six hundred forty

389

00:27:29,440 --> 00:27:30,320

three thousand

390

00:27:30,320 --> 00:27:33,440

eight hundred fifty four and twenty one

391

00:27:33,440 --> 00:27:36,559

cents okay

392

00:27:36,559 --> 00:27:39,440

so we notice that the loan will be less

393

00:27:39,440 --> 00:27:41,760

than the 2 million we pay back because

394

00:27:41,760 --> 00:27:43,200

of the time value

395

00:27:43,200 --> 00:27:46,480

of money okay all right so we're going

396

00:27:46,480 --> 00:27:47,600

to move on but

397

00:27:47,600 --> 00:27:49,919

before i do that we have a message in

398

00:27:49,919 --> 00:27:50,799

the chat

399

00:27:50,799 --> 00:27:54,240

from lying you for group

400

00:27:54,240 --> 00:27:58,640

11 members if you are in the classroom

401

00:27:58,640 --> 00:28:02,799

and you have not yet connected with your

402

00:28:02,799 --> 00:28:05,840

classmate in group 11 please do so

403

00:28:05,840 --> 00:28:09,440

on the link provided by lying

404

00:28:09,440 --> 00:28:12,399

in the chat

405

00:28:14,159 --> 00:28:17,440

all right so we have so far

406

00:28:17,440 --> 00:28:20,559

dealt with uh cash flows where there was

407

00:28:20,559 --> 00:28:22,080

one cash flow

408

00:28:22,080 --> 00:28:24,399

today one cash flow in the future but

409

00:28:24,399 --> 00:28:27,039

now we are going to complicate things a

410

00:28:27,039 --> 00:28:28,559

little bit

411

00:28:28,559 --> 00:28:31,600

by adding a stream of

412

00:28:31,600 --> 00:28:34,320

cash flows

413

00:28:35,600 --> 00:28:38,960

all right now imagine we saved

414

00:28:38,960 --> 00:28:42,080

one thousand dollars today and then one

415

00:28:42,080 --> 00:28:44,640

thousand dollars at the end of the next

416

00:28:44,640 --> 00:28:45,919

two years

417

00:28:45,919 --> 00:28:49,840

we earn a fixed rate of 10 percent

418

00:28:49,840 --> 00:28:53,279

in uh in our savings account

419

00:28:53,279 --> 00:28:56,559

how much do we have in the account three

420

00:28:56,559 --> 00:28:59,279

years from now

421

00:28:59,279 --> 00:29:01,600

that assumes we're not touching the

422

00:29:01,600 --> 00:29:02,559

account at all

423

00:29:02,559 --> 00:29:05,120

okay we leave the money in the account

424

00:29:05,120 --> 00:29:07,919

so we want to calculate the future value

425

00:29:07,919 --> 00:29:11,120

of that stream of cash flows

426

00:29:11,120 --> 00:29:14,080

okay so the different ways we can do

427

00:29:14,080 --> 00:29:15,679

that

428

00:29:15,679 --> 00:29:18,640

we can do it this way so today we

429

00:29:18,640 --> 00:29:20,640

deposit one thousand dollars

430

00:29:20,640 --> 00:29:23,279

at the end of the year we have the one

431

00:29:23,279 --> 00:29:24,720

thousand dollar

432

00:29:24,720 --> 00:29:28,399

that we have deposited plus the 10

433

00:29:28,399 --> 00:29:32,480

interest which is 1100 and we deposit

434

00:29:32,480 --> 00:29:35,120

another thousand dollars so now we have

435

00:29:35,120 --> 00:29:35,840

2

436

00:29:35,840 --> 00:29:39,600

100 the next year

437

00:29:39,600 --> 00:29:41,679

we leave the money in the account it

438

00:29:41,679 --> 00:29:43,200

earned 10

439

00:29:43,200 --> 00:29:47,039

interest we have 2 310

440

00:29:47,039 --> 00:29:49,919

in the account we make another deposit

441

00:29:49,919 --> 00:29:51,760

of 1 000

442

00:29:51,760 --> 00:29:55,840

that means we have 3 310

443

00:29:55,840 --> 00:29:58,880

we leave it for another year it accrues

444

00:29:58,880 --> 00:30:01,919

interest at 10 we end up

445

00:30:01,919 --> 00:30:06,880

with 3 641

446

00:30:06,880 --> 00:30:09,200

in our account so this is one way of

447

00:30:09,200 --> 00:30:10,559

doing it

448

00:30:10,559 --> 00:30:14,159

now we can also do it by computing the

449

00:30:14,159 --> 00:30:15,679

future value

450

00:30:15,679 --> 00:30:18,960

of each cash flow separately

451

00:30:18,960 --> 00:30:22,240

so we have a cash flow today

452

00:30:22,240 --> 00:30:25,520

one thousand dollar present value charts

453

00:30:25,520 --> 00:30:28,640

we can compute its future value three

454

00:30:28,640 --> 00:30:30,480

years from now

455

00:30:30,480 --> 00:30:32,399

which is one thousand three hundred

456

00:30:32,399 --> 00:30:33,600

thirty one

457

00:30:33,600 --> 00:30:36,720

we also compute the future value

458

00:30:36,720 --> 00:30:40,799

two years later of the 1000 deposit we

459

00:30:40,799 --> 00:30:42,080

made at the end of the

460

00:30:42,080 --> 00:30:47,039

first year which would be 1210

461

00:30:47,039 --> 00:30:49,520

and the future value of the third

462

00:30:49,520 --> 00:30:51,039

deposit

463

00:30:51,039 --> 00:30:52,799

which will be made at the end of the

464

00:30:52,799 --> 00:30:54,640

second year

465

00:30:54,640 --> 00:30:57,679

which is 1 100 and then we

466

00:30:57,679 --> 00:31:00,640

add them all up and we should get the

467

00:31:00,640 --> 00:31:02,559

same result

468

00:31:02,559 --> 00:31:05,840

so the future value of these cash flow

469

00:31:05,840 --> 00:31:08,080

is the sum of the future value of each

470

00:31:08,080 --> 00:31:10,080

of the cash flows

471

00:31:10,080 --> 00:31:14,320

okay so if you generalize and you look

472

00:31:14,320 --> 00:31:18,159

at the series of cash flow c0 c1

473

00:31:18,159 --> 00:31:22,000

c2 c and we can compute

474

00:31:22,000 --> 00:31:25,279

the present value of this cash flow

475

00:31:25,279 --> 00:31:26,399

stream

476

00:31:26,399 --> 00:31:29,760

similarly in two steps we

477

00:31:29,760 --> 00:31:33,200

can compute the present value of

478

00:31:33,200 --> 00:31:36,480

each cash flow and add them up

479

00:31:36,480 --> 00:31:41,360

or we can combine as we did

480

00:31:41,519 --> 00:31:44,880

each present value as we go back

481

00:31:44,880 --> 00:31:48,320

okay so general

482

00:31:48,320 --> 00:31:51,760

in general the present value of a stream

483

00:31:51,760 --> 00:31:53,440

of cash flow

484

00:31:53,440 --> 00:31:56,640

is the sum of the present value of

485

00:31:56,640 --> 00:32:00,159

each category notice in this formula

486

00:32:00,159 --> 00:32:02,559

just pay attention it's important in

487

00:32:02,559 --> 00:32:04,799

this formula each cash flow is

488

00:32:04,799 --> 00:32:07,279

different

489

00:32:08,159 --> 00:32:11,440

the rate is the same

490

00:32:11,440 --> 00:32:13,919

okay we will see examples with the cash

491

00:32:13,919 --> 00:32:16,240

flow are all the same

492

00:32:16,240 --> 00:32:18,159

and there will be times where all the

493

00:32:18,159 --> 00:32:20,399

rates are different

494

00:32:20,399 --> 00:32:23,760

okay all right let's

495

00:32:23,760 --> 00:32:28,000

practice with a little example

496

00:32:28,000 --> 00:32:31,919

so you have just graduated

497

00:32:31,919 --> 00:32:35,519

and your auntie agrees to lend

498

00:32:35,519 --> 00:32:39,760

you the money to buy a laptop

499

00:32:39,760 --> 00:32:42,880

but you have to pay her back within six

500

00:32:42,880 --> 00:32:44,399

years

501

00:32:44,399 --> 00:32:46,799

you offered to pay her the rate of

502

00:32:46,799 --> 00:32:49,360

interest she would normally get

503

00:32:49,360 --> 00:32:52,480

on her bank account

504

00:32:52,559 --> 00:32:57,840

usd may you will be able to pay her

505

00:32:57,840 --> 00:33:01,279

70 next year 85

506

00:33:01,279 --> 00:33:04,000

in each of the next two years and then

507

00:33:04,000 --> 00:33:04,880

90

508

00:33:04,880 --> 00:33:08,399

each year for years four to six

509

00:33:08,399 --> 00:33:11,840

if your auntie gets 0.5

510

00:33:11,840 --> 00:33:15,279

per year on her savings account

511

00:33:15,279 --> 00:33:19,519

how much can you borrow from her

512

00:33:19,760 --> 00:33:25,840

and this is an iprs question

513

00:33:28,960 --> 00:33:32,080

yes uh wait a minute okay

514

00:33:32,080 --> 00:33:35,360

okay we don't have the iprs

515

00:33:35,360 --> 00:33:37,200

uh we will have it it just takes some

516

00:33:37,200 --> 00:33:40,320

time okay

517

00:33:41,360 --> 00:33:45,760

all right so remember the cash flow 17

518

00:33:45,760 --> 00:33:46,720

next year

519

00:33:46,720 --> 00:33:49,919

85 in each of the next two years

520

00:33:49,919 --> 00:33:53,279

then 90 each year for years four to six

521

00:33:53,279 --> 00:33:54,320

is a total of

522

00:33:54,320 --> 00:33:59,600

six years the rate is 0.5

523

00:33:59,600 --> 00:34:02,240

and you want to know how much you can

524

00:34:02,240 --> 00:34:04,840

borrow from your auntie

525

00:34:04,840 --> 00:34:07,840

today

526

00:36:12,640 --> 00:36:16,000

okay very good all right

527

00:36:16,000 --> 00:36:22,480

so let's walk through the solution

528

00:36:24,560 --> 00:36:27,839

okay so we have the timeline

529

00:36:27,839 --> 00:36:31,599

we start today date zero

530

00:36:31,599 --> 00:36:34,640

after at the end of the first year you

531

00:36:34,640 --> 00:36:37,119

pay for seventy dollars then eighty-five

532

00:36:37,119 --> 00:36:39,200

dollars each for the next two years and

533

00:36:39,200 --> 00:36:40,240

ninety dollars

534

00:36:40,240 --> 00:36:43,760

each until end of

535

00:36:43,760 --> 00:36:48,079

six so she should be able to give you

536

00:36:48,079 --> 00:36:49,920

the amount equal to these

537

00:36:49,920 --> 00:36:53,359

payments in present value terms

538

00:36:53,359 --> 00:36:57,280

we use the formula which is the present

539

00:36:57,280 --> 00:36:58,000

value

540

00:36:58,000 --> 00:37:01,040

is the sum of the present values of

541

00:37:01,040 --> 00:37:05,280

each of the cash flows

542

00:37:05,280 --> 00:37:09,320

and we can find this

543

00:37:09,320 --> 00:37:12,560

500.90 so you can use the formula you

544

00:37:12,560 --> 00:37:15,119

can use the calculator you can use an

545

00:37:15,119 --> 00:37:18,160

excel spreadsheet all these ways would

546

00:37:18,160 --> 00:37:20,240

work

547

00:37:20,240 --> 00:37:24,240

now the second part to the question

548

00:37:24,240 --> 00:37:26,400

suppose that the auntie gives you the

549

00:37:26,400 --> 00:37:27,599

money

550

00:37:27,599 --> 00:37:30,640

and then she deposits your payments in

551

00:37:30,640 --> 00:37:32,960

her bank account every year

552

00:37:32,960 --> 00:37:35,119

how much will she have six years from

553

00:37:35,119 --> 00:37:37,839

now

554

00:37:41,359 --> 00:37:51,839

and this is appearance

555

00:38:33,520 --> 00:38:37,119

huh what happened mention we're seeing

556

00:38:37,119 --> 00:38:39,760

your email

557

00:38:39,760 --> 00:38:40,320

mention

558

00:38:40,320 --> 00:38:43,760

[Music]

559

00:38:45,520 --> 00:38:48,240

what happened we lost the email we got

560

00:38:48,240 --> 00:38:50,720

the email

561

00:38:53,839 --> 00:39:01,839

oh okay

562

00:39:46,400 --> 00:39:57,440

[Music]

563

00:39:57,440 --> 00:40:00,480

okay very good all right

564

00:40:00,480 --> 00:40:04,160

so let's walk through this

565

00:40:04,160 --> 00:40:07,359

little exercise together

566

00:40:07,359 --> 00:40:10,480

so we are looking

567

00:40:10,480 --> 00:40:12,960

at computing the future value of the

568

00:40:12,960 --> 00:40:14,960

yearly deposits

569

00:40:14,960 --> 00:40:18,000

so we can do it this way so by

570

00:40:18,000 --> 00:40:21,760

uh calculating the future value at each

571

00:40:21,760 --> 00:40:22,880

stage

572

00:40:22,880 --> 00:40:25,599

or we can calculate the future value of

573

00:40:25,599 --> 00:40:26,960

each cash flow

574

00:40:26,960 --> 00:40:30,240

and add them all up but there's an other

575

00:40:30,240 --> 00:40:32,400

quick and dirty way to do that since

576

00:40:32,400 --> 00:40:34,560

we've already calculated

577

00:40:34,560 --> 00:40:37,280

the present value of the cash flow we

578

00:40:37,280 --> 00:40:40,160

can directly calculate the future value

579

00:40:40,160 --> 00:40:40,480

of

580

00:40:40,480 --> 00:40:44,160

that present value all three ways should

581

00:40:44,160 --> 00:40:45,960

give you the same result

582

00:40:45,960 --> 00:40:49,599

516 and 11 cents

583

00:40:49,599 --> 00:40:53,359

so you can verify your calculation by

584

00:40:53,359 --> 00:40:55,599

using one of the other ways

585

00:40:55,599 --> 00:40:57,920

no matter which way you go about it you

586

00:40:57,920 --> 00:40:59,839

should get mathematically you should get

587

00:40:59,839 --> 00:41:02,079

the same result

588

00:41:02,079 --> 00:41:04,640

all right one more exercise this is all

589

00:41:04,640 --> 00:41:06,960

about small exercises

590

00:41:06,960 --> 00:41:10,000

to practice very simple discounted cash

591

00:41:10,000 --> 00:41:10,720

flow

592

00:41:10,720 --> 00:41:15,760

okay so you have you're saving 1 000

593

00:41:15,760 --> 00:41:19,040

today and then at the end of the

594

00:41:19,040 --> 00:41:22,319

next two years

595

00:41:22,319 --> 00:41:25,119

how much do we have in the bank three

596

00:41:25,119 --> 00:41:27,119

years from today

597

00:41:27,119 --> 00:41:35,000

at a rate of six percent

598

00:41:35,000 --> 00:41:38,139

[Music]

599

00:42:42,839 --> 00:42:45,839

uh

600

00:43:11,100 --> 00:43:21,839

[Music]

601

00:43:21,839 --> 00:43:24,480

very good okay you're getting the hang

602

00:43:24,480 --> 00:43:26,880

of these things huh

603

00:43:26,880 --> 00:43:29,760

all right

604

00:43:31,520 --> 00:43:33,920

you should be very well prepared for

605

00:43:33,920 --> 00:43:34,800

that

606

00:43:34,800 --> 00:43:38,319

for the quiz okay let's walk through it

607

00:43:38,319 --> 00:43:40,720

again we have a timeline the first

608

00:43:40,720 --> 00:43:42,400

payment is today

609

00:43:42,400 --> 00:43:44,480

and one year from now and then two years

610

00:43:44,480 --> 00:43:46,560

from now and we want to know

611

00:43:46,560 --> 00:43:49,359

the future value of these cash flows we

612

00:43:49,359 --> 00:43:52,160

can go about it many different ways

613

00:43:52,160 --> 00:43:54,560

we can calculate the present value of

614

00:43:54,560 --> 00:43:57,760

the cash flow and then the future value

615

00:43:57,760 --> 00:44:00,400

or we can calculate the future value of

616

00:44:00,400 --> 00:44:01,440

each cash flow

617

00:44:01,440 --> 00:44:04,560

and add them all up okay

618

00:44:04,560 --> 00:44:07,119

no matter which one you do you should

619

00:44:07,119 --> 00:44:08,000

end up with the

620

00:44:08,000 --> 00:44:13,599

same result any questions so far

621

00:44:16,240 --> 00:44:19,520

okay okay now we're going to

622

00:44:19,520 --> 00:44:22,560

talk about two

623

00:44:22,560 --> 00:44:25,119

very specific types of financial

624

00:44:25,119 --> 00:44:26,400

instruments

625

00:44:26,400 --> 00:44:29,760

the first is called perpetuity

626

00:44:29,760 --> 00:44:32,560

so perpetuities come from the word

627

00:44:32,560 --> 00:44:33,440

perpetual

628

00:44:33,440 --> 00:44:36,319

which means going on forever so

629

00:44:36,319 --> 00:44:38,480

perpetuities perpetuals

630

00:44:38,480 --> 00:44:42,480

consoles are dead instruments with

631

00:44:42,480 --> 00:44:46,000

no final maturity so the payment go

632

00:44:46,000 --> 00:44:49,359

on forever

633

00:44:49,359 --> 00:44:53,680

okay so it's a stream

634

00:44:53,680 --> 00:44:56,560

of equal cash flows notice the

635

00:44:56,560 --> 00:44:57,839

difference here

636

00:44:57,839 --> 00:45:00,960

all the cash flows are the same okay

637

00:45:00,960 --> 00:45:04,240

equal cash flow that occur

638

00:45:04,240 --> 00:45:08,079

at regular intervals and go on

639

00:45:08,079 --> 00:45:11,520

forever okay so this is what it looks

640

00:45:11,520 --> 00:45:13,200

like

641

00:45:13,200 --> 00:45:16,880

notice that the first payment

642

00:45:16,880 --> 00:45:20,079

happens at the end of the first period

643

00:45:20,079 --> 00:45:22,440

okay so whenever you're dealing with

644

00:45:22,440 --> 00:45:24,000

perpetuities

645

00:45:24,000 --> 00:45:27,119

the first payment is at the end of the

646

00:45:27,119 --> 00:45:30,960

first period okay so you see

647

00:45:30,960 --> 00:45:35,839

a stream of cash flows all the same

648

00:45:35,839 --> 00:45:40,079

going on forever

649

00:45:41,119 --> 00:45:44,000

how to calculate the present value well

650

00:45:44,000 --> 00:45:44,960

we know

651

00:45:44,960 --> 00:45:47,200

that the present value of the stream of

652

00:45:47,200 --> 00:45:49,280

cash flow is the sum of the present

653

00:45:49,280 --> 00:45:52,160

values of these cash flows

654

00:45:52,160 --> 00:45:55,520

however these cash flows go on for

655

00:45:55,520 --> 00:46:00,800

ever okay so how do we solve that

656

00:46:00,800 --> 00:46:03,440

well when you have these kind of cash

657

00:46:03,440 --> 00:46:04,800

flows going on to

658

00:46:04,800 --> 00:46:08,960

infinity you can simplify

659

00:46:08,960 --> 00:46:12,640

the formula to the division of the cash

660

00:46:12,640 --> 00:46:13,280

flow

661

00:46:13,280 --> 00:46:17,040

by the rate only

662

00:46:17,040 --> 00:46:20,319

if the rate is positive if it's not

663

00:46:20,319 --> 00:46:24,160

it doesn't work okay so if you have a

664

00:46:24,160 --> 00:46:26,560

perpetuity with the same cash flows

665

00:46:26,560 --> 00:46:28,480

going on forever you can

666

00:46:28,480 --> 00:46:31,920

compute the present value by simply

667

00:46:31,920 --> 00:46:33,040

dividing

668

00:46:33,040 --> 00:46:38,079

the cash flow by the rate

669

00:46:39,599 --> 00:46:42,720

so here's an example of perpetuity or

670

00:46:42,720 --> 00:46:46,000

console these are

671

00:46:46,000 --> 00:46:49,200

government securities that were issued

672

00:46:49,200 --> 00:46:52,800

in the past by the uk the u.s

673

00:46:52,800 --> 00:46:55,839

et cetera this is one that was issued by

674

00:46:55,839 --> 00:46:57,760

the united states government

675

00:46:57,760 --> 00:47:00,800

and as you can see it was issued

676

00:47:00,800 --> 00:47:04,160

in 1877

677

00:47:04,160 --> 00:47:07,680

and it had no stated maturity

678

00:47:07,680 --> 00:47:10,400

and what happened is that the government

679

00:47:10,400 --> 00:47:12,800

decided to pay them back eventually

680

00:47:12,800 --> 00:47:16,160

so they have no obligation to do that

681

00:47:16,160 --> 00:47:20,480

but they have the option to do that

682

00:47:20,480 --> 00:47:24,480

in modern times nowadays you have

683

00:47:24,480 --> 00:47:28,240

this kind of perpetual bars

684

00:47:28,240 --> 00:47:31,599

are issued by corporations

685

00:47:31,599 --> 00:47:34,960

so they have the option

686

00:47:34,960 --> 00:47:38,640

to pay them back early

687

00:47:38,640 --> 00:47:42,480

okay and these perpetual bonds

688

00:47:42,480 --> 00:47:45,359

uh are treated uh from an accounting

689

00:47:45,359 --> 00:47:46,480

standpoint

690

00:47:46,480 --> 00:47:49,599

as almost like equity because they go on

691

00:47:49,599 --> 00:47:52,800

forever okay

692

00:47:52,800 --> 00:47:55,520

all right now another application of

693

00:47:55,520 --> 00:47:57,200

perpetuity

694

00:47:57,200 --> 00:48:01,040

is endowments so an endowment

695

00:48:01,040 --> 00:48:04,079

is when a charitable foundation or a

696

00:48:04,079 --> 00:48:05,280

very generous

697

00:48:05,280 --> 00:48:08,559

high net worth individual makes

698

00:48:08,559 --> 00:48:12,079

a donation to a university

699

00:48:12,079 --> 00:48:15,440

or a non-profit organization and that

700

00:48:15,440 --> 00:48:18,000

donation is invested

701

00:48:18,000 --> 00:48:21,440

to generate equal cash flows

702

00:48:21,440 --> 00:48:24,480

going on forever

703

00:48:24,480 --> 00:48:27,760

so here we imagine that

704

00:48:27,760 --> 00:48:31,359

you won the lottery and you made

705

00:48:31,359 --> 00:48:34,960

a lot of money on mark 6

706

00:48:34,960 --> 00:48:38,400

and you're willing to donate 4 million

707

00:48:38,400 --> 00:48:42,640

of your earnings to hkust

708

00:48:42,640 --> 00:48:47,280

to endow a professorship

709

00:48:47,280 --> 00:48:50,559

assume the university earns five percent

710

00:48:50,559 --> 00:48:53,760

per year on its investment

711

00:48:53,760 --> 00:48:57,200

and the professor will get the first

712

00:48:57,200 --> 00:48:58,319

payment

713

00:48:58,319 --> 00:49:02,079

one year from now how much

714

00:49:02,079 --> 00:49:06,960

will the endowment pay her every year

715

00:49:06,960 --> 00:49:10,160

so here you know

716

00:49:10,160 --> 00:49:13,599

the present value you know the rate

717

00:49:13,599 --> 00:49:17,359

you want to calculate the cash flow

718

00:49:17,359 --> 00:49:19,680

okay you have the formula all you have

719

00:49:19,680 --> 00:49:20,640

to do

720

00:49:20,640 --> 00:49:24,240

is turn it around to work it out

721

00:49:24,240 --> 00:49:27,280

now collaborates is different roman

722

00:49:27,280 --> 00:49:30,240

a a caller one means simply you can call

723

00:49:30,240 --> 00:49:32,000

the bond when you want to

724

00:49:32,000 --> 00:49:35,920

it's callable is not specific

725

00:49:35,920 --> 00:49:38,880

to perpetuals

726

00:49:39,359 --> 00:49:42,480

all right so iprs people on my endowment

727

00:49:42,480 --> 00:49:43,280

here

728

00:49:43,280 --> 00:49:45,280

i want to know how much i'm going to get

729

00:49:45,280 --> 00:49:59,839

every year

730

00:50:39,839 --> 00:50:41,920

you

731

00:51:21,920 --> 00:51:33,059

[Music]

732

00:51:33,280 --> 00:51:37,200

wow oh what happened

733

00:51:37,200 --> 00:51:39,760

okay a few of you got mixed up okay

734

00:51:39,760 --> 00:51:41,839

let's see how i can

735

00:51:41,839 --> 00:51:45,359

fix that all right so let's walk through

736

00:51:45,359 --> 00:51:47,280

the solution

737

00:51:47,280 --> 00:51:50,880

okay so you're donating 4 million

738

00:51:50,880 --> 00:51:54,480

today the university earns 5

739

00:51:54,480 --> 00:51:56,079

and we want the payments to go on

740

00:51:56,079 --> 00:51:58,559

forever so we use

741

00:51:58,559 --> 00:52:01,920

the perpetuity formula okay

742

00:52:01,920 --> 00:52:05,040

we know that the present value is equal

743

00:52:05,040 --> 00:52:05,839

to

744

00:52:05,839 --> 00:52:08,960

the cash flow divided by the rate so

745

00:52:08,960 --> 00:52:11,359

now we know the present value we know

746

00:52:11,359 --> 00:52:13,200

the rate we want to know what is the

747

00:52:13,200 --> 00:52:14,640

cash flow

748

00:52:14,640 --> 00:52:17,920

okay so we'll just turn the formula

749

00:52:17,920 --> 00:52:18,720

around

750

00:52:18,720 --> 00:52:21,359

the cash flow is simply equal to the

751

00:52:21,359 --> 00:52:22,319

present value

752

00:52:22,319 --> 00:52:26,480

times the rate so four million times

753

00:52:26,480 --> 00:52:29,040

five percent is two hundred thousand

754

00:52:29,040 --> 00:52:31,040

dollars

755

00:52:31,040 --> 00:52:35,359

okay questions

756

00:52:36,160 --> 00:52:38,720

problems

757

00:52:40,240 --> 00:52:44,160

okay no questions no problem

758

00:52:44,160 --> 00:52:45,920

all right so we've talked about

759

00:52:45,920 --> 00:52:48,400

perpetuity so remember

760

00:52:48,400 --> 00:52:51,720

a stream of equal cash flows going on

761

00:52:51,720 --> 00:52:53,839

forever

762

00:52:53,839 --> 00:52:56,400

and the first cash flow starts at the

763

00:52:56,400 --> 00:52:58,400

end of the first period

764

00:52:58,400 --> 00:53:00,559

now we talk about another instrument

765

00:53:00,559 --> 00:53:02,640

that's similar

766

00:53:02,640 --> 00:53:05,920

but instead of the payments going on

767

00:53:05,920 --> 00:53:06,880

forever they

768

00:53:06,880 --> 00:53:10,400

stop at a certain period so this is what

769

00:53:10,400 --> 00:53:11,440

we call

770

00:53:11,440 --> 00:53:14,559

an annuity or

771

00:53:14,559 --> 00:53:18,559

fixed payment loan so you have

772

00:53:18,559 --> 00:53:22,240

n cash flow and the cash flows are

773

00:53:22,240 --> 00:53:24,640

all the same so the difference with the

774

00:53:24,640 --> 00:53:25,760

perpetuity is that

775

00:53:25,760 --> 00:53:28,960

you have a stop okay it ends after n

776

00:53:28,960 --> 00:53:32,400

periods there are many examples

777

00:53:32,400 --> 00:53:36,079

of energies can you think of any

778

00:53:36,079 --> 00:53:43,839

what's a classic example of vanities

779

00:53:44,559 --> 00:53:49,040

yay mortgage

780

00:53:49,040 --> 00:53:54,240

okay mortgages savings account

781

00:53:54,240 --> 00:53:57,599

um no mortgages uh energy savings

782

00:53:57,599 --> 00:53:59,359

accounts is an account moment where you

783

00:53:59,359 --> 00:54:00,880

just deposit

784

00:54:00,880 --> 00:54:04,079

money okay it doesn't promise you

785

00:54:04,079 --> 00:54:07,359

a stream of equal cash flows

786

00:54:07,359 --> 00:54:10,480

all right but

787

00:54:10,480 --> 00:54:12,960

yeah so you might yeah you might have

788

00:54:12,960 --> 00:54:14,720

different insurance products that are

789

00:54:14,720 --> 00:54:15,680

the same

790

00:54:15,680 --> 00:54:18,640

car loans things like that they tend to

791

00:54:18,640 --> 00:54:19,119

be

792

00:54:19,119 --> 00:54:21,359

whenever especially when we talk about

793

00:54:21,359 --> 00:54:23,520

financial products for

794

00:54:23,520 --> 00:54:26,960

retail for consumer

795

00:54:26,960 --> 00:54:29,920

they tend to be designed as enriches

796

00:54:29,920 --> 00:54:30,800

because it's

797

00:54:30,800 --> 00:54:33,839

easier so the customer doesn't have to

798

00:54:33,839 --> 00:54:34,800

worry about

799

00:54:34,800 --> 00:54:36,640

exactly how much they're paying it's

800

00:54:36,640 --> 00:54:38,319

always the same amount

801

00:54:38,319 --> 00:54:41,599

okay so this is what it looks like

802

00:54:41,599 --> 00:54:44,400

all right again the first payment is at

803

00:54:44,400 --> 00:54:46,319

the end of the first period

804

00:54:46,319 --> 00:54:48,960

all the payments are the same and they

805

00:54:48,960 --> 00:54:50,240

end

806

00:54:50,240 --> 00:54:54,079

after a number of payments

807

00:54:54,079 --> 00:54:57,760

all right now how do we compute the

808

00:54:57,760 --> 00:54:59,880

present value of an entity

809

00:54:59,880 --> 00:55:03,520

unfortunately it's not as easy as a

810

00:55:03,520 --> 00:55:04,880

perpetuity

811

00:55:04,880 --> 00:55:08,000

you can simplify the formula somewhat

812

00:55:08,000 --> 00:55:10,640

because all the cash flows are the same

813

00:55:10,640 --> 00:55:12,880

but this is about as much as you can

814

00:55:12,880 --> 00:55:13,920

simplify

815

00:55:13,920 --> 00:55:16,960

okay so remember the present value of

816

00:55:16,960 --> 00:55:19,119

the stream of cash flow is the sum of

817

00:55:19,119 --> 00:55:22,000

the present values of the cash flow

818

00:55:22,000 --> 00:55:25,280

okay all right

819

00:55:25,280 --> 00:55:28,079

now this is how you compute the present

820

00:55:28,079 --> 00:55:29,680

value

821

00:55:29,680 --> 00:55:32,799

to compute the future value you know

822

00:55:32,799 --> 00:55:34,480

that the future value

823

00:55:34,480 --> 00:55:37,680

is the present value times 1 plus

824

00:55:37,680 --> 00:55:40,240

the rate of the power of n and you

825

00:55:40,240 --> 00:55:42,480

simply substitute

826

00:55:42,480 --> 00:55:45,520

present value for the formula we have

827

00:55:45,520 --> 00:55:46,079

made

828

00:55:46,079 --> 00:55:49,440

here to express the future value as a

829

00:55:49,440 --> 00:55:50,480

function

830

00:55:50,480 --> 00:55:53,040

of the cash flows the rate and the

831

00:55:53,040 --> 00:55:55,839

number of periods

832

00:55:55,839 --> 00:55:58,880

all right so let's apply this

833

00:55:58,880 --> 00:56:03,040

and as you all said in the chat box

834

00:56:03,040 --> 00:56:06,480

a mortgage is a classic example

835

00:56:06,480 --> 00:56:09,680

of annuities

836

00:56:09,680 --> 00:56:12,960

so c your cash flow is

837

00:56:12,960 --> 00:56:16,000

your installment so they can be

838

00:56:16,000 --> 00:56:19,119

annual or it can be monthly it depends

839

00:56:19,119 --> 00:56:22,160

how it's calculated n

840

00:56:22,160 --> 00:56:25,440

is the number of years r is the interest

841

00:56:25,440 --> 00:56:26,079

rate

842

00:56:26,079 --> 00:56:29,280

and pv present value is the amount that

843

00:56:29,280 --> 00:56:30,000

you

844

00:56:30,000 --> 00:56:33,760

borrow the future value will be

845

00:56:33,760 --> 00:56:36,799

zero because by the time you get to the

846

00:56:36,799 --> 00:56:40,240

end you will have paid back everything

847

00:56:40,240 --> 00:56:43,599

so the future value will be zero

848

00:56:43,599 --> 00:56:46,960

so here this spreadsheet

849

00:56:46,960 --> 00:56:50,240

gives you the detailed breakdown of

850

00:56:50,240 --> 00:56:53,359

a mortgage of 5 million

851

00:56:53,359 --> 00:56:57,280

for 30 years at an annual rate of

852

00:56:57,280 --> 00:57:00,559

two percent with an annual

853

00:57:00,559 --> 00:57:03,119

payment so you can compute the payment

854

00:57:03,119 --> 00:57:05,599

you simply sold for the payment

855

00:57:05,599 --> 00:57:10,880

and you can find 223 250.

856

00:57:10,880 --> 00:57:14,319

what i have done in this spreadsheet

857

00:57:14,319 --> 00:57:17,680

is breakdown for each

858

00:57:17,680 --> 00:57:20,799

payment that you make every year the

859

00:57:20,799 --> 00:57:22,640

portion that comes from

860

00:57:22,640 --> 00:57:25,599

interest and the portion that is

861

00:57:25,599 --> 00:57:26,559

principal

862

00:57:26,559 --> 00:57:32,640

repayment okay so we start at year one

863

00:57:32,640 --> 00:57:35,040

at year one you borrow five million

864

00:57:35,040 --> 00:57:36,400

dollars

865

00:57:36,400 --> 00:57:39,760

okay at the end of the year

866

00:57:39,760 --> 00:57:43,280

you pay your 223

867

00:57:43,280 --> 00:57:46,720

250 okay

868

00:57:46,720 --> 00:57:50,000

now i need to know after making that

869

00:57:50,000 --> 00:57:51,280

payment

870

00:57:51,280 --> 00:57:55,520

how much do i still owe the bank

871

00:57:55,520 --> 00:57:59,280

the only way to do that is to calculate

872

00:57:59,280 --> 00:58:02,400

how much of this was interest

873

00:58:02,400 --> 00:58:06,839

so i compute the interest by taking the

874

00:58:06,839 --> 00:58:09,760

amount that i borrowed

875

00:58:09,760 --> 00:58:13,359

times the rate of interest it gives me a

876

00:58:13,359 --> 00:58:15,200

hundred thousand dollars

877

00:58:15,200 --> 00:58:18,559

i subtract this amount from the payment

878

00:58:18,559 --> 00:58:20,000

that i'm making

879

00:58:20,000 --> 00:58:24,079

and it tells me how much of the amount

880

00:58:24,079 --> 00:58:27,599

borrowed i have paid back in that

881

00:58:27,599 --> 00:58:30,079

installment

882

00:58:30,079 --> 00:58:33,760

at the end of the year i therefore

883

00:58:33,760 --> 00:58:37,200

owe the bank the 5 million i

884

00:58:37,200 --> 00:58:40,559

borrowed less the portion

885

00:58:40,559 --> 00:58:44,160

of the principle that i have paid back

886

00:58:44,160 --> 00:58:47,960

in the installment which is 123

887

00:58:47,960 --> 00:58:51,119

250. this amount

888

00:58:51,119 --> 00:58:53,680

becomes the amount at the beginning of

889

00:58:53,680 --> 00:58:55,359

the second year

890

00:58:55,359 --> 00:58:59,520

okay and we calculate the same thing

891

00:58:59,520 --> 00:59:03,760

why do i do that it is to show you

892

00:59:03,760 --> 00:59:08,640

that at the end of six years

893

00:59:09,680 --> 00:59:13,799

you still owe the bank 4 million

894

00:59:13,799 --> 00:59:18,640

222 000 to 527

895

00:59:18,640 --> 00:59:23,040

off your 5 million dollar mortgage

896

00:59:23,040 --> 00:59:28,920

even though you have paid 6 times 223

897

00:59:28,920 --> 00:59:32,880

250 dollars

898

00:59:32,880 --> 00:59:36,480

because at the beginning what you pay

899

00:59:36,480 --> 00:59:40,000

is mostly interest

900

00:59:40,000 --> 00:59:41,920

so it's important to understand the

901

00:59:41,920 --> 00:59:43,280

mechanics

902

00:59:43,280 --> 00:59:46,640

because if you decide to stop paying on

903

00:59:46,640 --> 00:59:48,240

your mortgage

904

00:59:48,240 --> 00:59:50,480

you find out that you can still owe

905

00:59:50,480 --> 00:59:54,160

quite a lot of money to the bank

906

00:59:54,640 --> 00:59:56,960

okay

907

00:59:57,680 --> 01:00:01,599

all right now let's apply

908

01:00:01,599 --> 01:00:04,720

annuity calculations with

909

01:00:04,720 --> 01:00:08,880

a very nice offer from

910

01:00:08,880 --> 01:00:12,319

your mom and dad so your mom and dad are

911

01:00:12,319 --> 01:00:12,799

way

912

01:00:12,799 --> 01:00:14,960

more generous than me and my husband

913

01:00:14,960 --> 01:00:16,400

they make you an offer

914

01:00:16,400 --> 01:00:19,760

you cannot refuse they are

915

01:00:19,760 --> 01:00:23,359

giving you part of your inheritance

916

01:00:23,359 --> 01:00:28,240

early they're giving you a choice

917

01:00:28,240 --> 01:00:32,480

they will pay you 10 000

918

01:00:32,480 --> 01:00:36,000

per year for each of the next

919

01:00:36,000 --> 01:00:40,720

seven years starting today

920

01:00:40,720 --> 01:00:43,440

the last payment will be at the end of

921

01:00:43,440 --> 01:00:45,680

euro seven

922

01:00:45,680 --> 01:00:49,599

or they will give you their bmw

923

01:00:49,599 --> 01:00:52,640

convertible which you can sell for 61

924

01:00:52,640 --> 01:00:57,200

000 guaranteed today

925

01:00:57,200 --> 01:01:00,480

if you can earn seven percent on your

926

01:01:00,480 --> 01:01:02,480

investment

927

01:01:02,480 --> 01:01:06,000

which should you choose

928

01:01:07,920 --> 01:01:11,839

and prs

929

01:01:16,240 --> 01:01:19,520

so take your time

930

01:01:23,599 --> 01:01:39,839

it's a tricky question take your time

931

01:03:29,760 --> 01:03:31,839

you

932

01:03:51,870 --> 01:04:02,960

[Music]

933

01:04:02,960 --> 01:04:05,839

oh my goodness

934

01:04:09,200 --> 01:04:12,559

what a mess

935

01:04:12,559 --> 01:04:17,680

okay my my

936

01:04:17,760 --> 01:04:22,000

oh dear this was a bit of a mess

937

01:04:22,000 --> 01:04:26,799

okay so let's have a look

938

01:04:26,799 --> 01:04:29,440

right this was a complicated question

939

01:04:29,440 --> 01:04:30,079

all right

940

01:04:30,079 --> 01:04:33,520

so you had to compare option b with 6

941

01:04:33,520 --> 01:04:36,880

61 000 today with

942

01:04:36,880 --> 01:04:40,799

a stream of equal cash flow

943

01:04:40,799 --> 01:04:44,480

starting today and going on for seven

944

01:04:44,480 --> 01:04:45,440

years

945

01:04:45,440 --> 01:04:48,960

okay so first thing you need to do

946

01:04:48,960 --> 01:04:52,720

is look at what is your timeline

947

01:04:52,720 --> 01:04:55,839

okay so this is what it looks like

948

01:04:55,839 --> 01:04:59,280

so what we notice is that

949

01:04:59,280 --> 01:05:02,240

there is a stream of cash flow that are

950

01:05:02,240 --> 01:05:04,960

all the same so it makes us think of an

951

01:05:04,960 --> 01:05:08,400

animation problem is this ten thousand

952

01:05:08,400 --> 01:05:09,680

dollar today

953

01:05:09,680 --> 01:05:12,799

okay so we can put that aside

954

01:05:12,799 --> 01:05:15,119

and then look at what is the present

955

01:05:15,119 --> 01:05:16,400

value

956

01:05:16,400 --> 01:05:20,240

of my seven year annuity of ten thousand

957

01:05:20,240 --> 01:05:20,880

dollars

958

01:05:20,880 --> 01:05:24,319

a year at our rate of interest

959

01:05:24,319 --> 01:05:27,280

and then we'll have to adjust for these

960

01:05:27,280 --> 01:05:28,640

10 000

961

01:05:28,640 --> 01:05:32,799

that is in present value terms already

962

01:05:32,799 --> 01:05:36,559

okay so we compute

963

01:05:36,559 --> 01:05:39,680

the present value of the ten thousand

964

01:05:39,680 --> 01:05:40,160

dollar

965

01:05:40,160 --> 01:05:43,440

entity for seven years at the rate of

966

01:05:43,440 --> 01:05:46,240

whatever it was seven percent

967

01:05:46,240 --> 01:05:51,319

and we should find 53 000

968

01:05:51,319 --> 01:05:54,240

892.89 but be careful

969

01:05:54,240 --> 01:05:57,760

because there is the 10 000

970

01:05:57,760 --> 01:06:01,200

that your parents are giving you today

971

01:06:01,200 --> 01:06:04,400

so the total present value

972

01:06:04,400 --> 01:06:07,680

of all these cash flows is

973

01:06:07,680 --> 01:06:11,799

63 892

974

01:06:11,799 --> 01:06:14,960

0.89 which turns out to be

975

01:06:14,960 --> 01:06:19,599

more than the value of the car

976

01:06:19,599 --> 01:06:24,880

okay the value of the car was 61 000

977

01:06:24,880 --> 01:06:28,720

so you have to be careful

978

01:06:28,720 --> 01:06:32,799

warning i am devious and tricky

979

01:06:32,799 --> 01:06:35,920

so questions may have little

980

01:06:35,920 --> 01:06:40,000

traps in them okay and this was a trap

981

01:06:40,000 --> 01:06:43,359

and some of you fell right into it

982

01:06:43,359 --> 01:06:46,839

alright so remember always annuities

983

01:06:46,839 --> 01:06:50,559

perpetuities you can use the formula

984

01:06:50,559 --> 01:06:53,920

but the first payment has to start at

985

01:06:53,920 --> 01:06:55,039

the end of the first

986

01:06:55,039 --> 01:06:58,160

period if you have payments occurring

987

01:06:58,160 --> 01:07:00,000

today you have to adjust

988

01:07:00,000 --> 01:07:03,280

for those all right

989

01:07:03,280 --> 01:07:06,880

so let's look at another

990

01:07:06,880 --> 01:07:10,079

example and again this is going to be

991

01:07:10,079 --> 01:07:11,760

tricky

992

01:07:11,760 --> 01:07:14,960

so we're looking at the case of adam who

993

01:07:14,960 --> 01:07:17,200

is 25 years old

994

01:07:17,200 --> 01:07:19,680

he has decided because he's taken my

995

01:07:19,680 --> 01:07:21,440

class so he's very aware of the

996

01:07:21,440 --> 01:07:23,200

retirement issue

997

01:07:23,200 --> 01:07:27,119

he's decided to save 10 000

998

01:07:27,119 --> 01:07:30,880

in his retirement account at the end of

999

01:07:30,880 --> 01:07:36,640

each year until he is 45 years old

1000

01:07:36,640 --> 01:07:39,760

at that point he will start contributing

1001

01:07:39,760 --> 01:07:40,799

to the account but

1002

01:07:40,799 --> 01:07:43,920

not touch it until

1003

01:07:43,920 --> 01:07:48,480

he reached the time and age of 65

1004

01:07:48,480 --> 01:07:51,680

assume the account earns 10

1005

01:07:51,680 --> 01:07:55,280

a year how much

1006

01:07:55,280 --> 01:07:58,839

will adam have saved at age

1007

01:07:58,839 --> 01:08:01,839

65.

1008

01:08:04,240 --> 01:08:10,740

again prs question

1009

01:08:10,740 --> 01:08:13,890

[Music]

1010

01:09:47,839 --> 01:09:49,920

you

1011

01:10:46,900 --> 01:10:57,840

[Music]

1012

01:10:57,840 --> 01:11:01,280

aha okay

1013

01:11:01,280 --> 01:11:04,400

all right so let's work it out so it was

1014

01:11:04,400 --> 01:11:06,400

a tricky problem again

1015

01:11:06,400 --> 01:11:09,520

but then for different nature

1016

01:11:09,520 --> 01:11:12,640

so first thing to do is

1017

01:11:12,640 --> 01:11:15,360

always to look at the time

1018

01:11:15,360 --> 01:11:17,199

[Music]

1019

01:11:17,199 --> 01:11:20,640

yes winter always look

1020

01:11:20,640 --> 01:11:24,480

at the timer so the timeline tells you

1021

01:11:24,480 --> 01:11:27,760

that it is today he's 25 years old and

1022

01:11:27,760 --> 01:11:29,520

he starts putting money

1023

01:11:29,520 --> 01:11:32,000

in a retirement account at the end of

1024

01:11:32,000 --> 01:11:33,520

each year

1025

01:11:33,520 --> 01:11:36,719

until he is 45 years old so

1026

01:11:36,719 --> 01:11:40,320

10 000 at the end of the first year blah

1027

01:11:40,320 --> 01:11:41,199

blah blah blah blah

1028

01:11:41,199 --> 01:11:45,199

until he's 45 then he doesn't touch the

1029

01:11:45,199 --> 01:11:46,800

account

1030

01:11:46,800 --> 01:11:50,400

okay until he's 65.

1031

01:11:50,400 --> 01:11:54,080

so what we have is two distinct

1032

01:11:54,080 --> 01:11:57,760

periods the first 20 years

1033

01:11:57,760 --> 01:12:01,040

where he contributes equal cash flows

1034

01:12:01,040 --> 01:12:02,000

every year

1035

01:12:02,000 --> 01:12:05,280

in his account which is of course

1036

01:12:05,280 --> 01:12:08,960

an enmity and then

1037

01:12:08,960 --> 01:12:13,440

he does nothing for another 20 years

1038

01:12:13,440 --> 01:12:16,159

so we want to know what's the future

1039

01:12:16,159 --> 01:12:19,600

value at the end of these 40 years

1040

01:12:19,600 --> 01:12:22,800

the way we are going to do this is by

1041

01:12:22,800 --> 01:12:25,760

calculating what is the future value of

1042

01:12:25,760 --> 01:12:26,239

this

1043

01:12:26,239 --> 01:12:29,600

annuity or the present value by the way

1044

01:12:29,600 --> 01:12:32,960

and then convert it into the future

1045

01:12:32,960 --> 01:12:35,040

value of all of this

1046

01:12:35,040 --> 01:12:38,239

so when you have situations like that

1047

01:12:38,239 --> 01:12:41,520

you can look at the two periods

1048

01:12:41,520 --> 01:12:44,800

first one then the other

1049

01:12:44,800 --> 01:12:48,320

so we first compute the future value at

1050

01:12:48,320 --> 01:12:48,840

age

1051

01:12:48,840 --> 01:12:51,920

45 of all these

1052

01:12:51,920 --> 01:12:54,960

payments so we use the annuity formula

1053

01:12:54,960 --> 01:12:56,560

and we don't have a problem because

1054

01:12:56,560 --> 01:12:58,640

there's no payment today

1055

01:12:58,640 --> 01:13:01,360

okay so payment every year at the end of

1056

01:13:01,360 --> 01:13:03,199

the year of ten thousand dollars for

1057

01:13:03,199 --> 01:13:05,840

twenty years

1058

01:13:05,920 --> 01:13:09,120

at the rate of ten percent per annum

1059

01:13:09,120 --> 01:13:12,480

for twenty years gives me five hundred

1060

01:13:12,480 --> 01:13:13,760

seventy two thousand

1061

01:13:13,760 --> 01:13:17,600

seven hundred and fifty at

1062

01:13:17,600 --> 01:13:21,520

the time when he is 45

1063

01:13:21,520 --> 01:13:24,560

okay so that money is then going to

1064

01:13:24,560 --> 01:13:27,679

sit in the account accruing

1065

01:13:27,679 --> 01:13:31,600

interest for 20 years so then we want to

1066

01:13:31,600 --> 01:13:32,400

compute

1067

01:13:32,400 --> 01:13:36,239

the future value 20 years from now

1068

01:13:36,239 --> 01:13:40,280

at age 65 of this amount

1069

01:13:40,280 --> 01:13:46,080

572 thousand seven hundred fifty dollars

1070

01:13:46,080 --> 01:13:49,199

the rate of 10 and we find

1071

01:13:49,199 --> 01:13:54,400

3 million 850 333 175 dollars

1072

01:13:54,400 --> 01:13:58,159

okay so we notice there's no payments we

1073

01:13:58,159 --> 01:14:00,000

know the present value we know the rate

1074

01:14:00,000 --> 01:14:01,840

we know the number of periods we

1075

01:14:01,840 --> 01:14:06,320

solve for the future value

1076

01:14:06,560 --> 01:14:09,760

okay negative amount

1077

01:14:09,760 --> 01:14:12,840

because we invest this for another 20

1078

01:14:12,840 --> 01:14:16,480

years all right

1079

01:14:17,040 --> 01:14:19,600

questions

1080

01:14:21,199 --> 01:14:23,280

so when you're going to get the

1081

01:14:23,280 --> 01:14:24,960

questions in the quiz

1082

01:14:24,960 --> 01:14:28,320

read them carefully okay sometimes

1083

01:14:28,320 --> 01:14:30,880

there's a little trap

1084

01:14:30,880 --> 01:14:33,040

okay so you first spot the trap if

1085

01:14:33,040 --> 01:14:35,040

there's one not always

1086

01:14:35,040 --> 01:14:37,679

okay think about the problem before you

1087

01:14:37,679 --> 01:14:40,880

start doing the calculations

1088

01:14:40,880 --> 01:14:44,640

all right last part of the class

1089

01:14:44,640 --> 01:14:48,159

today is about applications of the

1090

01:14:48,159 --> 01:14:51,280

things we have talked about so so far

1091

01:14:51,280 --> 01:14:54,000

we have sold for present value future

1092

01:14:54,000 --> 01:14:54,640

value

1093

01:14:54,640 --> 01:14:58,960

for cash flows now we're going to look

1094

01:14:58,960 --> 01:15:01,920

at solving for other things in

1095

01:15:01,920 --> 01:15:03,120

particular

1096

01:15:03,120 --> 01:15:06,800

solving for the number of periods

1097

01:15:06,800 --> 01:15:10,000

so if you have a credit card

1098

01:15:10,000 --> 01:15:14,080

in hong kong your credit card statement

1099

01:15:14,080 --> 01:15:18,800

at the end of it has something like this

1100

01:15:18,800 --> 01:15:22,320

by regulation the credit card issuer

1101

01:15:22,320 --> 01:15:26,320

must show you something like this

1102

01:15:26,320 --> 01:15:30,400

it tells you how long that is to say

1103

01:15:30,400 --> 01:15:34,719

the number of periods required

1104

01:15:34,719 --> 01:15:38,400

to pay off a certain amount of credit

1105

01:15:38,400 --> 01:15:38,960

card

1106

01:15:38,960 --> 01:15:42,000

debt if you pay

1107

01:15:42,000 --> 01:15:45,360

only the minimum amount

1108

01:15:45,360 --> 01:15:48,239

okay so what it tells you so i want to

1109

01:15:48,239 --> 01:15:50,960

put what i put there on this spreadsheet

1110

01:15:50,960 --> 01:15:52,960

is a case where you would have

1111

01:15:52,960 --> 01:15:55,280

accumulated twenty thousand dollar

1112

01:15:55,280 --> 01:15:58,719

of credit card debt

1113

01:15:58,880 --> 01:16:01,679

and i've been extremely generous here

1114

01:16:01,679 --> 01:16:02,800

because really

1115

01:16:02,800 --> 01:16:04,880

credit card rates in hong kong are about

1116

01:16:04,880 --> 01:16:06,719

double that amount

1117

01:16:06,719 --> 01:16:09,120

if you were to pay only the minimum

1118

01:16:09,120 --> 01:16:12,080

amount say 500

1119

01:16:12,080 --> 01:16:16,239

monthly at a rate of 10 per year

1120

01:16:16,239 --> 01:16:19,520

it would take you 48 months to pay 20

1121

01:16:19,520 --> 01:16:22,560

pay off the debt if it's 20

1122

01:16:22,560 --> 01:16:26,719

which is closer to the 35 or six percent

1123

01:16:26,719 --> 01:16:29,280

that they normally charge in hong kong

1124

01:16:29,280 --> 01:16:32,640

it would take you five years so this

1125

01:16:32,640 --> 01:16:36,400

is designed to show you that if you

1126

01:16:36,400 --> 01:16:39,520

only pay the minimum amount

1127

01:16:39,520 --> 01:16:43,760

on your credit card and do not accrue

1128

01:16:43,760 --> 01:16:46,800

any more debt it's going to take you a

1129

01:16:46,800 --> 01:16:50,000

long time to pay it back

1130

01:16:50,000 --> 01:16:53,760

conclusion you should always

1131

01:16:53,760 --> 01:16:56,719

pay your credit card debt at the end of

1132

01:16:56,719 --> 01:16:58,080

the month

1133

01:16:58,080 --> 01:17:01,440

you are much better off borrowing from

1134

01:17:01,440 --> 01:17:03,199

your bank

1135

01:17:03,199 --> 01:17:06,640

with a personal loan it will be way

1136

01:17:06,640 --> 01:17:09,280

cheaper in interest than the credit card

1137

01:17:09,280 --> 01:17:10,800

debt

1138

01:17:10,800 --> 01:17:14,320

okay so what we're doing here is we

1139

01:17:14,320 --> 01:17:19,360

simply solving for the number of periods

1140

01:17:19,360 --> 01:17:22,320

okay we have the present value the

1141

01:17:22,320 --> 01:17:23,440

future value is

1142

01:17:23,440 --> 01:17:26,640

zero we know the payments we know the

1143

01:17:26,640 --> 01:17:27,600

rate

1144

01:17:27,600 --> 01:17:30,719

we find the number of periods okay

1145

01:17:30,719 --> 01:17:33,760

this is just another part

1146

01:17:33,760 --> 01:17:38,080

of the discounted cash flow calculation

1147

01:17:38,080 --> 01:17:39,840

here's another example

1148

01:17:39,840 --> 01:17:43,760

where we solve for now we solve for the

1149

01:17:43,760 --> 01:17:44,480

rate

1150

01:17:44,480 --> 01:17:47,040

so we solve for the number of periods

1151

01:17:47,040 --> 01:17:49,520

the last variable we can solve for

1152

01:17:49,520 --> 01:17:52,320

is the rate of interest this is

1153

01:17:52,320 --> 01:17:53,840

basically what we call

1154

01:17:53,840 --> 01:17:56,840

calculated the internal rate of return

1155

01:17:56,840 --> 01:18:00,400

or irr

1156

01:18:00,400 --> 01:18:03,679

so let's imagine you run a toy

1157

01:18:03,679 --> 01:18:05,760

manufacturing company

1158

01:18:05,760 --> 01:18:08,480

and you are deciding whether you should

1159

01:18:08,480 --> 01:18:08,960

buy

1160

01:18:08,960 --> 01:18:12,159

a new machine so this machine

1161

01:18:12,159 --> 01:18:15,360

costs 4 million bucks and it can produce

1162

01:18:15,360 --> 01:18:18,960

50 000 toys every year

1163

01:18:18,960 --> 01:18:21,920

which you can sell you estimate for 10

1164

01:18:21,920 --> 01:18:22,880

each

1165

01:18:22,880 --> 01:18:26,080

so you would generate 500 000

1166

01:18:26,080 --> 01:18:29,679

of revenue per year

1167

01:18:29,679 --> 01:18:32,320

the machine is the only input in this

1168

01:18:32,320 --> 01:18:33,920

particular problem

1169

01:18:33,920 --> 01:18:36,960

you know for sure the revenue and the

1170

01:18:36,960 --> 01:18:38,000

machine has a

1171

01:18:38,000 --> 01:18:40,800

10-year lifespan so we're looking at a

1172

01:18:40,800 --> 01:18:41,360

10-year

1173

01:18:41,360 --> 01:18:44,719

investment of 4 million that can

1174

01:18:44,719 --> 01:18:45,360

generate

1175

01:18:45,360 --> 01:18:49,440

500 000 every year

1176

01:18:49,440 --> 01:18:52,480

so what i want to know is

1177

01:18:52,480 --> 01:18:55,120

if i borrow from the bank to pay the

1178

01:18:55,120 --> 01:18:57,600

machine

1179

01:18:58,560 --> 01:19:02,159

will i make will the revenue generated

1180

01:19:02,159 --> 01:19:05,360

be sufficient to pay the interest

1181

01:19:05,360 --> 01:19:10,000

okay so we need to find out

1182

01:19:10,000 --> 01:19:14,159

what is the rate of return that equates

1183

01:19:14,159 --> 01:19:17,600

the present value of the cash flow of

1184

01:19:17,600 --> 01:19:19,120

the investment

1185

01:19:19,120 --> 01:19:23,280

with the cost so we have 4 million

1186

01:19:23,280 --> 01:19:27,360

today versus 500 000 per year for 10

1187

01:19:27,360 --> 01:19:28,560

years

1188

01:19:28,560 --> 01:19:32,080

okay so we know the present value we

1189

01:19:32,080 --> 01:19:34,640

know the payments we know the number of

1190

01:19:34,640 --> 01:19:37,840

uh period at the end there will be zero

1191

01:19:37,840 --> 01:19:40,000

so the future value is zero we simply

1192

01:19:40,000 --> 01:19:41,679

solve for the rate

1193

01:19:41,679 --> 01:19:44,800

so we solve for r which is the internal

1194

01:19:44,800 --> 01:19:48,239

rate of return or i

1195

01:19:48,560 --> 01:19:52,480

so your 4 million dollar has to be equal

1196

01:19:52,480 --> 01:19:53,679

to the revenue you

1197

01:19:53,679 --> 01:19:57,040

generate in present value terms

1198

01:19:57,040 --> 01:20:00,400

so we need to solve for this rate

1199

01:20:00,400 --> 01:20:02,800

so you cannot solve directly by hand

1200

01:20:02,800 --> 01:20:04,560

it's really complicated

1201

01:20:04,560 --> 01:20:08,320

so you can use an excel function

1202

01:20:08,320 --> 01:20:11,679

or your financial calculator and if you

1203

01:20:11,679 --> 01:20:12,560

solve for i

1204

01:20:12,560 --> 01:20:17,280

you will find that is 4.28

1205

01:20:17,280 --> 01:20:20,000

what does it mean it means that if you

1206

01:20:20,000 --> 01:20:20,400

can

1207

01:20:20,400 --> 01:20:25,360

borrow from the bank at less than 4.28

1208

01:20:25,360 --> 01:20:27,360

then you should buy the machine because

1209

01:20:27,360 --> 01:20:30,159

the revenues it generates

1210

01:20:30,159 --> 01:20:32,000

are more than enough to cover the

1211

01:20:32,000 --> 01:20:34,800

interest payments on the loan

1212

01:20:34,800 --> 01:20:38,080

okay and of course the lower the bank

1213

01:20:38,080 --> 01:20:40,400

rate compared to this break-even rate

1214

01:20:40,400 --> 01:20:44,040

the better it is right so this is an

1215

01:20:44,040 --> 01:20:48,800

irr calculation internal rate of return

1216

01:20:48,800 --> 01:20:52,080

which is basically solving a discounted

1217

01:20:52,080 --> 01:20:53,600

cash flow problem

1218

01:20:53,600 --> 01:20:57,199

for the rate okay

1219

01:20:57,199 --> 01:21:00,159

so we're getting it's right bang on time

1220

01:21:00,159 --> 01:21:01,280

i'm so

1221

01:21:01,280 --> 01:21:06,239

good all right so um

1222

01:21:06,239 --> 01:21:09,120

these are the dcf calculations so

1223

01:21:09,120 --> 01:21:10,400

sometimes

1224

01:21:10,400 --> 01:21:13,520

at the end we will see with uh in the

1225

01:21:13,520 --> 01:21:16,400

second part of the

1226

01:21:16,719 --> 01:21:19,760

quantitative thing but sometimes

1227

01:21:19,760 --> 01:21:22,800

you have a payment at the end so then

1228

01:21:22,800 --> 01:21:24,960

the present value will simply be the sum

1229

01:21:24,960 --> 01:21:26,960

of the present values of the cash flow

1230

01:21:26,960 --> 01:21:30,800

plus the present value of the final pay

1231

01:21:30,800 --> 01:21:33,280

all right

1232

01:21:34,000 --> 01:21:37,040

so we've learned discounted cash flow

1233

01:21:37,040 --> 01:21:38,120

calculation

1234

01:21:38,120 --> 01:21:41,360

foundations there are five

1235

01:21:41,360 --> 01:21:44,560

variables you must remember the five

1236

01:21:44,560 --> 01:21:46,719

variables in this year

1237

01:21:46,719 --> 01:21:50,639

present value future value

1238

01:21:50,639 --> 01:21:54,400

number of periods interest rates

1239

01:21:54,400 --> 01:21:57,600

entering cash flows to find

1240

01:21:57,600 --> 01:22:00,800

one you need the other four

1241

01:22:00,800 --> 01:22:04,159

so always when you have a

1242

01:22:04,159 --> 01:22:07,600

ecf question look at where are my

1243

01:22:07,600 --> 01:22:10,639

five variables okay sometimes it will be

1244

01:22:10,639 --> 01:22:11,840

zero

1245

01:22:11,840 --> 01:22:15,679

so if you have an entity the final pay

1246

01:22:15,679 --> 01:22:18,320

that the future value is typically zero

1247

01:22:18,320 --> 01:22:19,840

because you will have paid back

1248

01:22:19,840 --> 01:22:21,600

everything at the end

1249

01:22:21,600 --> 01:22:24,080

sometimes the payments are zeros there's

1250

01:22:24,080 --> 01:22:26,480

no entering cash flows

1251

01:22:26,480 --> 01:22:29,040

okay sometimes the present value is zero

1252

01:22:29,040 --> 01:22:30,639

you have nothing in the account to

1253

01:22:30,639 --> 01:22:31,840

accumulate

1254

01:22:31,840 --> 01:22:35,440

but always figure out what are my five

1255

01:22:35,440 --> 01:22:36,400

variables

1256

01:22:36,400 --> 01:22:39,440

present value future value number period

1257

01:22:39,440 --> 01:22:42,320

interest rate and the cash flow the

1258

01:22:42,320 --> 01:22:43,440

payments

1259

01:22:43,440 --> 01:22:49,040

okay you need four to find one

1260

01:22:49,440 --> 01:22:51,840

and memory if you if you've got that

1261

01:22:51,840 --> 01:22:53,520

clear in your head and don't get

1262

01:22:53,520 --> 01:22:55,520

confused so the rate

1263

01:22:55,520 --> 01:22:58,560

it can be uh the symbol can be

1264

01:22:58,560 --> 01:23:02,080

r it can be i it can be y it can be

1265

01:23:02,080 --> 01:23:05,520

ytm but it's always the same idea

1266

01:23:05,520 --> 01:23:08,480

all right present value is always today

1267

01:23:08,480 --> 01:23:11,920

future value is always in the future

1268

01:23:11,920 --> 01:23:17,360

okay any questions

1269

01:23:18,639 --> 01:23:23,280

yes the quiz will cover everything

1270

01:23:23,280 --> 01:23:27,520

up to and including now

1271

01:23:31,280 --> 01:23:34,000

and not the addendum okay the annex this

1272

01:23:34,000 --> 01:23:34,719

just

1273

01:23:34,719 --> 01:23:38,239

explanations the quiz the exams

1274

01:23:38,239 --> 01:23:42,080

only cover what i cover in class

1275

01:23:42,080 --> 01:23:45,679

and remember the quiz build up

1276

01:23:45,679 --> 01:23:48,000

on what we do in class the kind of

1277

01:23:48,000 --> 01:23:50,320

questions we do in class

1278

01:23:50,320 --> 01:23:54,000

you revise those it's good preparation

1279

01:23:54,000 --> 01:23:56,159

for the quiz the quiz itself is

1280

01:23:56,159 --> 01:23:59,199

preparation for the exams

1281

01:23:59,199 --> 01:24:03,840

so it all builds on each other

1282

01:24:03,840 --> 01:24:07,040

any other questions

1283

01:24:08,560 --> 01:24:10,639

so if you think of any other questions

1284

01:24:10,639 --> 01:24:13,679

you can always email me or benson

1285

01:24:13,679 --> 01:24:17,520

okay yes indeed somehow everything

1286

01:24:17,520 --> 01:24:21,040

up to and including now

1287

01:24:21,040 --> 01:24:24,320

is covered in the quiz

1288

01:24:24,320 --> 01:24:31,679

and benson will send an announcement

1289

01:24:31,679 --> 01:24:35,440

uh for the group project one

1290

01:24:35,440 --> 01:24:37,840

i know i only asked for one article if

1291

01:24:37,840 --> 01:24:39,520

you want to add others

1292

01:24:39,520 --> 01:24:42,000

that's up to you but i will i will grade

1293

01:24:42,000 --> 01:24:45,840

one article

1294

01:24:47,679 --> 01:24:51,440

okay so you're free to go

1295

01:24:51,440 --> 01:24:53,440

we just finished the class if you have

1296

01:24:53,440 --> 01:24:54,480

any ques

1297

01:24:54,480 --> 01:24:57,520

any other questions just email me

1298

01:24:57,520 --> 01:25:00,639

or uh email benson whichever way you

1299

01:25:00,639 --> 01:25:04,320

are more comfortable all right

1300

01:25:08,159 --> 01:25:12,320

what am you have a question

1301

01:25:12,320 --> 01:25:15,600

uh yes um uh about a project

1302

01:25:15,600 --> 01:25:19,199

yeah i cannot hear you

1303

01:25:19,199 --> 01:25:22,480

one file by somebody

1304

01:25:22,480 --> 01:25:26,320

we submitted everyone another thing

1305

01:25:26,320 --> 01:25:29,760

what i cannot hear you

1306

01:25:29,760 --> 01:25:33,840

oh can you hear me a little bit better

1307

01:25:33,840 --> 01:25:39,199

uh wait wait a minute

1308

01:25:39,199 --> 01:25:43,120

uh i might find a better microphone so

1309

01:25:43,120 --> 01:25:45,920

it takes some time wait a minute why

1310

01:25:45,920 --> 01:25:47,760

don't you type it in the chat it will be

1311

01:25:47,760 --> 01:25:49,520

probably be easier

1312

01:25:49,520 --> 01:25:52,639

uh ariane you had a question you had

1313

01:25:52,639 --> 01:25:55,600

your hand up uh yeah professor for the

1314

01:25:55,600 --> 01:25:58,560

group project would you prefer a pdf or

1315

01:25:58,560 --> 01:25:59,920

a doc

1316

01:25:59,920 --> 01:26:03,600

it doesn't make a submission it's okay

1317

01:26:03,600 --> 01:26:09,840

thank you

1318

01:26:17,120 --> 01:26:19,199

when do you have to present your project

1319

01:26:19,199 --> 01:26:20,639

for yin

1320

01:26:20,639 --> 01:26:24,159

what project you mean the article and

1321

01:26:24,159 --> 01:26:26,239

the video

1322

01:26:26,239 --> 01:26:28,639

or the market news the article in the

1323

01:26:28,639 --> 01:26:29,760

video um

1324

01:26:29,760 --> 01:26:32,400

basically there's a timeline that benson

1325

01:26:32,400 --> 01:26:35,040

should have sent you

1326

01:26:35,040 --> 01:26:38,880

do we have just one file by somebody

1327

01:26:38,880 --> 01:26:39,920

else it's the same

1328

01:26:39,920 --> 01:26:43,120

file uh just one person put it up for

1329

01:26:43,120 --> 01:26:46,000

the entire group

1330

01:26:48,800 --> 01:26:51,840

no problem

1331

01:26:53,280 --> 01:26:55,600

no problem but it happens to me all the

1332

01:26:55,600 --> 01:26:56,639

time so

1333

01:26:56,639 --> 01:26:59,199

don't worry

1334

01:27:00,000 --> 01:27:01,920

there should have been but where i'll

1335

01:27:01,920 --> 01:27:03,440

ask benson to uh

1336

01:27:03,440 --> 01:27:06,639

send a repeat announcement it normally

1337

01:27:06,639 --> 01:27:10,080

he puts it in the announcement

1338

01:27:10,719 --> 01:27:12,719

can we or do we need to add some

1339

01:27:12,719 --> 01:27:15,199

description another video link

1340

01:27:15,199 --> 01:27:19,840

no you just send a link

1341

01:27:21,040 --> 01:27:26,639

okay yeah thanks you're welcome

1342

01:27:26,880 --> 01:27:33,760

all right bye bye

==end 0301==

==start 0305==

1

00:00:14,920 --> 00:00:17,920

so

2

00:04:35,199 --> 00:04:39,280

so no questions before we start

3

00:04:39,759 --> 00:04:42,320

we have one minute before we officially

4

00:04:42,320 --> 00:04:45,280

start the class

5

00:04:46,240 --> 00:04:56,000

on this very very wet day

6

00:04:56,000 --> 00:04:57,840

what are you doing jen day bouncing

7

00:04:57,840 --> 00:05:00,160

around

8

00:05:01,600 --> 00:05:04,880

no i think today is a very wet day it is

9

00:05:04,880 --> 00:05:08,840

isn't it miserable

10

00:05:08,840 --> 00:05:11,840

oh

11

00:05:14,320 --> 00:05:17,520

okay then no questions let's

12

00:05:17,520 --> 00:05:20,639

get started on the second

13

00:05:20,639 --> 00:05:24,720

half of our first quantitative part

14

00:05:24,720 --> 00:05:27,440

so in this part what we're going to do

15

00:05:27,440 --> 00:05:27,840

is

16

00:05:27,840 --> 00:05:31,280

apply what we've learned in the first

17

00:05:31,280 --> 00:05:34,560

half of it to doing

18

00:05:34,560 --> 00:05:37,680

bond valuation okay so we're going to

19

00:05:37,680 --> 00:05:38,320

learn

20

00:05:38,320 --> 00:05:42,320

bond pricing basics

21

00:05:43,199 --> 00:05:46,240

okay so let's get

22

00:05:46,240 --> 00:05:48,720

rolling

23

00:05:50,000 --> 00:05:52,080

this is reminding me that i have class

24

00:05:52,080 --> 00:05:55,039

with you ha ha

25

00:05:55,120 --> 00:05:58,240

okay all right

26

00:05:58,240 --> 00:06:02,240

so so we're going to start

27

00:06:02,240 --> 00:06:05,280

first by digging a little bit more

28

00:06:05,280 --> 00:06:09,120

into what are bonds so you already know

29

00:06:09,120 --> 00:06:10,080

a bit

30

00:06:10,080 --> 00:06:13,199

uh some of you might know way more but

31

00:06:13,199 --> 00:06:15,360

in this class we've already talked about

32

00:06:15,360 --> 00:06:16,800

bonds being

33

00:06:16,800 --> 00:06:20,120

dead instruments so are debt

34

00:06:20,120 --> 00:06:22,960

securities so remember securities are

35

00:06:22,960 --> 00:06:23,919

negotiable

36

00:06:23,919 --> 00:06:27,520

transferable financial instruments

37

00:06:27,520 --> 00:06:30,720

and in the cases of bonds there are

38

00:06:30,720 --> 00:06:34,560

debt securities so bonds are traded

39

00:06:34,560 --> 00:06:38,479

in debt capital markets and because

40

00:06:38,479 --> 00:06:41,520

it is a debt instrument it's a legal

41

00:06:41,520 --> 00:06:42,400

contract

42

00:06:42,400 --> 00:06:46,000

between the issuer and the investors

43

00:06:46,000 --> 00:06:49,199

and under that contract

44

00:06:49,199 --> 00:06:52,639

the issuer has to make payments to the

45

00:06:52,639 --> 00:06:54,000

investors

46

00:06:54,000 --> 00:06:57,199

and the contract will specify in a lot

47

00:06:57,199 --> 00:06:58,560

of detail

48

00:06:58,560 --> 00:07:01,680

all the terms and conditions including

49

00:07:01,680 --> 00:07:02,080

what

50

00:07:02,080 --> 00:07:05,199

happens in case the issuer fails to make

51

00:07:05,199 --> 00:07:06,639

a payment

52

00:07:06,639 --> 00:07:09,919

so when the issuer does not pay

53

00:07:09,919 --> 00:07:13,440

an amount that is due under the contract

54

00:07:13,440 --> 00:07:16,560

this is potentially a default

55

00:07:16,560 --> 00:07:19,840

a default or an event of default

56

00:07:19,840 --> 00:07:22,120

is something that has pretty bad

57

00:07:22,120 --> 00:07:23,680

consequences for

58

00:07:23,680 --> 00:07:26,560

the issuers

59

00:07:27,039 --> 00:07:31,120

now there are different kinds of bonds

60

00:07:31,120 --> 00:07:34,319

the most common type is called

61

00:07:34,319 --> 00:07:37,360

a coupon bond

62

00:07:37,360 --> 00:07:41,039

so under the contract the issuer has to

63

00:07:41,039 --> 00:07:41,520

make

64

00:07:41,520 --> 00:07:44,080

regular payments which are called the

65

00:07:44,080 --> 00:07:46,400

coupon payments

66

00:07:46,400 --> 00:07:50,400

the interest that the issuer pays

67

00:07:50,400 --> 00:07:52,479

and which is used to calculate the

68

00:07:52,479 --> 00:07:53,680

coupon is

69

00:07:53,680 --> 00:07:57,520

the coupon rate so

70

00:07:57,520 --> 00:08:00,680

in the bond market we use different

71

00:08:00,680 --> 00:08:03,680

terminology than the loan market in the

72

00:08:03,680 --> 00:08:05,120

bond market

73

00:08:05,120 --> 00:08:08,160

we talk about issuers and

74

00:08:08,160 --> 00:08:11,360

investors in the loan market

75

00:08:11,360 --> 00:08:14,400

we say borrower and lenders

76

00:08:14,400 --> 00:08:18,879

same thing in the bond market we say

77

00:08:18,879 --> 00:08:22,240

coupon rate in the loan market we call

78

00:08:22,240 --> 00:08:22,720

it

79

00:08:22,720 --> 00:08:26,319

interest rate same thing

80

00:08:26,319 --> 00:08:29,599

how often you pay the coupon

81

00:08:29,599 --> 00:08:33,279

the frequency is generally

82

00:08:33,279 --> 00:08:36,880

annual or semi-annual

83

00:08:36,880 --> 00:08:40,080

the date on which the money that has

84

00:08:40,080 --> 00:08:41,919

been borrowed which is called the

85

00:08:41,919 --> 00:08:43,760

principal

86

00:08:43,760 --> 00:08:47,120

the date on which it is paid back

87

00:08:47,120 --> 00:08:52,560

if it is paid back is the maturity date

88

00:08:52,720 --> 00:08:56,080

the final payment will include

89

00:08:56,080 --> 00:09:00,399

the principal also called face value

90

00:09:00,399 --> 00:09:04,480

or so-called par value also called

91

00:09:04,480 --> 00:09:07,680

notional value and

92

00:09:07,680 --> 00:09:11,120

the final coupon payment all right

93

00:09:11,120 --> 00:09:14,160

so when we're dealing with bonds

94

00:09:14,160 --> 00:09:18,399

we have a whole terminology that we have

95

00:09:18,399 --> 00:09:20,800

to get familiar with

96

00:09:20,800 --> 00:09:23,839

it's different from the one we use

97

00:09:23,839 --> 00:09:27,839

for the loan market okay

98

00:09:27,839 --> 00:09:31,200

so just to show you this is a

99

00:09:31,200 --> 00:09:34,160

photo from my collection i have a

100

00:09:34,160 --> 00:09:37,120

collection of these these are old

101

00:09:37,120 --> 00:09:40,240

bonds so in the old days

102

00:09:40,240 --> 00:09:42,880

the bonds were actually issued

103

00:09:42,880 --> 00:09:43,760

physically

104

00:09:43,760 --> 00:09:47,200

so there was physical paper it's called

105

00:09:47,200 --> 00:09:51,279

script and what you see here

106

00:09:51,279 --> 00:09:54,800

is one of the bonds that were issued by

107

00:09:54,800 --> 00:09:56,320

the chinese government

108

00:09:56,320 --> 00:10:00,080

quite a long time ago the size of this

109

00:10:00,080 --> 00:10:04,720

is about

110

00:10:04,720 --> 00:10:09,040

that much okay this big

111

00:10:09,040 --> 00:10:12,000

and if you are in hong kong and you walk

112

00:10:12,000 --> 00:10:12,880

down

113

00:10:12,880 --> 00:10:15,360

antiques road on hollywood road you can

114

00:10:15,360 --> 00:10:16,160

actually

115

00:10:16,160 --> 00:10:19,279

buy some of these so what it does

116

00:10:19,279 --> 00:10:22,160

it tells you who is the issuer so this

117

00:10:22,160 --> 00:10:24,480

is the chinese government

118

00:10:24,480 --> 00:10:27,600

and then it tells you the

119

00:10:27,600 --> 00:10:30,640

uh amount of the

120

00:10:30,640 --> 00:10:34,160

issue and some of the basic terms of the

121

00:10:34,160 --> 00:10:38,480

issue and each of these represents

122

00:10:38,480 --> 00:10:41,440

one individual bond so the minimum

123

00:10:41,440 --> 00:10:43,320

amount or what we call

124

00:10:43,320 --> 00:10:47,519

denomination here is 20 pound sterling

125

00:10:47,519 --> 00:10:49,839

so that was issued in pound sterling at

126

00:10:49,839 --> 00:10:50,640

the time

127

00:10:50,640 --> 00:10:53,680

bond full 20 pounds turning

128

00:10:53,680 --> 00:10:57,200

and you have more information

129

00:10:57,200 --> 00:10:59,200

and you will see here it's in four

130

00:10:59,200 --> 00:11:01,360

different languages

131

00:11:01,360 --> 00:11:04,880

right so it's signed by the issuer

132

00:11:04,880 --> 00:11:07,360

and the banks that are helping them to

133

00:11:07,360 --> 00:11:08,640

place it

134

00:11:08,640 --> 00:11:12,560

and what you see here is

135

00:11:12,560 --> 00:11:15,600

the coupons so the name coupon

136

00:11:15,600 --> 00:11:18,000

and why it's called coupon and not

137

00:11:18,000 --> 00:11:19,279

interest

138

00:11:19,279 --> 00:11:24,240

is because attached to the bond itself

139

00:11:24,240 --> 00:11:28,000

you had a lot of these little things

140

00:11:28,000 --> 00:11:30,480

each of these represents an interest

141

00:11:30,480 --> 00:11:31,680

payment

142

00:11:31,680 --> 00:11:34,640

so they were attached to as another

143

00:11:34,640 --> 00:11:35,760

sheet

144

00:11:35,760 --> 00:11:38,720

all the coupon payments okay were

145

00:11:38,720 --> 00:11:42,000

represented by these little coupons

146

00:11:42,000 --> 00:11:45,600

so every time the amount

147

00:11:45,600 --> 00:11:49,200

of interest was due you as an investor

148

00:11:49,200 --> 00:11:51,200

would have to go to the bank

149

00:11:51,200 --> 00:11:53,920

with these pieces of paper the bank

150

00:11:53,920 --> 00:11:54,320

would

151

00:11:54,320 --> 00:11:58,000

clip the coupon take it and give you the

152

00:11:58,000 --> 00:11:59,519

money

153

00:11:59,519 --> 00:12:03,040

okay so that's why we call it a

154

00:12:03,040 --> 00:12:06,240

coupon bond all right so the little

155

00:12:06,240 --> 00:12:08,720

things here represented

156

00:12:08,720 --> 00:12:11,519

the amount of interest that was due on

157

00:12:11,519 --> 00:12:13,600

specific dates

158

00:12:13,600 --> 00:12:18,399

and owning or carrying those bonds

159

00:12:18,399 --> 00:12:21,760

was deemed possession so

160

00:12:21,760 --> 00:12:24,240

if you carry those bonds then those were

161

00:12:24,240 --> 00:12:26,079

bearer bonds

162

00:12:26,079 --> 00:12:29,120

then if you went to the bank with that

163

00:12:29,120 --> 00:12:33,360

then you would get paid okay nowadays

164

00:12:33,360 --> 00:12:36,079

these don't exist anymore because it's

165

00:12:36,079 --> 00:12:37,880

all been

166

00:12:37,880 --> 00:12:40,480

dematerialized so nowadays

167

00:12:40,480 --> 00:12:44,079

everything is done through uh

168

00:12:44,079 --> 00:12:47,760

digital payments and

169

00:12:47,760 --> 00:12:51,760

there's no more physical paper in

170

00:12:51,760 --> 00:12:55,920

the vast majority of transactions

171

00:12:56,639 --> 00:13:00,720

okay now so we've talked about what is a

172

00:13:00,720 --> 00:13:01,360

bond

173

00:13:01,360 --> 00:13:03,200

all right the many many bonds in the

174

00:13:03,200 --> 00:13:04,399

market

175

00:13:04,399 --> 00:13:07,839

and in order to put a price on the bond

176

00:13:07,839 --> 00:13:10,480

we're going to be using what we learned

177

00:13:10,480 --> 00:13:13,519

of discounted cash flow calculation

178

00:13:13,519 --> 00:13:17,600

so the price of the bond is equal

179

00:13:17,600 --> 00:13:20,720

to the present value

180

00:13:20,720 --> 00:13:24,000

of the cash flows from the bond

181

00:13:24,000 --> 00:13:27,120

okay so the price today of the bond

182

00:13:27,120 --> 00:13:30,720

is going to be the present value

183

00:13:30,720 --> 00:13:33,279

of the stream of cash flows that you

184

00:13:33,279 --> 00:13:34,000

expect to

185

00:13:34,000 --> 00:13:37,920

receive from the bond

186

00:13:37,920 --> 00:13:42,160

now what does it mean the cash flow

187

00:13:42,160 --> 00:13:45,440

for a bond is the coupon payments that

188

00:13:45,440 --> 00:13:47,279

you're going to receive

189

00:13:47,279 --> 00:13:51,440

see they will all be the same

190

00:13:51,440 --> 00:13:54,639

then at the end you have one

191

00:13:54,639 --> 00:13:57,839

final payment which is the money that

192

00:13:57,839 --> 00:13:58,639

has been

193

00:13:58,639 --> 00:14:01,839

borrowed by the issuer when they issued

194

00:14:01,839 --> 00:14:04,160

the bond and that they have to pay back

195

00:14:04,160 --> 00:14:07,839

unless it's a perpetual of course

196

00:14:07,839 --> 00:14:11,199

and then the price of the bond is the

197

00:14:11,199 --> 00:14:13,760

present value of this stream of cash

198

00:14:13,760 --> 00:14:14,880

flow

199

00:14:14,880 --> 00:14:18,560

okay and it will be discounted back

200

00:14:18,560 --> 00:14:22,639

at a rate called the yield to maturity

201

00:14:22,639 --> 00:14:26,079

for the number of periods

202

00:14:26,079 --> 00:14:29,360

of that bond okay so the number of

203

00:14:29,360 --> 00:14:30,000

period

204

00:14:30,000 --> 00:14:33,760

is the tenor that is how many periods

205

00:14:33,760 --> 00:14:37,600

until the maturity date so this is not

206

00:14:37,600 --> 00:14:38,959

something new

207

00:14:38,959 --> 00:14:42,079

in fact if you break it down in two bits

208

00:14:42,079 --> 00:14:45,600

you can see that this is an annuity

209

00:14:45,600 --> 00:14:47,920

the first part and then you have the

210

00:14:47,920 --> 00:14:49,680

last payment

211

00:14:49,680 --> 00:14:52,000

okay that you'll also have to put in

212

00:14:52,000 --> 00:14:53,920

present value terms

213

00:14:53,920 --> 00:14:57,680

so this formula

214

00:14:57,680 --> 00:15:00,720

can be somewhat simplified by using the

215

00:15:00,720 --> 00:15:03,600

present value of an annuity

216

00:15:03,600 --> 00:15:06,000

plus the present value of the final

217

00:15:06,000 --> 00:15:08,480

payment

218

00:15:10,839 --> 00:15:15,680

now this is the general formula

219

00:15:15,680 --> 00:15:19,199

if there is no payment at the end

220

00:15:19,199 --> 00:15:21,440

you will notice that it's similar to the

221

00:15:21,440 --> 00:15:23,680

mortgage

222

00:15:23,680 --> 00:15:26,480

if there's no payment at the end and the

223

00:15:26,480 --> 00:15:27,839

payments go on

224

00:15:27,839 --> 00:15:31,360

forever which is a perpetual

225

00:15:31,360 --> 00:15:35,120

then we can simplify it like we learned

226

00:15:35,120 --> 00:15:38,399

as the coupon divided by the rate

227

00:15:38,399 --> 00:15:41,680

and if there is no interim payments

228

00:15:41,680 --> 00:15:44,880

no coupons but only one big payment at

229

00:15:44,880 --> 00:15:45,600

the end

230

00:15:45,600 --> 00:15:49,120

that would be a zero coupon bond

231

00:15:49,120 --> 00:15:53,199

okay so this formula okay

232

00:15:53,199 --> 00:15:57,360

serves no matter what

233

00:15:57,360 --> 00:16:02,399

the type of financial instruments

234

00:16:02,399 --> 00:16:05,920

so let's start by dealing with

235

00:16:05,920 --> 00:16:09,360

zero coupon bonds so zero coupon bonds

236

00:16:09,360 --> 00:16:12,399

is basically a bond where there is no

237

00:16:12,399 --> 00:16:13,519

coupon

238

00:16:13,519 --> 00:16:16,800

so there's only two cash flows

239

00:16:16,800 --> 00:16:20,399

the price of the bond when you buy it or

240

00:16:20,399 --> 00:16:23,920

the price of the mallet issue and

241

00:16:23,920 --> 00:16:27,360

the final payment at maturity

242

00:16:27,360 --> 00:16:30,560

since there is only two cash flows

243

00:16:30,560 --> 00:16:34,560

okay then it's pretty simple

244

00:16:34,560 --> 00:16:37,920

the bond price is the present value

245

00:16:37,920 --> 00:16:41,120

of the final payment

246

00:16:42,240 --> 00:16:45,440

so let's look at an example

247

00:16:45,440 --> 00:16:49,199

imagine a one-year zero coupon bond

248

00:16:49,199 --> 00:16:52,240

100 000 face values so

249

00:16:52,240 --> 00:16:55,839

face value again it's the same thing as

250

00:16:55,839 --> 00:16:58,160

principle it's the same thing as par

251

00:16:58,160 --> 00:16:59,680

value is the same thing as

252

00:16:59,680 --> 00:17:02,880

notional value it's the amount of

253

00:17:02,880 --> 00:17:06,959

money that the issuer borrows by issuing

254

00:17:06,959 --> 00:17:08,079

the bond

255

00:17:08,079 --> 00:17:11,199

okay this is also the amount of money

256

00:17:11,199 --> 00:17:12,319

that has to pay

257

00:17:12,319 --> 00:17:15,359

be paid back at the end all right so

258

00:17:15,359 --> 00:17:18,000

it's a one-year bond at the end of the

259

00:17:18,000 --> 00:17:18,799

year the

260

00:17:18,799 --> 00:17:21,280

issuer has to pay back the principal

261

00:17:21,280 --> 00:17:23,359

face value notional value which is a

262

00:17:23,359 --> 00:17:26,079

hundred thousand dollar

263

00:17:26,079 --> 00:17:30,840

it is currently trading at 96

264

00:17:30,840 --> 00:17:33,440

618.36 okay so

265

00:17:33,440 --> 00:17:36,480

if you buy the bond today and hold it to

266

00:17:36,480 --> 00:17:38,080

maturity

267

00:17:38,080 --> 00:17:40,480

these are the cash flows that you will

268

00:17:40,480 --> 00:17:42,880

have

269

00:17:42,880 --> 00:17:46,480

based on that we can find out

270

00:17:46,480 --> 00:17:49,760

what is the yield to maturity

271

00:17:49,760 --> 00:17:53,200

we know the present value we know the

272

00:17:53,200 --> 00:17:56,559

future value we know the period

273

00:17:56,559 --> 00:17:59,360

there is no entering payment so the

274

00:17:59,360 --> 00:18:01,360

interim payment is zero

275

00:18:01,360 --> 00:18:06,160

we can solve for the rate okay

276

00:18:06,160 --> 00:18:09,760

so the rate in this case called yield

277

00:18:09,760 --> 00:18:13,200

to maturity is the discount rate that

278

00:18:13,200 --> 00:18:14,960

sets the present value

279

00:18:14,960 --> 00:18:17,919

of the bond payments equals to the

280

00:18:17,919 --> 00:18:20,160

market price of the bond

281

00:18:20,160 --> 00:18:23,120

again this is nothing new this is

282

00:18:23,120 --> 00:18:25,440

solving for the rate

283

00:18:25,440 --> 00:18:29,360

okay so if you look at our formula

284

00:18:29,360 --> 00:18:34,320

here okay what we want to know is this

285

00:18:34,320 --> 00:18:37,679

okay we know the price we know the

286

00:18:37,679 --> 00:18:39,039

principal payment

287

00:18:39,039 --> 00:18:40,960

we know the number of period we want to

288

00:18:40,960 --> 00:18:44,480

find out what is the rate

289

00:18:44,480 --> 00:18:48,720

okay so we can simply rearrange the

290

00:18:48,720 --> 00:18:51,360

formula

291

00:18:51,679 --> 00:18:55,280

so let's apply this here you have

292

00:18:55,280 --> 00:18:58,559

four zero coupon bonds

293

00:18:58,559 --> 00:19:01,039

a one year two year three year and a

294

00:19:01,039 --> 00:19:01,760

four year

295

00:19:01,760 --> 00:19:05,280

bonds all of them have the same

296

00:19:05,280 --> 00:19:08,559

face value of one hundred dollars

297

00:19:08,559 --> 00:19:11,840

that means they all pay

298

00:19:11,840 --> 00:19:15,280

100 this one after one year

299

00:19:15,280 --> 00:19:18,240

this one after two years three years and

300

00:19:18,240 --> 00:19:20,000

four years

301

00:19:20,000 --> 00:19:23,520

you know the prices

302

00:19:23,520 --> 00:19:27,280

at which they are currently trading

303

00:19:27,280 --> 00:19:30,480

and what we want to find out is the rate

304

00:19:30,480 --> 00:19:34,400

the yield to maturity for each of these

305

00:19:34,400 --> 00:19:35,600

bonds

306

00:19:35,600 --> 00:19:38,640

there are all zero coupon bonds so

307

00:19:38,640 --> 00:19:39,039

there's

308

00:19:39,039 --> 00:19:41,919

no entering cash flow you know the

309

00:19:41,919 --> 00:19:43,200

present value

310

00:19:43,200 --> 00:19:45,679

you know the future value you know the

311

00:19:45,679 --> 00:19:47,760

number of periods there's no interim

312

00:19:47,760 --> 00:19:48,880

cash flow

313

00:19:48,880 --> 00:19:52,640

you solve for the rate

314

00:19:52,640 --> 00:19:56,799

okay so you can use the equation

315

00:19:56,799 --> 00:20:00,400

makes it kind of hard or you can use

316

00:20:00,400 --> 00:20:04,480

your calculator or your spreadsheet

317

00:20:04,480 --> 00:20:08,240

in any case solving for the rate will

318

00:20:08,240 --> 00:20:09,039

give us

319

00:20:09,039 --> 00:20:11,520

the following rates or yields to

320

00:20:11,520 --> 00:20:12,559

maturity

321

00:20:12,559 --> 00:20:16,000

for each of these bonds

322

00:20:18,840 --> 00:20:20,000

okay

323

00:20:20,000 --> 00:20:24,000

so gen day principle is the same as

324

00:20:24,000 --> 00:20:26,720

face value is the same as par values the

325

00:20:26,720 --> 00:20:27,360

same as

326

00:20:27,360 --> 00:20:30,640

notional value basically it is the

327

00:20:30,640 --> 00:20:31,440

amount

328

00:20:31,440 --> 00:20:34,960

of money that the issuer effectively

329

00:20:34,960 --> 00:20:38,000

borrows by issuing the bond and has to

330

00:20:38,000 --> 00:20:38,799

pay back

331

00:20:38,799 --> 00:20:41,760

at maturity

332

00:20:42,880 --> 00:20:46,559

all right so again solving for the yield

333

00:20:46,559 --> 00:20:48,720

to maturity is basically

334

00:20:48,720 --> 00:20:51,919

solving for the rate okay we've done

335

00:20:51,919 --> 00:20:52,559

this

336

00:20:52,559 --> 00:20:56,159

when we solve for the irr internal rate

337

00:20:56,159 --> 00:20:57,280

of return

338

00:20:57,280 --> 00:21:00,240

and whenever we sold for the rate in the

339

00:21:00,240 --> 00:21:02,080

dcf calculation

340

00:21:02,080 --> 00:21:05,200

this is the same thing remember what i

341

00:21:05,200 --> 00:21:05,840

said

342

00:21:05,840 --> 00:21:09,200

five five

343

00:21:09,200 --> 00:21:12,960

variables present value

344

00:21:12,960 --> 00:21:16,080

future value number of periods

345

00:21:16,080 --> 00:21:19,360

entering payment rate to find one

346

00:21:19,360 --> 00:21:23,039

you need the other four here we solve

347

00:21:23,039 --> 00:21:26,159

for the rate okay so you can do it on

348

00:21:26,159 --> 00:21:28,880

the calculator financial calculator

349

00:21:28,880 --> 00:21:32,400

you sold for i so you have the number

350

00:21:32,400 --> 00:21:35,760

of periods there are no interim payments

351

00:21:35,760 --> 00:21:38,640

the future value is a hundred dollar

352

00:21:38,640 --> 00:21:42,880

the present value is the price okay

353

00:21:42,880 --> 00:21:46,799

your turn okay benson i think this is

354

00:21:46,799 --> 00:21:47,919

prs

355

00:21:47,919 --> 00:21:51,520

okay yeah uh let me

356

00:21:51,520 --> 00:21:59,840

share the screen for pls thank you

357

00:22:10,840 --> 00:22:13,840

so

358

00:22:14,159 --> 00:22:18,159

so you do the first year first

359

00:22:18,320 --> 00:22:21,559

the one-year bond 100 face value

360

00:22:21,559 --> 00:22:25,440

98.52 price sold for the rate

361

00:22:25,440 --> 00:22:41,840

the yield to maturity

362

00:24:19,360 --> 00:24:30,500

[Music]

363

00:24:30,840 --> 00:24:32,720

so

364

00:24:32,720 --> 00:24:36,720

okay very good so next one the

365

00:24:36,720 --> 00:24:39,600

two-year one

366

00:24:40,720 --> 00:24:43,440

you actually have numbers there you can

367

00:24:43,440 --> 00:24:47,840

see the numbers

368

00:25:26,840 --> 00:25:29,840

so

369

00:25:40,840 --> 00:25:43,840

this

370

00:25:55,760 --> 00:25:57,840

you

371

00:26:02,990 --> 00:26:13,600

[Music]

372

00:26:13,600 --> 00:26:25,840

very good next one the three-year bond

373

00:26:36,840 --> 00:26:39,840

so

374

00:26:50,840 --> 00:26:53,840

so

375

00:27:04,840 --> 00:27:07,840

so

376

00:27:18,840 --> 00:27:21,840

so

377

00:27:32,840 --> 00:27:35,840

so

378

00:27:41,890 --> 00:27:52,399

[Music]

379

00:27:52,399 --> 00:27:56,880

very good and last one the four-year

380

00:27:58,880 --> 00:28:00,840

[Music]

381

00:28:00,840 --> 00:28:03,840

bond

382

00:28:42,840 --> 00:28:45,840

hey

383

00:28:56,840 --> 00:28:59,840

ah

384

00:29:04,560 --> 00:29:07,760

[Music]

385

00:29:10,840 --> 00:29:13,840

so

386

00:29:24,840 --> 00:29:27,840

bye

387

00:29:30,240 --> 00:29:33,120

very good okay so now you should be

388

00:29:33,120 --> 00:29:34,559

fairly familiar

389

00:29:34,559 --> 00:29:37,760

with how we do

390

00:29:37,760 --> 00:29:42,080

this solving for uh

391

00:29:42,080 --> 00:29:46,000

solving for the rate okay

392

00:29:46,480 --> 00:29:48,799

so again you can do it quickly in your

393

00:29:48,799 --> 00:29:50,640

calculator or you can do it on your

394

00:29:50,640 --> 00:29:52,080

excel spreadsheet

395

00:29:52,080 --> 00:29:54,240

uh whichever one you want to use you

396

00:29:54,240 --> 00:29:56,399

should get the correct results

397

00:29:56,399 --> 00:29:59,440

indeed 1.5 1.752

398

00:29:59,440 --> 00:30:02,640

and 2.25

399

00:30:02,880 --> 00:30:06,240

all right now let's talk about

400

00:30:06,240 --> 00:30:11,440

using the yield curve so the yield curve

401

00:30:11,440 --> 00:30:15,279

is anybody anybody knows what is a yield

402

00:30:15,279 --> 00:30:16,640

curve

403

00:30:16,640 --> 00:30:22,399

want to tell me

404

00:30:22,399 --> 00:30:25,679

what is a yield curve

405

00:30:28,640 --> 00:30:31,200

anybody

406

00:30:32,720 --> 00:30:36,000

curve of bonds with different maturity

407

00:30:36,000 --> 00:30:39,279

it's a pretty good summary somehow those

408

00:30:39,279 --> 00:30:40,399

would have to be

409

00:30:40,399 --> 00:30:43,679

exactly the same except for their

410

00:30:43,679 --> 00:30:44,960

maturity

411

00:30:44,960 --> 00:30:48,240

so you want to put on a curve the yields

412

00:30:48,240 --> 00:30:51,600

of bonds that are the same except

413

00:30:51,600 --> 00:30:54,399

for the maturity all right it's also

414

00:30:54,399 --> 00:30:55,440

called

415

00:30:55,440 --> 00:30:58,640

the term structure of

416

00:30:58,640 --> 00:31:02,159

interest rates generally

417

00:31:02,159 --> 00:31:05,760

for each particular bond market

418

00:31:05,760 --> 00:31:08,880

the yield curve that is used is

419

00:31:08,880 --> 00:31:11,919

that of the government securities for

420

00:31:11,919 --> 00:31:14,720

that market

421

00:31:14,720 --> 00:31:18,159

in the press these days you read a lot

422

00:31:18,159 --> 00:31:22,240

about the yield curve and what they do

423

00:31:22,240 --> 00:31:25,679

talk about is the u.s government

424

00:31:25,679 --> 00:31:28,960

treasury yield curve okay why

425

00:31:28,960 --> 00:31:32,080

because the u.s market is the biggest

426

00:31:32,080 --> 00:31:35,840

largest deepest most liquid and what's

427

00:31:35,840 --> 00:31:37,039

going on in the u.s

428

00:31:37,039 --> 00:31:40,320

market has big implications on markets

429

00:31:40,320 --> 00:31:42,080

around the world

430

00:31:42,080 --> 00:31:46,159

okay so they're all the same bonds

431

00:31:46,159 --> 00:31:47,600

except that they have a different

432

00:31:47,600 --> 00:31:49,039

maturity

433

00:31:49,039 --> 00:31:52,080

so here we have the yield curve

434

00:31:52,080 --> 00:31:55,360

of government securities in the u.s

435

00:31:55,360 --> 00:31:57,919

so you can see that they go from very

436

00:31:57,919 --> 00:31:59,600

short-term

437

00:31:59,600 --> 00:32:03,279

or to longer term so we'll talk about

438

00:32:03,279 --> 00:32:04,960

treasuries in a little while

439

00:32:04,960 --> 00:32:07,760

so you have this yield curve here we

440

00:32:07,760 --> 00:32:08,320

want to

441

00:32:08,320 --> 00:32:11,600

use this to find out what is

442

00:32:11,600 --> 00:32:15,559

the price of a five-year

443

00:32:15,559 --> 00:32:18,960

risk-free zero coupon bond

444

00:32:18,960 --> 00:32:23,120

with a face value of 100

445

00:32:23,120 --> 00:32:24,880

so let's first walk through the

446

00:32:24,880 --> 00:32:26,320

terminology

447

00:32:26,320 --> 00:32:30,000

so the yield curve here is a graph

448

00:32:30,000 --> 00:32:32,960

of the yields to maturity of u.s

449

00:32:32,960 --> 00:32:33,840

government

450

00:32:33,840 --> 00:32:36,480

security so they're all the same except

451

00:32:36,480 --> 00:32:38,960

for the maturity

452

00:32:38,960 --> 00:32:42,159

we want to find out the price

453

00:32:42,159 --> 00:32:45,519

okay so the the question we have here

454

00:32:45,519 --> 00:32:49,279

is what is the price

455

00:32:50,000 --> 00:32:54,880

okay of a five year so we know

456

00:32:54,880 --> 00:32:58,159

the tenor five-year it's a

457

00:32:58,159 --> 00:33:02,000

zero coupon the face

458

00:33:02,000 --> 00:33:05,360

value is 100

459

00:33:05,360 --> 00:33:09,039

all right so in order to find the price

460

00:33:09,039 --> 00:33:13,440

which we know is the present value

461

00:33:13,440 --> 00:33:15,440

of the stream of cash flows from the

462

00:33:15,440 --> 00:33:17,760

bond

463

00:33:17,760 --> 00:33:20,559

to no one variable we need the other

464

00:33:20,559 --> 00:33:21,200

four

465

00:33:21,200 --> 00:33:23,919

so what we want to find out here is the

466

00:33:23,919 --> 00:33:26,880

present value

467

00:33:27,360 --> 00:33:30,080

so what do we know let's work through

468

00:33:30,080 --> 00:33:32,799

the variables

469

00:33:34,000 --> 00:33:36,559

what do we know we know the the tenor

470

00:33:36,559 --> 00:33:38,000

five year very good

471

00:33:38,000 --> 00:33:40,159

number of periods very good fizzy chai

472

00:33:40,159 --> 00:33:43,200

what else do we know

473

00:33:45,039 --> 00:33:47,039

we know the face value which is the

474

00:33:47,039 --> 00:33:49,120

future value which is a hundred dollar

475

00:33:49,120 --> 00:33:52,159

very good

476

00:33:52,159 --> 00:33:55,760

ah so

477

00:33:55,760 --> 00:33:59,039

we don't know the the yield to maturity

478

00:33:59,039 --> 00:34:01,440

but we can deduce it from the yield

479

00:34:01,440 --> 00:34:02,880

curve

480

00:34:02,880 --> 00:34:05,519

okay we can deduce it from the yield

481

00:34:05,519 --> 00:34:06,799

curve so let's recap

482

00:34:06,799 --> 00:34:09,760

we want to find out the present value we

483

00:34:09,760 --> 00:34:10,639

know

484

00:34:10,639 --> 00:34:13,599

the tenor the number of periods we know

485

00:34:13,599 --> 00:34:16,560

the face value which is the future value

486

00:34:16,560 --> 00:34:18,800

we know there's no entering payments

487

00:34:18,800 --> 00:34:21,119

because it's zero coupon

488

00:34:21,119 --> 00:34:24,480

all right but in order to find the price

489

00:34:24,480 --> 00:34:27,839

we still need the yield we can

490

00:34:27,839 --> 00:34:31,280

find out from the yield curve

491

00:34:31,280 --> 00:34:35,359

okay so from the yield curve we look at

492

00:34:35,359 --> 00:34:37,599

the five year

493

00:34:37,599 --> 00:34:40,639

that we can see that it corresponds to

494

00:34:40,639 --> 00:34:44,079

the five percent yield to maturity

495

00:34:44,079 --> 00:34:47,520

so now we have the information

496

00:34:47,520 --> 00:34:51,359

we need to calculate

497

00:34:51,359 --> 00:34:54,879

our price okay

498

00:34:54,879 --> 00:34:59,760

and we should find 78.35

499

00:34:59,760 --> 00:35:03,839

all right any questions

500

00:35:06,160 --> 00:35:08,960

okay i see that benson answered jang

501

00:35:08,960 --> 00:35:10,240

day's question

502

00:35:10,240 --> 00:35:15,040

about risk free i will come back to that

503

00:35:15,040 --> 00:35:16,880

in a minute because there's no such

504

00:35:16,880 --> 00:35:18,400

thing as

505

00:35:18,400 --> 00:35:22,800

risk free that's why i put it in

506

00:35:22,800 --> 00:35:26,000

commas all right so risk-free is

507

00:35:26,000 --> 00:35:30,640

as close to risk-free as you can get

508

00:35:30,640 --> 00:35:34,560

in a bond market the closest thing to

509

00:35:34,560 --> 00:35:36,560

risk-free you're going to get

510

00:35:36,560 --> 00:35:40,240

is government bonds why

511

00:35:40,240 --> 00:35:43,040

because the government can always print

512

00:35:43,040 --> 00:35:44,880

more money

513

00:35:44,880 --> 00:35:48,240

if they want to so

514

00:35:48,240 --> 00:35:51,200

normally normally and i say normally

515

00:35:51,200 --> 00:35:53,200

because it's not always right

516

00:35:53,200 --> 00:35:56,720

so don't take it as in stone

517

00:35:56,720 --> 00:36:00,400

normally governments don't default

518

00:36:00,400 --> 00:36:03,520

on their domestic debt

519

00:36:03,520 --> 00:36:05,920

and i said normally because it has

520

00:36:05,920 --> 00:36:07,599

happened

521

00:36:07,599 --> 00:36:10,720

in russia for example the government

522

00:36:10,720 --> 00:36:11,760

defaulted

523

00:36:11,760 --> 00:36:14,560

on domestic bonds which is why it caused

524

00:36:14,560 --> 00:36:16,560

the collapse of long-term capital

525

00:36:16,560 --> 00:36:18,960

management ltcm

526

00:36:18,960 --> 00:36:21,119

it has been known to happen that

527

00:36:21,119 --> 00:36:22,960

governments default

528

00:36:22,960 --> 00:36:27,119

on their government bonds for example

529

00:36:27,119 --> 00:36:29,760

if there's been a change of regime of

530

00:36:29,760 --> 00:36:31,680

political regime

531

00:36:31,680 --> 00:36:35,359

and the new government does not want to

532

00:36:35,359 --> 00:36:36,400

take on

533

00:36:36,400 --> 00:36:39,280

the reliabilities created by the

534

00:36:39,280 --> 00:36:41,520

previous government

535

00:36:41,520 --> 00:36:45,680

okay so it's quite rare but it happens

536

00:36:45,680 --> 00:36:48,720

all right so that's why there is

537

00:36:48,720 --> 00:36:52,839

no such thing as completely

538

00:36:52,839 --> 00:36:55,280

risk-free you can get

539

00:36:55,280 --> 00:37:00,880

close okay but no signal

540

00:37:00,960 --> 00:37:04,640

all right so again

541

00:37:04,640 --> 00:37:07,680

five variables to find one you need the

542

00:37:07,680 --> 00:37:08,000

other

543

00:37:08,000 --> 00:37:11,760

four all right in this case we inferred

544

00:37:11,760 --> 00:37:14,640

the yield to maturity from the yield

545

00:37:14,640 --> 00:37:16,800

curve

546

00:37:16,800 --> 00:37:20,480

all right your turn

547

00:37:20,480 --> 00:37:24,320

now we have a three year

548

00:37:24,320 --> 00:37:27,520

risk-free zero coupon bond

549

00:37:27,520 --> 00:37:32,320

with a face value of 900

550

00:37:32,320 --> 00:37:35,280

you have the yield curve what is the

551

00:37:35,280 --> 00:37:35,839

price

552

00:37:35,839 --> 00:37:40,000

of my bond um and then i think we have a

553

00:37:40,000 --> 00:37:42,720

prs

554

00:37:47,790 --> 00:37:49,760

[Music]

555

00:37:49,760 --> 00:37:53,440

we cannot see the answers

556

00:37:58,000 --> 00:38:04,070

there we go

557

00:38:04,070 --> 00:38:07,189

[Applause]

558

00:38:30,839 --> 00:38:33,839

uh

559

00:38:44,839 --> 00:38:47,839

so

560

00:38:58,839 --> 00:39:01,839

so

561

00:39:08,890 --> 00:39:20,030

[Music]

562

00:39:22,640 --> 00:39:26,240

very good well done students okay let me

563

00:39:26,240 --> 00:39:27,520

claim this

564

00:39:27,520 --> 00:39:32,640

bag very good

565

00:39:32,640 --> 00:39:35,359

okay all these kind of things are things

566

00:39:35,359 --> 00:39:36,160

you will see

567

00:39:36,160 --> 00:39:40,240

in the next quiz and then on the exam

568

00:39:40,240 --> 00:39:41,839

all right so it's basically the same

569

00:39:41,839 --> 00:39:44,000

exercise with different numbers

570

00:39:44,000 --> 00:39:48,880

all right so we use the yield curve

571

00:39:48,880 --> 00:39:52,560

to identify the three-year yield to

572

00:39:52,560 --> 00:39:54,240

maturity

573

00:39:54,240 --> 00:39:57,440

of risk-free zero coupon bond which is

574

00:39:57,440 --> 00:39:59,359

4.5 percent

575

00:39:59,359 --> 00:40:02,720

and then we can use this to compute the

576

00:40:02,720 --> 00:40:03,280

price

577

00:40:03,280 --> 00:40:06,160

of our zero coupon bond and we should

578

00:40:06,160 --> 00:40:08,839

indeed find

579

00:40:08,839 --> 00:40:11,119

788.67 dollars

580

00:40:11,119 --> 00:40:14,640

okay all right so

581

00:40:14,640 --> 00:40:17,760

we were talking about the yield curve

582

00:40:17,760 --> 00:40:20,800

and as i mentioned

583

00:40:20,800 --> 00:40:23,359

what we talk about generally when we

584

00:40:23,359 --> 00:40:24,160

discuss

585

00:40:24,160 --> 00:40:26,640

international financial markets is very

586

00:40:26,640 --> 00:40:28,800

often the us

587

00:40:28,800 --> 00:40:32,000

government securities yield curve so

588

00:40:32,000 --> 00:40:35,200

a little bit about u.s government

589

00:40:35,200 --> 00:40:36,319

securities so

590

00:40:36,319 --> 00:40:39,680

the u.s government issues

591

00:40:39,680 --> 00:40:43,119

bonds on a regular basis to finance

592

00:40:43,119 --> 00:40:46,880

its budget and the way they do that

593

00:40:46,880 --> 00:40:50,640

is through an auction system

594

00:40:50,640 --> 00:40:54,400

this auction system is documented

595

00:40:54,400 --> 00:40:58,160

on a website

596

00:40:58,160 --> 00:41:01,920

okay so let me make sure how do

597

00:41:01,920 --> 00:41:07,839

i make this big

598

00:41:09,920 --> 00:41:13,040

all right so this is the auction

599

00:41:13,040 --> 00:41:16,960

schedule of u.s government securities

600

00:41:16,960 --> 00:41:20,319

so what you have on the left side

601

00:41:20,319 --> 00:41:23,440

is the kind of securities that are going

602

00:41:23,440 --> 00:41:24,000

to be

603

00:41:24,000 --> 00:41:28,240

auctioned the date when the auction will

604

00:41:28,240 --> 00:41:28,640

be

605

00:41:28,640 --> 00:41:31,119

announced so that on that date the

606

00:41:31,119 --> 00:41:32,319

government

607

00:41:32,319 --> 00:41:35,760

through the fed which is acting as agent

608

00:41:35,760 --> 00:41:39,359

of the u.s treasury will announce

609

00:41:39,359 --> 00:41:42,160

how many they want to issue how much

610

00:41:42,160 --> 00:41:44,160

they want to issue

611

00:41:44,160 --> 00:41:47,200

the auction date is the date

612

00:41:47,200 --> 00:41:50,240

when the auction takes place

613

00:41:50,240 --> 00:41:53,440

and the settlement date is the date the

614

00:41:53,440 --> 00:41:55,040

money changes hands

615

00:41:55,040 --> 00:41:58,160

so you will notice that there is

616

00:41:58,160 --> 00:42:01,520

quite a bit of time going on

617

00:42:01,520 --> 00:42:04,960

between the time the auction date

618

00:42:04,960 --> 00:42:08,079

takes place and the date when the money

619

00:42:08,079 --> 00:42:11,440

changes had okay so

620

00:42:11,440 --> 00:42:15,440

we are talking about a few days now

621

00:42:15,440 --> 00:42:18,880

we look at here's this today is

622

00:42:18,880 --> 00:42:22,640

march 5th okay

623

00:42:22,640 --> 00:42:25,119

so today's friday is this new

624

00:42:25,119 --> 00:42:27,200

announcement today

625

00:42:27,200 --> 00:42:31,280

just yesterday there was an announcement

626

00:42:31,280 --> 00:42:34,480

of 3-year 10-year and 30-year

627

00:42:34,480 --> 00:42:37,760

auctions so the u.s

628

00:42:37,760 --> 00:42:41,119

treasury issues

629

00:42:41,119 --> 00:42:44,240

both short-term medium-term and

630

00:42:44,240 --> 00:42:47,280

long-term government securities

631

00:42:47,280 --> 00:42:50,640

you see that they have different names

632

00:42:50,640 --> 00:42:53,839

so anything that is under one year

633

00:42:53,839 --> 00:42:57,599

is called a treasury bill so you have

634

00:42:57,599 --> 00:43:01,920

4 week 8 week 13 week 26 weeks and you

635

00:43:01,920 --> 00:43:03,599

can see that these

636

00:43:03,599 --> 00:43:06,480

happen on a very regular basis so they

637

00:43:06,480 --> 00:43:07,680

issue quite a lot

638

00:43:07,680 --> 00:43:11,440

of treasury bills then they

639

00:43:11,440 --> 00:43:15,440

issue three year

640

00:43:15,440 --> 00:43:18,480

two years two years uh this is new

641

00:43:18,480 --> 00:43:21,119

actually they used not to do that two

642

00:43:21,119 --> 00:43:21,920

years

643

00:43:21,920 --> 00:43:25,280

three years five years seven year tenure

644

00:43:25,280 --> 00:43:29,920

and 30 year and 20 years is a new one

645

00:43:29,920 --> 00:43:32,960

so the longest one

646

00:43:32,960 --> 00:43:36,640

is the 30 year it's called the long

647

00:43:36,640 --> 00:43:40,000

bond so far the u.s

648

00:43:40,000 --> 00:43:43,119

government has not issued longer

649

00:43:43,119 --> 00:43:47,119

dated treasuries not the same in other

650

00:43:47,119 --> 00:43:50,400

countries other countries have issued

651

00:43:50,400 --> 00:43:53,680

50-year bonds and centennial bonds so

652

00:43:53,680 --> 00:43:54,960

we've had 100

653

00:43:54,960 --> 00:43:57,599

bonds particularly in europe and of

654

00:43:57,599 --> 00:43:58,880

course remember

655

00:43:58,880 --> 00:44:02,079

that the u.s used to issue perpetuals

656

00:44:02,079 --> 00:44:04,000

they used to issue consoles they haven't

657

00:44:04,000 --> 00:44:04,640

done that

658

00:44:04,640 --> 00:44:07,680

for a couple of centuries

659

00:44:07,680 --> 00:44:11,839

so the kind of things that you

660

00:44:11,839 --> 00:44:15,359

see here all right so

661

00:44:15,359 --> 00:44:18,640

starting from the top so we see

662

00:44:18,640 --> 00:44:22,240

three year 10 years 30-year 20-year

663

00:44:22,240 --> 00:44:24,480

and then you have this thing here it's

664

00:44:24,480 --> 00:44:26,400

called tips

665

00:44:26,400 --> 00:44:30,440

tips stands for treasury

666

00:44:30,440 --> 00:44:35,200

inflation protected securities

667

00:44:35,200 --> 00:44:38,640

what that means is that the return

668

00:44:38,640 --> 00:44:41,440

for the investors has built in

669

00:44:41,440 --> 00:44:42,480

protection

670

00:44:42,480 --> 00:44:45,920

on against inflation okay so

671

00:44:45,920 --> 00:44:49,680

tips as you can see you have 10 new tips

672

00:44:49,680 --> 00:44:53,119

20 30-year tips these are inflation

673

00:44:53,119 --> 00:44:56,240

protected securities in hong kong we

674

00:44:56,240 --> 00:44:57,920

have something similar

675

00:44:57,920 --> 00:45:00,480

similar which is called the i bond

676

00:45:00,480 --> 00:45:02,720

inflation protected bond

677

00:45:02,720 --> 00:45:06,480

all right so it pays you

678

00:45:06,480 --> 00:45:10,240

a coupon which is based on inflation

679

00:45:10,240 --> 00:45:12,880

so if you worried that inflation might

680

00:45:12,880 --> 00:45:14,160

pick up

681

00:45:14,160 --> 00:45:16,079

then tips are a very very good

682

00:45:16,079 --> 00:45:17,680

investment

683

00:45:17,680 --> 00:45:21,200

you can see also in green

684

00:45:21,200 --> 00:45:24,560

the two-year f r n

685

00:45:24,560 --> 00:45:28,000

f r n stands for

686

00:45:28,000 --> 00:45:32,240

floating rate note this

687

00:45:32,240 --> 00:45:35,040

is a slightly different instrument which

688

00:45:35,040 --> 00:45:35,760

the us

689

00:45:35,760 --> 00:45:39,200

government started issuing after the

690

00:45:39,200 --> 00:45:42,560

global financial crisis and

691

00:45:42,560 --> 00:45:45,760

unlike all the other notes and bonds

692

00:45:45,760 --> 00:45:48,800

the rate of interest

693

00:45:48,800 --> 00:45:52,480

on those is floating that means

694

00:45:52,480 --> 00:45:54,480

that rather than staying the same

695

00:45:54,480 --> 00:45:55,680

throughout the life

696

00:45:55,680 --> 00:45:58,720

of the bond it changes

697

00:45:58,720 --> 00:46:02,079

at every coupon period okay

698

00:46:02,079 --> 00:46:05,520

in that market we have instruments that

699

00:46:05,520 --> 00:46:05,839

have

700

00:46:05,839 --> 00:46:08,960

fixed rate and instruments that are

701

00:46:08,960 --> 00:46:12,839

floating rate so the floating rate

702

00:46:12,839 --> 00:46:16,880

resets at periodic intervals

703

00:46:16,880 --> 00:46:20,400

by reference to a reference rate

704

00:46:20,400 --> 00:46:23,760

okay so you can see

705

00:46:23,760 --> 00:46:27,359

all these different issues and the

706

00:46:27,359 --> 00:46:30,079

auction schedule takes you out quite far

707

00:46:30,079 --> 00:46:30,640

out

708

00:46:30,640 --> 00:46:33,920

okay so the way the government in the

709

00:46:33,920 --> 00:46:34,480

u.s

710

00:46:34,480 --> 00:46:37,359

does it is very well scripted so

711

00:46:37,359 --> 00:46:38,640

everybody knows

712

00:46:38,640 --> 00:46:42,480

exactly what to expect

713

00:46:42,480 --> 00:46:45,599

now again the treasury bills

714

00:46:45,599 --> 00:46:47,839

are government securities with less than

715

00:46:47,839 --> 00:46:48,960

one year

716

00:46:48,960 --> 00:46:52,800

in maturity because they are short-term

717

00:46:52,800 --> 00:46:55,440

there are zero coupons so they are

718

00:46:55,440 --> 00:46:56,000

issued

719

00:46:56,000 --> 00:47:00,160

at a discount to yield notes and bonds

720

00:47:00,160 --> 00:47:03,520

on the other hand are coupon bonds

721

00:47:03,520 --> 00:47:07,040

all right why do we call notes and bonds

722

00:47:07,040 --> 00:47:10,079

it's based on the maturity

723

00:47:10,079 --> 00:47:14,560

so tenure and under we call it a note

724

00:47:14,560 --> 00:47:18,640

above tenure we call it a bond

725

00:47:18,640 --> 00:47:21,680

and the 30 year bond is called

726

00:47:21,680 --> 00:47:24,960

the long bond all right

727

00:47:24,960 --> 00:47:28,319

any questions on these

728

00:47:33,680 --> 00:47:36,960

okay all right

729

00:47:36,960 --> 00:47:39,200

now there's a lot more things to know

730

00:47:39,200 --> 00:47:41,520

about government security discounter

731

00:47:41,520 --> 00:47:42,079

yield

732

00:47:42,079 --> 00:47:46,079

is basically that you issue

733

00:47:46,079 --> 00:47:50,240

the treasury bill at a discount to the

734

00:47:50,240 --> 00:47:51,280

face value

735

00:47:51,280 --> 00:47:53,280

because there's no coupon so you will

736

00:47:53,280 --> 00:47:54,720

notice here

737

00:47:54,720 --> 00:47:58,480

right that your zero coupon bond

738

00:47:58,480 --> 00:48:01,839

has a price which is lower

739

00:48:01,839 --> 00:48:05,359

than its face value all right so when

740

00:48:05,359 --> 00:48:06,319

you issue

741

00:48:06,319 --> 00:48:09,440

a chain day you sometimes you're

742

00:48:09,440 --> 00:48:13,359

bouncing up and down it's really funny

743

00:48:13,359 --> 00:48:17,200

um so when you issue these bills

744

00:48:17,200 --> 00:48:19,280

of course assuming always positive

745

00:48:19,280 --> 00:48:20,880

interest rate they will be

746

00:48:20,880 --> 00:48:25,520

issued at a discount okay

747

00:48:25,520 --> 00:48:28,079

and this is actually the case for most

748

00:48:28,079 --> 00:48:29,040

of the

749

00:48:29,040 --> 00:48:31,920

money market instruments the very

750

00:48:31,920 --> 00:48:33,760

short-dated

751

00:48:33,760 --> 00:48:36,559

instruments like commercial paper

752

00:48:36,559 --> 00:48:38,160

certificates of deposit

753

00:48:38,160 --> 00:48:40,640

treasury bills banker's acceptances tend

754

00:48:40,640 --> 00:48:42,160

to be issued

755

00:48:42,160 --> 00:48:46,880

with no coupons so discount to yield

756

00:48:47,520 --> 00:48:50,640

all right so um

757

00:48:50,640 --> 00:48:53,920

yield curve briefly we've talked about

758

00:48:53,920 --> 00:48:56,319

it the term structure of interest rates

759

00:48:56,319 --> 00:48:58,000

and the yield curve

760

00:48:58,000 --> 00:49:01,359

normally is upward sloping

761

00:49:01,359 --> 00:49:05,359

okay so this is a normal yield curve

762

00:49:05,359 --> 00:49:09,599

why because you would normally expect

763

00:49:09,599 --> 00:49:12,640

lower return for shorter dates and

764

00:49:12,640 --> 00:49:14,000

higher returns

765

00:49:14,000 --> 00:49:17,200

for longer term dates okay

766

00:49:17,200 --> 00:49:20,800

however yield curves have been known to

767

00:49:20,800 --> 00:49:24,240

flatten and to invert

768

00:49:24,240 --> 00:49:27,040

and when that happens it's a sign that

769

00:49:27,040 --> 00:49:27,920

something is

770

00:49:27,920 --> 00:49:30,559

very very bizarre happening in the

771

00:49:30,559 --> 00:49:32,800

market so when you see the yield curve

772

00:49:32,800 --> 00:49:33,839

start to

773

00:49:33,839 --> 00:49:37,040

having very sudden movement uh

774

00:49:37,040 --> 00:49:40,400

then that is typically a signal

775

00:49:40,400 --> 00:49:42,839

that something is happening in the

776

00:49:42,839 --> 00:49:44,800

market

777

00:49:44,800 --> 00:49:47,359

all right so now let's talk about coupon

778

00:49:47,359 --> 00:49:49,839

bonds which is the most common form of

779

00:49:49,839 --> 00:49:50,480

bonds

780

00:49:50,480 --> 00:49:54,079

in the market they pay the face value

781

00:49:54,079 --> 00:49:57,119

remember face value principal par value

782

00:49:57,119 --> 00:49:59,599

notional value it's all the same thing

783

00:49:59,599 --> 00:50:02,400

it's the amount that the issuer has

784

00:50:02,400 --> 00:50:03,200

effectively

785

00:50:03,200 --> 00:50:05,040

borrowed by issuing the bond and that

786

00:50:05,040 --> 00:50:06,400

they have to pay back

787

00:50:06,400 --> 00:50:10,079

at maturity and they also make regular

788

00:50:10,079 --> 00:50:14,079

coupon interest payments the return on

789

00:50:14,079 --> 00:50:15,280

the coupon bond

790

00:50:15,280 --> 00:50:18,000

therefore comes from the difference

791

00:50:18,000 --> 00:50:19,359

between the price

792

00:50:19,359 --> 00:50:21,839

at which you buy the bond and the

793

00:50:21,839 --> 00:50:23,040

principal value

794

00:50:23,040 --> 00:50:26,400

assuming you hold it to maturity and of

795

00:50:26,400 --> 00:50:26,960

course

796

00:50:26,960 --> 00:50:30,000

your coupon payment so

797

00:50:30,000 --> 00:50:31,920

in order to compute the yield to

798

00:50:31,920 --> 00:50:34,160

maturity of a coupon bond

799

00:50:34,160 --> 00:50:36,400

we need to know the coupon interest

800

00:50:36,400 --> 00:50:40,559

payments and when they are paid and then

801

00:50:40,559 --> 00:50:41,839

we will be using

802

00:50:41,839 --> 00:50:45,440

our tried and trusted formula

803

00:50:45,440 --> 00:50:49,040

to calculate the price so in order to

804

00:50:49,040 --> 00:50:51,119

know the price we need to know the

805

00:50:51,119 --> 00:50:53,200

coupon payments we need to know

806

00:50:53,200 --> 00:50:55,359

the yield to maturity we need to know

807

00:50:55,359 --> 00:50:57,440

the number of periods and we need to

808

00:50:57,440 --> 00:50:58,240

know

809

00:50:58,240 --> 00:51:00,880

the principle this is the same slide as

810

00:51:00,880 --> 00:51:02,240

before huh

811

00:51:02,240 --> 00:51:06,319

nothing new here all right so let's

812

00:51:06,319 --> 00:51:09,359

try it out we have a

813

00:51:09,359 --> 00:51:12,400

five-year 1 000

814

00:51:12,400 --> 00:51:15,760

bond 2.2 coupon rate

815

00:51:15,760 --> 00:51:19,119

semi-annual coupons and we know the

816

00:51:19,119 --> 00:51:19,920

price

817

00:51:19,920 --> 00:51:23,040

at which it is trading we want to find

818

00:51:23,040 --> 00:51:23,839

out

819

00:51:23,839 --> 00:51:27,119

the yield to maturity let's stop

820

00:51:27,119 --> 00:51:30,480

briefly here because one of the things

821

00:51:30,480 --> 00:51:30,800

that

822

00:51:30,800 --> 00:51:34,800

is very confusing about bond prices and

823

00:51:34,800 --> 00:51:37,280

fixed income in general

824

00:51:37,280 --> 00:51:40,800

is that you have two rates you have the

825

00:51:40,800 --> 00:51:42,720

coupon rate

826

00:51:42,720 --> 00:51:45,839

which is used to calculate the interest

827

00:51:45,839 --> 00:51:47,680

payment in other words the coupon

828

00:51:47,680 --> 00:51:48,720

payment

829

00:51:48,720 --> 00:51:51,839

and you have the yield to maturity which

830

00:51:51,839 --> 00:51:53,920

is the return on the bond

831

00:51:53,920 --> 00:51:57,920

okay so don't be confused the coupon

832

00:51:57,920 --> 00:51:58,559

rate

833

00:51:58,559 --> 00:52:01,280

is only used to calculate the coupon

834

00:52:01,280 --> 00:52:02,960

payments

835

00:52:02,960 --> 00:52:06,400

okay it's not the yield to maturity

836

00:52:06,400 --> 00:52:09,760

okay now notice also we say

837

00:52:09,760 --> 00:52:12,720

a one thousand dollar bond what does it

838

00:52:12,720 --> 00:52:13,200

mean

839

00:52:13,200 --> 00:52:15,680

it means that one thousand is the

840

00:52:15,680 --> 00:52:17,119

principal amount

841

00:52:17,119 --> 00:52:21,119

of face value okay so when you say

842

00:52:21,119 --> 00:52:24,480

a five-year 2.2 percent one thousand

843

00:52:24,480 --> 00:52:25,839

dollar bond

844

00:52:25,839 --> 00:52:28,319

it's a shorthand way of giving you

845

00:52:28,319 --> 00:52:30,880

essential information

846

00:52:30,880 --> 00:52:34,480

okay we'll say a five-year 2.2 percent

847

00:52:34,480 --> 00:52:36,240

semi-annual 1 000

848

00:52:36,240 --> 00:52:41,119

bond trading at 963.11

849

00:52:41,119 --> 00:52:44,720

okay so here you have the information

850

00:52:44,720 --> 00:52:45,280

you have

851

00:52:45,280 --> 00:52:49,280

five-year 2.2 coupon rate

852

00:52:49,280 --> 00:52:53,119

but big trap

853

00:52:53,119 --> 00:52:56,880

semi on your coupons since you have

854

00:52:56,880 --> 00:52:59,200

semi annual coupons you have to bring

855

00:52:59,200 --> 00:53:00,319

everything on a

856

00:53:00,319 --> 00:53:03,520

semi-annual basis okay

857

00:53:03,520 --> 00:53:06,720

we have the current price and we want to

858

00:53:06,720 --> 00:53:11,520

solve for the rate the yield to maturity

859

00:53:12,079 --> 00:53:15,200

so you can do it with your financial

860

00:53:15,200 --> 00:53:16,240

calculator

861

00:53:16,240 --> 00:53:18,800

or you can do it with your spreadsheet

862

00:53:18,800 --> 00:53:19,839

all right

863

00:53:19,839 --> 00:53:23,680

so the number of periods it's 10

864

00:53:23,680 --> 00:53:27,680

because we have semi-annual frequency

865

00:53:27,680 --> 00:53:30,960

okay so five year times

866

00:53:30,960 --> 00:53:35,440

two equals ten periods

867

00:53:35,920 --> 00:53:41,599

the present value is 963.11 this is the

868

00:53:41,599 --> 00:53:42,160

money you

869

00:53:42,160 --> 00:53:45,839

invest to buy the bond

870

00:53:45,839 --> 00:53:48,720

the payment so the payment is basically

871

00:53:48,720 --> 00:53:49,839

the coupon

872

00:53:49,839 --> 00:53:52,960

okay so how do we find the coupon

873

00:53:52,960 --> 00:53:56,400

we multiply the face value

874

00:53:56,400 --> 00:54:00,480

by the coupon rate and divide by two

875

00:54:00,480 --> 00:54:05,200

because it's a semi-annual frequency

876

00:54:05,280 --> 00:54:07,760

the face value of future value is one

877

00:54:07,760 --> 00:54:09,280

thousand dollar you can

878

00:54:09,280 --> 00:54:13,440

solve for the yield to maturity

879

00:54:13,440 --> 00:54:17,280

which is 1.5 but you don't stop there

880

00:54:17,280 --> 00:54:19,200

because it's 1.5

881

00:54:19,200 --> 00:54:23,280

semi-annual so to find the equivalent

882

00:54:23,280 --> 00:54:27,119

annual rate you have to multiply by two

883

00:54:27,119 --> 00:54:30,400

okay so that gives you a three percent

884

00:54:30,400 --> 00:54:35,760

apr all right

885

00:54:35,839 --> 00:54:39,200

okay so to recap

886

00:54:39,200 --> 00:54:44,400

here you have all the information beware

887

00:54:44,400 --> 00:54:47,599

the trap whenever you have

888

00:54:47,599 --> 00:54:49,599

monthly payment to semi-annual payment

889

00:54:49,599 --> 00:54:51,200

quarterly payment you have to bring

890

00:54:51,200 --> 00:54:54,400

everything that is to say the rate

891

00:54:54,400 --> 00:54:58,000

and the um

892

00:54:58,000 --> 00:55:01,280

number of periods on an equivalent basis

893

00:55:01,280 --> 00:55:03,520

so here we need to calculate the coupon

894

00:55:03,520 --> 00:55:05,040

payment

895

00:55:05,040 --> 00:55:08,720

okay which is

896

00:55:08,720 --> 00:55:11,280

the face value times the coupon rate

897

00:55:11,280 --> 00:55:12,880

divide by two

898

00:55:12,880 --> 00:55:16,559

because this is an annual rate

899

00:55:16,559 --> 00:55:19,440

and then you have all the information

900

00:55:19,440 --> 00:55:20,480

you need

901

00:55:20,480 --> 00:55:25,599

to solve for the yield to maturity

902

00:55:25,599 --> 00:55:28,720

all right and you can do that with your

903

00:55:28,720 --> 00:55:29,839

spreadsheet

904

00:55:29,839 --> 00:55:32,839

or you can do that with your financial

905

00:55:32,839 --> 00:55:34,480

calculator

906

00:55:34,480 --> 00:55:37,200

in both cases you should find three

907

00:55:37,200 --> 00:55:37,839

percent

908

00:55:37,839 --> 00:55:42,720

apr with semiannual compounding

909

00:55:42,720 --> 00:55:45,839

uh professor i

910

00:55:45,839 --> 00:55:49,720

got a value of 3.1 is that

911

00:55:49,720 --> 00:55:52,720

3.16

912

00:55:52,720 --> 00:55:56,240

what did you use uh i tried to do it

913

00:55:56,240 --> 00:55:57,920

manually to get the process

914

00:55:57,920 --> 00:56:00,480

so what i did was i calculated the

915

00:56:00,480 --> 00:56:02,400

coupon rate uh

916

00:56:02,400 --> 00:56:04,880

on the face value so thousand into one

917

00:56:04,880 --> 00:56:05,920

point

918

00:56:05,920 --> 00:56:09,119

zero one one uh resupport n since it's

919

00:56:09,119 --> 00:56:11,440

compounded semi-annually a thousand

920

00:56:11,440 --> 00:56:12,640

times

921

00:56:12,640 --> 00:56:15,040

two percent what is it one thousand

922

00:56:15,040 --> 00:56:17,599

times two point two percent

923

00:56:17,599 --> 00:56:20,240

uh yeah but i divided that by two since

924

00:56:20,240 --> 00:56:20,960

it's

925

00:56:20,960 --> 00:56:23,760

so yeah uh payment should be your coupon

926

00:56:23,760 --> 00:56:25,200

payment should be eleven

927

00:56:25,200 --> 00:56:29,200

dollars uh

928

00:56:29,200 --> 00:56:32,799

yes professor right and then what else

929

00:56:32,799 --> 00:56:34,400

did you do

930

00:56:34,400 --> 00:56:38,160

uh so i calculated the overall

931

00:56:38,160 --> 00:56:40,799

value the amount of coupon payments and

932

00:56:40,799 --> 00:56:41,760

the

933

00:56:41,760 --> 00:56:43,920

final value including the face value

934

00:56:43,920 --> 00:56:44,880

would be

935

00:56:44,880 --> 00:56:48,240

uh a thousand uh hundred and fifteen

936

00:56:48,240 --> 00:56:51,680

dollars i added the coupon

937

00:56:51,680 --> 00:56:55,119

uh values actually no no no i got i got

938

00:56:55,119 --> 00:56:57,680

the mistake professor

939

00:56:57,680 --> 00:57:01,200

okay okay so

940

00:57:01,200 --> 00:57:03,599

ariel is asking me the coupon rate is on

941

00:57:03,599 --> 00:57:05,359

the face value yes

942

00:57:05,359 --> 00:57:08,400

so to calculate the coupon payments you

943

00:57:08,400 --> 00:57:09,839

simply take the face

944

00:57:09,839 --> 00:57:13,599

value and multiply by the coupon rate

945

00:57:13,599 --> 00:57:15,520

and then you have to adjust by the

946

00:57:15,520 --> 00:57:18,000

frequency so if it's semi-annual you

947

00:57:18,000 --> 00:57:19,680

divide by two

948

00:57:19,680 --> 00:57:22,000

okay

949

00:57:23,839 --> 00:57:27,599

all right

950

00:57:27,599 --> 00:57:31,520

now let's look at another one

951

00:57:31,520 --> 00:57:34,880

um where we did okay now you have

952

00:57:34,880 --> 00:57:37,920

a five-year 1000

953

00:57:37,920 --> 00:57:41,920

bond 2.2 percent coupon rate

954

00:57:41,920 --> 00:57:45,440

semi-annual coupons and now

955

00:57:45,440 --> 00:57:47,599

the yield now we give you the yield to

956

00:57:47,599 --> 00:57:48,559

maturity

957

00:57:48,559 --> 00:57:51,760

it's two percent okay

958

00:57:51,760 --> 00:57:54,799

expressed as an apr

959

00:57:54,799 --> 00:57:57,839

okay so this is the annual rate all

960

00:57:57,839 --> 00:57:58,720

right

961

00:57:58,720 --> 00:58:01,920

with semi-annual compounding so

962

00:58:01,920 --> 00:58:05,359

last time we sold for the rate now we

963

00:58:05,359 --> 00:58:08,880

want to solve for the price okay

964

00:58:08,880 --> 00:58:14,079

so we know the yield to maturity but

965

00:58:14,079 --> 00:58:17,200

be careful it's as an apr

966

00:58:17,200 --> 00:58:20,160

we know the number of periods be careful

967

00:58:20,160 --> 00:58:22,160

it's on a yearly basis you have to

968

00:58:22,160 --> 00:58:24,799

adjust for seminar no compounding

969

00:58:24,799 --> 00:58:28,319

you know the face value

970

00:58:28,319 --> 00:58:32,160

you need to find out the price

971

00:58:32,160 --> 00:58:34,720

okay so now we solve for the price which

972

00:58:34,720 --> 00:58:37,839

is the present value

973

00:58:38,640 --> 00:58:42,720

so the two percent apr is equivalent to

974

00:58:42,720 --> 00:58:46,480

a one percent semi-annual rate

975

00:58:46,480 --> 00:58:49,760

the cash flows are 10 payments of

976

00:58:49,760 --> 00:58:53,200

11 that is not changed okay because we

977

00:58:53,200 --> 00:58:55,520

have the same face value the same coupon

978

00:58:55,520 --> 00:58:57,520

rate the same

979

00:58:57,520 --> 00:59:00,480

uh maturity as well so you still have

980

00:59:00,480 --> 00:59:01,920

your 11

981

00:59:01,920 --> 00:59:06,160

coupon payment 10 times every six months

982

00:59:06,160 --> 00:59:09,359

and the last flow cash flow which is one

983

00:59:09,359 --> 00:59:11,839

thousand dollar the face value

984

00:59:11,839 --> 00:59:15,200

at the end of five years

985

00:59:15,200 --> 00:59:18,880

okay we want to find out

986

00:59:18,880 --> 00:59:22,559

what is the price so we can use the

987

00:59:22,559 --> 00:59:25,599

financial calculator or the spreadsheet

988

00:59:25,599 --> 00:59:29,280

the number of period is ten the yield

989

00:59:29,280 --> 00:59:32,960

is one percent semi-annually the payment

990

00:59:32,960 --> 00:59:35,920

is eleven dollars semi-annually the

991

00:59:35,920 --> 00:59:38,000

phase the future value is one thousand

992

00:59:38,000 --> 00:59:38,720

dollar we

993

00:59:38,720 --> 00:59:42,480

solve for the present value which is

994

00:59:42,480 --> 00:59:47,839

one thousand and nine point four

995

00:59:47,839 --> 00:59:51,280

oh hmm

996

00:59:51,280 --> 01:00:00,400

do you see something weird

997

01:00:00,400 --> 01:00:03,119

what happened

998

01:00:07,680 --> 01:00:10,079

that's right the present value is higher

999

01:00:10,079 --> 01:00:12,319

than the future value

1000

01:00:12,319 --> 01:00:17,520

what happened so notice that before

1001

01:00:17,599 --> 01:00:19,530

we had found out that the

1002

01:00:19,530 --> 01:00:20,960

[Music]

1003

01:00:20,960 --> 01:00:24,079

yield was three percent apr okay

1004

01:00:24,079 --> 01:00:26,319

this was the yield to maturity when we

1005

01:00:26,319 --> 01:00:28,880

calculated it but now

1006

01:00:28,880 --> 01:00:32,319

notice that the rates in the market have

1007

01:00:32,319 --> 01:00:33,200

gone down

1008

01:00:33,200 --> 01:00:36,319

quite a lot okay so the

1009

01:00:36,319 --> 01:00:40,839

yield has gone down in the market to two

1010

01:00:40,839 --> 01:00:42,000

percent

1011

01:00:42,000 --> 01:00:44,480

that makes our existing bond more

1012

01:00:44,480 --> 01:00:46,000

valuable

1013

01:00:46,000 --> 01:00:50,640

okay that's why the price has gone up

1014

01:00:51,839 --> 01:00:55,440

all right let's apply this with

1015

01:00:55,440 --> 01:00:58,160

i think it's a purest question now you

1016

01:00:58,160 --> 01:00:58,880

have

1017

01:00:58,880 --> 01:01:02,720

a nine-year 1 000

1018

01:01:02,720 --> 01:01:05,920

note 3 coupon rate

1019

01:01:05,920 --> 01:01:13,680

semi-annual coupon trading at 1 1038.32

1020

01:01:13,680 --> 01:01:17,839

what is the yield to maturity so benson

1021

01:01:17,839 --> 01:01:25,839

the screen is yours

1022

01:01:50,839 --> 01:01:53,839

so

1023

01:02:46,839 --> 01:02:49,839

my

1024

01:03:14,839 --> 01:03:17,839

so

1025

01:03:42,839 --> 01:03:45,839

so

1026

01:03:56,839 --> 01:03:59,839

so

1027

01:04:14,570 --> 01:04:25,729

[Music]

1028

01:04:28,079 --> 01:04:32,880

okay half the class fell into a trap

1029

01:04:32,880 --> 01:04:36,000

okay very funny all right so

1030

01:04:36,000 --> 01:04:41,119

let's walk through the answers

1031

01:04:41,119 --> 01:04:44,880

okay all right so it's exactly the same

1032

01:04:44,880 --> 01:04:46,960

problem as before just with different

1033

01:04:46,960 --> 01:04:47,680

numbers

1034

01:04:47,680 --> 01:04:51,520

this is a nine year 1 000

1035

01:04:51,520 --> 01:04:55,839

note 3 coupon rate semi-annual coupons

1036

01:04:55,839 --> 01:04:57,359

don't forget

1037

01:04:57,359 --> 01:05:02,799

and it's trading at 1038.32 which you

1038

01:05:02,799 --> 01:05:03,680

will notice

1039

01:05:03,680 --> 01:05:06,319

is higher than the principal amount

1040

01:05:06,319 --> 01:05:06,880

right

1041

01:05:06,880 --> 01:05:09,280

and we want to know what's the yield to

1042

01:05:09,280 --> 01:05:11,839

maturity

1043

01:05:11,839 --> 01:05:15,760

so we have 18 payments

1044

01:05:15,760 --> 01:05:18,559

of 15 so the first thing you do is you

1045

01:05:18,559 --> 01:05:20,559

have to compute

1046

01:05:20,559 --> 01:05:22,960

the coupon which is three percent times

1047

01:05:22,960 --> 01:05:24,640

one thousand divided by

1048

01:05:24,640 --> 01:05:28,640

two and convert the nine year

1049

01:05:28,640 --> 01:05:31,599

into semi-annual period so that we have

1050

01:05:31,599 --> 01:05:34,720

everything on a semi-annual basis

1051

01:05:34,720 --> 01:05:39,280

and then solve for the yield to maturity

1052

01:05:39,280 --> 01:05:43,200

so we have 18 period we have the price

1053

01:05:43,200 --> 01:05:45,039

with the negative number

1054

01:05:45,039 --> 01:05:48,799

we have payments of 15 every six months

1055

01:05:48,799 --> 01:05:50,880

and we have the future value which is

1056

01:05:50,880 --> 01:05:52,160

1000

1057

01:05:52,160 --> 01:05:55,440

we solve for the rate but

1058

01:05:55,440 --> 01:05:58,640

this is a semiannual rate

1059

01:05:58,640 --> 01:06:01,839

so you have to convert it into an apr

1060

01:06:01,839 --> 01:06:05,039

by multiplying by two so

1061

01:06:05,039 --> 01:06:08,319

don't stop at six months you have to

1062

01:06:08,319 --> 01:06:11,599

convert it into an apr

1063

01:06:11,599 --> 01:06:15,039

by multiplying it by two

1064

01:06:15,039 --> 01:06:20,799

okay any questions so far

1065

01:06:21,680 --> 01:06:23,280

so these are the kind of questions

1066

01:06:23,280 --> 01:06:25,839

you'll have in your next quiz

1067

01:06:25,839 --> 01:06:28,960

and in the midterm exam

1068

01:06:28,960 --> 01:06:32,319

okay all right

1069

01:06:32,319 --> 01:06:35,520

so a very important

1070

01:06:35,520 --> 01:06:38,640

question and something that trips a lot

1071

01:06:38,640 --> 01:06:39,520

of people

1072

01:06:39,520 --> 01:06:42,400

is the relationship between the price of

1073

01:06:42,400 --> 01:06:43,440

the bond

1074

01:06:43,440 --> 01:06:48,160

and interest rates it's very important

1075

01:06:48,160 --> 01:06:50,559

the bonds promise fixed payment on

1076

01:06:50,559 --> 01:06:51,920

future dates

1077

01:06:51,920 --> 01:06:55,039

so you remember the relationship

1078

01:06:55,039 --> 01:06:58,880

the higher the interest rate the lower

1079

01:06:58,880 --> 01:07:01,440

the present value though this is

1080

01:07:01,440 --> 01:07:03,599

something we talked about before

1081

01:07:03,599 --> 01:07:06,640

everything else being equal the

1082

01:07:06,640 --> 01:07:09,680

higher the rate of interest the lower

1083

01:07:09,680 --> 01:07:11,520

the present value

1084

01:07:11,520 --> 01:07:14,640

so the value of the bond which is simply

1085

01:07:14,640 --> 01:07:18,000

the present value of the cash flow

1086

01:07:18,000 --> 01:07:21,280

varies inversely with the rate of

1087

01:07:21,280 --> 01:07:22,640

interest that you use

1088

01:07:22,640 --> 01:07:25,599

to calculate the present value in other

1089

01:07:25,599 --> 01:07:29,839

words with the yield to maturity

1090

01:07:29,839 --> 01:07:33,280

so let's look at an example

1091

01:07:33,280 --> 01:07:36,079

we have a bond with one thousand dollar

1092

01:07:36,079 --> 01:07:39,039

face value par value principal value

1093

01:07:39,039 --> 01:07:42,319

notional value the coupon rate

1094

01:07:42,319 --> 01:07:45,760

is 3.15 this is annual

1095

01:07:45,760 --> 01:07:49,520

and seven year to maturity

1096

01:07:49,520 --> 01:07:52,880

so we can calculate the coupon payment

1097

01:07:52,880 --> 01:07:53,760

which is

1098

01:07:53,760 --> 01:07:56,920

the face value times the coupon rate is

1099

01:07:56,920 --> 01:07:58,319

31.50

1100

01:07:58,319 --> 01:08:00,960

this is annual frequency we don't have

1101

01:08:00,960 --> 01:08:01,839

to adjust for

1102

01:08:01,839 --> 01:08:04,799

anything we know at the end we will get

1103

01:08:04,799 --> 01:08:07,839

one thousand dollar and there is

1104

01:08:07,839 --> 01:08:12,240

seven annual period so

1105

01:08:12,240 --> 01:08:15,440

depending on what is available if you

1106

01:08:15,440 --> 01:08:16,399

have the price

1107

01:08:16,399 --> 01:08:18,560

you can calculate the yield to maturity

1108

01:08:18,560 --> 01:08:20,238

if you have the yield to maturity you

1109

01:08:20,238 --> 01:08:22,560

can calculate the prices so

1110

01:08:22,560 --> 01:08:25,600

notice so far i didn't give you

1111

01:08:25,600 --> 01:08:28,880

either of the bond price

1112

01:08:28,880 --> 01:08:31,920

or the yield to maturity you need

1113

01:08:31,920 --> 01:08:34,319

one of those to complete the four

1114

01:08:34,319 --> 01:08:35,439

variables

1115

01:08:35,439 --> 01:08:38,479

okay so using

1116

01:08:38,479 --> 01:08:42,158

our formula we have the 31.5 coupon

1117

01:08:42,158 --> 01:08:42,880

payments

1118

01:08:42,880 --> 01:08:46,719

up to and including year 7 the 1000

1119

01:08:46,719 --> 01:08:47,238

payment

1120

01:08:47,238 --> 01:08:50,560

iq7 and if

1121

01:08:50,560 --> 01:08:54,399

we use two percent for this yield to

1122

01:08:54,399 --> 01:08:55,920

maturity

1123

01:08:55,920 --> 01:09:02,399

we find the price to be 1074.43

1124

01:09:02,399 --> 01:09:05,439

which we can express as a

1125

01:09:05,439 --> 01:09:09,279

percentage of the par value

1126

01:09:09,279 --> 01:09:11,920

okay the par value being one thousand

1127

01:09:11,920 --> 01:09:12,880

dollar

1128

01:09:12,880 --> 01:09:15,198

we can express the price of the bond

1129

01:09:15,198 --> 01:09:16,399

today

1130

01:09:16,399 --> 01:09:18,960

as a hundred seven point four four

1131

01:09:18,960 --> 01:09:19,839

percent

1132

01:09:19,839 --> 01:09:23,759

of the par value inversely

1133

01:09:23,759 --> 01:09:27,759

if our yield to maturity is 4

1134

01:09:27,759 --> 01:09:32,960

the price of the bond is 948.98

1135

01:09:32,960 --> 01:09:35,359

which is ninety four point nine zero

1136

01:09:35,359 --> 01:09:36,399

percent

1137

01:09:36,399 --> 01:09:39,520

of the par value okay

1138

01:09:39,520 --> 01:09:42,399

so you've noticed we did this before

1139

01:09:42,399 --> 01:09:43,279

that when we

1140

01:09:43,279 --> 01:09:46,319

changed the yield to maturity

1141

01:09:46,319 --> 01:09:49,839

we had a change in the price okay

1142

01:09:49,839 --> 01:09:53,600

so what we observe here is that for a

1143

01:09:53,600 --> 01:09:54,640

lower

1144

01:09:54,640 --> 01:09:57,360

yield to maturity everything else being

1145

01:09:57,360 --> 01:09:58,000

equal

1146

01:09:58,000 --> 01:10:01,120

the price is higher for

1147

01:10:01,120 --> 01:10:04,719

a higher yield to maturity the price is

1148

01:10:04,719 --> 01:10:07,920

lower now why express it

1149

01:10:07,920 --> 01:10:11,520

as a percentage of the pi value

1150

01:10:11,520 --> 01:10:16,800

this is terminology in the market

1151

01:10:16,800 --> 01:10:20,560

when the price is higher than a hundred

1152

01:10:20,560 --> 01:10:21,199

percent

1153

01:10:21,199 --> 01:10:24,640

of par value we say it trades

1154

01:10:24,640 --> 01:10:28,239

at the premium when it's lower than a

1155

01:10:28,239 --> 01:10:29,280

hundred percent of

1156

01:10:29,280 --> 01:10:33,360

our value we say trades at a discount

1157

01:10:33,360 --> 01:10:35,840

when it's exactly a hundred percent we

1158

01:10:35,840 --> 01:10:37,120

say it trades

1159

01:10:37,120 --> 01:10:44,960

at par okay

1160

01:10:44,960 --> 01:10:48,239

all right so when the yield to maturity

1161

01:10:48,239 --> 01:10:51,120

is equal to the coupon rate you'll find

1162

01:10:51,120 --> 01:10:53,679

that the bond price is a hundred percent

1163

01:10:53,679 --> 01:10:57,040

of par value we say the bond trades at

1164

01:10:57,040 --> 01:10:58,239

par

1165

01:10:58,239 --> 01:11:00,719

if the yield to maturity is higher than

1166

01:11:00,719 --> 01:11:02,239

the coupon rate

1167

01:11:02,239 --> 01:11:04,400

then the bond price will be less than a

1168

01:11:04,400 --> 01:11:05,840

hundred percent of par

1169

01:11:05,840 --> 01:11:09,040

and the bond will trade at a discount

1170

01:11:09,040 --> 01:11:11,920

if the yield to maturity is lower than

1171

01:11:11,920 --> 01:11:12,880

the coupon rate

1172

01:11:12,880 --> 01:11:14,960

the price will be higher than 100

1173

01:11:14,960 --> 01:11:16,640

percent of par value

1174

01:11:16,640 --> 01:11:21,280

and we say the bond trades at a premium

1175

01:11:21,280 --> 01:11:27,280

the tenor amplifies these variations

1176

01:11:27,280 --> 01:11:30,400

all right any questions

1177

01:11:30,400 --> 01:11:33,120

this is a lot of terminology okay i've

1178

01:11:33,120 --> 01:11:35,679

swamped you with the terminology

1179

01:11:35,679 --> 01:11:38,320

don't panic okay because underneath it

1180

01:11:38,320 --> 01:11:38,719

all

1181

01:11:38,719 --> 01:11:41,679

it's the same old dcf calculation with

1182

01:11:41,679 --> 01:11:43,520

the five variables

1183

01:11:43,520 --> 01:11:45,760

so what you need to do is get more

1184

01:11:45,760 --> 01:11:48,000

familiar with the equivalent bond

1185

01:11:48,000 --> 01:11:50,159

terminology

1186

01:11:50,159 --> 01:11:53,199

all right so in dcf we talk about the

1187

01:11:53,199 --> 01:11:54,480

rate

1188

01:11:54,480 --> 01:11:56,640

in bond pricing we talk about yield to

1189

01:11:56,640 --> 01:11:58,640

maturity

1190

01:11:58,640 --> 01:12:03,360

right so the coupon rate be careful

1191

01:12:03,360 --> 01:12:06,159

all right it's only used to calculate

1192

01:12:06,159 --> 01:12:07,440

the coupon

1193

01:12:07,440 --> 01:12:11,760

you can use it as a rule of thumb

1194

01:12:11,760 --> 01:12:15,280

to determine whether the bond is trading

1195

01:12:15,280 --> 01:12:15,600

at

1196

01:12:15,600 --> 01:12:18,719

par premium or discount by comparing the

1197

01:12:18,719 --> 01:12:23,520

yield to maturity to the coupon rate

1198

01:12:23,520 --> 01:12:25,760

so i know it's a lot to digest now you

1199

01:12:25,760 --> 01:12:27,760

have to

1200

01:12:27,760 --> 01:12:33,120

practice lots of terminology

1201

01:12:33,120 --> 01:12:35,760

that later if you work in finance and

1202

01:12:35,760 --> 01:12:38,719

particularly in debt markets

1203

01:12:38,719 --> 01:12:42,400

this will become second nature

1204

01:12:42,880 --> 01:12:46,320

all right so

1205

01:12:46,480 --> 01:12:51,840

any questions

1206

01:12:52,800 --> 01:12:55,360

after you review these things and you do

1207

01:12:55,360 --> 01:12:56,159

the uh

1208

01:12:56,159 --> 01:12:58,480

exercises again if you have still

1209

01:12:58,480 --> 01:13:00,560

questions just email me or benson

1210

01:13:00,560 --> 01:13:04,080

okay now we're going to go into

1211

01:13:04,080 --> 01:13:07,280

a totally different universe and you're

1212

01:13:07,280 --> 01:13:10,159

going to have to pay attention

1213

01:13:10,159 --> 01:13:12,159

and forget what we've just talked about

1214

01:13:12,159 --> 01:13:14,640

and move into this new universe because

1215

01:13:14,640 --> 01:13:17,440

now we're going to talk about short-term

1216

01:13:17,440 --> 01:13:19,440

debt instruments

1217

01:13:19,440 --> 01:13:21,760

and for short-term debt instruments we

1218

01:13:21,760 --> 01:13:22,880

use different

1219

01:13:22,880 --> 01:13:25,440

techniques

1220

01:13:26,560 --> 01:13:29,120

so in this section you're going to have

1221

01:13:29,120 --> 01:13:29,679

to pay

1222

01:13:29,679 --> 01:13:32,960

attention and be meticulous if you do

1223

01:13:32,960 --> 01:13:34,640

not follow the steps

1224

01:13:34,640 --> 01:13:38,320

you will get lost it's not complicated

1225

01:13:38,320 --> 01:13:41,040

but you just have to pay attention

1226

01:13:41,040 --> 01:13:44,080

all right so we are now moving into the

1227

01:13:44,080 --> 01:13:44,960

universe of

1228

01:13:44,960 --> 01:13:47,520

short-term debt instruments so the

1229

01:13:47,520 --> 01:13:48,719

maturity

1230

01:13:48,719 --> 01:13:51,920

the tenant will be less than one year

1231

01:13:51,920 --> 01:13:54,960

in this market the money market interest

1232

01:13:54,960 --> 01:13:56,239

calculations

1233

01:13:56,239 --> 01:13:58,080

and the names are all going to be

1234

01:13:58,080 --> 01:14:00,159

different again

1235

01:14:00,159 --> 01:14:03,760

so this universe includes time deposit

1236

01:14:03,760 --> 01:14:06,159

treasury bills certificates of deposit

1237

01:14:06,159 --> 01:14:08,320

commercial paper bankers acceptances

1238

01:14:08,320 --> 01:14:10,159

forward rate agreements

1239

01:14:10,159 --> 01:14:14,640

etc in this market

1240

01:14:14,640 --> 01:14:18,320

the interest is calculated as follow

1241

01:14:18,320 --> 01:14:21,199

the interest is the notional so this is

1242

01:14:21,199 --> 01:14:23,360

the principal amount this is the par

1243

01:14:23,360 --> 01:14:24,480

value

1244

01:14:24,480 --> 01:14:27,760

times the rate of interest times

1245

01:14:27,760 --> 01:14:31,280

the number of days to maturity

1246

01:14:31,280 --> 01:14:33,920

divided by the number of days in the

1247

01:14:33,920 --> 01:14:35,520

year

1248

01:14:35,520 --> 01:14:39,040

remember we are dealing with instruments

1249

01:14:39,040 --> 01:14:43,360

with less than a year in maturity

1250

01:14:43,360 --> 01:14:47,120

okay so

1251

01:14:47,120 --> 01:14:50,239

to simplify the future value will be the

1252

01:14:50,239 --> 01:14:51,600

present value times

1253

01:14:51,600 --> 01:14:54,960

one plus the rate times the days to

1254

01:14:54,960 --> 01:14:57,679

maturity divided by the number of days

1255

01:14:57,679 --> 01:15:00,159

in the year

1256

01:15:03,760 --> 01:15:06,560

this is just putting in formula terms

1257

01:15:06,560 --> 01:15:09,440

which i've just said

1258

01:15:09,760 --> 01:15:12,640

okay so i'm going to walk you through

1259

01:15:12,640 --> 01:15:14,320

step by step

1260

01:15:14,320 --> 01:15:17,679

a simple actually not that simple but

1261

01:15:17,679 --> 01:15:20,960

um an an example all right

1262

01:15:20,960 --> 01:15:22,880

and we're going to call it the diy

1263

01:15:22,880 --> 01:15:24,480

dilemma

1264

01:15:24,480 --> 01:15:29,199

so on the 1st of january 2010

1265

01:15:29,199 --> 01:15:32,080

delta investment sealed has 10 million

1266

01:15:32,080 --> 01:15:34,400

excess cash to invest

1267

01:15:34,400 --> 01:15:38,000

for two months the treasurer

1268

01:15:38,000 --> 01:15:41,920

is weighing different options

1269

01:15:41,920 --> 01:15:44,960

he could place the money in a

1270

01:15:44,960 --> 01:15:48,080

two-month fixed deposit with sunny bank

1271

01:15:48,080 --> 01:15:49,440

limited

1272

01:15:49,440 --> 01:15:52,560

that pays three percent on a money

1273

01:15:52,560 --> 01:15:53,360

market

1274

01:15:53,360 --> 01:15:56,480

basis which is actual number of days

1275

01:15:56,480 --> 01:15:57,480

divided by

1276

01:15:57,480 --> 01:16:01,120

365 days in the year or

1277

01:16:01,120 --> 01:16:05,120

he could buy a lucky gold company bond

1278

01:16:05,120 --> 01:16:07,440

with the remaining maturity of two

1279

01:16:07,440 --> 01:16:08,560

months

1280

01:16:08,560 --> 01:16:12,640

that yield three percent on a bond basis

1281

01:16:12,640 --> 01:16:16,159

now the bond basis calculation counts 30

1282

01:16:16,159 --> 01:16:16,719

days

1283

01:16:16,719 --> 01:16:20,560

in a month and 360 days

1284

01:16:20,560 --> 01:16:23,120

in the year

1285

01:16:24,159 --> 01:16:28,400

so what should he do

1286

01:16:29,280 --> 01:16:32,800

the first thing to think about is

1287

01:16:32,800 --> 01:16:35,280

all other things being equal what is the

1288

01:16:35,280 --> 01:16:36,320

only difference

1289

01:16:36,320 --> 01:16:48,159

between the two options

1290

01:16:48,159 --> 01:16:50,880

what's all other things being equal what

1291

01:16:50,880 --> 01:16:53,840

is the only difference the basis right

1292

01:16:53,840 --> 01:16:57,120

so the number of days in a month and the

1293

01:16:57,120 --> 01:16:59,520

number of days in the year

1294

01:16:59,520 --> 01:17:03,840

okay on the face of it

1295

01:17:06,159 --> 01:17:09,600

but what other factors

1296

01:17:09,600 --> 01:17:13,520

should our treasurer think about

1297

01:17:13,520 --> 01:17:16,719

the risk very good answer the risk okay

1298

01:17:16,719 --> 01:17:19,520

so we have two options

1299

01:17:19,520 --> 01:17:21,840

we can place the money with the bank

1300

01:17:21,840 --> 01:17:23,840

sunny bank or we can buy

1301

01:17:23,840 --> 01:17:26,880

a lucky gold company bar so

1302

01:17:26,880 --> 01:17:30,080

in both case we want to know what

1303

01:17:30,080 --> 01:17:32,400

is the risk that i will not get my money

1304

01:17:32,400 --> 01:17:34,000

back in other words

1305

01:17:34,000 --> 01:17:37,280

what is the credit risk okay that's very

1306

01:17:37,280 --> 01:17:38,080

good

1307

01:17:38,080 --> 01:17:45,840

anything else we should consider

1308

01:17:50,719 --> 01:17:54,080

your corporate treasurer

1309

01:17:56,000 --> 01:17:59,600

very good wing yen liquidity very very

1310

01:17:59,600 --> 01:18:00,560

good

1311

01:18:00,560 --> 01:18:04,320

the liquidity so if something happens

1312

01:18:04,320 --> 01:18:08,000

can i get my money back on the face of

1313

01:18:08,000 --> 01:18:08,320

it

1314

01:18:08,320 --> 01:18:13,840

which of the two options is more liquid

1315

01:18:17,199 --> 01:18:19,920

option one

1316

01:18:21,760 --> 01:18:26,480

aha we have different opinions

1317

01:18:26,480 --> 01:18:29,600

okay so the correct answer

1318

01:18:29,600 --> 01:18:32,880

is the bond remember bonds are

1319

01:18:32,880 --> 01:18:35,840

negotiable tradable financial

1320

01:18:35,840 --> 01:18:37,199

instruments

1321

01:18:37,199 --> 01:18:39,520

so at least theoretically you should be

1322

01:18:39,520 --> 01:18:41,840

able to sell it back in the market

1323

01:18:41,840 --> 01:18:45,840

a fixed deposit has penalties

1324

01:18:45,840 --> 01:18:48,239

so if you place your money in a fixed

1325

01:18:48,239 --> 01:18:49,840

deposit you shouldn't

1326

01:18:49,840 --> 01:18:52,080

you normally cannot get it back until

1327

01:18:52,080 --> 01:18:53,760

the maturity

1328

01:18:53,760 --> 01:18:56,000

which is why fixed deposits tend to have

1329

01:18:56,000 --> 01:18:57,920

slightly better yields

1330

01:18:57,920 --> 01:19:01,280

okay so on the face of it

1331

01:19:01,280 --> 01:19:04,480

the bond is more liquid than

1332

01:19:04,480 --> 01:19:08,960

the fixed deposit all right

1333

01:19:08,960 --> 01:19:11,760

okay and we notice that both are paying

1334

01:19:11,760 --> 01:19:13,199

the same returns so

1335

01:19:13,199 --> 01:19:16,159

in answer to one of your classmates

1336

01:19:16,159 --> 01:19:16,880

point

1337

01:19:16,880 --> 01:19:20,239

the market rate we can compare them to

1338

01:19:20,239 --> 01:19:22,320

the current market rate but notice

1339

01:19:22,320 --> 01:19:26,320

the return the rate is the same

1340

01:19:26,320 --> 01:19:28,159

okay the maturity is the same the rate

1341

01:19:28,159 --> 01:19:29,920

is the same

1342

01:19:29,920 --> 01:19:34,159

okay all right so

1343

01:19:34,640 --> 01:19:37,920

so assuming we don't have a problem with

1344

01:19:37,920 --> 01:19:42,000

liquidity and credit risk

1345

01:19:42,000 --> 01:19:44,480

the only difference is the way interest

1346

01:19:44,480 --> 01:19:46,080

is calculated

1347

01:19:46,080 --> 01:19:49,120

so the interest calculation is principal

1348

01:19:49,120 --> 01:19:51,520

times the rate of interest times the

1349

01:19:51,520 --> 01:19:53,840

days to maturity divided by the year

1350

01:19:53,840 --> 01:19:56,400

basis why is that important

1351

01:19:56,400 --> 01:20:00,560

well we need to answer the two questions

1352

01:20:00,560 --> 01:20:02,560

how do we calculate the number of days

1353

01:20:02,560 --> 01:20:04,960

to maturity

1354

01:20:04,960 --> 01:20:07,440

how is the number of days in the year

1355

01:20:07,440 --> 01:20:08,719

defined

1356

01:20:08,719 --> 01:20:11,679

and this brings us to the first of the

1357

01:20:11,679 --> 01:20:14,000

conventions we are going to be talking

1358

01:20:14,000 --> 01:20:15,600

about

1359

01:20:15,600 --> 01:20:18,000

it's called the day count convention or

1360

01:20:18,000 --> 01:20:19,520

year basis

1361

01:20:19,520 --> 01:20:22,800

this is the way the market expresses

1362

01:20:22,800 --> 01:20:26,639

how to calculate interest as a ratio

1363

01:20:26,639 --> 01:20:29,600

of the number of days in the month by

1364

01:20:29,600 --> 01:20:30,639

the number of days

1365

01:20:30,639 --> 01:20:34,000

in the year and they are different

1366

01:20:34,000 --> 01:20:37,360

conventions so

1367

01:20:37,360 --> 01:20:40,400

actual actual says you calculate the

1368

01:20:40,400 --> 01:20:42,560

exact number of days the actual number

1369

01:20:42,560 --> 01:20:43,199

of days

1370

01:20:43,199 --> 01:20:45,280

in the months and the actual number of

1371

01:20:45,280 --> 01:20:46,480

days in the year

1372

01:20:46,480 --> 01:20:48,880

which means when you're in a leap year

1373

01:20:48,880 --> 01:20:52,560

you have 366 days in the year

1374

01:20:52,560 --> 01:20:54,880

and the month of february we have 29

1375

01:20:54,880 --> 01:20:56,159

days

1376

01:20:56,159 --> 01:20:59,280

actual over 365 which is actually

1377

01:20:59,280 --> 01:21:03,520

quite common says that you use the

1378

01:21:03,520 --> 01:21:05,520

actual number of days in the month but

1379

01:21:05,520 --> 01:21:06,480

the year

1380

01:21:06,480 --> 01:21:10,400

is meant to use 365 days

1381

01:21:10,400 --> 01:21:13,199

you also have actual over 360 which is

1382

01:21:13,199 --> 01:21:14,000

sure assume

1383

01:21:14,000 --> 01:21:17,040

360 days every year and

1384

01:21:17,040 --> 01:21:20,239

30 over 360 which assumes every month

1385

01:21:20,239 --> 01:21:22,880

has 30 days

1386

01:21:22,880 --> 01:21:26,800

all of these conventions exist

1387

01:21:26,800 --> 01:21:28,960

and in fact you can see here that

1388

01:21:28,960 --> 01:21:30,239

depending on

1389

01:21:30,239 --> 01:21:33,280

the different instruments you may

1390

01:21:33,280 --> 01:21:35,679

actually have different ways of

1391

01:21:35,679 --> 01:21:36,639

calculating

1392

01:21:36,639 --> 01:21:39,679

interest so if you look at malaysia for

1393

01:21:39,679 --> 01:21:40,800

example

1394

01:21:40,800 --> 01:21:43,679

government bonds use actual actual but

1395

01:21:43,679 --> 01:21:45,040

corporate bonds use

1396

01:21:45,040 --> 01:21:48,159

actual rubric 365. so

1397

01:21:48,159 --> 01:21:51,040

when you're going to be dealing with

1398

01:21:51,040 --> 01:21:52,080

debt instruments

1399

01:21:52,080 --> 01:21:53,840

one of the things you'll have to check

1400

01:21:53,840 --> 01:21:55,120

is the fine print

1401

01:21:55,120 --> 01:21:58,400

to see what is the databases

1402

01:21:58,400 --> 01:22:02,719

convention that you have to use

1403

01:22:02,880 --> 01:22:05,440

okay so now we have a little bit more

1404

01:22:05,440 --> 01:22:06,880

information

1405

01:22:06,880 --> 01:22:10,800

let's put it down in our two options

1406

01:22:10,800 --> 01:22:14,400

so can we do the calculation so now we

1407

01:22:14,400 --> 01:22:14,960

know

1408

01:22:14,960 --> 01:22:17,679

sunny bank is actually over 365 lucky

1409

01:22:17,679 --> 01:22:20,560

gold is 30 over 360.

1410

01:22:20,560 --> 01:22:22,719

we know how to do the calculation but

1411

01:22:22,719 --> 01:22:25,600

can we do it

1412

01:22:25,600 --> 01:22:28,400

well no you don't because you don't know

1413

01:22:28,400 --> 01:22:29,760

when the deposit will

1414

01:22:29,760 --> 01:22:33,760

start and when it will end

1415

01:22:33,760 --> 01:22:37,760

so you have to start digging deeper

1416

01:22:37,760 --> 01:22:40,719

the first problem is that after the

1417

01:22:40,719 --> 01:22:41,920

treasury

1418

01:22:41,920 --> 01:22:44,880

agrees a trade with the banker it takes

1419

01:22:44,880 --> 01:22:45,440

time

1420

01:22:45,440 --> 01:22:48,560

for the transaction to be executed

1421

01:22:48,560 --> 01:22:51,199

the trade date is generally not the same

1422

01:22:51,199 --> 01:22:52,719

as the settlement date

1423

01:22:52,719 --> 01:22:55,840

you already saw that with the treasury

1424

01:22:55,840 --> 01:22:58,960

auctions you notice that the auction

1425

01:22:58,960 --> 01:23:01,120

date and the settlement date are a few

1426

01:23:01,120 --> 01:23:02,719

days apart

1427

01:23:02,719 --> 01:23:06,320

okay so you need to know

1428

01:23:06,320 --> 01:23:09,760

once you've agreed the trade when will

1429

01:23:09,760 --> 01:23:10,560

the money

1430

01:23:10,560 --> 01:23:14,159

actually change hand okay so the first

1431

01:23:14,159 --> 01:23:15,280

thing you need to know

1432

01:23:15,280 --> 01:23:18,000

is when does the treasurer call his

1433

01:23:18,000 --> 01:23:18,800

banker

1434

01:23:18,800 --> 01:23:22,960

that will be called the trade date

1435

01:23:22,960 --> 01:23:25,440

and you find out when the money will

1436

01:23:25,440 --> 01:23:26,400

actually change

1437

01:23:26,400 --> 01:23:29,199

hands that is the value or settlement

1438

01:23:29,199 --> 01:23:30,400

date

1439

01:23:30,400 --> 01:23:33,280

and then you want to know when you will

1440

01:23:33,280 --> 01:23:34,080

get your money

1441

01:23:34,080 --> 01:23:38,639

back which is the maturity date

1442

01:23:42,159 --> 01:23:45,600

so the trade or fixing date is the day

1443

01:23:45,600 --> 01:23:46,719

when you agree

1444

01:23:46,719 --> 01:23:50,480

the trade the value settlement or

1445

01:23:50,480 --> 01:23:51,760

effective date

1446

01:23:51,760 --> 01:23:55,520

is calculated by reference to the trade

1447

01:23:55,520 --> 01:23:56,880

date

1448

01:23:56,880 --> 01:24:00,000

and the maturity or turn date is

1449

01:24:00,000 --> 01:24:04,080

calculated by reference to

1450

01:24:04,239 --> 01:24:08,239

the value date okay so you don't start

1451

01:24:08,239 --> 01:24:10,719

counting until the money has changed

1452

01:24:10,719 --> 01:24:13,120

hands

1453

01:24:13,360 --> 01:24:16,800

all right so fasten your seatbelt is

1454

01:24:16,800 --> 01:24:19,440

getting more complicated

1455

01:24:19,440 --> 01:24:23,040

okay so illustrating this if my trade

1456

01:24:23,040 --> 01:24:24,560

age is the 28th

1457

01:24:24,560 --> 01:24:28,159

of march and my

1458

01:24:28,159 --> 01:24:30,639

settlement date is the trade date plus

1459

01:24:30,639 --> 01:24:32,080

two business day

1460

01:24:32,080 --> 01:24:35,120

the value date will be 30 of march

1461

01:24:35,120 --> 01:24:38,080

and we count one month from that gives

1462

01:24:38,080 --> 01:24:39,040

us

1463

01:24:39,040 --> 01:24:44,719

the 30 of april our maturity date

1464

01:24:44,719 --> 01:24:46,560

all right i'm going to stop there

1465

01:24:46,560 --> 01:24:49,280

because it gets really complicated after

1466

01:24:49,280 --> 01:24:49,679

that

1467

01:24:49,679 --> 01:24:52,719

so i want you to stop digesting all the

1468

01:24:52,719 --> 01:24:55,040

stuff we have talked about

1469

01:24:55,040 --> 01:24:58,239

and have a nice weekend in the mists

1470

01:24:58,239 --> 01:25:02,159

of hkust or wherever you are

1471

01:25:02,159 --> 01:25:05,280

okay any questions

1472

01:25:05,280 --> 01:25:10,000

i know it's a lot okay it's pretty heavy

1473

01:25:10,840 --> 01:25:13,840

duty

1474

01:25:14,800 --> 01:25:18,400

okay so if you don't want to ask the

1475

01:25:18,400 --> 01:25:20,480

question now and by the way it's 1

1476

01:25:20,480 --> 01:25:24,080

20 so you're free to leave um

1477

01:25:24,080 --> 01:25:26,239

if you have any other questions that you

1478

01:25:26,239 --> 01:25:28,239

don't want to ask now you can email me

1479

01:25:28,239 --> 01:25:31,840

you can email benson all right

1480

01:25:32,800 --> 01:25:34,800

have a lovely weekend i'm sorry the

1481

01:25:34,800 --> 01:25:36,159

weather is terrible

1482

01:25:36,159 --> 01:25:39,199

zhang day go ahead um

1483

01:25:39,199 --> 01:25:40,960

professor i have a question about uh

1484

01:25:40,960 --> 01:25:42,320

quiz one yeah

1485

01:25:42,320 --> 01:25:45,679

uh i see the answers are still hidden

1486

01:25:45,679 --> 01:25:48,080

so is there any way that we can check

1487

01:25:48,080 --> 01:25:49,199

our like

1488

01:25:49,199 --> 01:25:52,560

uh missed questions um

1489

01:25:52,560 --> 01:25:55,679

okay so if you want to check your so you

1490

01:25:55,679 --> 01:25:57,199

can talk to benson about that

1491

01:25:57,199 --> 01:26:00,080

benson is in charge of logistics okay i

1492

01:26:00,080 --> 01:26:02,000

noticed that the answer has

1493

01:26:02,000 --> 01:26:05,199

been posted on cameras something

1494

01:26:05,199 --> 01:26:09,280

i just posted on canvas yeah

1495

01:26:09,280 --> 01:26:12,400

thank you thank you okay any logistics

1496

01:26:12,400 --> 01:26:13,360

questions

1497

01:26:13,360 --> 01:26:22,400

benson will be very happy to help you

1498

01:26:22,400 --> 01:26:26,080

all right if no more questions

1499

01:26:26,080 --> 01:26:29,920

then professor had one small doubt sure

1500

01:26:29,920 --> 01:26:33,679

uh what do you mean by basis

1501

01:26:33,679 --> 01:26:37,679

the year basis okay

1502

01:26:37,679 --> 01:26:41,440

that is the convention

1503

01:26:41,440 --> 01:26:45,040

okay so it's called day count or year

1504

01:26:45,040 --> 01:26:46,480

basis

1505

01:26:46,480 --> 01:26:49,520

you can see okay

1506

01:26:49,520 --> 01:27:05,760

thank you welcome

1507

01:27:05,760 --> 01:27:19,840

any more questions

1508

01:27:20,159 --> 01:27:33,840

all right bye bye then

==end 0305==

==start 0308==

1

00:00:56,840 --> 00:00:59,840

um

2

00:02:48,840 --> 00:02:51,840

my

3

00:03:59,200 --> 00:04:15,840

hello hello everybody how are you

4

00:04:17,680 --> 00:04:22,560

okay so i guess it's time for us to

5

00:04:22,560 --> 00:04:25,199

start

6

00:04:25,199 --> 00:04:29,840

i hope you all had a nice weekend

7

00:04:30,479 --> 00:04:34,320

okay so let's

8

00:04:34,320 --> 00:04:38,479

go back to what we've been discussing

9

00:04:38,479 --> 00:04:42,880

okay so uh we looked at

10

00:04:42,880 --> 00:04:45,919

the diy dilemma okay

11

00:04:45,919 --> 00:04:49,440

so the situation was that

12

00:04:49,440 --> 00:04:53,199

on the 1st of january 2010

13

00:04:53,199 --> 00:04:56,320

the treasurer of diy

14

00:04:56,320 --> 00:04:59,360

was looking at what to do with

15

00:04:59,360 --> 00:05:02,479

a 10 million excess cash that he has and

16

00:05:02,479 --> 00:05:05,120

he could invest it for two months

17

00:05:05,120 --> 00:05:08,000

we looked at two options one being a

18

00:05:08,000 --> 00:05:10,080

fixed term deposit for two months with

19

00:05:10,080 --> 00:05:11,120

the bank

20

00:05:11,120 --> 00:05:13,759

that yields three percent money market

21

00:05:13,759 --> 00:05:15,039

basis

22

00:05:15,039 --> 00:05:17,680

or buying a bond with a remaining

23

00:05:17,680 --> 00:05:18,479

maturity

24

00:05:18,479 --> 00:05:20,560

of two months also yielding three

25

00:05:20,560 --> 00:05:24,560

percent but on a bond basis and

26

00:05:24,560 --> 00:05:28,000

we talked about the fact that

27

00:05:28,000 --> 00:05:30,639

we should consider things like credit

28

00:05:30,639 --> 00:05:31,199

risk

29

00:05:31,199 --> 00:05:34,560

and liquidity but all other things being

30

00:05:34,560 --> 00:05:35,199

equal

31

00:05:35,199 --> 00:05:37,360

the difference between the two options

32

00:05:37,360 --> 00:05:39,280

was basically the way

33

00:05:39,280 --> 00:05:42,720

that interest rate is calculated

34

00:05:42,720 --> 00:05:45,280

and we looked at how we calculate

35

00:05:45,280 --> 00:05:45,840

interest

36

00:05:45,840 --> 00:05:51,360

on money market terms which is basically

37

00:05:51,360 --> 00:05:54,560

simple interest so where the interest

38

00:05:54,560 --> 00:05:57,600

is calculated by multiplying the

39

00:05:57,600 --> 00:05:58,880

principal amount

40

00:05:58,880 --> 00:06:01,600

by the rate of interest and then by the

41

00:06:01,600 --> 00:06:04,160

ratio of the days to maturity to the

42

00:06:04,160 --> 00:06:06,800

number of days in the year

43

00:06:06,800 --> 00:06:10,000

and that's important because if you were

44

00:06:10,000 --> 00:06:10,560

to do

45

00:06:10,560 --> 00:06:12,880

and you'll see as we do the calculation

46

00:06:12,880 --> 00:06:14,880

that it has a significant

47

00:06:14,880 --> 00:06:18,720

impact on the amount of dollars

48

00:06:18,720 --> 00:06:20,960

that you receive in the case of the

49

00:06:20,960 --> 00:06:22,080

treasurer

50

00:06:22,080 --> 00:06:24,479

or that you have to pay if you are the

51

00:06:24,479 --> 00:06:25,840

bank

52

00:06:25,840 --> 00:06:29,280

and then we we identified

53

00:06:29,280 --> 00:06:32,560

the questions we have to answer which is

54

00:06:32,560 --> 00:06:35,440

first what is the number of days to

55

00:06:35,440 --> 00:06:37,199

maturity

56

00:06:37,199 --> 00:06:39,759

and what is the number of days in the

57

00:06:39,759 --> 00:06:41,120

year

58

00:06:41,120 --> 00:06:43,680

and we talked about a number of

59

00:06:43,680 --> 00:06:45,039

different conventions

60

00:06:45,039 --> 00:06:49,039

that exist to describe

61

00:06:49,039 --> 00:06:52,160

that ratio and it's called the day count

62

00:06:52,160 --> 00:06:55,440

convention or the year basis convention

63

00:06:55,440 --> 00:06:58,319

and it tells you depending on which

64

00:06:58,319 --> 00:07:00,080

financial market you are

65

00:07:00,080 --> 00:07:03,199

in what financial instruments you use

66

00:07:03,199 --> 00:07:06,000

whether you should use the actual number

67

00:07:06,000 --> 00:07:07,120

of days

68

00:07:07,120 --> 00:07:11,520

in the month or 30 days in a month

69

00:07:11,520 --> 00:07:13,360

and then for the year whether you should

70

00:07:13,360 --> 00:07:15,440

use the actual number of days of the

71

00:07:15,440 --> 00:07:16,319

year

72

00:07:16,319 --> 00:07:21,599

or 365 or 360.

73

00:07:21,599 --> 00:07:24,639

now i showed you this to express

74

00:07:24,639 --> 00:07:27,039

to show you that different financial

75

00:07:27,039 --> 00:07:28,240

instruments

76

00:07:28,240 --> 00:07:32,080

have different ways of calculating

77

00:07:32,080 --> 00:07:36,240

the year basis all right so then we put

78

00:07:36,240 --> 00:07:37,599

all this together

79

00:07:37,599 --> 00:07:40,160

and then the question was okay can we

80

00:07:40,160 --> 00:07:42,800

actually do the calculation now

81

00:07:42,800 --> 00:07:46,080

and the answer was well no we don't know

82

00:07:46,080 --> 00:07:50,479

exactly when the deposit will start

83

00:07:50,479 --> 00:07:53,840

and when it will end so

84

00:07:53,840 --> 00:07:56,639

we need that information to be able to

85

00:07:56,639 --> 00:07:58,560

determine the number of days in the

86

00:07:58,560 --> 00:08:00,879

month

87

00:08:01,039 --> 00:08:04,639

so then that brings us to the question

88

00:08:04,639 --> 00:08:07,759

of trade date and

89

00:08:07,759 --> 00:08:12,319

settlement date and maturity date

90

00:08:12,319 --> 00:08:16,080

as i explained uh on friday

91

00:08:16,080 --> 00:08:18,960

the trade date is the day when we agree

92

00:08:18,960 --> 00:08:20,240

the trade

93

00:08:20,240 --> 00:08:23,360

so we talk on the phone or we

94

00:08:23,360 --> 00:08:28,000

message and we agreed to do a trade

95

00:08:28,000 --> 00:08:31,039

then the money changed his hand on the

96

00:08:31,039 --> 00:08:32,320

settlement date

97

00:08:32,320 --> 00:08:34,399

also called value date also called

98

00:08:34,399 --> 00:08:36,000

effective date

99

00:08:36,000 --> 00:08:39,039

and it's not necessarily the same

100

00:08:39,039 --> 00:08:43,120

because it takes time for the process to

101

00:08:43,120 --> 00:08:44,880

happen

102

00:08:44,880 --> 00:08:48,399

and the maturity date then is a

103

00:08:48,399 --> 00:08:51,839

function of the date when money changes

104

00:08:51,839 --> 00:08:53,839

hand which is the value or effective

105

00:08:53,839 --> 00:08:55,040

date

106

00:08:55,040 --> 00:08:58,080

and the number of calendar months that

107

00:08:58,080 --> 00:08:59,279

occur

108

00:08:59,279 --> 00:09:03,519

okay so in timeline

109

00:09:03,519 --> 00:09:06,880

which is i think where we left off

110

00:09:06,880 --> 00:09:10,240

okay you have the trade

111

00:09:10,240 --> 00:09:14,160

also called fixing date which is t

112

00:09:14,160 --> 00:09:16,880

the value or settlement or effective

113

00:09:16,880 --> 00:09:17,600

date

114

00:09:17,600 --> 00:09:20,720

v is expressed as a

115

00:09:20,720 --> 00:09:24,640

function of the trade date plus

116

00:09:24,640 --> 00:09:28,399

a certain number of business

117

00:09:28,399 --> 00:09:33,600

days and then the maturity or term date

118

00:09:33,600 --> 00:09:37,279

is a function of the value date

119

00:09:37,279 --> 00:09:41,120

plus a certain number of calendar

120

00:09:41,120 --> 00:09:44,240

days or month

121

00:09:44,480 --> 00:09:47,519

now pay attention because this is very

122

00:09:47,519 --> 00:09:49,600

important

123

00:09:49,600 --> 00:09:52,399

all right so if we have a trade date

124

00:09:52,399 --> 00:09:55,200

let's say of 28 of march

125

00:09:55,200 --> 00:09:58,640

and the convention in that market is for

126

00:09:58,640 --> 00:10:00,720

the settlement to happen

127

00:10:00,720 --> 00:10:04,399

two business days from the trade date

128

00:10:04,399 --> 00:10:08,399

then our value date is the 30th of march

129

00:10:08,399 --> 00:10:11,120

and then in one month deposit would

130

00:10:11,120 --> 00:10:12,880

bring us to the 30th

131

00:10:12,880 --> 00:10:17,279

of april now

132

00:10:17,279 --> 00:10:20,640

i am not taking into consideration the

133

00:10:20,640 --> 00:10:22,320

next thing we will look at

134

00:10:22,320 --> 00:10:26,000

which is business days okay

135

00:10:26,000 --> 00:10:28,240

so this is just to show you the

136

00:10:28,240 --> 00:10:30,800

mechanics of going from the trade date

137

00:10:30,800 --> 00:10:35,120

to the value date to the maturity date

138

00:10:35,600 --> 00:10:41,040

all right so let's apply this with diy

139

00:10:41,040 --> 00:10:44,079

so in both cases we want to know

140

00:10:44,079 --> 00:10:48,320

what is a trade date and then

141

00:10:48,320 --> 00:10:51,200

what is the value date and from there

142

00:10:51,200 --> 00:10:53,279

the maturity date

143

00:10:53,279 --> 00:10:56,800

now the information i'm giving you here

144

00:10:56,800 --> 00:11:00,640

is that in both cases the effective date

145

00:11:00,640 --> 00:11:02,000

or value date is

146

00:11:02,000 --> 00:11:05,519

two business days from the trade date

147

00:11:05,519 --> 00:11:09,519

we call this spot spot has different

148

00:11:09,519 --> 00:11:11,040

meanings in finance this

149

00:11:11,040 --> 00:11:16,079

is one of them okay in this particular

150

00:11:16,079 --> 00:11:17,600

environment when we're talking about

151

00:11:17,600 --> 00:11:20,160

money market and we're talking about

152

00:11:20,160 --> 00:11:20,959

trade date

153

00:11:20,959 --> 00:11:23,920

and value date spot means t plus two

154

00:11:23,920 --> 00:11:27,600

trade day plus two business days

155

00:11:27,600 --> 00:11:30,959

and we know it's a two month deposit so

156

00:11:30,959 --> 00:11:31,839

we compute

157

00:11:31,839 --> 00:11:35,680

two months from the value date

158

00:11:35,680 --> 00:11:39,279

okay so now let's see what else we need

159

00:11:39,279 --> 00:11:41,360

to know

160

00:11:41,360 --> 00:11:43,839

well i was talking about this problem

161

00:11:43,839 --> 00:11:44,480

and then

162

00:11:44,480 --> 00:11:47,680

i noticed that the 1st of january is a

163

00:11:47,680 --> 00:11:49,360

public holiday

164

00:11:49,360 --> 00:11:52,000

so you cannot call your banker on a

165

00:11:52,000 --> 00:11:53,920

public holiday because the bank

166

00:11:53,920 --> 00:11:57,200

is closed so it cannot be

167

00:11:57,200 --> 00:12:01,040

the trade date this is where we start

168

00:12:01,040 --> 00:12:03,760

dealing with the third element which is

169

00:12:03,760 --> 00:12:07,360

business day definitions so this is very

170

00:12:07,360 --> 00:12:10,399

important and in any debt contract you

171

00:12:10,399 --> 00:12:10,800

will

172

00:12:10,800 --> 00:12:14,480

have a business day definition

173

00:12:14,480 --> 00:12:17,600

in this particular case the definition

174

00:12:17,600 --> 00:12:18,000

is

175

00:12:18,000 --> 00:12:21,360

public holiday in hong kong

176

00:12:21,360 --> 00:12:25,200

okay so the first of january is a friday

177

00:12:25,200 --> 00:12:28,399

it's a public holiday you cannot reach

178

00:12:28,399 --> 00:12:31,200

your banker so you have to wait until

179

00:12:31,200 --> 00:12:32,240

the next

180

00:12:32,240 --> 00:12:35,279

banking day or business day

181

00:12:35,279 --> 00:12:39,120

to agree the trade which sadly for you

182

00:12:39,120 --> 00:12:43,600

pushes you to monday the 4th of january

183

00:12:43,600 --> 00:12:45,920

which is when you are able to reach your

184

00:12:45,920 --> 00:12:47,040

banker

185

00:12:47,040 --> 00:12:51,200

and agree an investment trade

186

00:12:51,200 --> 00:12:54,320

now we assume the market convention is

187

00:12:54,320 --> 00:12:55,600

spot that is t

188

00:12:55,600 --> 00:12:59,360

plus two that means my

189

00:12:59,360 --> 00:13:02,800

value date which is the effective date

190

00:13:02,800 --> 00:13:05,440

that is the day when money actually his

191

00:13:05,440 --> 00:13:06,480

hands

192

00:13:06,480 --> 00:13:09,680

t plus 2 will be wednesday the 6th of

193

00:13:09,680 --> 00:13:12,160

january

194

00:13:12,160 --> 00:13:16,320

so monday the 4th is the trade date

195

00:13:16,320 --> 00:13:19,600

okay one business day would be tuesday

196

00:13:19,600 --> 00:13:20,959

the fifth

197

00:13:20,959 --> 00:13:25,360

two business days is wednesday the six

198

00:13:25,360 --> 00:13:28,160

so my value date or effective date is

199

00:13:28,160 --> 00:13:31,519

the sixth of january

200

00:13:31,760 --> 00:13:35,440

and for the maturity date we need to

201

00:13:35,440 --> 00:13:36,399

compute

202

00:13:36,399 --> 00:13:40,639

two months from the value date

203

00:13:41,199 --> 00:13:45,199

which is saturday the 6th of march

204

00:13:45,199 --> 00:13:48,800

but saturday is a

205

00:13:48,800 --> 00:13:51,600

non-banking day the banks are not open

206

00:13:51,600 --> 00:13:52,480

for business

207

00:13:52,480 --> 00:13:55,360

in hong kong so what to do you cannot

208

00:13:55,360 --> 00:13:57,440

have money changing hands when banks are

209

00:13:57,440 --> 00:13:59,120

closed

210

00:13:59,120 --> 00:14:01,360

so that's where you have the last

211

00:14:01,360 --> 00:14:03,360

convention which is also the most

212

00:14:03,360 --> 00:14:06,480

confusing one

213

00:14:08,639 --> 00:14:12,240

that is the business day convention

214

00:14:12,240 --> 00:14:15,440

which tell you what to do when

215

00:14:15,440 --> 00:14:19,360

a payment falls on a day which is not

216

00:14:19,360 --> 00:14:23,519

a business day so you have to first look

217

00:14:23,519 --> 00:14:25,920

at the definition of business day

218

00:14:25,920 --> 00:14:28,560

so in this case everything was in hong

219

00:14:28,560 --> 00:14:29,360

kong

220

00:14:29,360 --> 00:14:32,320

so the definition only concerns hong

221

00:14:32,320 --> 00:14:33,600

kong

222

00:14:33,600 --> 00:14:36,639

if you're doing cross-border trades you

223

00:14:36,639 --> 00:14:37,120

may

224

00:14:37,120 --> 00:14:40,639

have business days in different centers

225

00:14:40,639 --> 00:14:43,279

okay so you'll have to consider all the

226

00:14:43,279 --> 00:14:44,720

days

227

00:14:44,720 --> 00:14:47,600

that are not business days in all the

228

00:14:47,600 --> 00:14:50,639

relevant centers

229

00:14:51,040 --> 00:14:53,360

and then you have to decide which

230

00:14:53,360 --> 00:14:55,040

convention applies

231

00:14:55,040 --> 00:14:57,600

in case a payment falls on a date that

232

00:14:57,600 --> 00:14:58,399

is not

233

00:14:58,399 --> 00:15:00,720

a business day in other words where

234

00:15:00,720 --> 00:15:01,680

banks are not

235

00:15:01,680 --> 00:15:05,040

open for business in the relevant

236

00:15:05,040 --> 00:15:08,720

centers you're considering they are

237

00:15:08,720 --> 00:15:12,160

three possible conventions

238

00:15:12,160 --> 00:15:15,040

modifying following business day

239

00:15:15,040 --> 00:15:16,240

convention

240

00:15:16,240 --> 00:15:19,360

preceding business day convention and

241

00:15:19,360 --> 00:15:20,720

the most

242

00:15:20,720 --> 00:15:23,920

common one which is also the most

243

00:15:23,920 --> 00:15:25,839

complicated one

244

00:15:25,839 --> 00:15:28,079

is modified following business day

245

00:15:28,079 --> 00:15:30,000

convention

246

00:15:30,000 --> 00:15:33,360

how does it work all right so i have my

247

00:15:33,360 --> 00:15:34,959

trade date

248

00:15:34,959 --> 00:15:37,839

my value date and then i have my

249

00:15:37,839 --> 00:15:40,240

maturity date

250

00:15:40,240 --> 00:15:44,079

and unfortunately my maturity date falls

251

00:15:44,079 --> 00:15:45,199

on a day which is

252

00:15:45,199 --> 00:15:48,959

not a business day so what can i do

253

00:15:48,959 --> 00:15:52,079

well here are the options

254

00:15:52,079 --> 00:15:56,320

if you have the preceding business day

255

00:15:56,320 --> 00:15:57,920

convention

256

00:15:57,920 --> 00:16:01,600

you will move back to the preceding

257

00:16:01,600 --> 00:16:02,480

business day

258

00:16:02,480 --> 00:16:06,160

so if this is saturday then the payment

259

00:16:06,160 --> 00:16:09,680

will happen on friday

260

00:16:09,680 --> 00:16:11,839

if you use the following business day

261

00:16:11,839 --> 00:16:13,279

convention

262

00:16:13,279 --> 00:16:15,920

and your payment falls on a saturday you

263

00:16:15,920 --> 00:16:18,399

move to the next business day

264

00:16:18,399 --> 00:16:22,000

which means monday

265

00:16:22,000 --> 00:16:24,800

so far so good the modified following

266

00:16:24,800 --> 00:16:28,800

business day convention tells you

267

00:16:30,160 --> 00:16:32,560

you normally use the following business

268

00:16:32,560 --> 00:16:34,079

day convention

269

00:16:34,079 --> 00:16:36,720

and so you move to the next business day

270

00:16:36,720 --> 00:16:38,079

unless

271

00:16:38,079 --> 00:16:41,279

by doing so you move into

272

00:16:41,279 --> 00:16:44,320

a different calendar month

273

00:16:44,320 --> 00:16:46,800

in that case you go back to the

274

00:16:46,800 --> 00:16:49,279

preceding business day

275

00:16:49,279 --> 00:16:52,320

so if this were to fall say

276

00:16:52,320 --> 00:16:55,440

on saturday

277

00:16:55,440 --> 00:16:59,440

the 30th of january

278

00:17:00,160 --> 00:17:02,480

the next business day would be monday

279

00:17:02,480 --> 00:17:04,000

the 1st of february

280

00:17:04,000 --> 00:17:06,240

that would change calendar months so you

281

00:17:06,240 --> 00:17:07,119

move back

282

00:17:07,119 --> 00:17:11,918

to friday the 29th of january

283

00:17:14,559 --> 00:17:17,280

don't okay the reason why we're doing

284

00:17:17,280 --> 00:17:17,679

this

285

00:17:17,679 --> 00:17:20,240

is because of traditions but it still

286

00:17:20,240 --> 00:17:22,319

works that way

287

00:17:22,319 --> 00:17:24,640

and unfortunately the modified following

288

00:17:24,640 --> 00:17:26,640

business day convention is the most

289

00:17:26,640 --> 00:17:28,400

commonly used

290

00:17:28,400 --> 00:17:32,000

in financial markets

291

00:17:32,000 --> 00:17:34,559

all right so now that we have all this

292

00:17:34,559 --> 00:17:35,120

we can

293

00:17:35,120 --> 00:17:40,960

finally resolve the diy dilemma

294

00:17:41,280 --> 00:17:44,880

so we know for both cases it was

295

00:17:44,880 --> 00:17:48,320

spot t plus 2 so

296

00:17:48,320 --> 00:17:52,080

our trade date is monday the 4th

297

00:17:52,080 --> 00:17:55,520

the value date is wednesday the 6th of

298

00:17:55,520 --> 00:17:58,640

january 2 months from that

299

00:17:58,640 --> 00:18:01,520

would have fallen on saturday the 6th of

300

00:18:01,520 --> 00:18:02,400

march

301

00:18:02,400 --> 00:18:05,520

but it's a saturday so we move to

302

00:18:05,520 --> 00:18:09,039

monday the 8th of march since we don't

303

00:18:09,039 --> 00:18:09,440

change

304

00:18:09,440 --> 00:18:12,960

calendar dates we calendar months we

305

00:18:12,960 --> 00:18:14,160

don't have to

306

00:18:14,160 --> 00:18:17,440

adjust and we are fine

307

00:18:17,440 --> 00:18:20,559

so now we have everything we need

308

00:18:20,559 --> 00:18:24,799

to compute our interest in both cases

309

00:18:24,799 --> 00:18:28,240

it's not as easy as it looks

310

00:18:28,240 --> 00:18:32,160

so we know the day count convention

311

00:18:32,160 --> 00:18:34,960

in both cases so for the deposits it's

312

00:18:34,960 --> 00:18:37,360

actually over 365

313

00:18:37,360 --> 00:18:41,280

for the bond is 30 over 360.

314

00:18:41,280 --> 00:18:44,080

so in the case of sunnybank we count the

315

00:18:44,080 --> 00:18:45,679

actual number of days

316

00:18:45,679 --> 00:18:49,600

in the relevant month from the effective

317

00:18:49,600 --> 00:18:52,320

date or value date to the maturity date

318

00:18:52,320 --> 00:18:56,400

and we can 365 days in the year

319

00:18:56,400 --> 00:19:00,480

so for january which is 31 days but we

320

00:19:00,480 --> 00:19:00,880

have

321

00:19:00,880 --> 00:19:03,600

six that have already passed we only

322

00:19:03,600 --> 00:19:05,600

have 25 days

323

00:19:05,600 --> 00:19:08,400

we have 28 days in february and eight

324

00:19:08,400 --> 00:19:09,520

days in march

325

00:19:09,520 --> 00:19:12,559

totally 61.

326

00:19:12,559 --> 00:19:15,120

for lucky gold we consider every month

327

00:19:15,120 --> 00:19:17,120

to have 30 days

328

00:19:17,120 --> 00:19:20,400

so for january we now have only

329

00:19:20,400 --> 00:19:24,080

24 days we have 30 days in february

330

00:19:24,080 --> 00:19:28,240

and 8 days in march 62.

331

00:19:28,240 --> 00:19:31,600

so now we have that we can calculate

332

00:19:31,600 --> 00:19:35,039

exactly the amount of interest

333

00:19:35,039 --> 00:19:39,520

in each case we have 61 days divided by

334

00:19:39,520 --> 00:19:42,559

365 in the case of sunnybank

335

00:19:42,559 --> 00:19:46,240

62 days divided by 360

336

00:19:46,240 --> 00:19:49,919

in the case of lucky gold therefore

337

00:19:49,919 --> 00:19:53,760

for diy they should buy

338

00:19:53,760 --> 00:19:58,559

the bond all other things being equal

339

00:20:01,360 --> 00:20:04,799

okay so you can see that the process is

340

00:20:04,799 --> 00:20:06,720

very meticulous

341

00:20:06,720 --> 00:20:09,520

and at each step you have to think about

342

00:20:09,520 --> 00:20:12,159

what are the conventions that apply

343

00:20:12,159 --> 00:20:14,320

the calculations themselves are very

344

00:20:14,320 --> 00:20:15,919

very simple

345

00:20:15,919 --> 00:20:19,760

but if you miss any of the steps

346

00:20:19,760 --> 00:20:25,280

you will completely mess up the problem

347

00:20:25,280 --> 00:20:29,039

okay so i give you

348

00:20:29,039 --> 00:20:33,679

your own little exercise to do right now

349

00:20:33,679 --> 00:20:36,880

with supreme bank

350

00:20:36,880 --> 00:20:40,240

so for supreme bank i give you straight

351

00:20:40,240 --> 00:20:43,600

the trade date which is friday 29th of

352

00:20:43,600 --> 00:20:46,240

january 2010.

353

00:20:46,240 --> 00:20:49,679

on that day supreme bank borrows 50

354

00:20:49,679 --> 00:20:51,360

million for one month

355

00:20:51,360 --> 00:20:54,960

from ksle bankers at five percent per

356

00:20:54,960 --> 00:20:57,280

annum

357

00:20:57,600 --> 00:21:00,320

and what you need to find out is what is

358

00:21:00,320 --> 00:21:01,120

the amount

359

00:21:01,120 --> 00:21:04,400

of interest that supreme bank will pay

360

00:21:04,400 --> 00:21:08,799

at the end of that one month loan

361

00:21:08,799 --> 00:21:12,320

the information you need the market

362

00:21:12,320 --> 00:21:14,320

convention for the value date

363

00:21:14,320 --> 00:21:16,540

is t plus 2

364

00:21:16,540 --> 00:21:18,240

[Music]

365

00:21:18,240 --> 00:21:22,000

wow where was that

366

00:21:22,159 --> 00:21:24,400

the day count convention is actually

367

00:21:24,400 --> 00:21:27,039

over 365.

368

00:21:27,039 --> 00:21:29,600

the business day definition is banking

369

00:21:29,600 --> 00:21:31,440

days in hong kong

370

00:21:31,440 --> 00:21:35,600

and modified following applying to

371

00:21:35,600 --> 00:21:39,039

the maturity date

372

00:21:39,120 --> 00:21:45,840

okay so those steps you have to follow

373

00:21:47,440 --> 00:21:50,400

the first thing is to find out what is

374

00:21:50,400 --> 00:21:50,720

the

375

00:21:50,720 --> 00:21:53,919

value date so you have the trade date

376

00:21:53,919 --> 00:21:56,480

you have the convention first you

377

00:21:56,480 --> 00:21:58,480

compute the value date

378

00:21:58,480 --> 00:22:03,520

then you determine the maturity date

379

00:22:03,520 --> 00:22:07,280

okay adjusted by the business day

380

00:22:07,280 --> 00:22:08,320

convention

381

00:22:08,320 --> 00:22:12,159

if necessary once you have that you

382

00:22:12,159 --> 00:22:15,120

compute the days to maturity

383

00:22:15,120 --> 00:22:17,600

and then you calculate the interest

384

00:22:17,600 --> 00:22:21,120

applying the day count convention

385

00:22:21,120 --> 00:22:24,720

all right go ahead

386

00:22:24,720 --> 00:22:27,840

and do it

387

00:22:28,480 --> 00:22:40,640

first step the value date sorry can we

388

00:22:40,640 --> 00:22:43,679

see the numbers again

389

00:22:44,400 --> 00:22:46,640

here

390

00:22:50,400 --> 00:22:53,200

this you want roman is that what you

391

00:22:53,200 --> 00:22:54,320

want

392

00:22:54,320 --> 00:23:09,840

yes okay

393

00:23:20,840 --> 00:23:23,840

so

394

00:23:48,840 --> 00:23:51,840

um

395

00:24:58,840 --> 00:25:01,840

so

396

00:25:12,320 --> 00:25:15,360

yeah very good

397

00:25:15,360 --> 00:25:18,480

i'm getting very good responses

398

00:25:18,480 --> 00:25:29,520

well done

399

00:25:29,520 --> 00:25:32,320

very good

400

00:25:35,840 --> 00:25:39,600

okay so most of you have this correct

401

00:25:39,600 --> 00:25:42,320

and indeed this is the solution so the

402

00:25:42,320 --> 00:25:43,440

trade date

403

00:25:43,440 --> 00:25:46,080

remember is the value date plus two

404

00:25:46,080 --> 00:25:47,840

business days

405

00:25:47,840 --> 00:25:50,880

so the trade oh sorry the value date is

406

00:25:50,880 --> 00:25:53,600

trade day plus two business days it was

407

00:25:53,600 --> 00:25:55,600

29th of january

408

00:25:55,600 --> 00:25:58,400

so monday the 1st of february is 1

409

00:25:58,400 --> 00:25:59,679

business day

410

00:25:59,679 --> 00:26:02,159

tuesday the 2nd of february is 2

411

00:26:02,159 --> 00:26:03,200

business day

412

00:26:03,200 --> 00:26:06,799

so our value date is the 2nd of february

413

00:26:06,799 --> 00:26:09,919

we count 1 month from that date to the

414

00:26:09,919 --> 00:26:11,919

2nd of march

415

00:26:11,919 --> 00:26:14,240

there's no problem with it so we don't

416

00:26:14,240 --> 00:26:16,240

need to do any adjustment

417

00:26:16,240 --> 00:26:18,640

we then count how many days there are

418

00:26:18,640 --> 00:26:21,679

between those two date which is 28 days

419

00:26:21,679 --> 00:26:24,400

then we apply the convention and indeed

420

00:26:24,400 --> 00:26:26,960

we find

421

00:26:29,240 --> 00:26:31,760

191.780.82 cents

422

00:26:31,760 --> 00:26:36,080

okay all right any questions

423

00:26:36,080 --> 00:26:39,600

so it's it's really not complicated but

424

00:26:39,600 --> 00:26:42,080

you have to be very systematic

425

00:26:42,080 --> 00:26:45,600

so during the quiz and then the exam

426

00:26:45,600 --> 00:26:48,480

there will be questions like this you

427

00:26:48,480 --> 00:26:49,440

will have

428

00:26:49,440 --> 00:26:51,760

all the information you'll have a

429

00:26:51,760 --> 00:26:52,960

calendar

430

00:26:52,960 --> 00:26:55,440

you'll have all the conventions you'll

431

00:26:55,440 --> 00:26:56,640

have to read

432

00:26:56,640 --> 00:27:00,000

the questions very carefully because i

433

00:27:00,000 --> 00:27:00,320

am

434

00:27:00,320 --> 00:27:04,159

tricky and devious and make things a

435

00:27:04,159 --> 00:27:06,960

little bit more complicated

436

00:27:06,960 --> 00:27:10,720

okay so make sure to read

437

00:27:10,720 --> 00:27:14,320

the questions carefully

438

00:27:14,320 --> 00:27:17,279

any questions

439

00:27:17,840 --> 00:27:21,840

oh professor i had a doubt yes

440

00:27:21,840 --> 00:27:25,039

uh if the value date was supposed uh

441

00:27:25,039 --> 00:27:27,600

29th of jan suppose the value date was

442

00:27:27,600 --> 00:27:29,120

29th of jan

443

00:27:29,120 --> 00:27:33,679

and the the maturity period the

444

00:27:33,679 --> 00:27:36,880

the tenor was one month and

445

00:27:36,880 --> 00:27:39,440

so basically that would mean that the

446

00:27:39,440 --> 00:27:41,600

maturity date would fall in feb which

447

00:27:41,600 --> 00:27:42,799

doesn't have

448

00:27:42,799 --> 00:27:46,240

29th feb so which should be

449

00:27:46,240 --> 00:27:48,799

here unless it's a leap year yeah if

450

00:27:48,799 --> 00:27:51,159

it's not

451

00:27:51,159 --> 00:27:53,600

728.

452

00:27:53,600 --> 00:27:57,600

okay okay and if the 28th

453

00:27:57,600 --> 00:27:59,760

is not a public holiday then you have to

454

00:27:59,760 --> 00:28:01,760

do the modified following business day

455

00:28:01,760 --> 00:28:03,600

convention and then you can end up with

456

00:28:03,600 --> 00:28:06,080

a very short month

457

00:28:06,080 --> 00:28:08,880

okay so with the modified date it would

458

00:28:08,880 --> 00:28:09,919

fall to the previous

459

00:28:09,919 --> 00:28:13,840

uh or the next modified following

460

00:28:13,840 --> 00:28:15,520

the modified following business day

461

00:28:15,520 --> 00:28:17,520

convention moves you to the following

462

00:28:17,520 --> 00:28:18,320

business day

463

00:28:18,320 --> 00:28:20,559

unless you change calendar month in

464

00:28:20,559 --> 00:28:22,480

which case you go back to the preceding

465

00:28:22,480 --> 00:28:24,399

business day

466

00:28:24,399 --> 00:28:26,720

okay so if 28th would have been a

467

00:28:26,720 --> 00:28:28,240

holiday then it wouldn't

468

00:28:28,240 --> 00:28:30,399

go to the preceding date right yeah

469

00:28:30,399 --> 00:28:31,360

depending on

470

00:28:31,360 --> 00:28:33,919

whether the previous day is a public

471

00:28:33,919 --> 00:28:35,120

holiday or not

472

00:28:35,120 --> 00:28:37,360

when you fall into a period like chinese

473

00:28:37,360 --> 00:28:39,760

new year

474

00:28:39,760 --> 00:28:42,960

or easter and you're un

475

00:28:42,960 --> 00:28:45,440

unhappily fall on one of those days

476

00:28:45,440 --> 00:28:46,640

which are not

477

00:28:46,640 --> 00:28:49,360

banking days and it it can mean several

478

00:28:49,360 --> 00:28:51,039

days

479

00:28:51,039 --> 00:28:56,559

of adjustment so it's very significant

480

00:28:56,799 --> 00:29:00,880

uh roman tells me doesn't january have

481

00:29:00,880 --> 00:29:02,159

31 days

482

00:29:02,159 --> 00:29:05,279

yes so

483

00:29:05,679 --> 00:29:09,120

i was just confused because if we add

484

00:29:09,120 --> 00:29:12,080

then wouldn't the v date be the 31st of

485

00:29:12,080 --> 00:29:12,960

january

486

00:29:12,960 --> 00:29:16,159

or well oh friday 29th

487

00:29:16,159 --> 00:29:19,440

saturday 30 sunday 31st monday first

488

00:29:19,440 --> 00:29:20,640

february

489

00:29:20,640 --> 00:29:22,720

oh do we have to go back in time and

490

00:29:22,720 --> 00:29:24,399

look at the 2010

491

00:29:24,399 --> 00:29:26,799

calendar or whatever no what are you

492

00:29:26,799 --> 00:29:28,559

talking about

493

00:29:28,559 --> 00:29:30,960

here it's not complicated here you have

494

00:29:30,960 --> 00:29:32,880

friday 29th

495

00:29:32,880 --> 00:29:35,279

oh okay sorry sorry i think i was

496

00:29:35,279 --> 00:29:37,200

looking day 31st

497

00:29:37,200 --> 00:29:40,640

right monday first of february

498

00:29:40,640 --> 00:29:43,600

one business day tuesday the second two

499

00:29:43,600 --> 00:29:46,399

business days

500

00:29:46,399 --> 00:29:50,000

yeah are you with me

501

00:29:50,000 --> 00:29:54,720

uh yes

502

00:29:54,720 --> 00:29:56,480

in this case you don't have you don't

503

00:29:56,480 --> 00:29:58,159

even have to look at the calendar

504

00:29:58,159 --> 00:30:02,720

right it's 29th of january's friday

505

00:30:02,720 --> 00:30:05,760

saturday is the 30th it's not a business

506

00:30:05,760 --> 00:30:07,440

day

507

00:30:07,440 --> 00:30:10,320

plus not a business day monday the 1st

508

00:30:10,320 --> 00:30:11,200

of february

509

00:30:11,200 --> 00:30:14,399

business day count one tuesday first

510

00:30:14,399 --> 00:30:17,760

second of february business day come to

511

00:30:17,760 --> 00:30:20,080

okay

512

00:30:21,279 --> 00:30:24,799

yes uh renee

513

00:30:24,799 --> 00:30:27,039

is asking me how to get 28 that's the

514

00:30:27,039 --> 00:30:29,520

number of days

515

00:30:29,520 --> 00:30:31,440

between the 2nd of february and the 2nd

516

00:30:31,440 --> 00:30:37,840

of march

517

00:30:41,840 --> 00:30:45,039

so song mean as i explained

518

00:30:45,039 --> 00:30:49,520

when you calculate the value date

519

00:30:49,520 --> 00:30:52,080

so for a day on which you have money

520

00:30:52,080 --> 00:30:53,279

changing hands

521

00:30:53,279 --> 00:30:56,480

you care about business days

522

00:30:56,480 --> 00:30:58,799

the banks have to be open for money to

523

00:30:58,799 --> 00:31:00,880

change hands

524

00:31:00,880 --> 00:31:04,399

okay so saturday and sunday

525

00:31:04,399 --> 00:31:06,799

in most countries are not banking

526

00:31:06,799 --> 00:31:08,320

holidays which is what

527

00:31:08,320 --> 00:31:09,919

are not banking days which is why you

528

00:31:09,919 --> 00:31:11,600

have to read the definition

529

00:31:11,600 --> 00:31:14,240

because if you're in the middle east

530

00:31:14,240 --> 00:31:14,799

then they

531

00:31:14,799 --> 00:31:16,880

can be business day so you have to be

532

00:31:16,880 --> 00:31:19,840

really careful

533

00:31:22,159 --> 00:31:25,200

okay so no not

534

00:31:25,200 --> 00:31:28,159

always the settlement is not necessary t

535

00:31:28,159 --> 00:31:29,039

plus two

536

00:31:29,039 --> 00:31:31,840

it could be cheaper plus three can be t

537

00:31:31,840 --> 00:31:34,559

plus one or it can be same day

538

00:31:34,559 --> 00:31:37,200

so some of you have listened to our

539

00:31:37,200 --> 00:31:39,440

gamestop webinar

540

00:31:39,440 --> 00:31:43,360

and part of it one of the reasons why

541

00:31:43,360 --> 00:31:47,600

robinhood suspended trades in gamestop

542

00:31:47,600 --> 00:31:50,960

was that because of the t plus

543

00:31:50,960 --> 00:31:54,399

two settlement in the united states

544

00:31:54,399 --> 00:31:55,200

market

545

00:31:55,200 --> 00:31:58,240

there is a risk so whenever you have a

546

00:31:58,240 --> 00:31:58,880

day

547

00:31:58,880 --> 00:32:00,960

when the money changes hand is not

548

00:32:00,960 --> 00:32:02,880

exactly the day you agree the trade

549

00:32:02,880 --> 00:32:04,080

there is a risk

550

00:32:04,080 --> 00:32:06,880

which is why brokers have to deposit

551

00:32:06,880 --> 00:32:07,760

collateral

552

00:32:07,760 --> 00:32:11,279

with the clearing house okay so the t

553

00:32:11,279 --> 00:32:14,320

plus two settlement was a problem

554

00:32:14,320 --> 00:32:16,799

and robin hood ceo was saying why can't

555

00:32:16,799 --> 00:32:18,960

we have same-day settlement well

556

00:32:18,960 --> 00:32:21,200

because it's more complicated than you

557

00:32:21,200 --> 00:32:22,480

think

558

00:32:22,480 --> 00:32:25,360

okay so in the market you can have same

559

00:32:25,360 --> 00:32:26,399

day you can have t

560

00:32:26,399 --> 00:32:28,320

plus one you can have t plus two you can

561

00:32:28,320 --> 00:32:30,399

have t plus three

562

00:32:30,399 --> 00:32:32,480

which was the way it was in the u.s

563

00:32:32,480 --> 00:32:34,799

until last year by the way

564

00:32:34,799 --> 00:32:38,000

uh in the old days it could be up to t

565

00:32:38,000 --> 00:32:41,360

plus seven okay

566

00:32:41,360 --> 00:32:44,799

why because in the old days

567

00:32:44,799 --> 00:32:46,720

we didn't have all these computers and

568

00:32:46,720 --> 00:32:49,039

everything remember the bonds you had to

569

00:32:49,039 --> 00:32:49,760

carry them

570

00:32:49,760 --> 00:32:53,279

physically and it would take money

571

00:32:53,279 --> 00:32:55,519

for it would take time for the money to

572

00:32:55,519 --> 00:32:56,960

change hands

573

00:32:56,960 --> 00:33:00,640

so nowadays the argument that the ceo of

574

00:33:00,640 --> 00:33:02,960

robin hood was making is nowadays we can

575

00:33:02,960 --> 00:33:04,640

actually do this with

576

00:33:04,640 --> 00:33:08,640

you know just a line of code right

577

00:33:08,720 --> 00:33:11,600

the reality though is same-day

578

00:33:11,600 --> 00:33:12,399

settlement

579

00:33:12,399 --> 00:33:15,200

um makes it more complicated because you

580

00:33:15,200 --> 00:33:15,760

cannot

581

00:33:15,760 --> 00:33:18,159

adjust for errors so you would have to

582

00:33:18,159 --> 00:33:20,480

pre-fund the trades

583

00:33:20,480 --> 00:33:22,559

which is what is the case in the stock

584

00:33:22,559 --> 00:33:24,720

market in china by the way

585

00:33:24,720 --> 00:33:28,399

okay all right

586

00:33:28,399 --> 00:33:32,399

so any other questions on this

587

00:33:34,960 --> 00:33:39,760

no okay so if not let me show you

588

00:33:39,760 --> 00:33:44,240

in practice why this is important

589

00:33:46,159 --> 00:33:49,120

okay so you're familiar with the fact

590

00:33:49,120 --> 00:33:51,360

that the hong kong seo government

591

00:33:51,360 --> 00:33:54,720

issues a certain number of bonds

592

00:33:54,720 --> 00:33:58,559

and this is the retail bond issuance

593

00:33:58,559 --> 00:34:01,679

program whereby last year

594

00:34:01,679 --> 00:34:04,720

they issued an inflation

595

00:34:04,720 --> 00:34:08,480

protected bond it's called the i bond

596

00:34:08,480 --> 00:34:11,599

okay so this program comes

597

00:34:11,599 --> 00:34:15,040

under what is called the retail

598

00:34:15,040 --> 00:34:18,159

bond program

599

00:34:18,839 --> 00:34:22,480

okay the retail bond issuance program

600

00:34:22,480 --> 00:34:25,918

of the hkscr government so under that

601

00:34:25,918 --> 00:34:27,679

program they have the eye bond

602

00:34:27,679 --> 00:34:30,159

they have the silver bonds which are for

603

00:34:30,159 --> 00:34:32,639

people with silver hair like me

604

00:34:32,639 --> 00:34:34,800

okay and this year they changed the age

605

00:34:34,800 --> 00:34:36,719

to 60 which is great

606

00:34:36,719 --> 00:34:39,839

so i can actually subscribe anyway so

607

00:34:39,839 --> 00:34:40,399

the i

608

00:34:40,399 --> 00:34:43,839

bond program was issued last year

609

00:34:43,839 --> 00:34:46,960

and unfortunately i didn't get enough

610

00:34:46,960 --> 00:34:50,079

of the bonds because it was very popular

611

00:34:50,079 --> 00:34:51,839

and heavily subscribed

612

00:34:51,839 --> 00:34:55,359

so what you can see here is uh

613

00:34:55,359 --> 00:34:58,720

the logo of the hksar government so this

614

00:34:58,720 --> 00:34:59,280

is the

615

00:34:59,280 --> 00:35:02,320

issuer this is the program

616

00:35:02,320 --> 00:35:05,280

this is the amount that was issued this

617

00:35:05,280 --> 00:35:09,359

is the maturity date 2023

618

00:35:09,359 --> 00:35:12,720

and the government is represented by the

619

00:35:12,720 --> 00:35:15,359

hkma which is acting

620

00:35:15,359 --> 00:35:18,079

their agent and then you can see the

621

00:35:18,079 --> 00:35:18,880

banks

622

00:35:18,880 --> 00:35:21,760

that underwrote the transaction and

623

00:35:21,760 --> 00:35:23,119

placed it

624

00:35:23,119 --> 00:35:27,040

with people like me okay so then you

625

00:35:27,040 --> 00:35:29,119

have the information

626

00:35:29,119 --> 00:35:32,640

all right so the key facts so the issue

627

00:35:32,640 --> 00:35:35,320

date was the 16th of november

628

00:35:35,320 --> 00:35:38,160

2020 it was issued at

629

00:35:38,160 --> 00:35:41,359

par a hundred percent and then the

630

00:35:41,359 --> 00:35:43,760

minimum amount that you can apply

631

00:35:43,760 --> 00:35:46,240

ten thousand and that is also the

632

00:35:46,240 --> 00:35:49,040

minimum denomination so one single bond

633

00:35:49,040 --> 00:35:50,160

is ten thousand

634

00:35:50,160 --> 00:35:52,720

hong kong dollars right then it tells

635

00:35:52,720 --> 00:35:55,119

you the interest rate so this is a very

636

00:35:55,119 --> 00:35:55,760

unique

637

00:35:55,760 --> 00:35:59,200

bond because it's an inflation protected

638

00:35:59,200 --> 00:36:00,000

bond

639

00:36:00,000 --> 00:36:03,040

so in this case you get the

640

00:36:03,040 --> 00:36:06,880

higher of two percent per annum

641

00:36:06,880 --> 00:36:09,680

or the floating rate which is the

642

00:36:09,680 --> 00:36:10,839

arithmetic

643

00:36:10,839 --> 00:36:14,240

average of the one-year

644

00:36:14,240 --> 00:36:16,800

change in the cpi compiled and published

645

00:36:16,800 --> 00:36:19,240

by the census department of the

646

00:36:19,240 --> 00:36:22,480

hkacr for the sixth preceding

647

00:36:22,480 --> 00:36:25,520

month rounding to the nearest to decimal

648

00:36:25,520 --> 00:36:26,960

places

649

00:36:26,960 --> 00:36:29,520

all right so clearly if inflation is

650

00:36:29,520 --> 00:36:30,000

going

651

00:36:30,000 --> 00:36:33,440

up then their rate of interest will be

652

00:36:33,440 --> 00:36:36,880

higher which is um nice

653

00:36:36,880 --> 00:36:39,280

but you are guaranteed a minimum fixed

654

00:36:39,280 --> 00:36:40,720

rate of two percent

655

00:36:40,720 --> 00:36:43,520

which is for three years by the way okay

656

00:36:43,520 --> 00:36:45,760

so you can see the maturity date here

657

00:36:45,760 --> 00:36:48,800

16 of november 2023

658

00:36:48,800 --> 00:36:52,079

the fees blah blah blah so i'm going

659

00:36:52,079 --> 00:36:54,800

so here the risk the key risks that

660

00:36:54,800 --> 00:36:55,760

you're taking

661

00:36:55,760 --> 00:36:59,359

on the by buying a bond and then you

662

00:36:59,359 --> 00:37:00,240

have some

663

00:37:00,240 --> 00:37:03,440

important information here

664

00:37:03,440 --> 00:37:07,040

in particular you'll have how interest

665

00:37:07,040 --> 00:37:11,200

is calculated so let me move down

666

00:37:11,200 --> 00:37:15,680

to there all right

667

00:37:15,680 --> 00:37:19,680

let me see if i can make it bigger

668

00:37:20,320 --> 00:37:24,160

no uh-huh right so here we say

669

00:37:24,160 --> 00:37:27,040

right interest payment dates so you have

670

00:37:27,040 --> 00:37:27,440

two

671

00:37:27,440 --> 00:37:30,079

asterisks here so whenever you have

672

00:37:30,079 --> 00:37:31,359

asterix

673

00:37:31,359 --> 00:37:33,280

if you've been properly trained by

674

00:37:33,280 --> 00:37:35,280

finance professors the first thing you

675

00:37:35,280 --> 00:37:36,320

do is you check

676

00:37:36,320 --> 00:37:38,800

the asterix and you check the little

677

00:37:38,800 --> 00:37:40,079

font here

678

00:37:40,079 --> 00:37:42,160

and you use a magnifying glass because

679

00:37:42,160 --> 00:37:43,920

it's always important

680

00:37:43,920 --> 00:37:47,440

so here it says unless specified

681

00:37:47,440 --> 00:37:48,560

otherwise

682

00:37:48,560 --> 00:37:50,640

if the due date for any action on the

683

00:37:50,640 --> 00:37:52,320

part of the government with

684

00:37:52,320 --> 00:37:55,200

such as making a payment is not a

685

00:37:55,200 --> 00:37:56,240

business day

686

00:37:56,240 --> 00:37:59,920

in hong kong the hkr sarah government

687

00:37:59,920 --> 00:38:01,359

will perform such action

688

00:38:01,359 --> 00:38:03,680

on the next day which is a business day

689

00:38:03,680 --> 00:38:05,040

in hong kong

690

00:38:05,040 --> 00:38:07,680

unless that action falls in the next

691

00:38:07,680 --> 00:38:08,720

calendar this

692

00:38:08,720 --> 00:38:12,079

calendar month in which case the hkr

693

00:38:12,079 --> 00:38:14,400

islam government will perform such

694

00:38:14,400 --> 00:38:17,359

action on the day immediately presenting

695

00:38:17,359 --> 00:38:18,000

the due date

696

00:38:18,000 --> 00:38:21,040

which is a business day in hong kong

697

00:38:21,040 --> 00:38:23,760

so here you recognize the modified

698

00:38:23,760 --> 00:38:27,440

following business day convention

699

00:38:27,440 --> 00:38:30,880

all right and then you have a specific

700

00:38:30,880 --> 00:38:33,359

thing because in hong kong you also have

701

00:38:33,359 --> 00:38:35,920

specific situation

702

00:38:35,920 --> 00:38:39,280

due to black rainstorm warning

703

00:38:39,280 --> 00:38:44,400

or typhoon 8 and above and again

704

00:38:44,400 --> 00:38:46,880

if that happens and we move it to the

705

00:38:46,880 --> 00:38:48,880

next business day

706

00:38:48,880 --> 00:38:52,240

okay so then it tells you

707

00:38:52,240 --> 00:38:55,040

so if the payment date is changed

708

00:38:55,040 --> 00:38:57,280

interest shall continue to accrue to the

709

00:38:57,280 --> 00:38:58,880

new payment date

710

00:38:58,880 --> 00:39:02,240

and any additional interest

711

00:39:02,240 --> 00:39:03,839

shall be taken into account for the

712

00:39:03,839 --> 00:39:06,000

purposes of calculating any amounts of

713

00:39:06,000 --> 00:39:07,760

interest payable in respect to

714

00:39:07,760 --> 00:39:10,800

the interest period okay

715

00:39:10,800 --> 00:39:14,480

so you can see that this is

716

00:39:14,480 --> 00:39:17,680

very very important i don't think we

717

00:39:17,680 --> 00:39:20,160

so here we've defined business day as

718

00:39:20,160 --> 00:39:20,960

being

719

00:39:20,960 --> 00:39:24,079

a business day in hong kong and then you

720

00:39:24,079 --> 00:39:26,400

can check this is all online by the way

721

00:39:26,400 --> 00:39:27,200

so you can

722

00:39:27,200 --> 00:39:30,640

you can look it up by yourself all right

723

00:39:30,640 --> 00:39:33,040

and then if you look at by the way you

724

00:39:33,040 --> 00:39:34,400

can see

725

00:39:34,400 --> 00:39:37,920

that the bonds are listed on the hong

726

00:39:37,920 --> 00:39:39,920

kong stock exchange that doesn't mean

727

00:39:39,920 --> 00:39:40,640

they're very

728

00:39:40,640 --> 00:39:43,520

actively traded you have the definition

729

00:39:43,520 --> 00:39:44,880

here business day

730

00:39:44,880 --> 00:39:47,839

means a day other than saturday sunday

731

00:39:47,839 --> 00:39:48,640

and general

732

00:39:48,640 --> 00:39:51,680

holiday on which both the cmu is

733

00:39:51,680 --> 00:39:52,880

operating

734

00:39:52,880 --> 00:39:55,680

and banks in hong kong are open for

735

00:39:55,680 --> 00:39:57,839

business

736

00:39:57,839 --> 00:40:03,119

all right so you can see why

737

00:40:03,440 --> 00:40:06,800

this is important all right because it

738

00:40:06,800 --> 00:40:08,640

applies

739

00:40:08,640 --> 00:40:12,240

directly to the calculation of interest

740

00:40:12,240 --> 00:40:13,359

and it can have

741

00:40:13,359 --> 00:40:16,240

quite a big impact on the actual amount

742

00:40:16,240 --> 00:40:17,920

of dollars you receive

743

00:40:17,920 --> 00:40:21,119

or if you're the issuer that you pay so

744

00:40:21,119 --> 00:40:23,040

you can find all this

745

00:40:23,040 --> 00:40:26,240

on the website of

746

00:40:26,240 --> 00:40:29,680

the government of hong kong

747

00:40:29,680 --> 00:40:32,480

any questions

748

00:40:36,839 --> 00:40:39,839

no

749

00:40:40,319 --> 00:40:44,079

all right well if you

750

00:40:44,079 --> 00:40:46,079

don't have any questions on this we

751

00:40:46,079 --> 00:40:47,680

shall move on

752

00:40:47,680 --> 00:40:52,240

to the next part of the course

753

00:40:52,240 --> 00:40:54,480

is

754

00:40:55,680 --> 00:40:57,839

we're going to start discussing in

755

00:40:57,839 --> 00:40:59,839

detail the foundations

756

00:40:59,839 --> 00:41:02,319

of financial institutions and

757

00:41:02,319 --> 00:41:05,359

particularly we're going to talk about

758

00:41:05,359 --> 00:41:08,640

financial intermediation all right so

759

00:41:08,640 --> 00:41:10,880

we've done the overview we've done

760

00:41:10,880 --> 00:41:14,400

part one and two of our foundations of

761

00:41:14,400 --> 00:41:15,599

interest rate

762

00:41:15,599 --> 00:41:17,599

we're going to talk about a very

763

00:41:17,599 --> 00:41:19,599

important concept right now which is

764

00:41:19,599 --> 00:41:21,440

financial intimidation

765

00:41:21,440 --> 00:41:24,800

and then we'll dig deep deep deep into

766

00:41:24,800 --> 00:41:28,319

financial institutions

767

00:41:28,800 --> 00:41:32,079

okay so we are going to start from the

768

00:41:32,079 --> 00:41:33,119

big picture

769

00:41:33,119 --> 00:41:36,560

by remembering what is it that financial

770

00:41:36,560 --> 00:41:38,400

institutions

771

00:41:38,400 --> 00:41:42,400

do we look at the classification

772

00:41:42,400 --> 00:41:46,160

of financial institutions and then we'll

773

00:41:46,160 --> 00:41:47,200

talk about

774

00:41:47,200 --> 00:41:50,319

financial intermediation and

775

00:41:50,319 --> 00:41:53,839

conflicts of interest

776

00:41:54,400 --> 00:41:58,319

all right so it's really important

777

00:41:58,319 --> 00:41:59,520

when we talk about financial

778

00:41:59,520 --> 00:42:02,079

institutions which form the financial

779

00:42:02,079 --> 00:42:06,160

industry to remember that besides

780

00:42:06,160 --> 00:42:08,720

the fact that they provide very

781

00:42:08,720 --> 00:42:09,680

important

782

00:42:09,680 --> 00:42:13,440

functions in the system they are an

783

00:42:13,440 --> 00:42:14,400

industry

784

00:42:14,400 --> 00:42:17,359

and they are a major contributor to the

785

00:42:17,359 --> 00:42:18,240

economy

786

00:42:18,240 --> 00:42:21,440

in big financial centers such as hong

787

00:42:21,440 --> 00:42:23,200

kong new york london

788

00:42:23,200 --> 00:42:27,200

etc so when the financial industry is in

789

00:42:27,200 --> 00:42:27,839

trouble

790

00:42:27,839 --> 00:42:30,960

when there is a banking crisis going on

791

00:42:30,960 --> 00:42:33,680

you may not feel very sad for the highly

792

00:42:33,680 --> 00:42:35,680

paid investment bankers who lose their

793

00:42:35,680 --> 00:42:36,560

job

794

00:42:36,560 --> 00:42:38,880

but you could feel sad about all the

795

00:42:38,880 --> 00:42:41,839

taxi drivers and all the restaurants

796

00:42:41,839 --> 00:42:44,400

that have a lot fewer customers as a

797

00:42:44,400 --> 00:42:45,680

result

798

00:42:45,680 --> 00:42:47,599

so when the banking industry is in

799

00:42:47,599 --> 00:42:48,720

trouble

800

00:42:48,720 --> 00:42:51,040

it's not terribly good for places like

801

00:42:51,040 --> 00:42:52,640

hong kong new york

802

00:42:52,640 --> 00:42:55,920

london etc

803

00:42:56,960 --> 00:43:00,160

now we're going to talk about a big and

804

00:43:00,160 --> 00:43:02,280

important differentiation of

805

00:43:02,280 --> 00:43:03,520

segmentation

806

00:43:03,520 --> 00:43:06,880

of the financial industry so this is

807

00:43:06,880 --> 00:43:10,480

again important please pay attention

808

00:43:10,480 --> 00:43:14,359

we broadly separate the financial

809

00:43:14,359 --> 00:43:15,920

institutions

810

00:43:15,920 --> 00:43:19,640

between those that perform financial

811

00:43:19,640 --> 00:43:22,720

intermediation which we call

812

00:43:22,720 --> 00:43:26,720

financial intermediaries

813

00:43:26,720 --> 00:43:29,599

and which are further divided between

814

00:43:29,599 --> 00:43:31,680

depository institutions

815

00:43:31,680 --> 00:43:35,440

and other financial intermediaries

816

00:43:35,440 --> 00:43:39,440

from financial institutions that do not

817

00:43:39,440 --> 00:43:43,760

perform financial intermediation

818

00:43:43,760 --> 00:43:47,280

okay so you have two big categories

819

00:43:47,280 --> 00:43:49,200

financial institutions

820

00:43:49,200 --> 00:43:52,319

that are financial intermediaries

821

00:43:52,319 --> 00:43:53,200

because

822

00:43:53,200 --> 00:43:57,200

they perform financial intermediation

823

00:43:57,200 --> 00:44:00,079

and then you have a number of other

824

00:44:00,079 --> 00:44:00,880

financial

825

00:44:00,880 --> 00:44:04,640

institutions that do not perform

826

00:44:04,640 --> 00:44:08,160

financial intermediation

827

00:44:08,160 --> 00:44:11,760

within the financial intermediaries

828

00:44:11,760 --> 00:44:15,040

we separate those that collect

829

00:44:15,040 --> 00:44:18,319

deposits from you and me

830

00:44:18,319 --> 00:44:22,960

the retail widows and orphans

831

00:44:22,960 --> 00:44:25,760

those that collect deposits are called

832

00:44:25,760 --> 00:44:26,920

depository

833

00:44:26,920 --> 00:44:31,359

institutions and the other financial

834

00:44:31,359 --> 00:44:34,839

intermediaries that do not collect

835

00:44:34,839 --> 00:44:36,000

deposits

836

00:44:36,000 --> 00:44:39,440

okay so these are the three big

837

00:44:39,440 --> 00:44:44,240

types now the depository institutions

838

00:44:44,240 --> 00:44:47,359

can issue checkable deposits

839

00:44:47,359 --> 00:44:49,680

which is the main way they fund

840

00:44:49,680 --> 00:44:50,960

themselves

841

00:44:50,960 --> 00:44:55,119

and also can issue financial claims

842

00:44:55,119 --> 00:44:58,400

to raise financing from the markets and

843

00:44:58,400 --> 00:44:59,599

from other

844

00:44:59,599 --> 00:45:03,200

other institutions while financial

845

00:45:03,200 --> 00:45:05,280

intermediaries that do not collect

846

00:45:05,280 --> 00:45:06,480

deposits

847

00:45:06,480 --> 00:45:09,280

rely on issuing a bunch of financial

848

00:45:09,280 --> 00:45:10,800

claims

849

00:45:10,800 --> 00:45:15,359

okay so

850

00:45:15,359 --> 00:45:19,760

notice that i have put here

851

00:45:19,760 --> 00:45:23,000

different types of depository

852

00:45:23,000 --> 00:45:26,240

institutions okay

853

00:45:26,240 --> 00:45:29,040

so commercial banks which we will be

854

00:45:29,040 --> 00:45:29,680

digging

855

00:45:29,680 --> 00:45:32,880

in detail later

856

00:45:32,880 --> 00:45:35,040

but then you have also things like

857

00:45:35,040 --> 00:45:37,119

credit unions

858

00:45:37,119 --> 00:45:41,599

mutual savings banks building societies

859

00:45:41,599 --> 00:45:45,119

i could add a few more like cooperatives

860

00:45:45,119 --> 00:45:48,319

a lot of these function on the

861

00:45:48,319 --> 00:45:52,880

model of mutual organization

862

00:45:52,880 --> 00:45:56,640

that is to say that the customers in

863

00:45:56,640 --> 00:45:58,560

this case the depositors

864

00:45:58,560 --> 00:46:02,000

are the shareholders big

865

00:46:02,000 --> 00:46:04,240

banks like credit tag we call for

866

00:46:04,240 --> 00:46:06,720

example

867

00:46:06,800 --> 00:46:10,319

they function on that basis okay it's a

868

00:46:10,319 --> 00:46:13,440

mutual organization

869

00:46:13,440 --> 00:46:18,079

in the uk there were building societies

870

00:46:18,079 --> 00:46:20,319

which were a particular type of

871

00:46:20,319 --> 00:46:22,960

financial institution

872

00:46:22,960 --> 00:46:26,880

specifically designed to help people

873

00:46:26,880 --> 00:46:30,560

uh finance housing

874

00:46:30,560 --> 00:46:33,520

so building societies with societies

875

00:46:33,520 --> 00:46:34,640

that help with

876

00:46:34,640 --> 00:46:38,720

acquiring buildings right over the years

877

00:46:38,720 --> 00:46:42,160

they demutualize so they've become a lot

878

00:46:42,160 --> 00:46:43,680

of them

879

00:46:43,680 --> 00:46:46,240

publicly listed corporations and they're

880

00:46:46,240 --> 00:46:47,359

no longer

881

00:46:47,359 --> 00:46:51,520

mutual organizations all right

882

00:46:51,520 --> 00:46:55,040

then on the side of financial

883

00:46:55,040 --> 00:46:56,560

intermediaries

884

00:46:56,560 --> 00:46:59,760

that do not collect deposits you have

885

00:46:59,760 --> 00:47:02,720

insurance companies pension funds mutual

886

00:47:02,720 --> 00:47:05,040

funds money market fund and finance

887

00:47:05,040 --> 00:47:07,440

companies

888

00:47:07,440 --> 00:47:11,200

all right so remember the typology with

889

00:47:11,200 --> 00:47:13,680

on the one hand you have financial

890

00:47:13,680 --> 00:47:14,960

intermediaries

891

00:47:14,960 --> 00:47:17,520

further broken down between depository

892

00:47:17,520 --> 00:47:19,680

institutions and the others

893

00:47:19,680 --> 00:47:22,640

and the other financial institutions

894

00:47:22,640 --> 00:47:24,240

that do not perform

895

00:47:24,240 --> 00:47:27,760

financial intermediation now

896

00:47:27,760 --> 00:47:31,119

i know this is confusing

897

00:47:31,119 --> 00:47:34,160

because a any financial

898

00:47:34,160 --> 00:47:37,440

institution could be named

899

00:47:37,440 --> 00:47:39,119

or could be called a financial

900

00:47:39,119 --> 00:47:41,920

intermediary because they intermediate

901

00:47:41,920 --> 00:47:44,760

but here we use this term very

902

00:47:44,760 --> 00:47:47,760

specifically

903

00:47:48,160 --> 00:47:51,280

to talk about financial institutions

904

00:47:51,280 --> 00:47:52,319

that perform

905

00:47:52,319 --> 00:47:55,440

financial intermediation

906

00:47:55,440 --> 00:48:00,559

okay all right so remember when we

907

00:48:00,559 --> 00:48:02,880

talked about at the very beginning about

908

00:48:02,880 --> 00:48:04,720

financial system

909

00:48:04,720 --> 00:48:07,920

and we established that the financial

910

00:48:07,920 --> 00:48:08,720

systems

911

00:48:08,720 --> 00:48:12,480

helps channel funds from surplus units

912

00:48:12,480 --> 00:48:15,920

to deficit units right

913

00:48:15,920 --> 00:48:18,960

now what is important to understand is

914

00:48:18,960 --> 00:48:22,800

that two big channels

915

00:48:22,800 --> 00:48:25,520

direct finance so remember direct

916

00:48:25,520 --> 00:48:26,720

finance

917

00:48:26,720 --> 00:48:30,079

when my buyer and seller find each other

918

00:48:30,079 --> 00:48:33,520

okay so the money changes hand between

919

00:48:33,520 --> 00:48:34,000

the buyer

920

00:48:34,000 --> 00:48:37,200

and the seller that's direct finance

921

00:48:37,200 --> 00:48:40,240

and that can be assisted by dealers and

922

00:48:40,240 --> 00:48:41,920

brokers

923

00:48:41,920 --> 00:48:45,119

in the financial markets

924

00:48:45,119 --> 00:48:49,800

indirect finance on the other hand

925

00:48:49,800 --> 00:48:52,960

requires the intervention of

926

00:48:52,960 --> 00:48:57,200

financial intermediaries

927

00:48:57,200 --> 00:48:59,599

but before we talk about that we're

928

00:48:59,599 --> 00:49:00,559

going to talk

929

00:49:00,559 --> 00:49:03,760

first about a number of financial

930

00:49:03,760 --> 00:49:05,280

institutions that are

931

00:49:05,280 --> 00:49:10,400

not performing financial intermediation

932

00:49:10,400 --> 00:49:13,440

this includes brokers

933

00:49:13,440 --> 00:49:17,200

dealers investment banks

934

00:49:17,200 --> 00:49:20,240

in the strict sense of investment

935

00:49:20,240 --> 00:49:21,559

banking

936

00:49:21,559 --> 00:49:25,040

custodians trustees and a bunch of

937

00:49:25,040 --> 00:49:26,240

others

938

00:49:26,240 --> 00:49:29,680

so before i talk about brokers and

939

00:49:29,680 --> 00:49:31,839

dealers which we've talked about before

940

00:49:31,839 --> 00:49:35,040

let me first talk about these

941

00:49:35,040 --> 00:49:38,640

two very very important

942

00:49:38,640 --> 00:49:41,760

type of institutions

943

00:49:41,760 --> 00:49:45,920

custodians and trustees

944

00:49:45,920 --> 00:49:49,119

and anybody know what they do what is

945

00:49:49,119 --> 00:49:58,960

the role that they perform

946

00:49:58,960 --> 00:50:02,400

anybody very good three are

947

00:50:02,400 --> 00:50:07,440

you on time i say see you on

948

00:50:07,599 --> 00:50:11,280

yes you hold assets on behalf

949

00:50:11,280 --> 00:50:14,640

of your customers okay the role of

950

00:50:14,640 --> 00:50:17,040

custodians and trustees

951

00:50:17,040 --> 00:50:20,559

is essentially to hold assets

952

00:50:20,559 --> 00:50:24,480

on behalf of their customers okay

953

00:50:24,480 --> 00:50:28,480

so there is a difference between the two

954

00:50:28,480 --> 00:50:31,760

because they are operating

955

00:50:31,760 --> 00:50:35,920

under different legal regime custodians

956

00:50:35,920 --> 00:50:39,839

operate under company law trustees

957

00:50:39,839 --> 00:50:42,880

operate under trust law

958

00:50:42,880 --> 00:50:46,160

but their role essentially

959

00:50:46,160 --> 00:50:49,680

is the same and it is indeed to hold

960

00:50:49,680 --> 00:50:54,079

assets on behalf of their customers

961

00:50:54,079 --> 00:50:57,359

all right so see you on do you know any

962

00:50:57,359 --> 00:51:02,960

names of custodian or trustees big names

963

00:51:06,839 --> 00:51:09,839

anybody

964

00:51:11,040 --> 00:51:14,079

yes that's right jp morgan have a big

965

00:51:14,079 --> 00:51:18,480

custodian and trustee business very good

966

00:51:18,480 --> 00:51:22,319

other big names would be yes citibank

967

00:51:22,319 --> 00:51:23,200

has won

968

00:51:23,200 --> 00:51:27,200

yeah swiss banks not so much

969

00:51:27,200 --> 00:51:31,520

the big players jp morgan state street

970

00:51:31,520 --> 00:51:33,280

state street is the big name you've

971

00:51:33,280 --> 00:51:34,800

never heard of

972

00:51:34,800 --> 00:51:38,079

uh it's massive uh bank of new york

973

00:51:38,079 --> 00:51:40,480

melon

974

00:51:41,520 --> 00:51:45,359

i've never heard of vargas fish

975

00:51:45,359 --> 00:51:48,400

but say the big ones you know the jp

976

00:51:48,400 --> 00:51:53,280

morgan's hsbc city bank have custodian

977

00:51:53,280 --> 00:51:57,040

services so the this is a business that

978

00:51:57,040 --> 00:51:57,920

the banks

979

00:51:57,920 --> 00:52:01,680

love because it's not very risky

980

00:52:01,680 --> 00:52:06,319

and it's all fees and commissions

981

00:52:06,319 --> 00:52:08,880

you need scale because you need the

982

00:52:08,880 --> 00:52:09,680

systems

983

00:52:09,680 --> 00:52:12,400

you need the efficiency but once you

984

00:52:12,400 --> 00:52:13,520

have that

985

00:52:13,520 --> 00:52:16,559

then it's a very lucrative business

986

00:52:16,559 --> 00:52:19,599

okay so custodians and trustees is

987

00:52:19,599 --> 00:52:23,200

a very very important

988

00:52:23,200 --> 00:52:27,119

uh yes bank of new york melon um

989

00:52:27,119 --> 00:52:31,359

state street jpmorgan city bank hsbc

990

00:52:31,359 --> 00:52:34,160

the big ones

991

00:52:35,040 --> 00:52:37,359

what do they need to do exactly well

992

00:52:37,359 --> 00:52:38,319

they need to

993

00:52:38,319 --> 00:52:41,119

hold the assets safely on behalf of

994

00:52:41,119 --> 00:52:43,040

their customers so there will be a

995

00:52:43,040 --> 00:52:44,319

custodian

996

00:52:44,319 --> 00:52:47,200

or a custody agreement between the

997

00:52:47,200 --> 00:52:48,960

client and the bank

998

00:52:48,960 --> 00:52:52,160

and uh same thing that for the trustee

999

00:52:52,160 --> 00:52:54,960

slightly different because the legal

1000

00:52:54,960 --> 00:52:56,960

system is slightly different so the

1001

00:52:56,960 --> 00:52:57,839

trustee

1002

00:52:57,839 --> 00:53:00,880

is actually the legal owner of the

1003

00:53:00,880 --> 00:53:01,520

assets

1004

00:53:01,520 --> 00:53:04,160

on behalf of the beneficiary for

1005

00:53:04,160 --> 00:53:06,160

custodians it's company law

1006

00:53:06,160 --> 00:53:09,359

so they're holding the asset on behalf

1007

00:53:09,359 --> 00:53:12,800

of the owner of the assets

1008

00:53:12,800 --> 00:53:15,440

okay now i don't have time to go into a

1009

00:53:15,440 --> 00:53:16,720

lot of detail but this

1010

00:53:16,720 --> 00:53:20,000

is a very very good business for the

1011

00:53:20,000 --> 00:53:21,040

banks

1012

00:53:21,040 --> 00:53:24,640

all right okay now

1013

00:53:24,640 --> 00:53:27,040

we will talk about investment banks

1014

00:53:27,040 --> 00:53:28,480

later

1015

00:53:28,480 --> 00:53:31,280

now let's remind ourselves what we

1016

00:53:31,280 --> 00:53:32,559

already know

1017

00:53:32,559 --> 00:53:34,720

about brokers and dealers you will

1018

00:53:34,720 --> 00:53:38,160

remember we discussed it

1019

00:53:38,160 --> 00:53:41,359

brokers they connect two parties

1020

00:53:41,359 --> 00:53:44,720

they act on behalf of

1021

00:53:44,720 --> 00:53:47,520

their clients and they charge a fee for

1022

00:53:47,520 --> 00:53:48,960

the service

1023

00:53:48,960 --> 00:53:51,599

they do not buy and sell assets so they

1024

00:53:51,599 --> 00:53:54,000

don't take positions they don't carry

1025

00:53:54,000 --> 00:53:58,000

inventory you have many examples of

1026

00:53:58,000 --> 00:53:59,119

brokers like

1027

00:53:59,119 --> 00:54:02,800

real estate broker insurance brokers

1028

00:54:02,800 --> 00:54:06,160

and of course the stock broker

1029

00:54:06,160 --> 00:54:10,079

so brokers are agents they act

1030

00:54:10,079 --> 00:54:13,599

on behalf of the clients

1031

00:54:13,599 --> 00:54:16,640

okay we've already talked about this so

1032

00:54:16,640 --> 00:54:18,240

you should know

1033

00:54:18,240 --> 00:54:22,880

about it also we talked about dealers

1034

00:54:22,880 --> 00:54:26,160

dealers act as principal

1035

00:54:26,160 --> 00:54:28,960

in their own name with their own balance

1036

00:54:28,960 --> 00:54:29,599

sheet

1037

00:54:29,599 --> 00:54:33,200

okay they take position they buy

1038

00:54:33,200 --> 00:54:36,799

and sell assets they carry inventory

1039

00:54:36,799 --> 00:54:39,839

and there make money from the difference

1040

00:54:39,839 --> 00:54:42,960

or spread between the price at which

1041

00:54:42,960 --> 00:54:45,119

they buy and the price at which they

1042

00:54:45,119 --> 00:54:48,319

sell the assets

1043

00:54:48,480 --> 00:54:52,319

now pay attention

1044

00:54:52,319 --> 00:54:55,599

within the universe of dealers there is

1045

00:54:55,599 --> 00:55:00,480

one very very specific category

1046

00:55:00,480 --> 00:55:04,160

which is called market makers

1047

00:55:04,160 --> 00:55:06,799

so to answer renee question to take

1048

00:55:06,799 --> 00:55:08,079

position

1049

00:55:08,079 --> 00:55:11,599

is that they they may decide to buy

1050

00:55:11,599 --> 00:55:14,799

assets and hold it for a while because

1051

00:55:14,799 --> 00:55:16,720

they think the price will go

1052

00:55:16,720 --> 00:55:20,240

up that is taking a position

1053

00:55:20,240 --> 00:55:22,400

all right so it's having a view on the

1054

00:55:22,400 --> 00:55:23,599

market

1055

00:55:23,599 --> 00:55:27,359

and acting on that view

1056

00:55:27,359 --> 00:55:32,559

by building an inventory okay

1057

00:55:32,880 --> 00:55:36,240

so let me go back market makers are

1058

00:55:36,240 --> 00:55:42,240

a subpart of the dealer's universe

1059

00:55:42,240 --> 00:55:45,520

what they do as the name say is to

1060

00:55:45,520 --> 00:55:49,599

make a market so

1061

00:55:49,599 --> 00:55:52,799

they post two-way prices so when you

1062

00:55:52,799 --> 00:55:55,839

call them they will give you

1063

00:55:55,839 --> 00:55:58,559

both the bid and the offer they will

1064

00:55:58,559 --> 00:55:59,200

tell you

1065

00:55:59,200 --> 00:56:01,119

the price at which they're prepared to

1066

00:56:01,119 --> 00:56:04,160

buy and the price they're prepared to

1067

00:56:04,160 --> 00:56:06,400

sell

1068

00:56:06,400 --> 00:56:09,839

in that way they provide liquidity

1069

00:56:09,839 --> 00:56:14,160

why because if you have an asset

1070

00:56:14,160 --> 00:56:17,440

that you want to buy or you want to sell

1071

00:56:17,440 --> 00:56:20,240

you know you can call the market maker

1072

00:56:20,240 --> 00:56:21,040

for that

1073

00:56:21,040 --> 00:56:24,799

asset and you will always get a price

1074

00:56:24,799 --> 00:56:27,839

at least that's just theory

1075

00:56:27,839 --> 00:56:30,960

okay so a market maker in

1076

00:56:30,960 --> 00:56:33,440

government securities is called the

1077

00:56:33,440 --> 00:56:35,520

primary dealer

1078

00:56:35,520 --> 00:56:37,760

and that's what they do they make

1079

00:56:37,760 --> 00:56:41,200

markets in government securities

1080

00:56:41,200 --> 00:56:44,400

so in very actively traded

1081

00:56:44,400 --> 00:56:47,440

assets you will have market makers

1082

00:56:47,440 --> 00:56:50,160

that take a huge risk because they don't

1083

00:56:50,160 --> 00:56:51,520

know

1084

00:56:51,520 --> 00:56:53,599

when the client who's calling them

1085

00:56:53,599 --> 00:56:55,440

whether the client wants to buy or wants

1086

00:56:55,440 --> 00:56:57,119

to sell

1087

00:56:57,119 --> 00:57:00,559

so market maker is far more risky than

1088

00:57:00,559 --> 00:57:02,720

just being a dealer

1089

00:57:02,720 --> 00:57:05,520

and far far far far more risky than

1090

00:57:05,520 --> 00:57:07,920

being a broker

1091

00:57:07,920 --> 00:57:11,359

okay so

1092

00:57:11,359 --> 00:57:14,079

you have foreign exchange dealers

1093

00:57:14,079 --> 00:57:16,960

primary dealers in government securities

1094

00:57:16,960 --> 00:57:21,119

security dealers in certain exchanges

1095

00:57:21,119 --> 00:57:24,240

you will see dealers and market makers

1096

00:57:24,240 --> 00:57:26,319

in many different corners of the

1097

00:57:26,319 --> 00:57:29,440

financial market

1098

00:57:29,440 --> 00:57:32,720

so remember everything to do

1099

00:57:32,720 --> 00:57:36,079

with liquidity

1100

00:57:36,079 --> 00:57:40,000

is always going to be relative

1101

00:57:40,000 --> 00:57:43,599

right so in normal markets

1102

00:57:43,599 --> 00:57:46,160

when the markets are humdrum and you

1103

00:57:46,160 --> 00:57:48,880

know everything is going hunky-dory

1104

00:57:48,880 --> 00:57:51,520

that's no problem everybody's providing

1105

00:57:51,520 --> 00:57:53,359

liquidity

1106

00:57:53,359 --> 00:57:56,000

when the market goes ballistic and

1107

00:57:56,000 --> 00:57:57,520

everybody is scared

1108

00:57:57,520 --> 00:58:00,960

the market makers stop making markets

1109

00:58:00,960 --> 00:58:04,079

so there's no more liquidity

1110

00:58:04,079 --> 00:58:08,240

okay and it happens so this

1111

00:58:08,240 --> 00:58:11,440

is a very risky a very

1112

00:58:11,440 --> 00:58:13,440

risky type of job especially when

1113

00:58:13,440 --> 00:58:14,720

markets start to move

1114

00:58:14,720 --> 00:58:16,880

all over the place it becomes very very

1115

00:58:16,880 --> 00:58:19,200

risky

1116

00:58:19,200 --> 00:58:23,839

okay any questions on that

1117

00:58:26,480 --> 00:58:31,200

so i've put now some pink slides

1118

00:58:32,000 --> 00:58:34,720

which are summary slides of the things i

1119

00:58:34,720 --> 00:58:37,040

expect you to know

1120

00:58:37,040 --> 00:58:40,480

when we finish a portion of the course

1121

00:58:40,480 --> 00:58:43,680

so key learning objectives

1122

00:58:43,680 --> 00:58:46,240

for you to remember when you review so

1123

00:58:46,240 --> 00:58:49,359

that was suggested to me by the previous

1124

00:58:49,359 --> 00:58:51,760

students in the previous term so i've

1125

00:58:51,760 --> 00:58:52,480

added

1126

00:58:52,480 --> 00:58:56,079

key summary slides especially as we get

1127

00:58:56,079 --> 00:58:57,920

into the part of the course that is

1128

00:58:57,920 --> 00:59:01,040

a little bit more intensive okay so out

1129

00:59:01,040 --> 00:59:04,079

of this you should remember the

1130

00:59:04,079 --> 00:59:06,720

classification of financial institutions

1131

00:59:06,720 --> 00:59:08,559

the definition of brokers

1132

00:59:08,559 --> 00:59:11,599

and the definition of dealers and i

1133

00:59:11,599 --> 00:59:13,359

should ask you should remember what's

1134

00:59:13,359 --> 00:59:16,640

custodian and trustee

1135

00:59:16,799 --> 00:59:19,839

all right now

1136

00:59:19,920 --> 00:59:21,839

let's talk about financial

1137

00:59:21,839 --> 00:59:24,240

intermediation

1138

00:59:24,240 --> 00:59:26,720

all right so you remember we have

1139

00:59:26,720 --> 00:59:27,720

financial

1140

00:59:27,720 --> 00:59:31,359

intermediaries and we have separated

1141

00:59:31,359 --> 00:59:33,119

them between

1142

00:59:33,119 --> 00:59:36,160

depository institutions such as

1143

00:59:36,160 --> 00:59:39,599

commercial bank savings bank mutual bank

1144

00:59:39,599 --> 00:59:43,280

post office central bank

1145

00:59:43,440 --> 00:59:46,960

why the post office

1146

00:59:46,960 --> 00:59:49,040

why did i put the post office as an

1147

00:59:49,040 --> 01:00:01,839

example of deposit intermediary

1148

01:00:09,599 --> 01:00:13,680

that's right sunghak in many countries

1149

01:00:13,680 --> 01:00:14,000

the

1150

01:00:14,000 --> 01:00:17,839

post office is also a bank

1151

01:00:17,839 --> 01:00:20,240

they provide banking services retail

1152

01:00:20,240 --> 01:00:23,040

banking services in my country they do

1153

01:00:23,040 --> 01:00:26,400

in korea i think in japan as well

1154

01:00:26,400 --> 01:00:28,960

but in in many countries the post office

1155

01:00:28,960 --> 01:00:31,280

is also a bank

1156

01:00:31,280 --> 01:00:33,760

why do you think that is the case and

1157

01:00:33,760 --> 01:00:43,839

why do you think it makes sense

1158

01:00:46,160 --> 01:00:48,079

why does it make sense for the post

1159

01:00:48,079 --> 01:00:49,920

office to also be a bank

1160

01:00:49,920 --> 01:00:56,520

in many countries

1161

01:00:56,520 --> 01:01:00,319

logistics thank you very much logistics

1162

01:01:00,319 --> 01:01:03,599

it's everywhere that's right wing yen

1163

01:01:03,599 --> 01:01:07,760

it's everywhere winyan ariel warden

1164

01:01:07,760 --> 01:01:10,720

very good yes the post office is

1165

01:01:10,720 --> 01:01:12,400

everywhere

1166

01:01:12,400 --> 01:01:16,000

they have offices branches or presents

1167

01:01:16,000 --> 01:01:16,640

pretty much

1168

01:01:16,640 --> 01:01:19,760

throughout the country so

1169

01:01:19,760 --> 01:01:22,559

they're already here so why not have

1170

01:01:22,559 --> 01:01:24,400

banking services as well

1171

01:01:24,400 --> 01:01:27,680

it makes perfect logical sense

1172

01:01:27,680 --> 01:01:30,880

right so it's easy for people to go to

1173

01:01:30,880 --> 01:01:33,440

the post office to deposit money to cash

1174

01:01:33,440 --> 01:01:34,720

their cheques to do

1175

01:01:34,720 --> 01:01:38,160

basic banking services

1176

01:01:38,160 --> 01:01:41,920

retail banking services okay

1177

01:01:41,920 --> 01:01:46,559

how about the central bank hmm

1178

01:01:47,839 --> 01:01:53,839

why did i put the central bank here

1179

01:02:01,920 --> 01:02:04,000

that's right sunghak the commercial

1180

01:02:04,000 --> 01:02:06,000

banks deposit with the central

1181

01:02:06,000 --> 01:02:09,599

banks yes mean q very good so they are

1182

01:02:09,599 --> 01:02:12,559

the bank to the banks but in some

1183

01:02:12,559 --> 01:02:14,880

countries like mine

1184

01:02:14,880 --> 01:02:18,799

you can also put your money in the

1185

01:02:18,799 --> 01:02:21,200

central bank so the bank defaults

1186

01:02:21,200 --> 01:02:24,480

opens retail accounts so not

1187

01:02:24,480 --> 01:02:28,079

many central banks do that

1188

01:02:28,079 --> 01:02:30,480

but in some countries they do so you can

1189

01:02:30,480 --> 01:02:32,400

open an account with the bank of france

1190

01:02:32,400 --> 01:02:35,039

as a retail investor

1191

01:02:35,039 --> 01:02:39,039

broadly speaking most central banks

1192

01:02:39,039 --> 01:02:42,720

act as bankers to the banks

1193

01:02:42,720 --> 01:02:45,920

and often bankers to the government so

1194

01:02:45,920 --> 01:02:48,319

the fed in the u.s when we talk about it

1195

01:02:48,319 --> 01:02:50,400

later at the end of the course

1196

01:02:50,400 --> 01:02:53,760

you will find that the fed is

1197

01:02:53,760 --> 01:02:55,760

the central bank of the united states

1198

01:02:55,760 --> 01:02:57,760

access banker to the banks and banker to

1199

01:02:57,760 --> 01:02:59,359

the government

1200

01:02:59,359 --> 01:03:02,640

okay very good

1201

01:03:02,640 --> 01:03:05,119

all right so we've seen quite a few

1202

01:03:05,119 --> 01:03:06,799

deposit intermediaries

1203

01:03:06,799 --> 01:03:10,319

and then on the financial intermediary

1204

01:03:10,319 --> 01:03:11,280

side

1205

01:03:11,280 --> 01:03:15,720

we have different type of

1206

01:03:15,720 --> 01:03:18,559

non-deposit intermediaries

1207

01:03:18,559 --> 01:03:21,200

such as insurance companies and pension

1208

01:03:21,200 --> 01:03:22,160

funds

1209

01:03:22,160 --> 01:03:23,839

which are called contractual

1210

01:03:23,839 --> 01:03:26,000

intermediaries but you get into a

1211

01:03:26,000 --> 01:03:26,799

contract

1212

01:03:26,799 --> 01:03:30,160

with your clients portfolio institutions

1213

01:03:30,160 --> 01:03:33,280

such as mutual funds and unit trust and

1214

01:03:33,280 --> 01:03:35,520

other financial institutions such as

1215

01:03:35,520 --> 01:03:37,599

finance companies so somebody put a

1216

01:03:37,599 --> 01:03:39,359

question in the chat before

1217

01:03:39,359 --> 01:03:42,480

about what is a finance company can

1218

01:03:42,480 --> 01:03:44,880

anybody answer that question for me

1219

01:03:44,880 --> 01:03:48,720

what is a finance company

1220

01:03:51,280 --> 01:03:59,839

and give me an example

1221

01:04:06,000 --> 01:04:09,280

that was songhai's question

1222

01:04:09,280 --> 01:04:11,119

it's a good question so what is a

1223

01:04:11,119 --> 01:04:14,079

finance company

1224

01:04:14,960 --> 01:04:17,440

they lend money to customers yes they

1225

01:04:17,440 --> 01:04:21,039

offer short-term loans to individuals

1226

01:04:21,039 --> 01:04:24,559

not a bank okay

1227

01:04:24,559 --> 01:04:27,280

car loans very good they provide credit

1228

01:04:27,280 --> 01:04:27,599

no

1229

01:04:27,599 --> 01:04:30,640

insurance companies are different okay

1230

01:04:30,640 --> 01:04:35,039

finance companies are typically set up

1231

01:04:35,039 --> 01:04:38,160

by large corporations

1232

01:04:38,160 --> 01:04:41,440

to provide financial services to their

1233

01:04:41,440 --> 01:04:43,039

customers

1234

01:04:43,039 --> 01:04:45,559

so think about for example car

1235

01:04:45,559 --> 01:04:48,960

manufacturers like gm

1236

01:04:48,960 --> 01:04:53,039

gm had a big subsidiary called gmac

1237

01:04:53,039 --> 01:04:55,359

and what they do is they provide

1238

01:04:55,359 --> 01:04:56,960

financing for people to buy

1239

01:04:56,960 --> 01:05:00,160

gm cars in the same way

1240

01:05:00,160 --> 01:05:03,520

general electric had gecc

1241

01:05:03,520 --> 01:05:06,400

general electric capital corporation

1242

01:05:06,400 --> 01:05:08,000

that started off in the same

1243

01:05:08,000 --> 01:05:10,720

way to provide financing for their

1244

01:05:10,720 --> 01:05:12,880

customers to buy their products

1245

01:05:12,880 --> 01:05:15,359

and then became enormous and then grew

1246

01:05:15,359 --> 01:05:17,119

up and then collapsed

1247

01:05:17,119 --> 01:05:22,000

okay so that's a good question assuming

1248

01:05:22,000 --> 01:05:24,960

is and for alibaba counted as finance

1249

01:05:24,960 --> 01:05:26,400

company

1250

01:05:26,400 --> 01:05:29,680

not really because it is not

1251

01:05:29,680 --> 01:05:33,200

designed for financing clients who are

1252

01:05:33,200 --> 01:05:37,200

buying stuff from alibaba it's kind of

1253

01:05:37,200 --> 01:05:39,760

and financially is really and that's why

1254

01:05:39,760 --> 01:05:41,920

the regulators acted it's actually a

1255

01:05:41,920 --> 01:05:43,119

finance company

1256

01:05:43,119 --> 01:05:46,720

it's actually a financial institution

1257

01:05:46,720 --> 01:05:49,599

it should really be regulated as a bank

1258

01:05:49,599 --> 01:05:50,000

because

1259

01:05:50,000 --> 01:05:53,520

that's what it does okay

1260

01:05:53,520 --> 01:05:56,880

the mercedes bank what is the mercedes

1261

01:05:56,880 --> 01:05:59,520

bank roman

1262

01:05:59,520 --> 01:06:05,839

mercedes-benz has a bank

1263

01:06:06,079 --> 01:06:09,280

oh i didn't know so probably then but

1264

01:06:09,280 --> 01:06:10,720

it's if it's a bank

1265

01:06:10,720 --> 01:06:12,559

if it's called bank then it has a

1266

01:06:12,559 --> 01:06:14,400

banking license then it is

1267

01:06:14,400 --> 01:06:17,760

a bank uh so banks have there are

1268

01:06:17,760 --> 01:06:20,720

different kinds of licenses for banks

1269

01:06:20,720 --> 01:06:22,880

and in the united states for example

1270

01:06:22,880 --> 01:06:24,480

they are what we call

1271

01:06:24,480 --> 01:06:27,599

um industrial banks

1272

01:06:27,599 --> 01:06:29,839

so they're not commercial banks they're

1273

01:06:29,839 --> 01:06:34,240

industrial banks it's a specific charter

1274

01:06:34,760 --> 01:06:37,599

microfinance that's a very good question

1275

01:06:37,599 --> 01:06:38,640

kelvin

1276

01:06:38,640 --> 01:06:42,720

so microfinance it depends

1277

01:06:42,720 --> 01:06:44,839

whether they're collecting deposits or

1278

01:06:44,839 --> 01:06:47,119

not so if they're not

1279

01:06:47,119 --> 01:06:51,119

collecting deposits there are

1280

01:06:51,119 --> 01:06:54,720

microfinance institutions and so

1281

01:06:54,720 --> 01:06:58,079

in each country they will be regulated

1282

01:06:58,079 --> 01:06:58,880

differently

1283

01:06:58,880 --> 01:07:01,280

so grameen starting off as a

1284

01:07:01,280 --> 01:07:03,599

microfinance institution but then became

1285

01:07:03,599 --> 01:07:04,480

a bank

1286

01:07:04,480 --> 01:07:06,480

so they got a banking charter so now

1287

01:07:06,480 --> 01:07:08,799

they call grameen bank

1288

01:07:08,799 --> 01:07:11,680

so it's very specific in china for

1289

01:07:11,680 --> 01:07:13,280

example

1290

01:07:13,280 --> 01:07:15,880

rural cooperatives provide a lot of

1291

01:07:15,880 --> 01:07:17,359

microfinance

1292

01:07:17,359 --> 01:07:20,400

so then you have to dig into what it is

1293

01:07:20,400 --> 01:07:23,760

that they do and how they're regulated

1294

01:07:23,760 --> 01:07:27,280

in their particular country a unique

1295

01:07:27,280 --> 01:07:28,799

trust aria warden

1296

01:07:28,799 --> 01:07:31,280

it's kind of like a mutual fund and i'll

1297

01:07:31,280 --> 01:07:33,520

explain that when we talk about the

1298

01:07:33,520 --> 01:07:37,599

buy side on the investor side

1299

01:07:37,599 --> 01:07:40,640

all right lots of great questions very

1300

01:07:40,640 --> 01:07:41,440

good

1301

01:07:41,440 --> 01:07:44,640

okay all right so now

1302

01:07:44,640 --> 01:07:46,400

let's talk about financial

1303

01:07:46,400 --> 01:07:50,079

intermediation so you will recall

1304

01:07:50,079 --> 01:07:56,640

okay that where did i put it

1305

01:07:56,640 --> 01:07:59,760

there you remember that so we said okay

1306

01:07:59,760 --> 01:08:02,400

direct finance that includes brokers and

1307

01:08:02,400 --> 01:08:04,559

dealers and people connecting to each

1308

01:08:04,559 --> 01:08:06,559

other and trading with each other right

1309

01:08:06,559 --> 01:08:08,880

with help from the financial market

1310

01:08:08,880 --> 01:08:12,240

but then you have indirect finance

1311

01:08:12,240 --> 01:08:14,559

which involves the use of financial

1312

01:08:14,559 --> 01:08:15,839

intermediaries so

1313

01:08:15,839 --> 01:08:19,040

why do we have that

1314

01:08:19,040 --> 01:08:22,080

well one of the reasons is

1315

01:08:22,080 --> 01:08:25,920

that to connect lenders and borrowers

1316

01:08:25,920 --> 01:08:29,600

issuers and investors

1317

01:08:29,600 --> 01:08:33,679

and generally supply and demand

1318

01:08:33,679 --> 01:08:37,520

it's difficult it's difficult because

1319

01:08:37,520 --> 01:08:40,080

we have different expectations in terms

1320

01:08:40,080 --> 01:08:41,520

of risk

1321

01:08:41,520 --> 01:08:46,158

return maturity liquidity

1322

01:08:46,158 --> 01:08:49,198

let's say for example wig n is a

1323

01:08:49,198 --> 01:08:52,719

bright young entrepreneur and she's

1324

01:08:52,719 --> 01:08:56,000

just invented this fabulous machine that

1325

01:08:56,000 --> 01:09:00,560

is finally finally going to

1326

01:09:00,560 --> 01:09:03,520

transport us teleporters you know she's

1327

01:09:03,520 --> 01:09:04,198

going to

1328

01:09:04,198 --> 01:09:06,080

revolutionize the world i've been

1329

01:09:06,080 --> 01:09:08,880

waiting for that since star trek

1330

01:09:08,880 --> 01:09:12,719

she's done it okay but she has no money

1331

01:09:12,719 --> 01:09:16,158

i'm sorry for you wing yen so brilliant

1332

01:09:16,158 --> 01:09:16,640

girl

1333

01:09:16,640 --> 01:09:19,600

but no money she's got this plan she

1334

01:09:19,600 --> 01:09:20,238

needs

1335

01:09:20,238 --> 01:09:23,039

financing

1336

01:09:23,920 --> 01:09:28,238

problem is it's a risky proposition

1337

01:09:28,238 --> 01:09:31,198

okay you have to finance a young person

1338

01:09:31,198 --> 01:09:31,839

with

1339

01:09:31,839 --> 01:09:34,560

you know okay she's been to hkust so

1340

01:09:34,560 --> 01:09:36,080

that's a big plus

1341

01:09:36,080 --> 01:09:39,359

but still it's a very risky endeavor

1342

01:09:39,359 --> 01:09:42,479

it's going to get some time and you will

1343

01:09:42,479 --> 01:09:43,120

expect

1344

01:09:43,120 --> 01:09:46,719

a high return for it but our friend

1345

01:09:46,719 --> 01:09:49,359

aryan he's not so keen because he's a

1346

01:09:49,359 --> 01:09:49,839

very

1347

01:09:49,839 --> 01:09:54,158

conservative guy very conservative

1348

01:09:54,158 --> 01:09:56,719

and he saves money by working really

1349

01:09:56,719 --> 01:09:57,520

really hard

1350

01:09:57,520 --> 01:10:00,320

on three different jobs while getting a

1351

01:10:00,320 --> 01:10:01,679

scholarship to go to

1352

01:10:01,679 --> 01:10:04,719

university is not about to

1353

01:10:04,719 --> 01:10:07,760

embark on a super risky proposition

1354

01:10:07,760 --> 01:10:09,760

plus he might want to get married which

1355

01:10:09,760 --> 01:10:11,920

is going to be quite expensive

1356

01:10:11,920 --> 01:10:16,080

okay so he typically will want

1357

01:10:16,080 --> 01:10:19,520

to keep his money safe and get a decent

1358

01:10:19,520 --> 01:10:21,199

return but not too much

1359

01:10:21,199 --> 01:10:24,880

risk and fairly liquid so you can see

1360

01:10:24,880 --> 01:10:28,159

how this might be difficult to

1361

01:10:28,159 --> 01:10:31,520

connect the two parties it's not easy

1362

01:10:31,520 --> 01:10:32,400

when you have

1363

01:10:32,400 --> 01:10:34,960

so many different requirements and you

1364

01:10:34,960 --> 01:10:36,239

will remember that

1365

01:10:36,239 --> 01:10:39,600

because remember we brainstorm

1366

01:10:39,600 --> 01:10:44,239

investors desires and issuers desire

1367

01:10:44,239 --> 01:10:45,679

and they have very different

1368

01:10:45,679 --> 01:10:48,000

requirements

1369

01:10:48,000 --> 01:10:51,840

so to solve the problem you have

1370

01:10:51,840 --> 01:10:55,120

financial intermediaries so what do they

1371

01:10:55,120 --> 01:10:55,760

do

1372

01:10:55,760 --> 01:10:59,520

they step in the middle of this okay

1373

01:10:59,520 --> 01:11:02,800

and our friend

1374

01:11:02,800 --> 01:11:06,400

nothing is going to be our financial

1375

01:11:06,400 --> 01:11:08,719

intermediary today

1376

01:11:08,719 --> 01:11:11,920

so she's going to step between yen and

1377

01:11:11,920 --> 01:11:13,520

aryan

1378

01:11:13,520 --> 01:11:17,520

and she tells aryan don't worry

1379

01:11:17,520 --> 01:11:21,600

you can deposit your hard earned savings

1380

01:11:21,600 --> 01:11:25,199

in the bank of lamb it's a very

1381

01:11:25,199 --> 01:11:28,640

solid sound bank

1382

01:11:28,640 --> 01:11:31,280

it's well regulated we have this big

1383

01:11:31,280 --> 01:11:34,320

vault we have all the security

1384

01:11:34,320 --> 01:11:37,679

your savings will be safe with me

1385

01:11:37,679 --> 01:11:41,040

and i'm not going to pay you a huge

1386

01:11:41,040 --> 01:11:43,040

return but you can get your money

1387

01:11:43,040 --> 01:11:46,719

at any time so aryan is happy

1388

01:11:46,719 --> 01:11:50,560

tick not much risk tick okay return

1389

01:11:50,560 --> 01:11:54,000

take liquidity and then nighting turns

1390

01:11:54,000 --> 01:11:57,199

around and says to inyan i believe

1391

01:11:57,199 --> 01:12:01,040

in you i think this company that you're

1392

01:12:01,040 --> 01:12:03,520

trying to start up has a good

1393

01:12:03,520 --> 01:12:07,120

a good potential but it's super risky

1394

01:12:07,120 --> 01:12:09,679

nevertheless you know with your mom and

1395

01:12:09,679 --> 01:12:11,760

dad providing a guarantee

1396

01:12:11,760 --> 01:12:15,520

i can give you a loan at a pretty high

1397

01:12:15,520 --> 01:12:16,719

rate of interest

1398

01:12:16,719 --> 01:12:18,880

but it gives you time to start your

1399

01:12:18,880 --> 01:12:21,280

prototype

1400

01:12:21,280 --> 01:12:24,800

and then she makes a loan

1401

01:12:24,800 --> 01:12:28,239

to win yen's company okay

1402

01:12:28,239 --> 01:12:32,080

so by stepping in the middle you resolve

1403

01:12:32,080 --> 01:12:35,840

the problem the lenders

1404

01:12:35,840 --> 01:12:39,120

will receive money

1405

01:12:39,120 --> 01:12:42,719

okay in exchange for a contract which is

1406

01:12:42,719 --> 01:12:45,040

typically a loan contract

1407

01:12:45,040 --> 01:12:48,159

the savers are the lenders that's the

1408

01:12:48,159 --> 01:12:48,800

savers

1409

01:12:48,800 --> 01:12:51,199

okay we'll give money to the financial

1410

01:12:51,199 --> 01:12:53,440

intermediary so that's our friend aryan

1411

01:12:53,440 --> 01:12:54,080

here

1412

01:12:54,080 --> 01:12:57,199

in exchange for deposit contract and the

1413

01:12:57,199 --> 01:12:57,840

financial

1414

01:12:57,840 --> 01:13:00,560

intermediary the bank of lamb will lend

1415

01:13:00,560 --> 01:13:01,760

money

1416

01:13:01,760 --> 01:13:05,600

to win yen's company under

1417

01:13:05,600 --> 01:13:10,000

a loan contract okay

1418

01:13:10,000 --> 01:13:14,000

so this is a very

1419

01:13:14,000 --> 01:13:17,600

very important function okay so the big

1420

01:13:17,600 --> 01:13:18,080

thing to

1421

01:13:18,080 --> 01:13:21,199

understand with financial intermediation

1422

01:13:21,199 --> 01:13:24,239

is that the financial intermediary steps

1423

01:13:24,239 --> 01:13:25,679

in the middle

1424

01:13:25,679 --> 01:13:28,480

okay that's why we call it indirect

1425

01:13:28,480 --> 01:13:30,080

finance

1426

01:13:30,080 --> 01:13:33,440

they deal with both sides separately

1427

01:13:33,440 --> 01:13:36,719

and by doing so they solve this

1428

01:13:36,719 --> 01:13:39,920

difficult problem of different

1429

01:13:39,920 --> 01:13:43,679

objectives from different sides

1430

01:13:43,679 --> 01:13:47,440

now they financial intermediaries

1431

01:13:47,440 --> 01:13:51,040

perform many many useful functions

1432

01:13:51,040 --> 01:13:54,400

in the economy first off

1433

01:13:54,400 --> 01:13:57,199

they provide indirect finance which by

1434

01:13:57,199 --> 01:13:58,239

the way

1435

01:13:58,239 --> 01:14:01,040

is a much bigger channel than direct

1436

01:14:01,040 --> 01:14:02,080

finance

1437

01:14:02,080 --> 01:14:05,280

for all the obvious reasons that it's

1438

01:14:05,280 --> 01:14:09,600

far more risky to do direct finance

1439

01:14:10,159 --> 01:14:12,239

the much more important source of

1440

01:14:12,239 --> 01:14:15,600

finance than the capital markets

1441

01:14:15,600 --> 01:14:18,719

they reduce transaction costs

1442

01:14:18,719 --> 01:14:21,920

and asymmetric information

1443

01:14:21,920 --> 01:14:25,520

so these are can lenders also be

1444

01:14:25,520 --> 01:14:26,400

borrowers

1445

01:14:26,400 --> 01:14:28,719

in the same time we will explain about

1446

01:14:28,719 --> 01:14:30,480

that later yes

1447

01:14:30,480 --> 01:14:34,800

they can lenders can also borrow

1448

01:14:34,800 --> 01:14:37,360

so a lender like a bank for example can

1449

01:14:37,360 --> 01:14:39,920

also be borrowing from other banks

1450

01:14:39,920 --> 01:14:43,440

that is a possibility okay let's talk

1451

01:14:43,440 --> 01:14:46,159

about transaction costs for a minute

1452

01:14:46,159 --> 01:14:49,360

can you give me an example

1453

01:14:51,360 --> 01:14:57,679

example of transaction cost

1454

01:14:57,679 --> 01:15:00,480

tax yes

1455

01:15:01,920 --> 01:15:05,440

fees very good processing

1456

01:15:05,440 --> 01:15:09,360

well done time yes because time has a

1457

01:15:09,360 --> 01:15:10,960

cost

1458

01:15:10,960 --> 01:15:13,760

all right so all these things yes the

1459

01:15:13,760 --> 01:15:16,480

time and the money that it takes you

1460

01:15:16,480 --> 01:15:19,600

to perform a financial transaction

1461

01:15:19,600 --> 01:15:22,640

there are many examples of these in the

1462

01:15:22,640 --> 01:15:24,320

markets as you've mentioned

1463

01:15:24,320 --> 01:15:27,280

the fees that you're paying taxes etc

1464

01:15:27,280 --> 01:15:28,880

etc

1465

01:15:28,880 --> 01:15:32,159

by the way market news talking about

1466

01:15:32,159 --> 01:15:34,719

transaction costs

1467

01:15:34,719 --> 01:15:36,400

can you make the link with what happened

1468

01:15:36,400 --> 01:15:38,960

in hong kong

1469

01:15:38,960 --> 01:15:42,400

what was announced last week

1470

01:15:45,199 --> 01:15:48,800

haha very good that prey very good

1471

01:15:48,800 --> 01:15:51,840

very good sri lankan

1472

01:15:51,840 --> 01:15:54,000

oh you're very good you've been

1473

01:15:54,000 --> 01:15:55,600

following the market

1474

01:15:55,600 --> 01:15:59,360

very good okay so

1475

01:15:59,360 --> 01:16:02,480

paul chan our financial secretary has he

1476

01:16:02,480 --> 01:16:05,120

announced a

1477

01:16:05,600 --> 01:16:08,880

increase in stamp duty on stock

1478

01:16:08,880 --> 01:16:10,719

transactions

1479

01:16:10,719 --> 01:16:14,480

massive right

1480

01:16:14,960 --> 01:16:18,320

when you put it in those terms it sounds

1481

01:16:18,320 --> 01:16:19,520

horrible

1482

01:16:19,520 --> 01:16:24,880

but it just went from 0.10 percent

1483

01:16:24,880 --> 01:16:28,719

to 0.13 percent

1484

01:16:28,719 --> 01:16:32,400

so not so massive after all

1485

01:16:32,400 --> 01:16:35,440

okay so very low yeah

1486

01:16:35,440 --> 01:16:38,800

very low really but a little bit

1487

01:16:38,800 --> 01:16:42,400

increase helps so this is transaction

1488

01:16:42,400 --> 01:16:44,640

cost okay stamp duty

1489

01:16:44,640 --> 01:16:47,360

transaction cost all right the other

1490

01:16:47,360 --> 01:16:48,719

thing is

1491

01:16:48,719 --> 01:16:52,400

uh so our financial intermediaries they

1492

01:16:52,400 --> 01:16:56,960

help to reduce transaction costs why

1493

01:16:57,120 --> 01:17:00,239

shiraz stem taxes money that you pay

1494

01:17:00,239 --> 01:17:03,280

every time you buy or sell stocks

1495

01:17:03,280 --> 01:17:06,640

on the hong kong exchange

1496

01:17:07,840 --> 01:17:11,199

the word comes from a stamp that used to

1497

01:17:11,199 --> 01:17:12,320

be

1498

01:17:12,320 --> 01:17:16,080

applied to transactions which no longer

1499

01:17:16,080 --> 01:17:20,400

stamps so yeah

1500

01:17:20,400 --> 01:17:22,960

so how come our financial issues

1501

01:17:22,960 --> 01:17:24,400

intermediaries reduce

1502

01:17:24,400 --> 01:17:31,840

transaction costs

1503

01:17:34,719 --> 01:17:38,239

okay i know it's late monday morning

1504

01:17:38,239 --> 01:17:40,000

blah blah

1505

01:17:40,000 --> 01:17:43,040

all right so they reduce transaction

1506

01:17:43,040 --> 01:17:44,560

costs because they develop

1507

01:17:44,560 --> 01:17:47,920

expertise and they have economies of

1508

01:17:47,920 --> 01:17:48,560

scale

1509

01:17:48,560 --> 01:17:51,920

because they do many transactions of the

1510

01:17:51,920 --> 01:17:52,719

same

1511

01:17:52,719 --> 01:17:57,120

type the fixed cost involved

1512

01:17:57,120 --> 01:18:00,159

in the transaction cost can be

1513

01:18:00,159 --> 01:18:04,960

spread over many transactions

1514

01:18:04,960 --> 01:18:08,480

so one typical example of that

1515

01:18:08,480 --> 01:18:11,600

is the cost of the lawyer to draft a

1516

01:18:11,600 --> 01:18:12,080

loan

1517

01:18:12,080 --> 01:18:15,840

contract once you have the loan contract

1518

01:18:15,840 --> 01:18:18,800

you can replicate it and just change the

1519

01:18:18,800 --> 01:18:20,480

names and the turns

1520

01:18:20,480 --> 01:18:23,520

so you can spread the cost of the lawyer

1521

01:18:23,520 --> 01:18:26,560

over many many transactions all right

1522

01:18:26,560 --> 01:18:27,760

and because

1523

01:18:27,760 --> 01:18:30,560

that's what financial intermediaries do

1524

01:18:30,560 --> 01:18:32,880

they have a lot of transaction

1525

01:18:32,880 --> 01:18:36,080

because the fixed cost can be amortized

1526

01:18:36,080 --> 01:18:39,679

over many transactions and they can pass

1527

01:18:39,679 --> 01:18:44,880

that benefit to their customers

1528

01:18:44,880 --> 01:18:49,760

that's what we call economies of scale

1529

01:18:50,080 --> 01:18:53,040

that also allows intermediaries to

1530

01:18:53,040 --> 01:18:53,679

provide

1531

01:18:53,679 --> 01:18:56,719

additional services like liquidity

1532

01:18:56,719 --> 01:18:57,600

services

1533

01:18:57,600 --> 01:19:01,920

like payment services okay

1534

01:19:02,239 --> 01:19:04,800

so they can provide checking accounts

1535

01:19:04,800 --> 01:19:07,280

that allows you to pay your bills so

1536

01:19:07,280 --> 01:19:08,800

probably

1537

01:19:08,800 --> 01:19:11,440

not many of you still use checkbooks but

1538

01:19:11,440 --> 01:19:12,640

they used to be

1539

01:19:12,640 --> 01:19:16,480

a very big form of payments

1540

01:19:16,480 --> 01:19:19,199

particularly in the united states check

1541

01:19:19,199 --> 01:19:20,239

payments were

1542

01:19:20,239 --> 01:19:23,520

the number one form of payments up

1543

01:19:23,520 --> 01:19:27,920

until about 2010

1544

01:19:27,920 --> 01:19:31,040

and then you can also have savings

1545

01:19:31,040 --> 01:19:33,600

account and different forms of accounts

1546

01:19:33,600 --> 01:19:37,840

with the bank

1547

01:19:38,080 --> 01:19:41,159

another benefit that financial

1548

01:19:41,159 --> 01:19:43,520

intermediaries

1549

01:19:43,520 --> 01:19:47,360

open to their customers is the process

1550

01:19:47,360 --> 01:19:50,480

of risk sharing which is actually a

1551

01:19:50,480 --> 01:19:51,920

fundamental function

1552

01:19:51,920 --> 01:19:55,280

of financial intermediaries because

1553

01:19:55,280 --> 01:19:58,400

as you've seen they solve the problem

1554

01:19:58,400 --> 01:20:00,960

of different risk expectations on both

1555

01:20:00,960 --> 01:20:03,199

sides by stepping in the middle

1556

01:20:03,199 --> 01:20:06,400

and taking the risk

1557

01:20:06,400 --> 01:20:09,920

on the two uh

1558

01:20:09,920 --> 01:20:13,199

the two sides of the equation so they

1559

01:20:13,199 --> 01:20:14,719

can create and sell

1560

01:20:14,719 --> 01:20:18,159

assets with less risk to one party to

1561

01:20:18,159 --> 01:20:18,719

buy us

1562

01:20:18,719 --> 01:20:20,639

us with greater risk from the other

1563

01:20:20,639 --> 01:20:23,679

party they sell a deposit to our friend

1564

01:20:23,679 --> 01:20:24,960

aryan

1565

01:20:24,960 --> 01:20:27,280

and they can make a loan to our friend

1566

01:20:27,280 --> 01:20:29,840

wing yen

1567

01:20:30,719 --> 01:20:34,120

this is a very important term asset

1568

01:20:34,120 --> 01:20:35,920

transformation

1569

01:20:35,920 --> 01:20:39,040

so what do they effectively do they

1570

01:20:39,040 --> 01:20:43,280

transform the deposit that aryan has

1571

01:20:43,280 --> 01:20:44,480

made

1572

01:20:44,480 --> 01:20:48,400

into a loan that they make to win yen

1573

01:20:48,400 --> 01:20:50,760

which is why we call it as a

1574

01:20:50,760 --> 01:20:52,480

transformation

1575

01:20:52,480 --> 01:20:55,280

on both sides of the equation there are

1576

01:20:55,280 --> 01:20:55,840

different

1577

01:20:55,840 --> 01:20:59,120

financial contracts on

1578

01:20:59,120 --> 01:21:02,719

area inside it's a deposit

1579

01:21:02,719 --> 01:21:06,560

by which aryan is effectively providing

1580

01:21:06,560 --> 01:21:08,480

funding to the bank

1581

01:21:08,480 --> 01:21:10,880

on the other side the bank is making a

1582

01:21:10,880 --> 01:21:12,960

loan to wing in

1583

01:21:12,960 --> 01:21:16,719

okay so you have two financial contracts

1584

01:21:16,719 --> 01:21:19,760

you have asset transformation asset

1585

01:21:19,760 --> 01:21:21,120

transformation is

1586

01:21:21,120 --> 01:21:24,880

critical and this is how you know

1587

01:21:24,880 --> 01:21:27,920

if a financial institution is doing

1588

01:21:27,920 --> 01:21:29,840

financial intermediation

1589

01:21:29,840 --> 01:21:33,600

or not when a dealer

1590

01:21:33,600 --> 01:21:37,440

is buying stocks and selling them

1591

01:21:37,440 --> 01:21:41,040

is not doing asset transformation

1592

01:21:41,040 --> 01:21:43,920

the asset is the same on both sides it

1593

01:21:43,920 --> 01:21:46,800

doesn't change

1594

01:21:46,880 --> 01:21:50,560

but when a bank is making is offering it

1595

01:21:50,560 --> 01:21:53,360

taking a deposit and making a loan it is

1596

01:21:53,360 --> 01:21:56,080

performing as a transformation

1597

01:21:56,080 --> 01:21:59,440

okay so this is what i call the acid

1598

01:21:59,440 --> 01:22:04,080

test of financial intermediation

1599

01:22:04,080 --> 01:22:07,440

acid transformation

1600

01:22:07,440 --> 01:22:10,840

now an additional advantage of financial

1601

01:22:10,840 --> 01:22:12,080

intermediaries

1602

01:22:12,080 --> 01:22:15,600

is economies of scope

1603

01:22:15,600 --> 01:22:18,800

so remember economies of scale is doing

1604

01:22:18,800 --> 01:22:20,719

many times the same

1605

01:22:20,719 --> 01:22:23,600

type of transaction so you can amortize

1606

01:22:23,600 --> 01:22:26,560

the fixed transaction cost

1607

01:22:26,560 --> 01:22:30,719

economies of scope is once you have this

1608

01:22:30,719 --> 01:22:33,199

customer base then you can sell them

1609

01:22:33,199 --> 01:22:34,000

multiple

1610

01:22:34,000 --> 01:22:37,280

services so this is the multiple

1611

01:22:37,280 --> 01:22:40,320

products to the customer base part

1612

01:22:40,320 --> 01:22:43,760

the skill it's the same product to

1613

01:22:43,760 --> 01:22:45,600

multiple customers

1614

01:22:45,600 --> 01:22:48,400

the scope is multiple products for the

1615

01:22:48,400 --> 01:22:49,760

same customer

1616

01:22:49,760 --> 01:22:51,679

remember we talked about this when we

1617

01:22:51,679 --> 01:22:54,320

talk about how we grow our business

1618

01:22:54,320 --> 01:22:57,679

if we're managing a company

1619

01:22:57,679 --> 01:23:01,040

we want to grow our business organically

1620

01:23:01,040 --> 01:23:03,360

we want to sell more products to the

1621

01:23:03,360 --> 01:23:04,639

same customer

1622

01:23:04,639 --> 01:23:07,600

or acquire more customers for our

1623

01:23:07,600 --> 01:23:09,600

products this is a two dimensions

1624

01:23:09,600 --> 01:23:13,280

of organic growth okay so

1625

01:23:13,280 --> 01:23:17,040

the banks can get economies of scope

1626

01:23:17,040 --> 01:23:20,320

when they provide multiple services to

1627

01:23:20,320 --> 01:23:23,040

their existing customers which is in

1628

01:23:23,040 --> 01:23:23,600

fact

1629

01:23:23,600 --> 01:23:26,159

because the acquisition cost of these

1630

01:23:26,159 --> 01:23:27,760

customers has been

1631

01:23:27,760 --> 01:23:30,560

spread out

1632

01:23:31,120 --> 01:23:33,920

all right so to illustrate what we talk

1633

01:23:33,920 --> 01:23:35,360

about

1634

01:23:35,360 --> 01:23:38,480

quickly before we finish

1635

01:23:38,480 --> 01:23:43,199

so banks make they collect deposits from

1636

01:23:43,199 --> 01:23:44,320

all kinds

1637

01:23:44,320 --> 01:23:47,679

of savers households corporations

1638

01:23:47,679 --> 01:23:50,639

other financial institutions and they

1639

01:23:50,639 --> 01:23:51,199

make

1640

01:23:51,199 --> 01:23:54,080

loans to corporations household and

1641

01:23:54,080 --> 01:23:56,159

other financial institutions

1642

01:23:56,159 --> 01:24:00,560

so you have asset transformation

1643

01:24:01,199 --> 01:24:04,560

if you're an insurance company that's

1644

01:24:04,560 --> 01:24:06,960

also what they do they collect

1645

01:24:06,960 --> 01:24:08,560

contractual savings

1646

01:24:08,560 --> 01:24:12,560

premiums from household corporations

1647

01:24:12,560 --> 01:24:15,280

other financial institutions and they

1648

01:24:15,280 --> 01:24:16,400

invest

1649

01:24:16,400 --> 01:24:20,080

these in capital markets by buying

1650

01:24:20,080 --> 01:24:24,080

equities and other forms of securities

1651

01:24:24,080 --> 01:24:29,040

again you have asset transformation

1652

01:24:29,199 --> 01:24:31,840

okay

1653

01:24:32,480 --> 01:24:35,440

all right so it's 5 52 which means we

1654

01:24:35,440 --> 01:24:36,639

run out of time

1655

01:24:36,639 --> 01:24:39,440

you're free to leave i am hanging around

1656

01:24:39,440 --> 01:24:40,000

to take

1657

01:24:40,000 --> 01:24:45,840

any questions that you have

1658

01:24:50,639 --> 01:24:59,840

thank you

1659

01:25:02,080 --> 01:25:04,080

i want to ask what's the major role

1660

01:25:04,080 --> 01:25:05,840

difference between financial

1661

01:25:05,840 --> 01:25:07,600

intermediaries and financial

1662

01:25:07,600 --> 01:25:08,960

institutions

1663

01:25:08,960 --> 01:25:12,159

so financial intermediary is a

1664

01:25:12,159 --> 01:25:15,679

subsection it's a subpart of financial

1665

01:25:15,679 --> 01:25:19,040

institution remember

1666

01:25:19,120 --> 01:25:21,360

this

1667

01:25:22,239 --> 01:25:26,480

this chart here

1668

01:25:26,480 --> 01:25:29,040

this okay so you have financial

1669

01:25:29,040 --> 01:25:30,800

institutions

1670

01:25:30,800 --> 01:25:35,760

financial intermediaries is one category

1671

01:25:35,760 --> 01:25:38,239

other financial institutions is another

1672

01:25:38,239 --> 01:25:39,280

one

1673

01:25:39,280 --> 01:25:43,280

okay all right chuck funk

1674

01:25:43,280 --> 01:25:46,960

all right thanks okay oh professor i had

1675

01:25:46,960 --> 01:25:48,880

a dog

1676

01:25:48,880 --> 01:25:52,159

yes aryan uh so like in this

1677

01:25:52,159 --> 01:25:55,120

uh in this slide if you see the other

1678

01:25:55,120 --> 01:25:56,880

financial institutions also includes

1679

01:25:56,880 --> 01:25:58,320

investment banks

1680

01:25:58,320 --> 01:26:01,920

yes i can talk about it about them yet

1681

01:26:01,920 --> 01:26:04,320

okay i i can see the question you're

1682

01:26:04,320 --> 01:26:05,679

going to ask me

1683

01:26:05,679 --> 01:26:09,120

i'm reading your mind okay

1684

01:26:09,120 --> 01:26:11,520

so you're going to tell me but

1685

01:26:11,520 --> 01:26:13,280

investment banks they do financial

1686

01:26:13,280 --> 01:26:14,239

intermediation

1687

01:26:14,239 --> 01:26:18,159

in some cases yes but the core business

1688

01:26:18,159 --> 01:26:21,199

of investment banking corporate finance

1689

01:26:21,199 --> 01:26:23,920

is not financial intermediation and

1690

01:26:23,920 --> 01:26:26,320

we'll explain that when we go into

1691

01:26:26,320 --> 01:26:28,880

investment banking so here what i mean

1692

01:26:28,880 --> 01:26:32,239

is investment banking

1693

01:26:32,239 --> 01:26:34,800

in the strict sense of investment

1694

01:26:34,800 --> 01:26:36,080

banking which is corporate

1695

01:26:36,080 --> 01:26:40,560

finance okay thank you for listening

1696

01:26:40,560 --> 01:26:43,600

a great question

1697

01:26:44,400 --> 01:26:47,600

uh professor i have a question sure

1698

01:26:47,600 --> 01:26:50,960

yeah um so it's about the

1699

01:26:50,960 --> 01:26:53,120

modified following the business day

1700

01:26:53,120 --> 01:26:54,000

convention

1701

01:26:54,000 --> 01:26:57,760

so like um so in my understanding it's

1702

01:26:57,760 --> 01:26:58,719

that

1703

01:26:58,719 --> 01:27:01,840

uh it's like it it's flexible so

1704

01:27:01,840 --> 01:27:05,600

it's it depends on what they state right

1705

01:27:05,600 --> 01:27:08,000

yeah it depends on two things first of

1706

01:27:08,000 --> 01:27:09,040

all

1707

01:27:09,040 --> 01:27:12,080

the day on which payment is made falls

1708

01:27:12,080 --> 01:27:12,880

on a day

1709

01:27:12,880 --> 01:27:15,520

which is not a business day as defined

1710

01:27:15,520 --> 01:27:17,120

in the contract

1711

01:27:17,120 --> 01:27:20,239

okay if that happens then of course you

1712

01:27:20,239 --> 01:27:21,360

need to do something

1713

01:27:21,360 --> 01:27:24,239

then you look at what is a convention if

1714

01:27:24,239 --> 01:27:25,440

it's modified

1715

01:27:25,440 --> 01:27:28,159

following business day convention you

1716

01:27:28,159 --> 01:27:33,040

move the date to the next business day

1717

01:27:33,040 --> 01:27:36,159

to the following business day okay

1718

01:27:36,159 --> 01:27:39,679

but if by doing that you change calendar

1719

01:27:39,679 --> 01:27:40,960

month

1720

01:27:40,960 --> 01:27:43,440

then you go back to the preceding

1721

01:27:43,440 --> 01:27:46,159

business day

1722

01:27:46,159 --> 01:27:48,400

oh

1723

01:27:51,120 --> 01:27:54,080

oh okay okay i got it now you got it all

1724

01:27:54,080 --> 01:27:54,400

right

1725

01:27:54,400 --> 01:28:00,000

yeah right we shall see we shall see

1726

01:28:00,000 --> 01:28:04,159

right thank you you're welcome

1727

01:28:05,600 --> 01:28:08,800

okay any other questions

1728

01:28:08,800 --> 01:28:12,840

uh professor yes could you explain about

1729

01:28:12,840 --> 01:28:16,639

that economics of skillscope again

1730

01:28:16,639 --> 01:28:19,600

economies of scope yeah sure economies

1731

01:28:19,600 --> 01:28:20,560

of scope

1732

01:28:20,560 --> 01:28:23,679

is when you can sell more products to

1733

01:28:23,679 --> 01:28:24,320

your

1734

01:28:24,320 --> 01:28:27,520

existing customers

1735

01:28:27,520 --> 01:28:30,639

all right so in other words you have a

1736

01:28:30,639 --> 01:28:33,040

bunch of customers already

1737

01:28:33,040 --> 01:28:36,880

and you can sell more products to them

1738

01:28:36,880 --> 01:28:40,560

so what it means is that because you've

1739

01:28:40,560 --> 01:28:42,960

paid a certain cost to acquire these

1740

01:28:42,960 --> 01:28:43,600

customers

1741

01:28:43,600 --> 01:28:47,440

your marketing etc etc if you can sell

1742

01:28:47,440 --> 01:28:48,800

more products to

1743

01:28:48,800 --> 01:28:51,760

these customers then you can make more

1744

01:28:51,760 --> 01:28:52,480

profit

1745

01:28:52,480 --> 01:28:55,280

and you can amortize your acquisition

1746

01:28:55,280 --> 01:28:56,320

cost

1747

01:28:56,320 --> 01:28:59,600

you understand what i'm saying um

1748

01:28:59,600 --> 01:29:02,400

yeah yeah okay um what about the

1749

01:29:02,400 --> 01:29:04,639

economies of scale

1750

01:29:04,639 --> 01:29:07,840

the economies of scale is

1751

01:29:07,840 --> 01:29:11,760

when you are amortizing the cost of

1752

01:29:11,760 --> 01:29:13,840

doing a transaction

1753

01:29:13,840 --> 01:29:17,040

over multiple customers

1754

01:29:17,040 --> 01:29:19,840

all right so for example where is it

1755

01:29:19,840 --> 01:29:20,800

yeah

1756

01:29:20,800 --> 01:29:23,920

all right so imagine that you're

1757

01:29:23,920 --> 01:29:25,199

starting a bank

1758

01:29:25,199 --> 01:29:29,440

right and so you're collecting deposits

1759

01:29:29,440 --> 01:29:32,000

and you want to make loans to make a

1760

01:29:32,000 --> 01:29:32,639

loan you

1761

01:29:32,639 --> 01:29:35,679

have to write a contract to do that

1762

01:29:35,679 --> 01:29:38,000

you have to hire a lawyer to write the

1763

01:29:38,000 --> 01:29:40,000

contract so the lawyer is going to

1764

01:29:40,000 --> 01:29:40,960

charge you

1765

01:29:40,960 --> 01:29:45,280

a fee for that so you pay the lawyer

1766

01:29:45,280 --> 01:29:49,120

the fee and now you have a contract okay

1767

01:29:49,120 --> 01:29:51,520

so you can use it for your first loan

1768

01:29:51,520 --> 01:29:53,600

but then you can use it again and again

1769

01:29:53,600 --> 01:29:55,199

for other loans because they're all

1770

01:29:55,199 --> 01:29:57,360

going to be very much the same

1771

01:29:57,360 --> 01:29:59,600

all you have to change is the name and

1772

01:29:59,600 --> 01:30:01,440

the rate of interest and things like

1773

01:30:01,440 --> 01:30:02,560

that

1774

01:30:02,560 --> 01:30:04,800

so you don't have to pay the lawyer to

1775

01:30:04,800 --> 01:30:06,080

do the contract over

1776

01:30:06,080 --> 01:30:07,920

and over and over again because it's

1777

01:30:07,920 --> 01:30:10,000

going to be the same contract

1778

01:30:10,000 --> 01:30:13,679

so that cost of the lawyer fee you can

1779

01:30:13,679 --> 01:30:17,280

amortize it over many contracts

1780

01:30:17,280 --> 01:30:21,840

that's what we call economies of scale

1781

01:30:21,840 --> 01:30:25,040

okay okay i see you guys i get it

1782

01:30:25,040 --> 01:30:29,679

okay good all right

1783

01:30:32,880 --> 01:30:39,040

okay then bye-bye

==end 0308==

==start 0312==

1

00:05:12,720 --> 00:05:13,919

okay

2

00:05:13,919 --> 00:05:16,080

looks like you don't have any questions

3

00:05:16,080 --> 00:05:17,199

yet but

4

00:05:17,199 --> 00:05:20,800

uh please do put them up in the chat box

5

00:05:20,800 --> 00:05:22,840

or raise your hand if you have any

6

00:05:22,840 --> 00:05:24,080

questions

7

00:05:24,080 --> 00:05:26,560

i so we're going to be continuing the

8

00:05:26,560 --> 00:05:28,759

discussion about financial

9

00:05:28,759 --> 00:05:31,600

intermediation and

10

00:05:31,600 --> 00:05:34,720

just as a very brief reminder

11

00:05:34,720 --> 00:05:37,600

about the very important concept of

12

00:05:37,600 --> 00:05:39,759

financial intermediation

13

00:05:39,759 --> 00:05:44,080

one of the key ways to determine

14

00:05:44,080 --> 00:05:46,800

whether or not a financial institution

15

00:05:46,800 --> 00:05:47,759

performs

16

00:05:47,759 --> 00:05:52,000

financial intermediation is to identify

17

00:05:52,000 --> 00:05:55,440

if there is asset transformation

18

00:05:55,440 --> 00:05:58,639

so like in the case of insurance

19

00:05:58,639 --> 00:06:01,919

insurance companies collect premiums in

20

00:06:01,919 --> 00:06:03,440

the form of contractual

21

00:06:03,440 --> 00:06:06,639

savings from investors and then they go

22

00:06:06,639 --> 00:06:07,520

and invest

23

00:06:07,520 --> 00:06:11,280

those into financial

24

00:06:11,280 --> 00:06:14,319

assets for banks

25

00:06:14,319 --> 00:06:18,080

they collect deposits

26

00:06:18,080 --> 00:06:21,840

from savers and invest them in loans but

27

00:06:21,840 --> 00:06:22,960

also

28

00:06:22,960 --> 00:06:26,000

portfolios of securities etc

29

00:06:26,000 --> 00:06:29,360

so you have asset transformation

30

00:06:29,360 --> 00:06:32,840

okay so this is a key way you can

31

00:06:32,840 --> 00:06:34,080

distinguish

32

00:06:34,080 --> 00:06:36,319

financial intermediaries from other

33

00:06:36,319 --> 00:06:39,360

financial institutions

34

00:06:39,360 --> 00:06:42,560

all right now financial intermediaries

35

00:06:42,560 --> 00:06:43,280

perform

36

00:06:43,280 --> 00:06:47,360

many services for the economy

37

00:06:47,360 --> 00:06:50,720

they help to monitor costs

38

00:06:50,720 --> 00:06:53,759

because as we pointed out

39

00:06:53,759 --> 00:06:57,360

since they do a large volume of similar

40

00:06:57,360 --> 00:06:58,720

transactions

41

00:06:58,720 --> 00:07:02,479

they can amortize the transaction cost

42

00:07:02,479 --> 00:07:06,000

and perform economies of scale

43

00:07:06,000 --> 00:07:09,120

and they can pass on those savings to

44

00:07:09,120 --> 00:07:12,080

their customers

45

00:07:12,160 --> 00:07:15,759

they also provide liquidity

46

00:07:15,759 --> 00:07:19,520

and lower risk to their customers

47

00:07:19,520 --> 00:07:22,880

because as we've seen by stepping

48

00:07:22,880 --> 00:07:26,479

in between buyers and sellers

49

00:07:26,479 --> 00:07:30,240

investors and issuers they can provide

50

00:07:30,240 --> 00:07:33,599

each side what they are looking for in

51

00:07:33,599 --> 00:07:34,319

terms of

52

00:07:34,319 --> 00:07:39,840

risk return maturity and liquidity

53

00:07:40,080 --> 00:07:42,240

we've talked about transaction cost

54

00:07:42,240 --> 00:07:43,680

services

55

00:07:43,680 --> 00:07:46,400

now this is super important and this is

56

00:07:46,400 --> 00:07:47,039

something

57

00:07:47,039 --> 00:07:51,400

you have to note and remember

58

00:07:51,400 --> 00:07:55,039

maturity intermediation

59

00:07:55,039 --> 00:07:58,160

all right so remember the case of a bank

60

00:07:58,160 --> 00:08:01,599

the bank collects deposits from savers

61

00:08:01,599 --> 00:08:05,039

those deposits tend to be oh

62

00:08:05,039 --> 00:08:06,960

did i forget to share my screen all

63

00:08:06,960 --> 00:08:09,280

rights rights right sorry people sorry

64

00:08:09,280 --> 00:08:13,840

sorry sorry

65

00:08:15,440 --> 00:08:19,039

thank you for alerting me

66

00:08:24,800 --> 00:08:28,240

oh gosh thank goodness i'm not like this

67

00:08:28,240 --> 00:08:30,479

singapore professor that spent the

68

00:08:30,479 --> 00:08:32,958

entire lecture on mute

69

00:08:32,958 --> 00:08:35,839

and the students couldn't say anything

70

00:08:35,839 --> 00:08:37,200

ah

71

00:08:37,200 --> 00:08:40,479

so terrible very bad

72

00:08:40,479 --> 00:08:46,480

okay so let me thank you thank you

73

00:08:46,480 --> 00:08:49,680

and here i am so all hyped about talking

74

00:08:49,680 --> 00:08:50,720

to you guys

75

00:08:50,720 --> 00:08:55,839

and talking in okay so

76

00:08:57,519 --> 00:09:00,720

all right so uh so we've just talked

77

00:09:00,720 --> 00:09:01,920

about monitoring

78

00:09:01,920 --> 00:09:05,279

costs liquidity and price risk

79

00:09:05,279 --> 00:09:08,080

and the economies of scale which means

80

00:09:08,080 --> 00:09:10,240

that transaction cost services

81

00:09:10,240 --> 00:09:13,680

can transaction costs can be amortized

82

00:09:13,680 --> 00:09:17,120

over many uh transactions

83

00:09:17,120 --> 00:09:20,560

and uh the savings can be passed to

84

00:09:20,560 --> 00:09:23,600

the customers

85

00:09:23,600 --> 00:09:25,839

all right so the thing that we need to

86

00:09:25,839 --> 00:09:28,640

talk about is maturity intermediation

87

00:09:28,640 --> 00:09:32,320

so maturity intermediation in the case

88

00:09:32,320 --> 00:09:34,959

particularly of banks they collect

89

00:09:34,959 --> 00:09:36,000

deposits from

90

00:09:36,000 --> 00:09:39,680

savers and those deposits are typically

91

00:09:39,680 --> 00:09:40,160

very

92

00:09:40,160 --> 00:09:44,160

short term as a saver you can open a

93

00:09:44,160 --> 00:09:44,959

saving

94

00:09:44,959 --> 00:09:48,000

account a deposit with your bank

95

00:09:48,000 --> 00:09:50,800

and you can take the money out anytime

96

00:09:50,800 --> 00:09:51,360

so this

97

00:09:51,360 --> 00:09:54,560

is daily liquidity so you can withdraw

98

00:09:54,560 --> 00:09:57,279

your money whenever you want to

99

00:09:57,279 --> 00:09:59,440

in turn the bank will make loans so

100

00:09:59,440 --> 00:10:00,480

those loans

101

00:10:00,480 --> 00:10:04,160

are typically medium or long-term

102

00:10:04,160 --> 00:10:07,680

loans think about mortgages for example

103

00:10:07,680 --> 00:10:11,600

so the financial intermediary the bank

104

00:10:11,600 --> 00:10:13,279

in this example

105

00:10:13,279 --> 00:10:17,360

is taking the risk of managing

106

00:10:17,360 --> 00:10:21,200

this maturity mismatch

107

00:10:21,200 --> 00:10:24,560

between assets and liabilities

108

00:10:24,560 --> 00:10:27,920

imagine for example if

109

00:10:27,920 --> 00:10:31,440

there is one bank let's say it's using

110

00:10:31,440 --> 00:10:35,200

bank and

111

00:10:35,440 --> 00:10:39,760

yitong is the one depositor

112

00:10:39,760 --> 00:10:43,279

and so min is the company that the bank

113

00:10:43,279 --> 00:10:45,360

is making a loan to so there's one

114

00:10:45,360 --> 00:10:47,200

depositor

115

00:10:47,200 --> 00:10:50,399

one deposit and one loan

116

00:10:50,399 --> 00:10:54,160

so the deposit that yidong has made

117

00:10:54,160 --> 00:10:56,560

is on a savings account so it's got

118

00:10:56,560 --> 00:10:58,800

immediate liquidity

119

00:10:58,800 --> 00:11:01,040

but the loan that the bank has made to

120

00:11:01,040 --> 00:11:02,240

zoom in

121

00:11:02,240 --> 00:11:06,399

is three years what is the risk what

122

00:11:06,399 --> 00:11:09,040

could happen

123

00:11:13,040 --> 00:11:17,120

okay roman uh it could be that

124

00:11:17,120 --> 00:11:19,200

um our depositor all of a sudden wants

125

00:11:19,200 --> 00:11:20,959

to withdraw the money but the bank

126

00:11:20,959 --> 00:11:22,240

doesn't have it yet because

127

00:11:22,240 --> 00:11:25,200

the maturity isn't done on the loan

128

00:11:25,200 --> 00:11:26,320

that's right

129

00:11:26,320 --> 00:11:29,600

so unless the bank has managed this

130

00:11:29,600 --> 00:11:33,200

somehow if the depositor wants the money

131

00:11:33,200 --> 00:11:35,519

back

132

00:11:35,760 --> 00:11:37,279

how are they how's the bank going to

133

00:11:37,279 --> 00:11:39,200

give the money back if it's

134

00:11:39,200 --> 00:11:42,399

lent all the money to the client

135

00:11:42,399 --> 00:11:45,440

right so this if you imagine this very

136

00:11:45,440 --> 00:11:47,519

simply this is the risk

137

00:11:47,519 --> 00:11:50,720

of maturity intermediation

138

00:11:50,720 --> 00:11:54,000

this is a very fundamental bank

139

00:11:54,000 --> 00:11:57,839

101 risk issue

140

00:11:57,839 --> 00:12:00,320

and a large part of what we will talk

141

00:12:00,320 --> 00:12:02,240

about later when we talk about bank

142

00:12:02,240 --> 00:12:03,360

management is

143

00:12:03,360 --> 00:12:06,560

how do banks manage the risks

144

00:12:06,560 --> 00:12:11,360

arising out of this basic business model

145

00:12:11,360 --> 00:12:15,440

okay so very important thing to remember

146

00:12:15,440 --> 00:12:18,680

the other one is denomination

147

00:12:18,680 --> 00:12:21,279

intermediation so this is more

148

00:12:21,279 --> 00:12:22,399

applicable

149

00:12:22,399 --> 00:12:25,760

to financially intermediaries

150

00:12:25,760 --> 00:12:29,600

like mutual funds unit trusts

151

00:12:29,600 --> 00:12:32,800

this kind of financial intermediary

152

00:12:32,800 --> 00:12:34,680

so what does this have to do

153

00:12:34,680 --> 00:12:36,800

denomination

154

00:12:36,800 --> 00:12:40,160

is a term that has several different

155

00:12:40,160 --> 00:12:41,360

meanings

156

00:12:41,360 --> 00:12:45,360

in this case we talk about the minimum

157

00:12:45,360 --> 00:12:48,480

investment size okay

158

00:12:48,480 --> 00:12:52,160

so denomination in this particular

159

00:12:52,160 --> 00:12:54,480

example talks about the minimum

160

00:12:54,480 --> 00:12:55,200

investment

161

00:12:55,200 --> 00:12:57,760

size so the the minimum amount of

162

00:12:57,760 --> 00:12:59,839

investments that you have to make

163

00:12:59,839 --> 00:13:02,959

to participate or the minimum

164

00:13:02,959 --> 00:13:05,600

ticket as we would say in financial

165

00:13:05,600 --> 00:13:06,480

market

166

00:13:06,480 --> 00:13:09,760

okay denomination has other

167

00:13:09,760 --> 00:13:12,240

financial meanings that we'll talk about

168

00:13:12,240 --> 00:13:14,079

we've already talked about

169

00:13:14,079 --> 00:13:17,680

for example it can mean which currency

170

00:13:17,680 --> 00:13:19,279

are we using

171

00:13:19,279 --> 00:13:22,480

so when i say a bond is denominated in

172

00:13:22,480 --> 00:13:22,959

u.s

173

00:13:22,959 --> 00:13:25,680

dollars it means it is issued in u.s

174

00:13:25,680 --> 00:13:26,639

dollars

175

00:13:26,639 --> 00:13:29,279

all right so there's already two

176

00:13:29,279 --> 00:13:31,680

definitions of denomination that

177

00:13:31,680 --> 00:13:35,040

you have come across

178

00:13:35,040 --> 00:13:37,120

so when we say denomination

179

00:13:37,120 --> 00:13:39,680

intermediation what does it mean

180

00:13:39,680 --> 00:13:43,160

it means that the financial

181

00:13:43,160 --> 00:13:44,639

intermediaries

182

00:13:44,639 --> 00:13:48,560

that pull together savers

183

00:13:48,560 --> 00:13:52,079

investment to then invest them

184

00:13:52,079 --> 00:13:55,279

in the financial markets perform

185

00:13:55,279 --> 00:13:59,399

a useful function of denomination

186

00:13:59,399 --> 00:14:02,639

intermediation why because

187

00:14:02,639 --> 00:14:05,760

individually each investor

188

00:14:05,760 --> 00:14:09,040

may not have the minimum

189

00:14:09,040 --> 00:14:12,000

amount necessary to invest in a

190

00:14:12,000 --> 00:14:15,199

particular market

191

00:14:15,199 --> 00:14:18,639

for example the bond market

192

00:14:18,639 --> 00:14:22,160

okay minimum investments for bond issue

193

00:14:22,160 --> 00:14:24,399

tends to be at least ten thousand

194

00:14:24,399 --> 00:14:25,839

dollars

195

00:14:25,839 --> 00:14:28,959

more often bigger than that the

196

00:14:28,959 --> 00:14:32,320

money markets treasury bills

197

00:14:32,320 --> 00:14:36,000

commercial paper uh wholesale

198

00:14:36,000 --> 00:14:39,880

cds has even bigger

199

00:14:39,880 --> 00:14:43,040

denomination minimum of like a hundred

200

00:14:43,040 --> 00:14:45,040

thousand dollars

201

00:14:45,040 --> 00:14:48,320

so as an individual investor this would

202

00:14:48,320 --> 00:14:49,519

be too much

203

00:14:49,519 --> 00:14:52,639

for you to invest in a single

204

00:14:52,639 --> 00:14:55,519

investment or you might not even have

205

00:14:55,519 --> 00:14:57,440

the minimum amount

206

00:14:57,440 --> 00:15:01,680

however by pulling together your savings

207

00:15:01,680 --> 00:15:03,760

with other investors

208

00:15:03,760 --> 00:15:07,680

in what is collective investment

209

00:15:07,680 --> 00:15:12,160

schemes in the form of mutual funds

210

00:15:12,160 --> 00:15:15,680

or unit trust you invest

211

00:15:15,680 --> 00:15:19,199

in the fund and then the fund invests

212

00:15:19,199 --> 00:15:22,240

in the market so

213

00:15:22,240 --> 00:15:26,240

that gives you access to money markets

214

00:15:26,240 --> 00:15:29,360

bond market that you would not be able

215

00:15:29,360 --> 00:15:31,040

to invest in

216

00:15:31,040 --> 00:15:34,639

simply because of the high denomination

217

00:15:34,639 --> 00:15:37,120

minimum

218

00:15:38,839 --> 00:15:41,440

okay

219

00:15:41,440 --> 00:15:44,800

all right do ask if i'm

220

00:15:44,800 --> 00:15:47,600

explaining things too quickly or too not

221

00:15:47,600 --> 00:15:48,959

very well

222

00:15:48,959 --> 00:15:51,839

all right so other things that financial

223

00:15:51,839 --> 00:15:53,759

intermediary do

224

00:15:53,759 --> 00:15:56,560

they are basically the banks in

225

00:15:56,560 --> 00:15:57,519

particular

226

00:15:57,519 --> 00:16:00,800

are the way through which

227

00:16:00,800 --> 00:16:05,600

central banks execute monetary policy

228

00:16:05,600 --> 00:16:08,959

so they um

229

00:16:08,959 --> 00:16:11,120

they effectively are the channels

230

00:16:11,120 --> 00:16:12,959

through which the central banks are

231

00:16:12,959 --> 00:16:16,399

acting in the economy or at least say

232

00:16:16,399 --> 00:16:16,800

where

233

00:16:16,800 --> 00:16:19,839

before we had massive changes in how

234

00:16:19,839 --> 00:16:24,720

central banks conduct monetary policy

235

00:16:24,720 --> 00:16:28,079

but there's still the principal channel

236

00:16:28,079 --> 00:16:31,759

now banks are also a way for governments

237

00:16:31,759 --> 00:16:35,199

in some countries anyway to direct

238

00:16:35,199 --> 00:16:39,199

credit to certain parts of the economy

239

00:16:39,199 --> 00:16:43,040

so not everywhere but broadly speaking

240

00:16:43,040 --> 00:16:45,839

you have financial intermediaries such

241

00:16:45,839 --> 00:16:46,880

as

242

00:16:46,880 --> 00:16:50,160

development banks agricultural

243

00:16:50,160 --> 00:16:53,279

banks that are designed to

244

00:16:53,279 --> 00:16:56,480

channel credit to important sectors of

245

00:16:56,480 --> 00:16:58,160

the economy

246

00:16:58,160 --> 00:17:01,360

in economies like mainland china

247

00:17:01,360 --> 00:17:04,640

which is a bit more dirigist

248

00:17:04,640 --> 00:17:07,180

then you have more

249

00:17:07,180 --> 00:17:08,559

[Music]

250

00:17:08,559 --> 00:17:12,000

influence of the government on the banks

251

00:17:12,000 --> 00:17:13,679

to tell them to provide

252

00:17:13,679 --> 00:17:18,720

credit to certain sectors of the economy

253

00:17:18,720 --> 00:17:22,319

now this term i love it because

254

00:17:22,319 --> 00:17:24,079

on the surface it looks really

255

00:17:24,079 --> 00:17:25,760

complicated

256

00:17:25,760 --> 00:17:28,000

but in reality it's very simple so what

257

00:17:28,000 --> 00:17:29,320

is this about

258

00:17:29,320 --> 00:17:33,840

intergenerational wealth transfer

259

00:17:39,600 --> 00:17:42,080

maybe it's like the inheritance that is

260

00:17:42,080 --> 00:17:44,000

passed down from parents to their

261

00:17:44,000 --> 00:17:44,960

children

262

00:17:44,960 --> 00:17:48,000

very good yeah so you

263

00:17:48,000 --> 00:17:51,120

understand so when we don't know we

264

00:17:51,120 --> 00:17:52,799

think about what it means in english and

265

00:17:52,799 --> 00:17:54,000

we read backwards

266

00:17:54,000 --> 00:17:56,720

right so it's transfer of wealth between

267

00:17:56,720 --> 00:17:58,080

generations

268

00:17:58,080 --> 00:18:00,799

so as physics chai said it's passing

269

00:18:00,799 --> 00:18:03,440

wealth to the next generation

270

00:18:03,440 --> 00:18:05,440

so financial intermediaries can help

271

00:18:05,440 --> 00:18:08,000

with that and in particular

272

00:18:08,000 --> 00:18:10,799

life insurance companies is a way to

273

00:18:10,799 --> 00:18:12,400

transmit wealth to

274

00:18:12,400 --> 00:18:15,760

the next generation you're right

275

00:18:15,760 --> 00:18:19,600

mean q very good very good

276

00:18:19,600 --> 00:18:23,120

very good post in the chat gosh i love

277

00:18:23,120 --> 00:18:25,039

this class

278

00:18:25,039 --> 00:18:28,640

all right payment services of course

279

00:18:28,640 --> 00:18:32,000

banks perform a lot of payment services

280

00:18:32,000 --> 00:18:33,520

we've seen that

281

00:18:33,520 --> 00:18:36,720

they can offer liquidity services

282

00:18:36,720 --> 00:18:39,600

to their customers as well as the

283

00:18:39,600 --> 00:18:41,360

opportunity to save

284

00:18:41,360 --> 00:18:45,840

and to borrow so in other words

285

00:18:45,840 --> 00:18:48,880

financial intermediaries perform a

286

00:18:48,880 --> 00:18:52,000

number of very useful functions in the

287

00:18:52,000 --> 00:18:54,400

economy

288

00:18:54,400 --> 00:18:59,840

all right benson euron iprs

289

00:19:06,799 --> 00:19:08,799

and we go straight into the first

290

00:19:08,799 --> 00:19:13,919

question is a mutual fund a financial

291

00:19:22,840 --> 00:19:25,840

intermediary

292

00:19:36,840 --> 00:19:39,840

so

293

00:19:50,840 --> 00:19:53,840

so

294

00:20:04,840 --> 00:20:07,840

so

295

00:20:55,440 --> 00:20:59,600

oh okay most of you got the correct

296

00:20:59,600 --> 00:21:00,400

answer

297

00:21:00,400 --> 00:21:03,919

so mutual fund they collect savings from

298

00:21:03,919 --> 00:21:05,280

investors so

299

00:21:05,280 --> 00:21:08,000

you buy a share in the mutual fund to

300

00:21:08,000 --> 00:21:09,120

invest in it

301

00:21:09,120 --> 00:21:11,760

and then the mutual fund invests in

302

00:21:11,760 --> 00:21:12,400

different

303

00:21:12,400 --> 00:21:15,600

kinds of financial instruments so there

304

00:21:15,600 --> 00:21:16,080

is

305

00:21:16,080 --> 00:21:18,880

asset transformation so the correct

306

00:21:18,880 --> 00:21:20,880

answer is yes

307

00:21:20,880 --> 00:21:31,840

next question

308

00:21:41,520 --> 00:21:45,840

oh benson where are we

309

00:21:52,799 --> 00:21:54,480

i think you're doing the same as me

310

00:21:54,480 --> 00:21:55,840

benson

311

00:21:55,840 --> 00:21:59,840

you're not sharing the screen

312

00:22:24,840 --> 00:22:27,840

so

313

00:22:32,320 --> 00:22:43,120

[Music]

314

00:22:43,120 --> 00:22:46,559

oh dear oh dear okay

315

00:22:46,559 --> 00:22:50,720

um so stock brokers

316

00:22:50,720 --> 00:22:53,520

is a broker okay so they connect two

317

00:22:53,520 --> 00:22:54,400

parties

318

00:22:54,400 --> 00:22:56,799

they don't buy and sell stuff so they

319

00:22:56,799 --> 00:22:59,120

don't do financial intimidation

320

00:22:59,120 --> 00:23:04,080

they are not financial intermediaries

321

00:23:04,080 --> 00:23:07,039

last question

322

00:23:07,600 --> 00:23:23,840

how do dealers make money

323

00:23:34,840 --> 00:23:37,840

um

324

00:23:48,840 --> 00:23:51,840

uh

325

00:24:15,090 --> 00:24:26,220

[Music]

326

00:24:26,640 --> 00:24:30,559

okay so dealers

327

00:24:30,559 --> 00:24:34,080

they buy and sell assets they make money

328

00:24:34,080 --> 00:24:35,120

from the price

329

00:24:35,120 --> 00:24:37,039

difference so the difference between the

330

00:24:37,039 --> 00:24:38,159

bid and the

331

00:24:38,159 --> 00:24:42,320

offer okay so yes i will go back

332

00:24:42,320 --> 00:24:46,320

on to uh over the

333

00:24:46,320 --> 00:24:48,720

the concept because clearly some of you

334

00:24:48,720 --> 00:24:50,080

did not

335

00:24:50,080 --> 00:24:52,320

grasp the concept of financial

336

00:24:52,320 --> 00:24:56,240

intimidation can you see my screen

337

00:24:56,240 --> 00:25:00,720

can you see the slides yes good okay

338

00:25:00,720 --> 00:25:05,360

so uh let me go back

339

00:25:05,360 --> 00:25:08,960

and let's go back

340

00:25:08,960 --> 00:25:12,799

on some of the

341

00:25:12,799 --> 00:25:16,240

the key concept okay

342

00:25:16,240 --> 00:25:22,000

so first thing is that we distinguish

343

00:25:22,159 --> 00:25:25,679

in financial institutions those that

344

00:25:25,679 --> 00:25:29,919

perform financial intermediation

345

00:25:29,919 --> 00:25:31,919

which include both financial

346

00:25:31,919 --> 00:25:34,799

institutions that collect deposits

347

00:25:34,799 --> 00:25:36,919

and other types of financial

348

00:25:36,919 --> 00:25:38,559

intermediaries

349

00:25:38,559 --> 00:25:41,520

and then we have other financial

350

00:25:41,520 --> 00:25:43,120

institutions

351

00:25:43,120 --> 00:25:46,120

that do not perform financial

352

00:25:46,120 --> 00:25:47,679

intermediation

353

00:25:47,679 --> 00:25:50,720

now i know this is confusing

354

00:25:50,720 --> 00:25:54,240

because in english intermediation is

355

00:25:54,240 --> 00:25:55,039

just

356

00:25:55,039 --> 00:25:58,320

connecting two parties right but

357

00:25:58,320 --> 00:26:01,039

in finance the term financial

358

00:26:01,039 --> 00:26:03,760

intermediation has a very specific

359

00:26:03,760 --> 00:26:05,840

meaning which is why we are going

360

00:26:05,840 --> 00:26:07,120

through this

361

00:26:07,120 --> 00:26:09,520

now so you can see here there are

362

00:26:09,520 --> 00:26:10,520

financial

363

00:26:10,520 --> 00:26:13,600

institutions that do not perform

364

00:26:13,600 --> 00:26:17,200

financial intermediation at least

365

00:26:17,200 --> 00:26:20,240

not in that particular function

366

00:26:20,240 --> 00:26:23,520

okay so they do not perform

367

00:26:23,520 --> 00:26:27,840

financial intimidation brokers

368

00:26:27,840 --> 00:26:31,360

dealers investment banks we will

369

00:26:31,360 --> 00:26:35,039

see that in the narrow sense of

370

00:26:35,039 --> 00:26:37,200

corporate finance which is the core

371

00:26:37,200 --> 00:26:39,120

function of investment banking there is

372

00:26:39,120 --> 00:26:39,760

no

373

00:26:39,760 --> 00:26:43,520

no financial intermediation okay

374

00:26:43,520 --> 00:26:52,320

so that's the first thing

375

00:26:52,320 --> 00:26:55,679

then remember financial

376

00:26:55,679 --> 00:26:58,400

intermediaries they stand in the middle

377

00:26:58,400 --> 00:26:59,039

okay

378

00:26:59,039 --> 00:27:03,360

so the flow of money stops

379

00:27:03,360 --> 00:27:06,400

and then moves so here we have what we

380

00:27:06,400 --> 00:27:07,200

call

381

00:27:07,200 --> 00:27:11,440

asset inter m asset transformation

382

00:27:11,440 --> 00:27:14,880

all right so direct

383

00:27:14,880 --> 00:27:17,360

finance is where one party finds the

384

00:27:17,360 --> 00:27:19,200

other with help

385

00:27:19,200 --> 00:27:21,679

with help from brokers with dealers

386

00:27:21,679 --> 00:27:23,840

investment banks etc

387

00:27:23,840 --> 00:27:26,720

in indirect finance there is a clear

388

00:27:26,720 --> 00:27:34,480

stop in the middle

389

00:27:34,480 --> 00:27:38,240

imagine it's a wall okay so you have one

390

00:27:38,240 --> 00:27:49,840

asset here

391

00:27:51,600 --> 00:27:54,080

and then on the other side you have

392

00:27:54,080 --> 00:28:03,840

another asset

393

00:28:11,600 --> 00:28:14,880

okay so you have financial

394

00:28:14,880 --> 00:28:17,679

intermediation because you have asset

395

00:28:17,679 --> 00:28:20,640

transformation

396

00:28:23,279 --> 00:28:27,200

okay why do we have that

397

00:28:27,200 --> 00:28:30,720

because savers

398

00:28:30,720 --> 00:28:33,600

so entities which have extra money to

399

00:28:33,600 --> 00:28:34,480

invest

400

00:28:34,480 --> 00:28:38,159

okay they have money to invest

401

00:28:38,159 --> 00:28:41,120

they have different requirements in

402

00:28:41,120 --> 00:28:41,760

terms

403

00:28:41,760 --> 00:28:47,039

of or is it where's my thing

404

00:28:48,720 --> 00:28:51,279

they have very different requirements

405

00:28:51,279 --> 00:28:53,360

okay

406

00:28:53,360 --> 00:28:56,799

they have they want

407

00:28:56,799 --> 00:29:00,559

no risk some return

408

00:29:00,559 --> 00:29:04,159

very high liquidity while these guys

409

00:29:04,159 --> 00:29:06,640

there are risky prepositions they want

410

00:29:06,640 --> 00:29:08,000

the money for longer

411

00:29:08,000 --> 00:29:10,000

they don't want to you know they'll pay

412

00:29:10,000 --> 00:29:12,480

the return necessary to get the money

413

00:29:12,480 --> 00:29:15,080

so that's why you have the financial

414

00:29:15,080 --> 00:29:16,480

intermediaries

415

00:29:16,480 --> 00:29:20,159

stepping in the middle okay

416

00:29:20,159 --> 00:29:23,279

so financial intermediation

417

00:29:23,279 --> 00:29:27,279

allows these lenders

418

00:29:27,279 --> 00:29:31,360

these investors these people with money

419

00:29:31,360 --> 00:29:33,520

to put their money in the financial

420

00:29:33,520 --> 00:29:35,279

intermediary

421

00:29:35,279 --> 00:29:38,799

and they get what they want in terms

422

00:29:38,799 --> 00:29:42,799

of risk return maturity and liquidity

423

00:29:42,799 --> 00:29:46,960

then the intermediary provides the

424

00:29:46,960 --> 00:29:48,159

borrowers the

425

00:29:48,159 --> 00:29:51,679

issuers with the money they need for

426

00:29:51,679 --> 00:29:53,279

their projects

427

00:29:53,279 --> 00:29:56,159

they charge them a return commensurate

428

00:29:56,159 --> 00:29:58,080

with the risk and very often the

429

00:29:58,080 --> 00:29:58,880

maturity

430

00:29:58,880 --> 00:30:01,919

is longer okay

431

00:30:01,919 --> 00:30:05,760

so it's really important to understand

432

00:30:05,760 --> 00:30:07,600

the difference between financial

433

00:30:07,600 --> 00:30:08,880

intermediaries

434

00:30:08,880 --> 00:30:12,000

and other financial institutions

435

00:30:12,000 --> 00:30:14,720

financial intermediaries provide

436

00:30:14,720 --> 00:30:16,120

financial

437

00:30:16,120 --> 00:30:19,440

intermediation that always

438

00:30:19,440 --> 00:30:22,799

involves asset transformation so you

439

00:30:22,799 --> 00:30:23,200

have

440

00:30:23,200 --> 00:30:26,320

one type of financial asset on one side

441

00:30:26,320 --> 00:30:29,360

another one on the other side it may be

442

00:30:29,360 --> 00:30:31,919

the same type but it's not the same

443

00:30:31,919 --> 00:30:36,000

asset for example in our mutual funds

444

00:30:36,000 --> 00:30:40,000

okay where's my mutual fund

445

00:30:41,520 --> 00:30:44,799

i didn't put the example but anyway

446

00:30:44,799 --> 00:30:51,840

imagine here if it's a mutual fund okay

447

00:30:53,039 --> 00:30:57,919

okay imagine it's a mutual fund

448

00:30:59,519 --> 00:31:05,840

you have investors

449

00:31:10,559 --> 00:31:14,080

okay they put their money in the mutual

450

00:31:14,080 --> 00:31:16,399

fund

451

00:31:16,880 --> 00:31:21,279

and in exchange they get a share

452

00:31:22,480 --> 00:31:25,519

in the mutual fund

453

00:31:30,960 --> 00:31:33,840

on the other side

454

00:31:35,760 --> 00:31:47,840

the mutual fund will invest

455

00:31:50,640 --> 00:31:55,279

by buying different kind of securities

456

00:31:55,279 --> 00:31:59,120

okay so they may invest

457

00:31:59,120 --> 00:32:02,320

for examples in shares

458

00:32:02,320 --> 00:32:05,360

of these different companies they may

459

00:32:05,360 --> 00:32:08,799

invest in so equity securities

460

00:32:08,799 --> 00:32:11,120

debt securities it could even be real

461

00:32:11,120 --> 00:32:13,679

estate or commodities or anything else

462

00:32:13,679 --> 00:32:15,120

okay

463

00:32:15,120 --> 00:32:19,760

so it could be that

464

00:32:21,039 --> 00:32:24,720

it could be equity

465

00:32:26,840 --> 00:32:30,159

etc all right

466

00:32:30,159 --> 00:32:35,760

so we have come back you

467

00:32:39,600 --> 00:32:43,840

we have asset transformation

468

00:32:47,919 --> 00:32:50,000

i'm sorry my handwriting with the mouse

469

00:32:50,000 --> 00:32:52,799

is awful

470

00:32:59,519 --> 00:33:01,840

i write like the three-year-old with the

471

00:33:01,840 --> 00:33:02,799

most

472

00:33:02,799 --> 00:33:06,320

okay so you have asset transformation

473

00:33:06,320 --> 00:33:10,640

okay so as an investor in a mutual fund

474

00:33:10,640 --> 00:33:12,399

you are putting your money in the fund

475

00:33:12,399 --> 00:33:14,880

you get a share in the mutual fund

476

00:33:14,880 --> 00:33:17,919

the fund then invests in all kinds of

477

00:33:17,919 --> 00:33:19,919

things and it could be shares

478

00:33:19,919 --> 00:33:21,519

but they're not shares in the mutual

479

00:33:21,519 --> 00:33:22,960

fund their shares in

480

00:33:22,960 --> 00:33:25,559

other companies so you have asset

481

00:33:25,559 --> 00:33:26,960

transformation

482

00:33:26,960 --> 00:33:30,240

all right so this is very very very very

483

00:33:30,240 --> 00:33:31,120

important

484

00:33:31,120 --> 00:33:35,279

to understand now in this case we can

485

00:33:35,279 --> 00:33:36,679

also talk about

486

00:33:36,679 --> 00:33:40,080

denomination in in intermediation

487

00:33:40,080 --> 00:33:41,679

because here

488

00:33:41,679 --> 00:33:44,640

to invest in a mutual fund the minimum

489

00:33:44,640 --> 00:33:46,399

amount is tends to be quite

490

00:33:46,399 --> 00:33:48,960

low we're talking maybe one thousand

491

00:33:48,960 --> 00:33:50,799

dollars something like that

492

00:33:50,799 --> 00:33:53,840

but because of that you can invest in a

493

00:33:53,840 --> 00:33:56,240

money market mutual fund that invests in

494

00:33:56,240 --> 00:33:58,080

money markets where the minimum

495

00:33:58,080 --> 00:34:00,080

investment would be like half a million

496

00:34:00,080 --> 00:34:02,000

bucks

497

00:34:02,000 --> 00:34:07,200

okay all right so

498

00:34:07,200 --> 00:34:09,760

let's go back to brokers and dealers i

499

00:34:09,760 --> 00:34:11,918

can see some of you are still struggling

500

00:34:11,918 --> 00:34:14,638

with that

501

00:34:15,119 --> 00:34:20,079

okay so remember in the

502

00:34:20,399 --> 00:34:24,320

topology we distinguished financial

503

00:34:24,320 --> 00:34:25,760

institutions that are

504

00:34:25,760 --> 00:34:28,879

not financial intermediaries they do not

505

00:34:28,879 --> 00:34:32,239

perform financial intermediation

506

00:34:32,239 --> 00:34:34,399

and we talk about brokers dealers

507

00:34:34,399 --> 00:34:36,879

investment banks and custodians

508

00:34:36,879 --> 00:34:40,560

now and trustees

509

00:34:40,560 --> 00:34:43,760

brokers brokers

510

00:34:43,760 --> 00:34:47,040

act on behalf of their client

511

00:34:47,040 --> 00:34:51,280

okay there are agents

512

00:34:55,679 --> 00:34:58,960

they connect to people they don't

513

00:34:58,960 --> 00:35:01,599

buy or sell anything for their own

514

00:35:01,599 --> 00:35:03,119

account

515

00:35:03,119 --> 00:35:08,560

okay they charge a commission

516

00:35:09,440 --> 00:35:14,880

okay the role of the brokers elliot

517

00:35:14,880 --> 00:35:19,520

is to connect you with a stock exchange

518

00:35:19,520 --> 00:35:22,640

or with another party they you pay them

519

00:35:22,640 --> 00:35:24,560

a commission for that work

520

00:35:24,560 --> 00:35:27,920

they execute your orders

521

00:35:27,920 --> 00:35:30,079

they don't buy the shares for their own

522

00:35:30,079 --> 00:35:31,920

account they buy it

523

00:35:31,920 --> 00:35:35,520

for you okay they do

524

00:35:35,520 --> 00:35:38,720

not perform financial intermediation

525

00:35:38,720 --> 00:35:42,240

okay they do not take positions

526

00:35:42,240 --> 00:35:46,480

they do not carry inventory

527

00:35:46,480 --> 00:35:48,960

if you have difficulty to figure it out

528

00:35:48,960 --> 00:35:50,480

with stock brokers then

529

00:35:50,480 --> 00:35:52,720

think about it with the real estate

530

00:35:52,720 --> 00:35:56,640

broker it's the same idea

531

00:35:56,640 --> 00:35:59,680

these people you see outside new new

532

00:35:59,680 --> 00:36:01,040

developments with

533

00:36:01,040 --> 00:36:03,839

you know they've stopped the car and you

534

00:36:03,839 --> 00:36:04,400

know

535

00:36:04,400 --> 00:36:06,079

corner you say you want to buy an

536

00:36:06,079 --> 00:36:07,680

apartment

537

00:36:07,680 --> 00:36:10,160

they don't buy the apartment and sell it

538

00:36:10,160 --> 00:36:10,880

to you

539

00:36:10,880 --> 00:36:15,119

they represent the developer

540

00:36:15,119 --> 00:36:18,880

so they are here to put you in contact

541

00:36:18,880 --> 00:36:21,119

with the person who wants to sell the

542

00:36:21,119 --> 00:36:22,960

apartment

543

00:36:22,960 --> 00:36:26,160

same thing insurance broker

544

00:36:26,160 --> 00:36:29,599

same thing the insurance broker

545

00:36:29,599 --> 00:36:32,000

is going to try and connect you with the

546

00:36:32,000 --> 00:36:35,119

right insurance company

547

00:36:35,119 --> 00:36:38,160

same thing they do not buy and sell

548

00:36:38,160 --> 00:36:41,839

the policy you buy the policy

549

00:36:41,839 --> 00:36:45,040

from the insurance company the insurance

550

00:36:45,040 --> 00:36:47,280

broker gets a fee a commission for the

551

00:36:47,280 --> 00:36:48,160

service

552

00:36:48,160 --> 00:36:51,839

okay so shiraz asks a

553

00:36:51,839 --> 00:36:54,880

very good question is the only purpose

554

00:36:54,880 --> 00:36:56,560

of getting a broker to save

555

00:36:56,560 --> 00:37:02,079

time so what do you think

556

00:37:06,839 --> 00:37:09,839

anybody

557

00:37:11,119 --> 00:37:13,640

convenience yes it facilitates

558

00:37:13,640 --> 00:37:23,040

transactions yes

559

00:37:23,040 --> 00:37:25,520

yes

560

00:37:26,320 --> 00:37:30,000

yes you might not know where to find

561

00:37:30,000 --> 00:37:34,000

they might negotiate for you very good

562

00:37:34,000 --> 00:37:37,040

avoid fraud get larger

563

00:37:37,040 --> 00:37:39,280

pool of buyers and sellers better

564

00:37:39,280 --> 00:37:40,800

pricing

565

00:37:40,800 --> 00:37:44,240

sometimes it's the only avenue

566

00:37:44,240 --> 00:37:48,800

less risk that's debatable

567

00:37:48,880 --> 00:37:51,440

that's debatable now let me complicate

568

00:37:51,440 --> 00:37:53,839

things a little bit

569

00:37:53,839 --> 00:37:56,880

a little bit more for you so

570

00:37:56,880 --> 00:37:59,359

immediately you can think of the obvious

571

00:37:59,359 --> 00:38:00,320

reasons why

572

00:38:00,320 --> 00:38:02,320

because you might not know the other

573

00:38:02,320 --> 00:38:04,160

players you might not know

574

00:38:04,160 --> 00:38:06,160

who is going to be willing to sell

575

00:38:06,160 --> 00:38:08,079

something that you're interested in

576

00:38:08,079 --> 00:38:08,880

buying

577

00:38:08,880 --> 00:38:11,599

and to find out would take may not be

578

00:38:11,599 --> 00:38:12,560

possible

579

00:38:12,560 --> 00:38:16,480

or would take time and maybe costs

580

00:38:16,480 --> 00:38:19,119

info so remember we have to pay the

581

00:38:19,119 --> 00:38:19,760

broker

582

00:38:19,760 --> 00:38:21,359

right so there's a commission involved

583

00:38:21,359 --> 00:38:23,839

there's a cost involved

584

00:38:23,839 --> 00:38:26,640

so broadly speaking you want to use a

585

00:38:26,640 --> 00:38:27,520

broker

586

00:38:27,520 --> 00:38:29,920

when the time and effort it takes you to

587

00:38:29,920 --> 00:38:32,000

find the other party

588

00:38:32,000 --> 00:38:35,440

is higher than the cost of the broker

589

00:38:35,440 --> 00:38:38,240

right makes sense but there's more than

590

00:38:38,240 --> 00:38:39,440

that

591

00:38:39,440 --> 00:38:43,119

in markets where everybody knows

592

00:38:43,119 --> 00:38:45,200

everybody

593

00:38:45,200 --> 00:38:48,720

for example for an exchange all the big

594

00:38:48,720 --> 00:38:50,320

players know each other

595

00:38:50,320 --> 00:38:53,440

and yet yet

596

00:38:53,440 --> 00:38:55,440

they use what we call inter-dealer

597

00:38:55,440 --> 00:38:58,000

brokers

598

00:38:58,839 --> 00:39:00,720

why

599

00:39:00,720 --> 00:39:02,800

so here's the other reason why you might

600

00:39:02,800 --> 00:39:05,920

want to use a broker

601

00:39:09,839 --> 00:39:12,880

yeah fx market it's a pretty

602

00:39:12,880 --> 00:39:16,240

transparent market

603

00:39:17,040 --> 00:39:20,480

very good area world and very very good

604

00:39:20,480 --> 00:39:25,440

privacy you don't want to disclose

605

00:39:25,440 --> 00:39:27,920

that you are interested in buying or

606

00:39:27,920 --> 00:39:30,480

selling something because

607

00:39:30,480 --> 00:39:33,760

if people know it will change the price

608

00:39:33,760 --> 00:39:35,520

remember

609

00:39:35,520 --> 00:39:38,240

okay so in a market like foreign

610

00:39:38,240 --> 00:39:39,520

exchange

611

00:39:39,520 --> 00:39:42,960

spot dealing the dealers they all know

612

00:39:42,960 --> 00:39:44,480

each other

613

00:39:44,480 --> 00:39:47,680

but they use brokers to cloak their

614

00:39:47,680 --> 00:39:49,040

intentions

615

00:39:49,040 --> 00:39:52,079

let's think of a spy you know advancing

616

00:39:52,079 --> 00:39:53,920

in disguise

617

00:39:53,920 --> 00:39:56,560

same thing socialize that was an

618

00:39:56,560 --> 00:39:58,000

excellent question which

619

00:39:58,000 --> 00:40:01,200

allowed me to talk a bit more about why

620

00:40:01,200 --> 00:40:02,640

we use brokers

621

00:40:02,640 --> 00:40:04,880

okay so there are many many reasons why

622

00:40:04,880 --> 00:40:07,280

we use brokers

623

00:40:07,280 --> 00:40:09,520

it's very important you understand the

624

00:40:09,520 --> 00:40:10,319

difference

625

00:40:10,319 --> 00:40:13,040

between brokers and dealers and i'm

626

00:40:13,040 --> 00:40:14,079

talking about the

627

00:40:14,079 --> 00:40:17,440

brokerage function versus the dealer

628

00:40:17,440 --> 00:40:18,720

function

629

00:40:18,720 --> 00:40:21,359

and it's confusing because we will see

630

00:40:21,359 --> 00:40:25,280

when we talk about investment banking

631

00:40:25,280 --> 00:40:28,319

that an investment bank may

632

00:40:28,319 --> 00:40:31,920

have brokerage function

633

00:40:31,920 --> 00:40:35,280

dealership function corporate finance

634

00:40:35,280 --> 00:40:36,240

function

635

00:40:36,240 --> 00:40:38,960

commercial banking function asset

636

00:40:38,960 --> 00:40:40,960

management function

637

00:40:40,960 --> 00:40:44,079

custodian functions etc

638

00:40:44,079 --> 00:40:49,520

so an institution like goldman sachs

639

00:40:49,760 --> 00:40:52,640

some parts of the business is financial

640

00:40:52,640 --> 00:40:56,079

intermediation and some parts are not

641

00:40:56,079 --> 00:41:00,079

okay so the this is something i need to

642

00:41:00,079 --> 00:41:03,440

hammer into you you need to distinguish

643

00:41:03,440 --> 00:41:03,839

the

644

00:41:03,839 --> 00:41:07,200

function from the institution

645

00:41:07,200 --> 00:41:11,040

okay the function of brokerage

646

00:41:11,040 --> 00:41:12,640

has nothing to do with financial

647

00:41:12,640 --> 00:41:15,200

intimidation okay it's connecting two

648

00:41:15,200 --> 00:41:16,000

parties

649

00:41:16,000 --> 00:41:18,839

and charging a fee or commission for the

650

00:41:18,839 --> 00:41:20,640

service

651

00:41:20,640 --> 00:41:24,000

the dealer function okay

652

00:41:24,000 --> 00:41:27,599

the dealer it also connecting parties

653

00:41:27,599 --> 00:41:28,240

but in a

654

00:41:28,240 --> 00:41:30,800

very different manner because they act

655

00:41:30,800 --> 00:41:32,640

for their own account

656

00:41:32,640 --> 00:41:35,839

as principle okay they

657

00:41:35,839 --> 00:41:39,359

buy and sell stuff

658

00:41:39,359 --> 00:41:42,640

all right so you have dealers

659

00:41:42,640 --> 00:41:45,280

on the floor of the new york stock

660

00:41:45,280 --> 00:41:46,560

exchange

661

00:41:46,560 --> 00:41:49,680

okay that's what they do they buy

662

00:41:49,680 --> 00:41:52,720

and sell shares all the time they're

663

00:41:52,720 --> 00:41:54,640

market makers

664

00:41:54,640 --> 00:41:56,560

right so this is very very very

665

00:41:56,560 --> 00:41:57,839

important you need

666

00:41:57,839 --> 00:42:00,079

to be able to distinguish what's a

667

00:42:00,079 --> 00:42:02,960

broker and what is a dealer

668

00:42:02,960 --> 00:42:06,319

the dealer they act in the market

669

00:42:06,319 --> 00:42:08,880

with their own balance sheet they buy

670

00:42:08,880 --> 00:42:10,000

and sell

671

00:42:10,000 --> 00:42:15,200

assets however however

672

00:42:15,200 --> 00:42:18,079

it is not financial intermediation

673

00:42:18,079 --> 00:42:18,880

because the

674

00:42:18,880 --> 00:42:21,920

asset is the same

675

00:42:21,920 --> 00:42:25,040

they buy the asset and they sell it

676

00:42:25,040 --> 00:42:28,839

it's the same asset there is no asset

677

00:42:28,839 --> 00:42:30,800

transformation

678

00:42:30,800 --> 00:42:33,200

all right

679

00:42:34,079 --> 00:42:36,960

are we clear

680

00:42:37,119 --> 00:42:38,880

it's really really important if i have

681

00:42:38,880 --> 00:42:41,520

to go back again and again

682

00:42:41,520 --> 00:42:45,920

once you get the the logic of it

683

00:42:45,920 --> 00:42:48,560

then everything falls from it that's why

684

00:42:48,560 --> 00:42:50,960

i spend a lot of time at the beginning

685

00:42:50,960 --> 00:42:53,599

and then as the course moves forward i

686

00:42:53,599 --> 00:42:55,200

accelerate

687

00:42:55,200 --> 00:42:56,800

all right but we need to lay the

688

00:42:56,800 --> 00:42:59,839

foundations very very strongly so you

689

00:42:59,839 --> 00:43:02,640

you can see the business model and

690

00:43:02,640 --> 00:43:04,960

understand

691

00:43:04,960 --> 00:43:08,560

the functions okay

692

00:43:08,560 --> 00:43:12,400

all right so what have we talked about

693

00:43:12,400 --> 00:43:14,400

in this section let me get back to where

694

00:43:14,400 --> 00:43:17,440

i was initially

695

00:43:17,440 --> 00:43:19,760

okay

696

00:43:21,680 --> 00:43:25,839

okay so somebody also asked in the spot

697

00:43:25,839 --> 00:43:28,319

non-financially intermediaries aryan are

698

00:43:28,319 --> 00:43:30,319

financial institutions that do not

699

00:43:30,319 --> 00:43:30,880

perform

700

00:43:30,880 --> 00:43:34,480

financial intermediation

701

00:43:35,440 --> 00:43:38,839

okay somebody had asked me

702

00:43:38,839 --> 00:43:41,839

something

703

00:43:45,599 --> 00:43:50,240

oh maturity intermediation okay

704

00:43:50,319 --> 00:43:53,920

maybe i go back to that all right so

705

00:43:53,920 --> 00:43:56,240

maturity intermediation

706

00:43:56,240 --> 00:43:58,560

think of the bank okay let me go back to

707

00:43:58,560 --> 00:44:00,800

the bank

708

00:44:00,800 --> 00:44:04,400

okay so

709

00:44:04,400 --> 00:44:06,400

the best example of maturity

710

00:44:06,400 --> 00:44:08,000

intermediation is a bank

711

00:44:08,000 --> 00:44:10,880

because the deposits tend to be very

712

00:44:10,880 --> 00:44:13,599

short term

713

00:44:20,960 --> 00:44:25,040

oh man this is even worse

714

00:44:28,319 --> 00:44:30,640

okay when you put money in the bank you

715

00:44:30,640 --> 00:44:33,520

open a bank deposit account

716

00:44:33,520 --> 00:44:36,160

depending on the type of deposits that

717

00:44:36,160 --> 00:44:36,560

you

718

00:44:36,560 --> 00:44:40,240

do if you do saving deposit you can get

719

00:44:40,240 --> 00:44:41,440

your money back in

720

00:44:41,440 --> 00:44:44,560

any time okay if you do a fixed term

721

00:44:44,560 --> 00:44:46,400

deposit of course you cannot get

722

00:44:46,400 --> 00:44:49,200

back the money until the end of the term

723

00:44:49,200 --> 00:44:50,319

but they're generally

724

00:44:50,319 --> 00:44:53,760

very short term okay

725

00:44:53,760 --> 00:44:56,960

on the other hand

726

00:44:57,040 --> 00:45:00,319

for loans they can be

727

00:45:00,319 --> 00:45:04,160

medium or long term okay

728

00:45:04,160 --> 00:45:07,119

when we make a loan to a company to

729

00:45:07,119 --> 00:45:08,480

finance their

730

00:45:08,480 --> 00:45:11,760

the construction of a new plant it will

731

00:45:11,760 --> 00:45:13,760

be several years it will be five years

732

00:45:13,760 --> 00:45:15,119

seven years

733

00:45:15,119 --> 00:45:17,839

when you lend money to people to buy a

734

00:45:17,839 --> 00:45:20,560

house with a mortgage the mortgage is

735

00:45:20,560 --> 00:45:21,760

very long

736

00:45:21,760 --> 00:45:24,800

it can be 10 years 20 years 30 years

737

00:45:24,800 --> 00:45:32,240

right so as i was saying

738

00:45:32,240 --> 00:45:36,480

what the bank does is transform short

739

00:45:36,480 --> 00:45:39,440

into medium and long term so that is why

740

00:45:39,440 --> 00:45:40,680

we call it

741

00:45:40,680 --> 00:45:44,480

maturity intermediation

742

00:45:44,480 --> 00:45:47,680

maturity has to do with how long the

743

00:45:47,680 --> 00:45:48,480

financial

744

00:45:48,480 --> 00:45:51,520

instrument is maturity

745

00:45:51,520 --> 00:45:55,119

term tenor is all the same thing

746

00:45:55,119 --> 00:46:01,839

okay so maturity intermediation

747

00:46:02,000 --> 00:46:05,040

all right now i'm not saying

748

00:46:05,040 --> 00:46:07,440

that all banks only have short-term

749

00:46:07,440 --> 00:46:08,960

deposits and long-term

750

00:46:08,960 --> 00:46:11,680

asset hopefully not because then they

751

00:46:11,680 --> 00:46:13,520

run a huge risk

752

00:46:13,520 --> 00:46:18,000

of a mismatch and we will explain

753

00:46:18,000 --> 00:46:21,839

how we manage this kind yay

754

00:46:21,839 --> 00:46:26,079

creation how we manage that risk when we

755

00:46:26,079 --> 00:46:28,720

talk about bank management

756

00:46:28,720 --> 00:46:31,119

all right

757

00:46:31,920 --> 00:46:35,520

this is answer the question

758

00:46:40,839 --> 00:46:44,400

okay i'm willing to spend as much time

759

00:46:44,400 --> 00:46:48,560

as necessary so everybody's on board

760

00:46:48,560 --> 00:46:51,839

right okay

761

00:46:51,839 --> 00:46:58,160

so i'll have to redo all my slides

762

00:46:58,880 --> 00:47:01,200

all right so this is where we were all

763

00:47:01,200 --> 00:47:02,319

right so

764

00:47:02,319 --> 00:47:05,200

a mutual fund is a financial

765

00:47:05,200 --> 00:47:06,319

intermediary

766

00:47:06,319 --> 00:47:10,400

they collect savings from investors

767

00:47:10,400 --> 00:47:13,280

by selling shares in the mutual fund

768

00:47:13,280 --> 00:47:13,599

they

769

00:47:13,599 --> 00:47:16,319

invest those savings into different

770

00:47:16,319 --> 00:47:18,480

financial instruments

771

00:47:18,480 --> 00:47:21,280

which can be shares or bonds or real

772

00:47:21,280 --> 00:47:23,040

estate or something else

773

00:47:23,040 --> 00:47:26,720

so there is asset transformation

774

00:47:26,720 --> 00:47:30,079

a stock broker is not a financial

775

00:47:30,079 --> 00:47:32,319

intermediary they do not perform

776

00:47:32,319 --> 00:47:34,079

financial intermediation

777

00:47:34,079 --> 00:47:37,760

there is no asset transformation in fact

778

00:47:37,760 --> 00:47:39,680

the brokers don't buy and sell

779

00:47:39,680 --> 00:47:42,160

assets they just connect parties

780

00:47:42,160 --> 00:47:44,240

together

781

00:47:44,240 --> 00:47:47,040

dealers do make money by buying and

782

00:47:47,040 --> 00:47:47,839

selling

783

00:47:47,839 --> 00:47:52,079

assets and hopefully they make money by

784

00:47:52,079 --> 00:47:54,079

selling them at a higher price and they

785

00:47:54,079 --> 00:47:55,839

bought it but they do not

786

00:47:55,839 --> 00:47:59,760

perform financial intimidation

787

00:47:59,760 --> 00:48:02,720

all right so in this foundational

788

00:48:02,720 --> 00:48:03,920

section

789

00:48:03,920 --> 00:48:07,000

we discussed financial

790

00:48:07,000 --> 00:48:09,720

intermediation we've learned to

791

00:48:09,720 --> 00:48:11,760

distinguish

792

00:48:11,760 --> 00:48:14,040

financial intermediaries from

793

00:48:14,040 --> 00:48:17,040

non-financial intermediaries

794

00:48:17,040 --> 00:48:19,200

financial intermediaries are those

795

00:48:19,200 --> 00:48:22,000

financial institutions that perform

796

00:48:22,000 --> 00:48:25,440

financial intermediation which always

797

00:48:25,440 --> 00:48:28,800

involves asset transformation

798

00:48:28,800 --> 00:48:31,200

non-financial intermediaries do not

799

00:48:31,200 --> 00:48:34,319

perform financial intimidation

800

00:48:34,319 --> 00:48:37,040

and we've learned about the key services

801

00:48:37,040 --> 00:48:39,119

that were provided by financial

802

00:48:39,119 --> 00:48:40,319

intermediaries

803

00:48:40,319 --> 00:48:44,000

in the broader economy

804

00:48:44,640 --> 00:48:49,839

any questions

805

00:48:52,640 --> 00:48:56,960

nope all right so the last part of this

806

00:48:56,960 --> 00:49:00,160

section is discussing something that

807

00:49:00,160 --> 00:49:03,440

is very very important in finance

808

00:49:03,440 --> 00:49:07,680

and that is to and that is to save

809

00:49:07,680 --> 00:49:09,839

conflicts of interest the conflicts of

810

00:49:09,839 --> 00:49:12,319

interest are very important

811

00:49:12,319 --> 00:49:16,000

and they exist because structurally

812

00:49:16,000 --> 00:49:20,319

as you have seen financial institution

813

00:49:20,319 --> 00:49:23,680

are in the middle they help

814

00:49:23,680 --> 00:49:26,960

to connect parties or they

815

00:49:26,960 --> 00:49:29,280

stand in the middle and perform

816

00:49:29,280 --> 00:49:31,280

financial intermediation

817

00:49:31,280 --> 00:49:34,880

so they have clients on both sides

818

00:49:34,880 --> 00:49:38,720

so inevitably we will be faced with

819

00:49:38,720 --> 00:49:43,280

conflicts of interest it's intrinsic

820

00:49:43,280 --> 00:49:47,040

in the nature of finance all right

821

00:49:47,040 --> 00:49:50,400

so remember financial intermediaries

822

00:49:50,400 --> 00:49:53,440

provide multiple services to their

823

00:49:53,440 --> 00:49:54,559

clients

824

00:49:54,559 --> 00:49:59,280

so they can realize economies of scope

825

00:49:59,280 --> 00:50:02,559

remember the two dimensions scale

826

00:50:02,559 --> 00:50:04,960

it's when you do the same transaction

827

00:50:04,960 --> 00:50:07,440

with many different customers

828

00:50:07,440 --> 00:50:09,920

and scope is when you offer different

829

00:50:09,920 --> 00:50:12,240

products to the same customer

830

00:50:12,240 --> 00:50:16,000

okay but

831

00:50:16,000 --> 00:50:19,599

you might have conflicts of

832

00:50:19,599 --> 00:50:22,480

interest so what is a conflict of

833

00:50:22,480 --> 00:50:23,359

interest

834

00:50:23,359 --> 00:50:27,040

it's when one party has incentives

835

00:50:27,040 --> 00:50:30,240

to act in its own interest

836

00:50:30,240 --> 00:50:32,720

rather than the interest of the other

837

00:50:32,720 --> 00:50:33,839

party

838

00:50:33,839 --> 00:50:37,200

so a bank may have an incentive

839

00:50:37,200 --> 00:50:40,480

to act in the interest of the bank

840

00:50:40,480 --> 00:50:42,480

rather than the interest of their

841

00:50:42,480 --> 00:50:45,200

customer

842

00:50:47,440 --> 00:50:50,319

by nature conflicts of interest can

843

00:50:50,319 --> 00:50:51,200

create

844

00:50:51,200 --> 00:50:54,720

incentives to provide false

845

00:50:54,720 --> 00:50:57,760

or misleading information

846

00:50:57,760 --> 00:51:01,440

in order to do the deals that you want

847

00:51:01,440 --> 00:51:02,960

to do

848

00:51:02,960 --> 00:51:06,960

and why do we care because

849

00:51:06,960 --> 00:51:10,720

as these incentives arise

850

00:51:10,720 --> 00:51:13,520

and you provide false or misleading

851

00:51:13,520 --> 00:51:14,960

information

852

00:51:14,960 --> 00:51:19,680

you increase asymmetric information

853

00:51:19,680 --> 00:51:24,000

asymmetric information is of course

854

00:51:24,000 --> 00:51:28,640

when one party has more information

855

00:51:28,640 --> 00:51:31,920

than the other one okay

856

00:51:31,920 --> 00:51:34,960

so this is very very important

857

00:51:34,960 --> 00:51:38,319

when you stand between different parties

858

00:51:38,319 --> 00:51:42,319

sometimes you have incentives to act

859

00:51:42,319 --> 00:51:45,119

more in favor of one customer than the

860

00:51:45,119 --> 00:51:46,240

other

861

00:51:46,240 --> 00:51:49,599

and or in your own

862

00:51:49,599 --> 00:51:52,160

interest rather than the interest of

863

00:51:52,160 --> 00:51:53,839

your customers

864

00:51:53,839 --> 00:51:57,920

so this is intrinsic in the nature of

865

00:51:57,920 --> 00:52:01,440

finance industry now we will see

866

00:52:01,440 --> 00:52:03,599

that we have different ways of

867

00:52:03,599 --> 00:52:07,119

addressing the problem

868

00:52:09,680 --> 00:52:12,720

now there have been

869

00:52:12,720 --> 00:52:17,200

many many many

870

00:52:17,200 --> 00:52:20,319

cases of conflicts of interest

871

00:52:20,319 --> 00:52:24,079

i will walk you through the first

872

00:52:24,079 --> 00:52:27,040

two which have to do with investment

873

00:52:27,040 --> 00:52:28,480

banking

874

00:52:28,480 --> 00:52:32,559

and auditing and accounting

875

00:52:32,559 --> 00:52:35,119

i will briefly mention credit rating

876

00:52:35,119 --> 00:52:36,640

agencies

877

00:52:36,640 --> 00:52:40,960

but there are so so many examples

878

00:52:40,960 --> 00:52:44,839

so does anybody know which financial

879

00:52:44,839 --> 00:52:46,160

scandal

880

00:52:46,160 --> 00:52:49,760

is currently all over the papers

881

00:52:49,760 --> 00:52:52,880

all over the world

882

00:52:53,440 --> 00:52:55,760

and no i'm not talking about gamestop

883

00:52:55,760 --> 00:52:57,280

although it's

884

00:52:57,280 --> 00:52:59,839

rebounded but there is a financial

885

00:52:59,839 --> 00:53:00,880

scandal which is

886

00:53:00,880 --> 00:53:04,240

just amazing i love it it's

887

00:53:04,240 --> 00:53:07,359

fantastic i'm going to write about it jp

888

00:53:07,359 --> 00:53:08,800

morgan

889

00:53:08,800 --> 00:53:12,160

in which way i mean

890

00:53:13,280 --> 00:53:16,079

they are involved actually into this one

891

00:53:16,079 --> 00:53:18,319

ey

892

00:53:18,319 --> 00:53:19,839

they've been involved in a number of

893

00:53:19,839 --> 00:53:22,000

scandals but not the one that's all over

894

00:53:22,000 --> 00:53:25,359

the papers at the moment

895

00:53:26,839 --> 00:53:29,119

david

896

00:53:29,119 --> 00:53:31,440

wow you must know about scandals i'm not

897

00:53:31,440 --> 00:53:33,119

aware of

898

00:53:33,119 --> 00:53:36,480

davey who's davey

899

00:53:36,640 --> 00:53:38,960

hmm

900

00:53:40,559 --> 00:53:42,720

okay i'll type the name because it's

901

00:53:42,720 --> 00:53:44,240

very

902

00:53:44,240 --> 00:53:46,720

it's a company that's been all over the

903

00:53:46,720 --> 00:53:47,760

place

904

00:53:47,760 --> 00:53:51,359

yes yes to tao very good

905

00:53:51,359 --> 00:53:55,280

yes indeed grinsell

906

00:53:55,280 --> 00:53:57,680

okay green cell capital has just

907

00:53:57,680 --> 00:53:58,800

collapsed

908

00:53:58,800 --> 00:54:03,440

and it's a fantastic story

909

00:54:03,760 --> 00:54:06,400

it's an amazing story i love it it has

910

00:54:06,400 --> 00:54:08,480

everything i've ever talked about with

911

00:54:08,480 --> 00:54:11,599

my classes everything

912

00:54:11,599 --> 00:54:14,400

circular flows of money conflicts of

913

00:54:14,400 --> 00:54:15,359

interest

914

00:54:15,359 --> 00:54:18,640

doubtful accounting um

915

00:54:18,640 --> 00:54:22,079

sleepy regulators um conflicts of

916

00:54:22,079 --> 00:54:24,400

interest i mean like gazillion

917

00:54:24,400 --> 00:54:28,640

uh greasy politicians

918

00:54:28,640 --> 00:54:31,839

uh mysterious steel magnet from

919

00:54:31,839 --> 00:54:34,960

india and it's right to

920

00:54:34,960 --> 00:54:38,079

riches story wonderful so to tell thank

921

00:54:38,079 --> 00:54:40,559

you thank you for sharing that

922

00:54:40,559 --> 00:54:43,200

if you have time read stuff about green

923

00:54:43,200 --> 00:54:43,599

cell

924

00:54:43,599 --> 00:54:46,880

it is a fabulous story it has

925

00:54:46,880 --> 00:54:50,000

every single ingredient i can think of

926

00:54:50,000 --> 00:54:53,119

so uh green seal is yet one more example

927

00:54:53,119 --> 00:54:56,880

of conflicts of interest it involves

928

00:54:56,880 --> 00:55:00,400

uh credit swiss funds uh gam

929

00:55:00,400 --> 00:55:04,319

funds it involves soft bank and vision

930

00:55:04,319 --> 00:55:04,960

fund

931

00:55:04,960 --> 00:55:09,520

it involves british politicians

932

00:55:09,520 --> 00:55:12,720

it's fantastic it's a great story anyway

933

00:55:12,720 --> 00:55:15,839

so every day you have new examples of

934

00:55:15,839 --> 00:55:17,760

conflicts of interest and some of you

935

00:55:17,760 --> 00:55:19,200

have mentioned some of the

936

00:55:19,200 --> 00:55:22,240

big four or jp morgan jp morgan's

937

00:55:22,240 --> 00:55:24,319

involved because they're trying to buy

938

00:55:24,319 --> 00:55:25,920

some of the pieces

939

00:55:25,920 --> 00:55:28,880

uh left over from from the grinsell

940

00:55:28,880 --> 00:55:29,599

stuff so

941

00:55:29,599 --> 00:55:32,960

it's fantastic anyway um

942

00:55:32,960 --> 00:55:35,680

so we're going to be talking about the

943

00:55:35,680 --> 00:55:36,480

first

944

00:55:36,480 --> 00:55:39,760

two in detail and the third one about

945

00:55:39,760 --> 00:55:41,200

credit rating agencies

946

00:55:41,200 --> 00:55:43,920

is very much similar in nature with with

947

00:55:43,920 --> 00:55:46,079

the accounting problems

948

00:55:46,079 --> 00:55:50,559

so um briefly what can we do

949

00:55:50,559 --> 00:55:53,520

when we found ourselves in a situation

950

00:55:53,520 --> 00:55:53,839

of

951

00:55:53,839 --> 00:55:56,559

conflict of interest so the different

952

00:55:56,559 --> 00:55:59,280

approaches

953

00:56:01,119 --> 00:56:03,359

the first approach the libertarian

954

00:56:03,359 --> 00:56:04,319

approach the

955

00:56:04,319 --> 00:56:07,440

um free market approach is to say

956

00:56:07,440 --> 00:56:09,920

leave it to the market because you know

957

00:56:09,920 --> 00:56:10,480

what

958

00:56:10,480 --> 00:56:14,480

you can mess with the client once

959

00:56:14,480 --> 00:56:16,960

mess with the client twice third time

960

00:56:16,960 --> 00:56:18,880

you don't have a client anymore so the

961

00:56:18,880 --> 00:56:21,760

market will take care of it

962

00:56:21,760 --> 00:56:24,720

that's one approach

963

00:56:26,480 --> 00:56:28,480

second approach completely opposite to

964

00:56:28,480 --> 00:56:30,640

say okay we'll we'll make rules we

965

00:56:30,640 --> 00:56:31,680

regulate

966

00:56:31,680 --> 00:56:34,960

okay we will impose obligations

967

00:56:34,960 --> 00:56:38,640

of standards of disclosure

968

00:56:38,640 --> 00:56:42,079

impose uh more transparency so we

969

00:56:42,079 --> 00:56:43,040

decrease

970

00:56:43,040 --> 00:56:46,720

information asymmetry so everybody knows

971

00:56:46,720 --> 00:56:48,960

what's going on and can make very

972

00:56:48,960 --> 00:56:52,240

informed decisions

973

00:56:52,799 --> 00:56:56,400

and correlated with that so we put

974

00:56:56,400 --> 00:56:58,799

regulations but we also make sure that

975

00:56:58,799 --> 00:57:00,000

the regulations

976

00:57:00,000 --> 00:57:03,839

are implemented by having supervisory

977

00:57:03,839 --> 00:57:08,160

oversight so we are monitoring

978

00:57:08,160 --> 00:57:12,559

and addressing the situation

979

00:57:12,559 --> 00:57:14,640

now another way you can deal with

980

00:57:14,640 --> 00:57:17,119

conflicts of interest a very popular way

981

00:57:17,119 --> 00:57:19,359

is to try and avoid them in the first

982

00:57:19,359 --> 00:57:20,240

place

983

00:57:20,240 --> 00:57:22,799

to try to avoid a situation where

984

00:57:22,799 --> 00:57:23,520

somebody

985

00:57:23,520 --> 00:57:26,720

or a function puts it has

986

00:57:26,720 --> 00:57:29,760

dual responsibilities okay

987

00:57:29,760 --> 00:57:32,960

so for example in the case

988

00:57:32,960 --> 00:57:36,000

of nucleasin and bearings or the

989

00:57:36,000 --> 00:57:39,040

case of many rogue trader

990

00:57:39,040 --> 00:57:42,480

scandals one of the ways to try and

991

00:57:42,480 --> 00:57:43,680

avoid it

992

00:57:43,680 --> 00:57:47,520

is to make sure that the trader

993

00:57:47,520 --> 00:57:50,400

the dealer does not control the

994

00:57:50,400 --> 00:57:51,839

operations so we

995

00:57:51,839 --> 00:57:54,559

separate the front office where

996

00:57:54,559 --> 00:57:56,400

transactions take place

997

00:57:56,400 --> 00:57:59,200

and the back office where transactions

998

00:57:59,200 --> 00:57:59,520

are

999

00:57:59,520 --> 00:58:03,520

executed okay so separation

1000

00:58:03,520 --> 00:58:08,079

of functions in credit rating agencies

1001

00:58:08,079 --> 00:58:11,599

you separate the rating process

1002

00:58:11,599 --> 00:58:15,359

from the consulting process or advisory

1003

00:58:15,359 --> 00:58:16,640

function

1004

00:58:16,640 --> 00:58:19,680

in auditing firms you separate the

1005

00:58:19,680 --> 00:58:22,079

auditing function from the consulting

1006

00:58:22,079 --> 00:58:23,200

function

1007

00:58:23,200 --> 00:58:26,160

that way you don't end up with conflicts

1008

00:58:26,160 --> 00:58:26,880

of interest

1009

00:58:26,880 --> 00:58:29,920

in the first place

1010

00:58:29,920 --> 00:58:32,960

socialization of information production

1011

00:58:32,960 --> 00:58:36,079

is a complicated sentence to say

1012

00:58:36,079 --> 00:58:40,160

well we don't trust private entities

1013

00:58:40,160 --> 00:58:43,520

with the production of information so we

1014

00:58:43,520 --> 00:58:45,680

do it at the government level so we

1015

00:58:45,680 --> 00:58:46,480

create

1016

00:58:46,480 --> 00:58:49,359

let's say a credit rating agency which

1017

00:58:49,359 --> 00:58:50,319

is a government

1018

00:58:50,319 --> 00:58:53,760

entity okay so we trust the government

1019

00:58:53,760 --> 00:58:56,240

rather than the private sector to

1020

00:58:56,240 --> 00:58:57,359

provide

1021

00:58:57,359 --> 00:59:01,200

independent clear accessible

1022

00:59:01,200 --> 00:59:04,720

information in a way that is

1023

00:59:04,720 --> 00:59:07,440

what centralized stock exchange

1024

00:59:07,440 --> 00:59:08,799

information can do

1025

00:59:08,799 --> 00:59:11,920

when they're owned by the government um

1026

00:59:11,920 --> 00:59:15,359

sorry so you have like five

1027

00:59:15,359 --> 00:59:18,720

big ways to address conflicts of

1028

00:59:18,720 --> 00:59:23,200

interest so now let me walk you through

1029

00:59:23,200 --> 00:59:27,280

the first situation

1030

00:59:27,520 --> 00:59:30,839

which resulted in a

1031

00:59:30,839 --> 00:59:36,160

regulatory and legislative response

1032

00:59:36,160 --> 00:59:38,319

before i talk about that let me bring

1033

00:59:38,319 --> 00:59:40,319

into the discussion

1034

00:59:40,319 --> 00:59:45,599

the notion of regulatory pendulum

1035

00:59:45,599 --> 00:59:47,680

pendulum goes like this right so you

1036

00:59:47,680 --> 00:59:50,000

have a curve

1037

00:59:50,000 --> 00:59:53,280

so what happens

1038

00:59:53,280 --> 00:59:56,559

when a crisis happens okay something

1039

00:59:56,559 --> 01:00:00,240

bad happens the first reaction

1040

01:00:00,240 --> 01:00:03,280

will be who is responsible

1041

01:00:03,280 --> 01:00:07,040

okay then you have a response from the

1042

01:00:07,040 --> 01:00:08,799

government

1043

01:00:08,799 --> 01:00:13,040

okay and the parliament

1044

01:00:13,040 --> 01:00:15,839

this is going to be a regulatory and

1045

01:00:15,839 --> 01:00:17,440

legislative response

1046

01:00:17,440 --> 01:00:20,640

okay so we regulate we put rules in

1047

01:00:20,640 --> 01:00:22,240

place

1048

01:00:22,240 --> 01:00:27,119

over time things get deregulated

1049

01:00:27,119 --> 01:00:30,240

and things ease up and then another

1050

01:00:30,240 --> 01:00:32,960

crisis happens so we go back

1051

01:00:32,960 --> 01:00:35,920

and we regulate okay and this is how we

1052

01:00:35,920 --> 01:00:38,319

go so this is the regulatory pendulum

1053

01:00:38,319 --> 01:00:39,680

kind of thing

1054

01:00:39,680 --> 01:00:44,960

so sabin oxley act 2002

1055

01:00:44,960 --> 01:00:48,240

so it's called socks or starbucks

1056

01:00:48,240 --> 01:00:51,920

it is the regulatory reaction to a

1057

01:00:51,920 --> 01:00:55,280

series of corporate scandals

1058

01:00:55,280 --> 01:00:59,200

in the early 2000s

1059

01:00:59,200 --> 01:01:02,559

culminating with the collapse of a big

1060

01:01:02,559 --> 01:01:04,319

company

1061

01:01:04,319 --> 01:01:06,880

that you may have heard about especially

1062

01:01:06,880 --> 01:01:09,280

since texas has been in the news

1063

01:01:09,280 --> 01:01:12,720

again because of the power structure

1064

01:01:12,720 --> 01:01:16,559

in interestingly it ties with this

1065

01:01:16,559 --> 01:01:19,680

so sabin oxley was the regulatory

1066

01:01:19,680 --> 01:01:20,720

reaction to

1067

01:01:20,720 --> 01:01:24,000

massive corporate scandals in the united

1068

01:01:24,000 --> 01:01:27,520

states and in particular

1069

01:01:27,520 --> 01:01:29,920

can anybody tell me the name of the

1070

01:01:29,920 --> 01:01:32,400

company

1071

01:01:34,640 --> 01:01:39,040

sort of which company collapsed

1072

01:01:39,040 --> 01:01:41,520

no lehman was later that was 10 years

1073

01:01:41,520 --> 01:01:43,839

later

1074

01:01:44,240 --> 01:01:48,640

yes yes yes yes yes and run very good

1075

01:01:48,640 --> 01:01:52,480

the collapse of enron so enron started

1076

01:01:52,480 --> 01:01:52,960

off

1077

01:01:52,960 --> 01:01:56,799

as a very boring utility company

1078

01:01:56,799 --> 01:02:01,119

but then senior management having been

1079

01:02:01,119 --> 01:02:03,200

to mckinsey decided to change the

1080

01:02:03,200 --> 01:02:04,799

business model

1081

01:02:04,799 --> 01:02:07,839

and to become an energy trader

1082

01:02:07,839 --> 01:02:11,520

okay and it happened while the energy

1083

01:02:11,520 --> 01:02:14,559

utility electricity sector in texas in

1084

01:02:14,559 --> 01:02:17,599

california was deregulated

1085

01:02:17,599 --> 01:02:19,920

which has had the consequences we've

1086

01:02:19,920 --> 01:02:20,960

seen now today

1087

01:02:20,960 --> 01:02:24,640

in texas with the big wave of cold

1088

01:02:24,640 --> 01:02:26,720

you know the snowstorms and everything

1089

01:02:26,720 --> 01:02:28,480

and the blackout

1090

01:02:28,480 --> 01:02:31,680

part of the reasons for that goes back

1091

01:02:31,680 --> 01:02:32,720

to enron

1092

01:02:32,720 --> 01:02:35,119

and the liberalization of the energy

1093

01:02:35,119 --> 01:02:35,920

markets

1094

01:02:35,920 --> 01:02:38,000

electricity market in texas which is

1095

01:02:38,000 --> 01:02:39,520

quite amazing

1096

01:02:39,520 --> 01:02:44,160

anyway so enron collapsed

1097

01:02:44,160 --> 01:02:46,839

they had manipulated the financial

1098

01:02:46,839 --> 01:02:48,319

statements

1099

01:02:48,319 --> 01:02:51,680

and they've been doing a lot of very

1100

01:02:51,680 --> 01:02:54,000

complicated financial engineering

1101

01:02:54,000 --> 01:02:55,119

transactions

1102

01:02:55,119 --> 01:02:57,200

that did not show up on their balance

1103

01:02:57,200 --> 01:02:58,720

sheet because they were

1104

01:02:58,720 --> 01:03:02,000

off balance sheet

1105

01:03:02,000 --> 01:03:04,559

and one had been advised thank you

1106

01:03:04,559 --> 01:03:06,480

calvin i don't know is it calvin or

1107

01:03:06,480 --> 01:03:07,440

george

1108

01:03:07,440 --> 01:03:10,960

i'm not sure which one i should use um

1109

01:03:10,960 --> 01:03:14,079

they've been advised by a firm called

1110

01:03:14,079 --> 01:03:17,039

arthur anderson which was at the time

1111

01:03:17,039 --> 01:03:18,480

part of the big five

1112

01:03:18,480 --> 01:03:21,039

because there were five big accounting

1113

01:03:21,039 --> 01:03:22,880

firms

1114

01:03:22,880 --> 01:03:25,920

arthur anderson was their auditor

1115

01:03:25,920 --> 01:03:29,119

but they were also providing

1116

01:03:29,119 --> 01:03:32,400

financial consulting advice

1117

01:03:32,400 --> 01:03:35,760

to the senior management of enron

1118

01:03:35,760 --> 01:03:40,319

and in particular advising the cfo

1119

01:03:40,319 --> 01:03:45,119

on how to disclose

1120

01:03:45,119 --> 01:03:48,960

the financial transaction in such a way

1121

01:03:48,960 --> 01:03:52,400

that the auditing guys of the same firm

1122

01:03:52,400 --> 01:03:56,640

would give a good auditing statement

1123

01:03:56,640 --> 01:04:00,559

in the financial report

1124

01:04:00,559 --> 01:04:04,160

so what happened well enron went

1125

01:04:04,160 --> 01:04:08,160

bust the employees lost their jobs

1126

01:04:08,160 --> 01:04:10,640

and their pensions because the pensions

1127

01:04:10,640 --> 01:04:11,760

were invested

1128

01:04:11,760 --> 01:04:14,880

in and run stock

1129

01:04:14,880 --> 01:04:18,799

arthur anderson went bust okay

1130

01:04:18,799 --> 01:04:22,480

the ceo and cfo ended up in jail

1131

01:04:22,480 --> 01:04:25,440

okay so there was like a huge massive

1132

01:04:25,440 --> 01:04:27,440

scandal

1133

01:04:27,440 --> 01:04:30,480

of course there was a regulatory

1134

01:04:30,480 --> 01:04:31,920

reaction

1135

01:04:31,920 --> 01:04:35,039

and congress passed this

1136

01:04:35,039 --> 01:04:37,520

massive piece of legislation called

1137

01:04:37,520 --> 01:04:40,240

sovereign oxley

1138

01:04:40,240 --> 01:04:43,680

sabinoxley is huge and has

1139

01:04:43,680 --> 01:04:46,480

different parts of it so i'm going to

1140

01:04:46,480 --> 01:04:46,880

point

1141

01:04:46,880 --> 01:04:49,839

out some specific aspects that you need

1142

01:04:49,839 --> 01:04:50,480

to know

1143

01:04:50,480 --> 01:04:52,319

why you need to know them because sabin

1144

01:04:52,319 --> 01:04:54,720

oxley is still in effect

1145

01:04:54,720 --> 01:04:57,920

and has profound implications in terms

1146

01:04:57,920 --> 01:04:58,400

of

1147

01:04:58,400 --> 01:05:02,799

corporate governance so what are the

1148

01:05:02,799 --> 01:05:06,400

major components the first is to set up

1149

01:05:06,400 --> 01:05:10,480

a public company accounting

1150

01:05:10,480 --> 01:05:15,280

oversight board so remember

1151

01:05:15,280 --> 01:05:17,839

the approach is to remedying conflicts

1152

01:05:17,839 --> 01:05:20,839

of interest you know a supervisory

1153

01:05:20,839 --> 01:05:22,720

oversight right

1154

01:05:22,720 --> 01:05:25,760

so now we want to make sure

1155

01:05:25,760 --> 01:05:29,599

that there is a regulator

1156

01:05:29,599 --> 01:05:33,359

for the accounting firms

1157

01:05:33,359 --> 01:05:36,640

second separation of functions

1158

01:05:36,640 --> 01:05:38,960

okay

1159

01:05:40,960 --> 01:05:44,319

public accounting firms are prohibited

1160

01:05:44,319 --> 01:05:47,680

from engaging in non-accounting services

1161

01:05:47,680 --> 01:05:51,039

to clients they are auditing so if you

1162

01:05:51,039 --> 01:05:52,319

auditing a firm

1163

01:05:52,319 --> 01:05:55,039

you cannot provide consulting services

1164

01:05:55,039 --> 01:05:56,559

and vice versa

1165

01:05:56,559 --> 01:06:00,160

separation of functions

1166

01:06:00,559 --> 01:06:03,200

members of the board's audit committee

1167

01:06:03,200 --> 01:06:04,000

must be

1168

01:06:04,000 --> 01:06:06,160

independent so this is one of the

1169

01:06:06,160 --> 01:06:07,119

fundamental

1170

01:06:07,119 --> 01:06:09,520

terms of corporate modern corporate

1171

01:06:09,520 --> 01:06:10,720

governance

1172

01:06:10,720 --> 01:06:13,760

is that members of the board have to

1173

01:06:13,760 --> 01:06:17,920

include non-exec non-executive

1174

01:06:17,920 --> 01:06:19,680

independent directors

1175

01:06:19,680 --> 01:06:24,000

okay and particularly

1176

01:06:24,000 --> 01:06:26,240

as far as the audit committee is

1177

01:06:26,240 --> 01:06:28,319

involved those members have to be

1178

01:06:28,319 --> 01:06:29,599

independent

1179

01:06:29,599 --> 01:06:31,920

that means not connected to the company

1180

01:06:31,920 --> 01:06:34,720

in any way

1181

01:06:35,680 --> 01:06:38,720

requires the reporting of off-balance

1182

01:06:38,720 --> 01:06:40,079

sheet activities

1183

01:06:40,079 --> 01:06:43,359

why because they had

1184

01:06:43,359 --> 01:06:46,240

not disclosed on the balance sheet there

1185

01:06:46,240 --> 01:06:47,920

are activities there were some notes to

1186

01:06:47,920 --> 01:06:49,760

the financial statements but you had to

1187

01:06:49,760 --> 01:06:51,440

be really really good at

1188

01:06:51,440 --> 01:06:54,160

looking at that to find it so now we're

1189

01:06:54,160 --> 01:06:55,359

saying

1190

01:06:55,359 --> 01:06:57,760

oh boy stuff that you're doing off

1191

01:06:57,760 --> 01:06:59,440

balance sheet can have really really

1192

01:06:59,440 --> 01:07:00,160

really bad

1193

01:07:00,160 --> 01:07:04,319

implications so you should report it

1194

01:07:04,400 --> 01:07:07,440

request additional funding for the sec

1195

01:07:07,440 --> 01:07:11,599

why because in order to investigate

1196

01:07:11,599 --> 01:07:14,880

problems the sec needs to have people

1197

01:07:14,880 --> 01:07:17,039

if you only have one person in charge of

1198

01:07:17,039 --> 01:07:18,000

investigating

1199

01:07:18,000 --> 01:07:20,160

500 different companies this is not

1200

01:07:20,160 --> 01:07:21,520

going to happen

1201

01:07:21,520 --> 01:07:24,720

right so funding for the regulator

1202

01:07:24,720 --> 01:07:28,319

and the stick

1203

01:07:28,319 --> 01:07:30,799

if you do bad stuff you'll end up in

1204

01:07:30,799 --> 01:07:31,680

jail

1205

01:07:31,680 --> 01:07:34,720

so charges for white-collar crime

1206

01:07:34,720 --> 01:07:37,839

and obstruction of justice were

1207

01:07:37,839 --> 01:07:39,280

increased

1208

01:07:39,280 --> 01:07:41,520

part of that was because the people

1209

01:07:41,520 --> 01:07:43,839

arthur and anderson were happily

1210

01:07:43,839 --> 01:07:44,880

destroying

1211

01:07:44,880 --> 01:07:47,520

documents as soon as they found out that

1212

01:07:47,520 --> 01:07:50,079

they were going to be investigating

1213

01:07:50,079 --> 01:07:54,240

so all the paperwork was going

1214

01:07:54,240 --> 01:07:57,119

going through shredders just as the

1215

01:07:57,119 --> 01:07:59,280

government investigators were coming

1216

01:07:59,280 --> 01:07:59,760

down

1217

01:07:59,760 --> 01:08:03,520

on arthur anderson offices so clearly

1218

01:08:03,520 --> 01:08:05,039

that was not

1219

01:08:05,039 --> 01:08:09,039

good so you can see how

1220

01:08:09,039 --> 01:08:12,079

there was multiple responses to the

1221

01:08:12,079 --> 01:08:15,119

conflicts of interest that had arisen

1222

01:08:15,119 --> 01:08:18,880

in uh the case of enron and other

1223

01:08:18,880 --> 01:08:22,479

corporate scandal now one of the parts

1224

01:08:22,479 --> 01:08:24,000

of the sovereign oxley

1225

01:08:24,000 --> 01:08:27,040

act that had a very profound implication

1226

01:08:27,040 --> 01:08:29,359

on financial markets

1227

01:08:29,359 --> 01:08:32,640

was the section 404

1228

01:08:32,640 --> 01:08:36,158

so what what is section 404 it basically

1229

01:08:36,158 --> 01:08:37,040

requires

1230

01:08:37,040 --> 01:08:40,158

all company that are under us

1231

01:08:40,158 --> 01:08:43,600

uh jurisdiction to

1232

01:08:43,600 --> 01:08:48,640

create an internal control report

1233

01:08:48,640 --> 01:08:50,839

that basically means you have to

1234

01:08:50,839 --> 01:08:52,158

document

1235

01:08:52,158 --> 01:08:56,158

your corporate governance process

1236

01:08:56,158 --> 01:08:59,679

and that report has to be

1237

01:08:59,679 --> 01:09:03,600

certified by the auditors and personally

1238

01:09:03,600 --> 01:09:04,479

signed off

1239

01:09:04,479 --> 01:09:09,520

on by two senior executives of the firm

1240

01:09:09,520 --> 01:09:12,719

why is that important because it

1241

01:09:12,719 --> 01:09:15,759

creates personal liability

1242

01:09:15,759 --> 01:09:19,120

for the senior executives

1243

01:09:19,120 --> 01:09:22,479

it requires auditor to certify

1244

01:09:22,479 --> 01:09:26,640

that the firm has processes in place

1245

01:09:26,640 --> 01:09:30,000

to address possible conflicts of

1246

01:09:30,000 --> 01:09:32,839

interest problems

1247

01:09:32,839 --> 01:09:36,158

now this was all good and well

1248

01:09:36,158 --> 01:09:38,399

but when it came out there was a very

1249

01:09:38,399 --> 01:09:40,319

strong reaction about it

1250

01:09:40,319 --> 01:09:43,439

because people were saying well this

1251

01:09:43,439 --> 01:09:46,640

is very expensive

1252

01:09:46,640 --> 01:09:49,920

for a smaller company to have to go

1253

01:09:49,920 --> 01:09:52,158

through all your processes and

1254

01:09:52,158 --> 01:09:53,279

documenting them

1255

01:09:53,279 --> 01:09:55,120

and getting them certified by the

1256

01:09:55,120 --> 01:09:56,480

auditors it's

1257

01:09:56,480 --> 01:09:59,199

time consuming and it's expensive and on

1258

01:09:59,199 --> 01:09:59,679

top of

1259

01:09:59,679 --> 01:10:02,159

it because the auditors had gotten

1260

01:10:02,159 --> 01:10:03,280

burned

1261

01:10:03,280 --> 01:10:05,760

seriously with the whole collapse of

1262

01:10:05,760 --> 01:10:07,360

arthur anderson of course they're going

1263

01:10:07,360 --> 01:10:08,800

to spend time on it

1264

01:10:08,800 --> 01:10:10,480

and they're going to charge you more for

1265

01:10:10,480 --> 01:10:12,080

it so

1266

01:10:12,080 --> 01:10:16,000

there was a strong reaction

1267

01:10:16,000 --> 01:10:18,400

from some parts of the financial markets

1268

01:10:18,400 --> 01:10:20,640

in the united states saying that

1269

01:10:20,640 --> 01:10:24,320

section 404 of sabin oxley

1270

01:10:24,320 --> 01:10:28,159

was disproportionate was too expensive

1271

01:10:28,159 --> 01:10:28,960

compliant

1272

01:10:28,960 --> 01:10:33,040

costs were too high and it would drive

1273

01:10:33,040 --> 01:10:36,400

firms away from the u.s market

1274

01:10:36,400 --> 01:10:39,760

to more accommodating jurisdictions like

1275

01:10:39,760 --> 01:10:40,320

say

1276

01:10:40,320 --> 01:10:43,520

hong kong and of course this

1277

01:10:43,520 --> 01:10:47,600

did not really happen and um

1278

01:10:47,600 --> 01:10:50,320

sarban oxley is now considered as the

1279

01:10:50,320 --> 01:10:51,440

foundation

1280

01:10:51,440 --> 01:10:55,840

of modern corporate governance

1281

01:10:56,159 --> 01:10:58,400

okay so what do you need to know about

1282

01:10:58,400 --> 01:11:00,239

sober knoxley

1283

01:11:00,239 --> 01:11:03,520

very important stuff so i'll highlight

1284

01:11:03,520 --> 01:11:06,080

it for you

1285

01:11:08,159 --> 01:11:13,440

you need to know about section 404

1286

01:11:13,440 --> 01:11:15,840

okay

1287

01:11:17,440 --> 01:11:23,840

you need to know about the pcaob

1288

01:11:23,840 --> 01:11:27,840

the separation of functions

1289

01:11:29,760 --> 01:11:32,800

and the independent members

1290

01:11:32,800 --> 01:11:37,520

okay so you need to know what is

1291

01:11:37,520 --> 01:11:41,760

sabino oxley what was the cause of the

1292

01:11:41,760 --> 01:11:43,679

scandal

1293

01:11:43,679 --> 01:11:46,000

okay

1294

01:11:49,679 --> 01:11:53,040

and what sector does it have to do

1295

01:11:53,040 --> 01:11:56,159

which is accounting

1296

01:11:57,520 --> 01:12:00,320

and auditing

1297

01:12:01,840 --> 01:12:05,040

okay by the way they have mean many

1298

01:12:05,040 --> 01:12:05,520

other

1299

01:12:05,520 --> 01:12:08,640

scandals in the very recent past

1300

01:12:08,640 --> 01:12:11,760

involving auditing

1301

01:12:11,760 --> 01:12:15,679

issues such as wirecard

1302

01:12:15,679 --> 01:12:16,640

lacking coffee

1303

01:12:16,640 --> 01:12:18,719

[Music]

1304

01:12:18,719 --> 01:12:22,000

you name it any questions on that one

1305

01:12:22,000 --> 01:12:25,840

before i move on to the next one

1306

01:12:28,960 --> 01:12:30,960

so remember if you're a company that

1307

01:12:30,960 --> 01:12:33,040

wants to list in the u.s you have to

1308

01:12:33,040 --> 01:12:36,000

comply with sarban oxley

1309

01:12:36,000 --> 01:12:38,159

all right so no matter where you're from

1310

01:12:38,159 --> 01:12:40,000

if you intend to list

1311

01:12:40,000 --> 01:12:42,800

in the united states you have to comply

1312

01:12:42,800 --> 01:12:43,199

with

1313

01:12:43,199 --> 01:12:46,239

sovereign oxley

1314

01:12:47,199 --> 01:12:50,320

all right the second point is another

1315

01:12:50,320 --> 01:12:51,040

scandal

1316

01:12:51,040 --> 01:12:54,800

at around the same time that had to do

1317

01:12:54,800 --> 01:12:55,679

with

1318

01:12:55,679 --> 01:12:58,800

investment banking

1319

01:12:59,280 --> 01:13:04,000

so why it happened anybody knows

1320

01:13:04,000 --> 01:13:07,360

anybody knows what happens

1321

01:13:13,199 --> 01:13:16,960

no okay

1322

01:13:16,960 --> 01:13:19,120

well at the time the new york attorney

1323

01:13:19,120 --> 01:13:20,719

general was a guy named

1324

01:13:20,719 --> 01:13:24,719

elliot spitzer and what he did was

1325

01:13:24,719 --> 01:13:28,000

investigate u.s investment banks

1326

01:13:28,000 --> 01:13:31,840

in the aftermath of the dot-com

1327

01:13:31,840 --> 01:13:35,360

boom and bust okay so

1328

01:13:35,360 --> 01:13:38,080

similar to what we've seen in recent

1329

01:13:38,080 --> 01:13:39,520

months

1330

01:13:39,520 --> 01:13:42,560

the market the stock market in the u.n

1331

01:13:42,560 --> 01:13:46,560

went crazy with huge

1332

01:13:46,560 --> 01:13:50,080

valuation for internet companies so this

1333

01:13:50,080 --> 01:13:51,280

was the internet

1334

01:13:51,280 --> 01:13:54,719

or also called the dot-com boom

1335

01:13:54,719 --> 01:13:58,159

and bust of the early 2000s

1336

01:13:58,159 --> 01:14:01,920

so lots of companies went public with

1337

01:14:01,920 --> 01:14:04,800

crazy valuations similar to what we've

1338

01:14:04,800 --> 01:14:05,920

seen in

1339

01:14:05,920 --> 01:14:09,600

in the last year or so and

1340

01:14:09,600 --> 01:14:13,120

investment banks analysts were of course

1341

01:14:13,120 --> 01:14:17,440

writing very glowing recommendations to

1342

01:14:17,440 --> 01:14:21,679

buy recommendations on these companies

1343

01:14:21,679 --> 01:14:26,800

but privately they were saying this is

1344

01:14:26,800 --> 01:14:30,400

really crap sorry forgive my language

1345

01:14:30,400 --> 01:14:34,080

so they were pitching to investors

1346

01:14:34,080 --> 01:14:36,880

to invest in these companies while they

1347

01:14:36,880 --> 01:14:37,600

themselves

1348

01:14:37,600 --> 01:14:41,120

knew these companies or they believe

1349

01:14:41,120 --> 01:14:43,520

these companies were really not that

1350

01:14:43,520 --> 01:14:44,400

good

1351

01:14:44,400 --> 01:14:46,880

they were not good investments why were

1352

01:14:46,880 --> 01:14:48,000

they doing that

1353

01:14:48,000 --> 01:14:50,320

you asked me well you haven't asked me

1354

01:14:50,320 --> 01:14:51,520

but you should

1355

01:14:51,520 --> 01:14:54,320

so why were they pitching in glowing

1356

01:14:54,320 --> 01:14:55,360

terms

1357

01:14:55,360 --> 01:14:58,480

companies they knew perfectly well

1358

01:14:58,480 --> 01:15:02,000

we're not good roman tell me why

1359

01:15:02,000 --> 01:15:05,199

because i think if they are an

1360

01:15:05,199 --> 01:15:06,719

underwriter for example and they help

1361

01:15:06,719 --> 01:15:07,840

with the ipo

1362

01:15:07,840 --> 01:15:10,159

then they get a percent of the proceeds

1363

01:15:10,159 --> 01:15:11,440

of the ipo so

1364

01:15:11,440 --> 01:15:13,920

if it's valued high then they get more

1365

01:15:13,920 --> 01:15:15,440

money maybe

1366

01:15:15,440 --> 01:15:17,760

so yeah not a percentage of the ipo per

1367

01:15:17,760 --> 01:15:19,600

search but they get a bonus

1368

01:15:19,600 --> 01:15:23,199

so what what was happening okay

1369

01:15:23,199 --> 01:15:26,239

so analysts the research part

1370

01:15:26,239 --> 01:15:29,440

of investment banking

1371

01:15:29,920 --> 01:15:33,120

they are a cost

1372

01:15:33,120 --> 01:15:37,840

center right so they produce

1373

01:15:37,840 --> 01:15:40,960

and those reports are distributed

1374

01:15:40,960 --> 01:15:44,960

to um investors and the idea

1375

01:15:44,960 --> 01:15:48,000

is that the investors will then call the

1376

01:15:48,000 --> 01:15:50,320

brokerage part of the bank to buy

1377

01:15:50,320 --> 01:15:54,320

these ipos that the bank is doing

1378

01:15:54,320 --> 01:15:57,520

but it's very difficult why do i say to

1379

01:15:57,520 --> 01:15:57,920

pro

1380

01:15:57,920 --> 01:16:00,320

it's a cost center because the cost of

1381

01:16:00,320 --> 01:16:02,719

running research

1382

01:16:02,719 --> 01:16:06,400

is not directly linked to specific

1383

01:16:06,400 --> 01:16:10,719

results and so it's really hard to

1384

01:16:10,719 --> 01:16:12,480

allocate that cost

1385

01:16:12,480 --> 01:16:16,239

so what the banks had found was a way

1386

01:16:16,239 --> 01:16:18,960

to tie the performance of research

1387

01:16:18,960 --> 01:16:20,000

analysts

1388

01:16:20,000 --> 01:16:22,159

to the performance of the investment

1389

01:16:22,159 --> 01:16:24,000

banking division

1390

01:16:24,000 --> 01:16:26,320

that is the people who went out to

1391

01:16:26,320 --> 01:16:27,120

companies

1392

01:16:27,120 --> 01:16:31,040

and tried to convince them to do an ipo

1393

01:16:31,040 --> 01:16:34,080

with the bank one of the ways you do

1394

01:16:34,080 --> 01:16:38,719

that is by promising research coverage

1395

01:16:38,719 --> 01:16:41,840

that hopefully is going to be positive

1396

01:16:41,840 --> 01:16:44,960

so if your research analyst

1397

01:16:44,960 --> 01:16:48,239

and the bank is going out to

1398

01:16:48,239 --> 01:16:52,880

talk to cat.com and convince the company

1399

01:16:52,880 --> 01:16:55,199

to do an ipo

1400

01:16:55,199 --> 01:16:58,880

they want you the research analyst

1401

01:16:58,880 --> 01:17:02,640

to write a positive report

1402

01:17:02,640 --> 01:17:05,440

because if you say cad.com is really a

1403

01:17:05,440 --> 01:17:06,960

bad company

1404

01:17:06,960 --> 01:17:10,000

the cad.com ceo is not going to give

1405

01:17:10,000 --> 01:17:12,800

your bank the mandate to go for an ipo

1406

01:17:12,800 --> 01:17:16,480

and they're going to hate you a lot so

1407

01:17:16,480 --> 01:17:20,000

as a research analyst

1408

01:17:20,159 --> 01:17:22,320

it's not a good idea to write a negative

1409

01:17:22,320 --> 01:17:23,520

report

1410

01:17:23,520 --> 01:17:25,520

you will not have a long career with the

1411

01:17:25,520 --> 01:17:26,880

bank

1412

01:17:26,880 --> 01:17:29,040

on the other hand if you write a glowing

1413

01:17:29,040 --> 01:17:31,280

report to say how cat.com is

1414

01:17:31,280 --> 01:17:35,120

everything a cat lover would want then

1415

01:17:35,120 --> 01:17:37,360

your boss is going to be happy the

1416

01:17:37,360 --> 01:17:39,199

investment banking guy is going to be

1417

01:17:39,199 --> 01:17:41,199

happy the ceo will love you

1418

01:17:41,199 --> 01:17:44,080

and you might actually even get a nice

1419

01:17:44,080 --> 01:17:46,640

bonus at the end of the year

1420

01:17:46,640 --> 01:17:51,120

now this is absolutely morally

1421

01:17:51,120 --> 01:17:54,320

wrong okay why because the

1422

01:17:54,320 --> 01:17:58,560

function of research is to provide

1423

01:17:58,560 --> 01:18:01,760

independent advice to

1424

01:18:01,760 --> 01:18:04,800

investors okay

1425

01:18:04,800 --> 01:18:08,080

and investors use the information from

1426

01:18:08,080 --> 01:18:09,520

research analysts to make

1427

01:18:09,520 --> 01:18:12,640

investment decision so if you produce

1428

01:18:12,640 --> 01:18:16,400

research that is patently

1429

01:18:16,400 --> 01:18:20,000

biased then you are creating the rest

1430

01:18:20,000 --> 01:18:20,239

that

1431

01:18:20,239 --> 01:18:22,000

investors will lose money which is of

1432

01:18:22,000 --> 01:18:23,920

course what happened

1433

01:18:23,920 --> 01:18:28,000

when the dot-com bubble exploded

1434

01:18:28,000 --> 01:18:31,600

causing massive losses and then

1435

01:18:31,600 --> 01:18:34,560

this being the united states the first

1436

01:18:34,560 --> 01:18:35,920

thing they do

1437

01:18:35,920 --> 01:18:39,120

is to sue you they call their lawyer

1438

01:18:39,120 --> 01:18:40,239

that's very u.s

1439

01:18:40,239 --> 01:18:43,760

call the lawyer and sue whoever

1440

01:18:43,760 --> 01:18:47,520

could possibly be responsible okay

1441

01:18:47,520 --> 01:18:49,920

so then of course the new york attorney

1442

01:18:49,920 --> 01:18:50,719

general

1443

01:18:50,719 --> 01:18:54,000

and did an investigation and he

1444

01:18:54,000 --> 01:18:56,960

found a lot of really naughty stuff

1445

01:18:56,960 --> 01:18:59,520

going on

1446

01:18:59,520 --> 01:19:02,960

so he punished the banks they reached an

1447

01:19:02,960 --> 01:19:03,679

agreement

1448

01:19:03,679 --> 01:19:08,000

for 10 years it involved paying 1.4

1449

01:19:08,000 --> 01:19:10,159

billion dollars in fine so nowadays it

1450

01:19:10,159 --> 01:19:11,679

looks like

1451

01:19:11,679 --> 01:19:15,120

petty cash at the time 20 years ago it

1452

01:19:15,120 --> 01:19:17,280

was not petty cash it was actually quite

1453

01:19:17,280 --> 01:19:20,000

a bit of money

1454

01:19:20,840 --> 01:19:23,840

and here we see something we're familiar

1455

01:19:23,840 --> 01:19:24,800

with

1456

01:19:24,800 --> 01:19:27,679

you must separate underwriting and

1457

01:19:27,679 --> 01:19:30,000

research this is what is called now

1458

01:19:30,000 --> 01:19:30,960

regulation

1459

01:19:30,960 --> 01:19:34,400

fair disclosure reg fd okay

1460

01:19:34,400 --> 01:19:36,800

so this is separation of function

1461

01:19:36,800 --> 01:19:37,679

separate

1462

01:19:37,679 --> 01:19:39,520

underwriting that is the investment

1463

01:19:39,520 --> 01:19:41,040

banking function

1464

01:19:41,040 --> 01:19:45,199

from the research activity

1465

01:19:46,080 --> 01:19:49,199

and then there was a very

1466

01:19:49,199 --> 01:19:52,400

naughty practice called spinning so

1467

01:19:52,400 --> 01:19:53,199

spinning

1468

01:19:53,199 --> 01:19:56,400

was the practice that investment banks

1469

01:19:56,400 --> 01:19:57,199

had

1470

01:19:57,199 --> 01:20:00,480

of offering shares in an ipo

1471

01:20:00,480 --> 01:20:04,480

to their best customers first

1472

01:20:04,480 --> 01:20:08,000

so that the best customers could

1473

01:20:08,000 --> 01:20:11,280

benefit from the pop so when the

1474

01:20:11,280 --> 01:20:14,000

ipo takes place generally the price goes

1475

01:20:14,000 --> 01:20:14,320

up

1476

01:20:14,320 --> 01:20:17,120

that is called the pop and then those

1477

01:20:17,120 --> 01:20:19,199

preferred customers could then sell the

1478

01:20:19,199 --> 01:20:22,320

shares at a very nice profit

1479

01:20:22,320 --> 01:20:25,760

which was a way for the investment bank

1480

01:20:25,760 --> 01:20:29,280

to give them back in exchange of other

1481

01:20:29,280 --> 01:20:32,560

investment banking business so that is

1482

01:20:32,560 --> 01:20:33,520

basically

1483

01:20:33,520 --> 01:20:37,280

banned uh the firms must make

1484

01:20:37,280 --> 01:20:39,840

public the analyst recommendations and

1485

01:20:39,840 --> 01:20:41,520

target prices that means

1486

01:20:41,520 --> 01:20:44,000

when a research analyst produces a

1487

01:20:44,000 --> 01:20:45,280

report

1488

01:20:45,280 --> 01:20:48,239

it has to be disclosed to everybody at

1489

01:20:48,239 --> 01:20:50,480

the same time

1490

01:20:50,480 --> 01:20:54,800

okay so you cannot give the information

1491

01:20:54,800 --> 01:20:56,719

to your preferred clients

1492

01:20:56,719 --> 01:21:00,480

first because that would be

1493

01:21:00,480 --> 01:21:03,520

creating an unfair advantage

1494

01:21:03,520 --> 01:21:05,760

and brokerage firms are required to

1495

01:21:05,760 --> 01:21:07,280

obtain third party

1496

01:21:07,280 --> 01:21:10,719

independent research for their clients

1497

01:21:10,719 --> 01:21:14,400

okay so that is to avoid having buyers

1498

01:21:14,400 --> 01:21:17,760

research reaching their customers and

1499

01:21:17,760 --> 01:21:21,280

influencing their decisions

1500

01:21:21,280 --> 01:21:23,600

okay

1501

01:21:25,199 --> 01:21:26,880

so what you need to know about the

1502

01:21:26,880 --> 01:21:28,480

global legal settlement

1503

01:21:28,480 --> 01:21:31,760

of 2002

1504

01:21:31,760 --> 01:21:34,800

is that it was a case of conflict

1505

01:21:34,800 --> 01:21:39,760

interest in investment banking

1506

01:21:39,760 --> 01:21:43,840

okay and it has included

1507

01:21:43,840 --> 01:21:47,520

separation of functions

1508

01:21:47,679 --> 01:21:50,239

and we separate investment bank and

1509

01:21:50,239 --> 01:21:51,840

research

1510

01:21:51,840 --> 01:21:54,880

and a very important

1511

01:21:54,880 --> 01:21:57,920

reg d a reg fair disclosure reg

1512

01:21:57,920 --> 01:22:01,040

fd sorry reg fd regulation fair

1513

01:22:01,040 --> 01:22:02,960

disclosure

1514

01:22:02,960 --> 01:22:06,320

which means that we have to make

1515

01:22:06,320 --> 01:22:09,440

the analyst report available to

1516

01:22:09,440 --> 01:22:13,440

everybody at the same time

1517

01:22:13,760 --> 01:22:16,560

any questions

1518

01:22:20,080 --> 01:22:25,840

all right okay

1519

01:22:27,440 --> 01:22:32,159

just double checking all right so

1520

01:22:32,159 --> 01:22:34,960

we've talked about how conflicts of

1521

01:22:34,960 --> 01:22:35,920

interest

1522

01:22:35,920 --> 01:22:40,159

give rise to asymmetric information

1523

01:22:40,159 --> 01:22:43,280

because we have an incentive

1524

01:22:43,280 --> 01:22:45,520

to create false or misleading

1525

01:22:45,520 --> 01:22:46,719

information to

1526

01:22:46,719 --> 01:22:49,520

influence the way our clients are going

1527

01:22:49,520 --> 01:22:51,440

to behave

1528

01:22:51,440 --> 01:22:54,400

now asymmetric information is a

1529

01:22:54,400 --> 01:22:55,280

recurring

1530

01:22:55,280 --> 01:22:58,159

issue throughout the financial industry

1531

01:22:58,159 --> 01:22:58,960

there are two

1532

01:22:58,960 --> 01:23:01,280

aspects in particular that we need to

1533

01:23:01,280 --> 01:23:02,560

talk about

1534

01:23:02,560 --> 01:23:06,320

adverse selection which is asymmetric

1535

01:23:06,320 --> 01:23:07,360

information

1536

01:23:07,360 --> 01:23:10,960

before a transaction takes place

1537

01:23:10,960 --> 01:23:14,719

and moral hazard which arises

1538

01:23:14,719 --> 01:23:18,000

from a transaction

1539

01:23:18,000 --> 01:23:21,199

so asymmetric information

1540

01:23:21,199 --> 01:23:24,639

okay two aspects before

1541

01:23:24,639 --> 01:23:27,840

a contract takes place and after

1542

01:23:27,840 --> 01:23:32,159

the contract takes place examples

1543

01:23:32,159 --> 01:23:35,840

so for adverse selection

1544

01:23:35,920 --> 01:23:38,960

this is asymmetric information because

1545

01:23:38,960 --> 01:23:41,600

one party has more information than the

1546

01:23:41,600 --> 01:23:42,159

other

1547

01:23:42,159 --> 01:23:45,600

classic example in banking you as an

1548

01:23:45,600 --> 01:23:46,480

entrepreneur

1549

01:23:46,480 --> 01:23:49,760

know more about your business than the

1550

01:23:49,760 --> 01:23:52,239

bank does

1551

01:23:52,239 --> 01:23:55,600

we call that the lemon problem okay so

1552

01:23:55,600 --> 01:23:58,960

those who have more risk have more

1553

01:23:58,960 --> 01:24:01,199

incentive to try and borrow money from

1554

01:24:01,199 --> 01:24:02,239

the bank

1555

01:24:02,239 --> 01:24:05,040

of course the bank is very aware of the

1556

01:24:05,040 --> 01:24:05,760

problem

1557

01:24:05,760 --> 01:24:08,880

okay they know that

1558

01:24:08,880 --> 01:24:11,760

the borrowers that are more risky will

1559

01:24:11,760 --> 01:24:12,639

tend to come

1560

01:24:12,639 --> 01:24:14,880

and ask for the loan so they will take

1561

01:24:14,880 --> 01:24:16,480

precautions

1562

01:24:16,480 --> 01:24:19,600

similarly in insurance

1563

01:24:19,600 --> 01:24:22,080

you know more about your health than the

1564

01:24:22,080 --> 01:24:24,159

insurance company does

1565

01:24:24,159 --> 01:24:27,360

okay so you have incentives

1566

01:24:27,360 --> 01:24:29,679

not to tell the insurance company that

1567

01:24:29,679 --> 01:24:31,679

you're a lifelong smoker

1568

01:24:31,679 --> 01:24:35,280

when you sign up for health insurance

1569

01:24:35,280 --> 01:24:38,880

for moral hazard this is the incentive

1570

01:24:38,880 --> 01:24:42,080

you have to behave in a different manner

1571

01:24:42,080 --> 01:24:45,280

once you've signed the contract for

1572

01:24:45,280 --> 01:24:47,840

example

1573

01:24:48,320 --> 01:24:51,440

you've just signed a motorbike

1574

01:24:51,440 --> 01:24:54,000

insurance with your insurance company

1575

01:24:54,000 --> 01:24:55,600

you know you're covered

1576

01:24:55,600 --> 01:24:59,600

against any damages that you might incur

1577

01:24:59,600 --> 01:25:03,040

or might cause to other people you might

1578

01:25:03,040 --> 01:25:03,520

have an

1579

01:25:03,520 --> 01:25:06,560

incentive to drive faster and more

1580

01:25:06,560 --> 01:25:08,080

recklessly

1581

01:25:08,080 --> 01:25:11,440

okay so these are two

1582

01:25:11,440 --> 01:25:14,639

very important aspects of

1583

01:25:14,639 --> 01:25:18,320

asymmetric information that

1584

01:25:18,320 --> 01:25:22,639

exists throughout the financial industry

1585

01:25:22,639 --> 01:25:26,080

both before you make a choice or

1586

01:25:26,080 --> 01:25:30,639

after you sign the contract

1587

01:25:33,360 --> 01:25:36,639

so examples of moral hazard

1588

01:25:36,639 --> 01:25:39,679

during the global financial crisis

1589

01:25:39,679 --> 01:25:43,199

many governments bailed out

1590

01:25:43,199 --> 01:25:46,719

the banks in the system that

1591

01:25:46,719 --> 01:25:49,920

creates moral hazard because

1592

01:25:49,920 --> 01:25:52,400

now the bank's management know if

1593

01:25:52,400 --> 01:25:55,120

something bad happens

1594

01:25:55,120 --> 01:25:57,920

the government will bail me out so why

1595

01:25:57,920 --> 01:26:01,440

not take even more risk

1596

01:26:02,080 --> 01:26:05,840

rating agencies have faced scrutiny as a

1597

01:26:05,840 --> 01:26:06,560

result of

1598

01:26:06,560 --> 01:26:09,280

conflict of interest why because they

1599

01:26:09,280 --> 01:26:12,080

were advising

1600

01:26:12,080 --> 01:26:15,920

investment banks on how to structure

1601

01:26:15,920 --> 01:26:19,120

products in order to get the highest

1602

01:26:19,120 --> 01:26:21,199

possible rating

1603

01:26:21,199 --> 01:26:24,400

in the case of green cell

1604

01:26:24,400 --> 01:26:27,760

we see the same problem again the rating

1605

01:26:27,760 --> 01:26:28,880

agencies

1606

01:26:28,880 --> 01:26:32,480

gave a high rating to the money market

1607

01:26:32,480 --> 01:26:35,360

products of grinsell because of the

1608

01:26:35,360 --> 01:26:39,280

involvement of an insurance company

1609

01:26:40,639 --> 01:26:44,000

government bailouts so during the global

1610

01:26:44,000 --> 01:26:45,360

financial crisis

1611

01:26:45,360 --> 01:26:47,840

the governments bailed out a number of

1612

01:26:47,840 --> 01:26:50,400

banks and where did the money go

1613

01:26:50,400 --> 01:26:53,600

to pay our bonuses

1614

01:26:54,080 --> 01:26:58,080

insider trading you have asymmetric

1615

01:26:58,080 --> 01:27:01,120

information and the

1616

01:27:01,120 --> 01:27:03,760

conflict of interest because you want to

1617

01:27:03,760 --> 01:27:06,239

act for your own benefit rather than

1618

01:27:06,239 --> 01:27:09,440

for your customers benefit and so on

1619

01:27:09,440 --> 01:27:14,639

and so forth right

1620

01:27:14,639 --> 01:27:16,960

so we coming to the end of the class

1621

01:27:16,960 --> 01:27:18,159

it's 1 22.

1622

01:27:18,159 --> 01:27:20,480

feel free to leave it's two minutes past

1623

01:27:20,480 --> 01:27:21,360

the time

1624

01:27:21,360 --> 01:27:22,960

there's still a couple of things we need

1625

01:27:22,960 --> 01:27:24,880

to talk about on monday

1626

01:27:24,880 --> 01:27:28,480

and then we will start diving into

1627

01:27:28,480 --> 01:27:31,600

the commercial banking part any

1628

01:27:31,600 --> 01:27:32,159

questions

1629

01:27:32,159 --> 01:27:34,960

please let me know otherwise have a

1630

01:27:34,960 --> 01:27:37,760

great weekend

1631

01:27:40,800 --> 01:27:47,199

bye bye

1632

01:27:47,199 --> 01:27:51,199

oh professor had a doubt yeah hey i win

1633

01:27:51,199 --> 01:27:54,960

uh is it was the global legal settlement

1634

01:27:54,960 --> 01:27:57,520

uh targeted towards investment banks

1635

01:27:57,520 --> 01:27:58,880

yeah

1636

01:27:58,880 --> 01:28:02,159

okay thank you

1637

01:28:13,199 --> 01:28:29,840

any other questions

1638

01:28:38,880 --> 01:28:43,840

no more questions

1639

01:28:44,960 --> 01:28:48,400

okay then that's the end of today i will

1640

01:28:48,400 --> 01:28:50,960

see you all on monday

1641

01:28:50,960 --> 01:28:55,520

bye have a great weekend people

==end 0312==

==start 0315==

1

00:07:12,960 --> 00:07:14,319

okay

2

00:07:14,319 --> 00:07:17,520

time to start people

3

00:07:17,520 --> 00:07:20,800

all right so we left off we were talking

4

00:07:20,800 --> 00:07:24,560

about uh the

5

00:07:24,560 --> 00:07:27,919

asymmetric information we talked about

6

00:07:27,919 --> 00:07:30,720

conflicts of interest sorry i'm on the

7

00:07:30,720 --> 00:07:32,880

wrong page

8

00:07:32,880 --> 00:07:35,520

we talked about conflicts of interest

9

00:07:35,520 --> 00:07:36,639

we've talked

10

00:07:36,639 --> 00:07:39,680

about current

11

00:07:39,680 --> 00:07:43,680

issues how

12

00:07:43,680 --> 00:07:46,319

we talked about moral hazard which is

13

00:07:46,319 --> 00:07:48,400

asymmetric information

14

00:07:48,400 --> 00:07:51,360

that arises after you enter into

15

00:07:51,360 --> 00:07:52,479

contract

16

00:07:52,479 --> 00:07:55,520

and we explain how central banks by

17

00:07:55,520 --> 00:08:01,039

bailing out the banks are creating

18

00:08:02,960 --> 00:08:07,280

okay uh wing yen

19

00:08:07,280 --> 00:08:10,720

this slide is not updated benson

20

00:08:10,720 --> 00:08:13,440

can we check uh benson can you check

21

00:08:13,440 --> 00:08:15,520

canvas to make sure the lecture slides

22

00:08:15,520 --> 00:08:16,479

are there

23

00:08:16,479 --> 00:08:18,960

this one and the next one okay okay let

24

00:08:18,960 --> 00:08:19,840

me check it okay

25

00:08:19,840 --> 00:08:21,919

thanks because win yen says that this

26

00:08:21,919 --> 00:08:25,039

lesson there's only four notes on canvas

27

00:08:25,039 --> 00:08:28,240

okay let me check okay thanks

28

00:08:28,240 --> 00:08:31,280

so thanks wignian for uh

29

00:08:31,280 --> 00:08:34,320

telling us all right so uh

30

00:08:34,320 --> 00:08:37,039

coming back my central banks yes by

31

00:08:37,039 --> 00:08:37,679

bailing

32

00:08:37,679 --> 00:08:40,159

out banks during the global financial

33

00:08:40,159 --> 00:08:40,880

crisis

34

00:08:40,880 --> 00:08:42,640

the central banks have effectively

35

00:08:42,640 --> 00:08:44,959

created moral hazard

36

00:08:44,959 --> 00:08:48,880

because the bank's management

37

00:08:48,880 --> 00:08:52,080

know that something going wrong then the

38

00:08:52,080 --> 00:08:53,120

central banks were

39

00:08:53,120 --> 00:08:55,200

or the government will bail them out

40

00:08:55,200 --> 00:08:57,519

which is effectively encouraging them to

41

00:08:57,519 --> 00:08:57,920

take

42

00:08:57,920 --> 00:09:00,640

more risk in the hope of generating more

43

00:09:00,640 --> 00:09:02,080

returns

44

00:09:02,080 --> 00:09:05,120

then you have the situation with rating

45

00:09:05,120 --> 00:09:06,640

agencies so

46

00:09:06,640 --> 00:09:09,440

during the global financial crisis there

47

00:09:09,440 --> 00:09:11,120

was a big scandal

48

00:09:11,120 --> 00:09:14,399

about rating agencies uh because a lot

49

00:09:14,399 --> 00:09:15,040

of

50

00:09:15,040 --> 00:09:18,880

the mortgage-backed securities

51

00:09:18,880 --> 00:09:23,279

uh cds uh cdc

52

00:09:23,279 --> 00:09:26,480

pds so constant proposing that

53

00:09:26,480 --> 00:09:27,920

obligation pdos

54

00:09:27,920 --> 00:09:31,839

were uh downgraded spectacularly from

55

00:09:31,839 --> 00:09:35,120

aaa to non-investment grade and

56

00:09:35,120 --> 00:09:38,480

uh the analysis of what has happened

57

00:09:38,480 --> 00:09:41,040

showed that rating agencies were

58

00:09:41,040 --> 00:09:41,760

providing

59

00:09:41,760 --> 00:09:44,800

consulting services to the investment

60

00:09:44,800 --> 00:09:46,640

banks so that they would design

61

00:09:46,640 --> 00:09:48,640

products that would get the highest

62

00:09:48,640 --> 00:09:50,000

possible rating

63

00:09:50,000 --> 00:09:52,240

from the rating part of the rating

64

00:09:52,240 --> 00:09:53,440

agencies

65

00:09:53,440 --> 00:09:56,800

so again we had a typical conflict of

66

00:09:56,800 --> 00:09:57,920

interest that has

67

00:09:57,920 --> 00:10:00,880

forced separation of functions and

68

00:10:00,880 --> 00:10:02,000

regulations

69

00:10:02,000 --> 00:10:05,519

of the rating agencies

70

00:10:05,519 --> 00:10:08,079

another conflict of interest was that

71

00:10:08,079 --> 00:10:10,240

government bailouts were

72

00:10:10,240 --> 00:10:14,000

used to pay bonuses during the

73

00:10:14,000 --> 00:10:17,120

global financial crisis which was a huge

74

00:10:17,120 --> 00:10:21,040

outcry insider trading it's a recurrent

75

00:10:21,040 --> 00:10:24,399

issue we have conflicts of interest

76

00:10:24,399 --> 00:10:28,399

arising when you are you have access to

77

00:10:28,399 --> 00:10:31,519

non-public information and that you use

78

00:10:31,519 --> 00:10:33,120

it for your own

79

00:10:33,120 --> 00:10:36,880

personal benefit and so on and so forth

80

00:10:36,880 --> 00:10:39,200

so we've talked about this big issue

81

00:10:39,200 --> 00:10:39,519

that

82

00:10:39,519 --> 00:10:42,560

underlies the financial industry and

83

00:10:42,560 --> 00:10:44,839

some of the methods that we can use

84

00:10:44,839 --> 00:10:47,760

to mitigate or control

85

00:10:47,760 --> 00:10:50,480

conflict of interest before they

86

00:10:50,480 --> 00:10:52,480

degenerate

87

00:10:52,480 --> 00:10:56,240

um so we have a video that has been

88

00:10:56,240 --> 00:10:56,880

shared

89

00:10:56,880 --> 00:11:01,360

by one of the groups

90

00:11:01,360 --> 00:11:14,959

there we go

91

00:11:14,959 --> 00:11:16,959

in associations board members or

92

00:11:16,959 --> 00:11:18,720

committee members may find themselves in

93

00:11:18,720 --> 00:11:20,320

a conflict of interest

94

00:11:20,320 --> 00:11:22,079

this arises when the interest of a board

95

00:11:22,079 --> 00:11:23,360

member or committee member

96

00:11:23,360 --> 00:11:25,040

has the potential to be at odds with the

97

00:11:25,040 --> 00:11:26,800

interests of the association

98

00:11:26,800 --> 00:11:28,320

that is the member could personally

99

00:11:28,320 --> 00:11:31,600

benefit from the board's decision

100

00:11:33,519 --> 00:11:35,200

board members are responsible for making

101

00:11:35,200 --> 00:11:37,440

decisions that benefit the association

102

00:11:37,440 --> 00:11:39,680

that's their fiduciary duty that's why

103

00:11:39,680 --> 00:11:41,279

they must be cautious of any benefit

104

00:11:41,279 --> 00:11:42,560

that outside persons

105

00:11:42,560 --> 00:11:44,800

other organizations or they themselves

106

00:11:44,800 --> 00:11:47,680

might gain from those decisions

107

00:11:47,680 --> 00:11:49,600

failure to manage conflict of interest

108

00:11:49,600 --> 00:11:51,440

could mean the association's members

109

00:11:51,440 --> 00:11:53,360

stakeholders and the public could lose

110

00:11:53,360 --> 00:11:56,320

their confidence in the association

111

00:11:56,320 --> 00:11:57,760

undeclared conflicts can put the

112

00:11:57,760 --> 00:12:00,800

association at risk

113

00:12:00,880 --> 00:12:02,160

there are three different types of

114

00:12:02,160 --> 00:12:04,399

conflict of interest to manage

115

00:12:04,399 --> 00:12:06,720

direct conflict of interest is when a

116

00:12:06,720 --> 00:12:08,160

board member or committee member

117

00:12:08,160 --> 00:12:10,240

stands to gain or lose money or goods

118

00:12:10,240 --> 00:12:12,320

personally because of a decision made by

119

00:12:12,320 --> 00:12:14,079

the association

120

00:12:14,079 --> 00:12:16,160

in direct conflict of interest is when

121

00:12:16,160 --> 00:12:18,160

the conflict is one step removed from a

122

00:12:18,160 --> 00:12:19,680

board member or committee member

123

00:12:19,680 --> 00:12:21,839

and the loss or gain would affect family

124

00:12:21,839 --> 00:12:24,320

friends or colleagues a perceived

125

00:12:24,320 --> 00:12:25,839

conflict of interest

126

00:12:25,839 --> 00:12:27,760

is when someone from outside perceives

127

00:12:27,760 --> 00:12:29,519

that a board member or committee member

128

00:12:29,519 --> 00:12:31,040

can get the association to make a

129

00:12:31,040 --> 00:12:32,639

decision that directly or

130

00:12:32,639 --> 00:12:34,399

indirectly benefits that board member or

131

00:12:34,399 --> 00:12:38,079

committee member

132

00:12:38,079 --> 00:12:39,760

it's the responsibility of each board

133

00:12:39,760 --> 00:12:41,680

member or committee member to declare

134

00:12:41,680 --> 00:12:43,440

any type of conflict of interest

135

00:12:43,440 --> 00:12:45,360

real or perceived and to remove

136

00:12:45,360 --> 00:12:46,959

themselves from all decision making

137

00:12:46,959 --> 00:12:48,320

related to it

138

00:12:48,320 --> 00:12:50,000

if a member is uncertain if a conflict

139

00:12:50,000 --> 00:12:51,920

of interest exists they should discuss

140

00:12:51,920 --> 00:12:53,680

it with the association's president or

141

00:12:53,680 --> 00:12:54,800

board chair

142

00:12:54,800 --> 00:12:56,720

once a conflict of interest is declared

143

00:12:56,720 --> 00:12:58,320

the board member or committee member

144

00:12:58,320 --> 00:12:59,680

should excuse themselves from the

145

00:12:59,680 --> 00:13:01,360

discussion by leaving the room

146

00:13:01,360 --> 00:13:03,600

and not voting on the issue this would

147

00:13:03,600 --> 00:13:07,839

be reflected in the meeting minutes

148

00:13:09,200 --> 00:13:10,959

associations should have a conflict of

149

00:13:10,959 --> 00:13:12,639

interest policy which outlines the

150

00:13:12,639 --> 00:13:14,560

process for declaring a conflict

151

00:13:14,560 --> 00:13:16,639

and procedures for dealing with it

152

00:13:16,639 --> 00:13:18,480

ideally board members and committee

153

00:13:18,480 --> 00:13:18,959

members

154

00:13:18,959 --> 00:13:20,800

would be required to declare in writing

155

00:13:20,800 --> 00:13:22,639

that they'll adhere to it

156

00:13:22,639 --> 00:13:24,800

also board members and committee members

157

00:13:24,800 --> 00:13:26,240

should review it regularly

158

00:13:26,240 --> 00:13:27,600

to ensure that they're acting in

159

00:13:27,600 --> 00:13:29,120

accordance with the requirements and

160

00:13:29,120 --> 00:13:32,240

spirit of the policy

161

00:13:32,639 --> 00:13:34,720

conflict of interest puts an association

162

00:13:34,720 --> 00:13:36,160

at risk of not acting in the best

163

00:13:36,160 --> 00:13:37,680

interests of the association and its

164

00:13:37,680 --> 00:13:38,720

members

165

00:13:38,720 --> 00:13:40,560

directors should declare all real and

166

00:13:40,560 --> 00:13:41,760

perceived conflicts

167

00:13:41,760 --> 00:13:43,360

and excuse themselves from decision

168

00:13:43,360 --> 00:13:45,760

making

169

00:13:46,480 --> 00:13:49,360

all right so this is a video that is

170

00:13:49,360 --> 00:13:50,079

applicable

171

00:13:50,079 --> 00:13:52,480

conflicts of interest are applicable

172

00:13:52,480 --> 00:13:54,639

whenever you are on the board

173

00:13:54,639 --> 00:13:57,760

of a company or an association

174

00:13:57,760 --> 00:14:00,399

and basically in professional life you

175

00:14:00,399 --> 00:14:00,959

might

176

00:14:00,959 --> 00:14:04,320

come across conflicts of interest so the

177

00:14:04,320 --> 00:14:06,880

good well-governed companies will have

178

00:14:06,880 --> 00:14:08,639

codes of conduct

179

00:14:08,639 --> 00:14:12,240

and you will you might have to declare

180

00:14:12,240 --> 00:14:15,600

conflicts of interest if you come across

181

00:14:15,600 --> 00:14:18,639

any the group also submitted

182

00:14:18,639 --> 00:14:22,320

an article that talks about

183

00:14:22,320 --> 00:14:25,440

what happened back in 2019 with a

184

00:14:25,440 --> 00:14:28,959

particular asset management company

185

00:14:28,959 --> 00:14:32,480

that had uh internal control failures

186

00:14:32,480 --> 00:14:35,600

and regulatory breaches and

187

00:14:35,600 --> 00:14:39,120

the uh illegal short selling orders

188

00:14:39,120 --> 00:14:41,639

and various other forms of

189

00:14:41,639 --> 00:14:43,120

non-compliance

190

00:14:43,120 --> 00:14:47,360

so the sfc investigated and

191

00:14:47,360 --> 00:14:50,160

published some reprimand and some fines

192

00:14:50,160 --> 00:14:50,720

for

193

00:14:50,720 --> 00:14:54,240

the company and the people in that

194

00:14:54,240 --> 00:14:56,480

company

195

00:14:56,480 --> 00:14:59,519

so these are some good examples of

196

00:14:59,519 --> 00:15:01,680

conflicts of interest

197

00:15:01,680 --> 00:15:05,199

now let's talk about

198

00:15:05,199 --> 00:15:08,639

whether you have

199

00:15:08,800 --> 00:15:11,600

understood the key points about this

200

00:15:11,600 --> 00:15:13,040

part of the lecture

201

00:15:13,040 --> 00:15:16,079

and of course to do that uh where benson

202

00:15:16,079 --> 00:15:20,160

will start the iprs

203

00:15:21,600 --> 00:15:23,760

oh no i'll sorry this one no i always

204

00:15:23,760 --> 00:15:25,600

yeah

205

00:15:25,600 --> 00:15:29,759

so first question what is moral hazard

206

00:15:29,759 --> 00:15:33,120

just respond in the chat

207

00:15:35,199 --> 00:15:37,920

raise your hand

208

00:15:39,279 --> 00:15:42,880

okay roman what is moral hazard

209

00:15:42,880 --> 00:15:46,320

so moral hazard is the incentive to act

210

00:15:46,320 --> 00:15:48,800

differently from what you said you're

211

00:15:48,800 --> 00:15:50,480

gonna act before the transaction

212

00:15:50,480 --> 00:15:51,839

happened

213

00:15:51,839 --> 00:15:55,360

right so it's but you have to connect it

214

00:15:55,360 --> 00:15:58,000

to asymmetric information so this is

215

00:15:58,000 --> 00:16:01,759

asymmetric information after we enter

216

00:16:01,759 --> 00:16:03,120

into the contract

217

00:16:03,120 --> 00:16:07,040

okay very good

218

00:16:07,120 --> 00:16:10,240

what is adverse selection

219

00:16:10,240 --> 00:16:13,120

aryan can you take that one what is

220

00:16:13,120 --> 00:16:14,959

adverse selection

221

00:16:14,959 --> 00:16:18,959

uh so if any stakeholder has access to

222

00:16:18,959 --> 00:16:20,880

information that is not publicly

223

00:16:20,880 --> 00:16:22,959

available or extra information

224

00:16:22,959 --> 00:16:24,959

before entering into a contract and

225

00:16:24,959 --> 00:16:27,600

changes the decision or acts based

226

00:16:27,600 --> 00:16:29,839

on that asymmetric information then that

227

00:16:29,839 --> 00:16:31,040

would be

228

00:16:31,040 --> 00:16:33,759

adverse selection right adverse

229

00:16:33,759 --> 00:16:35,360

selection is asymmetric

230

00:16:35,360 --> 00:16:38,560

information before we enter into a

231

00:16:38,560 --> 00:16:40,560

contract very good

232

00:16:40,560 --> 00:16:43,240

all right the global legal settlement of

233

00:16:43,240 --> 00:16:44,800

2002

234

00:16:44,800 --> 00:16:47,360

addressed conflicts of interest in which

235

00:16:47,360 --> 00:16:48,399

type

236

00:16:48,399 --> 00:16:52,160

of financial institution

237

00:16:56,800 --> 00:16:59,839

very good aryan and roman good

238

00:16:59,839 --> 00:17:04,400

investment banking very good jung day

239

00:17:04,400 --> 00:17:07,839

all of you good excellent okay so for

240

00:17:07,839 --> 00:17:08,400

this

241

00:17:08,400 --> 00:17:10,240

the part that we've just finished the

242

00:17:10,240 --> 00:17:12,160

things that you need to

243

00:17:12,160 --> 00:17:15,119

understand and remember is understanding

244

00:17:15,119 --> 00:17:16,799

conflicts of interest

245

00:17:16,799 --> 00:17:19,760

the spots about sovereign oxlay and the

246

00:17:19,760 --> 00:17:22,559

legal settlement of 2002

247

00:17:22,559 --> 00:17:25,679

and the key ways to remedy conflicts

248

00:17:25,679 --> 00:17:33,840

of interest all right any questions

249

00:17:34,960 --> 00:17:38,799

no okay then i will

250

00:17:38,799 --> 00:17:43,200

take that one away close this one

251

00:17:43,200 --> 00:17:46,080

and then i'm going to switch to the next

252

00:17:46,080 --> 00:17:48,640

part

253

00:17:50,320 --> 00:17:54,080

all right so now we're going to be

254

00:17:54,080 --> 00:17:55,200

talking about

255

00:17:55,200 --> 00:17:59,760

commercial bags so we have finished the

256

00:17:59,760 --> 00:18:03,200

general foundation

257

00:18:04,880 --> 00:18:08,880

so we finish the overview with

258

00:18:08,880 --> 00:18:11,919

the discussion about the classification

259

00:18:11,919 --> 00:18:14,160

what are financial intermediaries and

260

00:18:14,160 --> 00:18:15,600

what are not

261

00:18:15,600 --> 00:18:17,840

we talked about conflicts of interest

262

00:18:17,840 --> 00:18:20,160

now we're going to do a deep dive

263

00:18:20,160 --> 00:18:22,240

into different types of financial

264

00:18:22,240 --> 00:18:23,760

institution

265

00:18:23,760 --> 00:18:26,720

so i broadly divided it between the cell

266

00:18:26,720 --> 00:18:28,799

side this is terminology we use in

267

00:18:28,799 --> 00:18:30,960

financial market

268

00:18:30,960 --> 00:18:32,799

so the sell side where we're going to

269

00:18:32,799 --> 00:18:34,559

talk about commercial and investment

270

00:18:34,559 --> 00:18:35,760

banking

271

00:18:35,760 --> 00:18:37,840

and then we'll move to the buy side

272

00:18:37,840 --> 00:18:39,440

where we'll talk about

273

00:18:39,440 --> 00:18:42,400

traditional institutional investors

274

00:18:42,400 --> 00:18:43,280

which means

275

00:18:43,280 --> 00:18:45,039

insurance companies pension and

276

00:18:45,039 --> 00:18:46,320

retirement funds

277

00:18:46,320 --> 00:18:48,799

and fund management and then we'll talk

278

00:18:48,799 --> 00:18:51,520

about alternative investors which are

279

00:18:51,520 --> 00:18:53,600

hedge funds private equity and sovereign

280

00:18:53,600 --> 00:18:56,080

wealth funds

281

00:18:56,080 --> 00:18:59,120

all right so let's start with

282

00:18:59,120 --> 00:19:02,320

a chat about

283

00:19:02,320 --> 00:19:06,080

what are commercial banks so we've just

284

00:19:06,080 --> 00:19:06,880

seen

285

00:19:06,880 --> 00:19:10,480

in the past section that

286

00:19:10,480 --> 00:19:14,559

banks are financial intermediaries

287

00:19:14,559 --> 00:19:18,960

they perform asset transformation

288

00:19:18,960 --> 00:19:21,440

they on one hand collect money from

289

00:19:21,440 --> 00:19:22,720

savers

290

00:19:22,720 --> 00:19:25,440

in the form of deposits and then on the

291

00:19:25,440 --> 00:19:27,760

other side they lend that money

292

00:19:27,760 --> 00:19:31,280

or invest that money by making loans

293

00:19:31,280 --> 00:19:34,160

or investments in different types of

294

00:19:34,160 --> 00:19:36,000

financial assets

295

00:19:36,000 --> 00:19:39,840

so there clearly is asset transformation

296

00:19:39,840 --> 00:19:41,919

so the first thing to remember about

297

00:19:41,919 --> 00:19:44,080

banks is that they are

298

00:19:44,080 --> 00:19:46,559

financial intermediaries they perform

299

00:19:46,559 --> 00:19:47,880

financial

300

00:19:47,880 --> 00:19:50,799

intermediation

301

00:19:50,799 --> 00:19:53,840

all right now remember the

302

00:19:53,840 --> 00:19:57,039

big typology so we had financial

303

00:19:57,039 --> 00:19:58,160

institutions

304

00:19:58,160 --> 00:20:00,480

then we separate financial

305

00:20:00,480 --> 00:20:01,840

intermediaries

306

00:20:01,840 --> 00:20:04,240

from other financial institutions that

307

00:20:04,240 --> 00:20:04,880

do not

308

00:20:04,880 --> 00:20:08,240

perform financial intimidation within

309

00:20:08,240 --> 00:20:11,120

financial intermediaries we separated

310

00:20:11,120 --> 00:20:11,840

those that

311

00:20:11,840 --> 00:20:15,760

collect deposit depository institutions

312

00:20:15,760 --> 00:20:18,640

from those that do not and within

313

00:20:18,640 --> 00:20:21,039

depository institutions there is a

314

00:20:21,039 --> 00:20:21,919

category

315

00:20:21,919 --> 00:20:25,600

of commercial banks so

316

00:20:25,600 --> 00:20:28,480

on this picture i have shown you the

317

00:20:28,480 --> 00:20:29,280

three

318

00:20:29,280 --> 00:20:32,720

major business areas

319

00:20:32,720 --> 00:20:36,799

that commercial banks typically have

320

00:20:36,799 --> 00:20:40,000

the terminology may change from one bank

321

00:20:40,000 --> 00:20:41,280

to another

322

00:20:41,280 --> 00:20:44,799

but broadly speaking big commercial

323

00:20:44,799 --> 00:20:45,760

banks

324

00:20:45,760 --> 00:20:49,120

engaged in on the one hand

325

00:20:49,120 --> 00:20:52,240

retail and consumer banking which

326

00:20:52,240 --> 00:20:56,000

typically includes retail banking

327

00:20:56,000 --> 00:20:59,440

consumer finance credit cards

328

00:20:59,440 --> 00:21:02,559

and various payment instruments on the

329

00:21:02,559 --> 00:21:03,760

other hand they

330

00:21:03,760 --> 00:21:07,280

engaged in what they call either

331

00:21:07,280 --> 00:21:12,240

wholesale banking or corporate banking

332

00:21:12,240 --> 00:21:14,320

where they typically have a corporate

333

00:21:14,320 --> 00:21:16,799

and investment banking part

334

00:21:16,799 --> 00:21:20,080

and then trading treasury and markets

335

00:21:20,080 --> 00:21:22,640

the names change depending on the

336

00:21:22,640 --> 00:21:24,080

institution

337

00:21:24,080 --> 00:21:26,559

the business model basically stays the

338

00:21:26,559 --> 00:21:27,280

same

339

00:21:27,280 --> 00:21:30,799

and then most of them also have private

340

00:21:30,799 --> 00:21:32,159

banking

341

00:21:32,159 --> 00:21:35,919

wealth management and possibly also

342

00:21:35,919 --> 00:21:39,520

asset management so three very different

343

00:21:39,520 --> 00:21:42,720

business models not all

344

00:21:42,720 --> 00:21:45,679

banks have all of them some of them will

345

00:21:45,679 --> 00:21:46,080

be

346

00:21:46,080 --> 00:21:48,720

the smaller banks will only do retail

347

00:21:48,720 --> 00:21:50,080

banking

348

00:21:50,080 --> 00:21:52,320

some very large commercial banks may

349

00:21:52,320 --> 00:21:53,200

engage in

350

00:21:53,200 --> 00:21:56,480

all of them in their home territory but

351

00:21:56,480 --> 00:22:00,000

abroad overseas they will only have

352

00:22:00,000 --> 00:22:03,520

one or maybe two for example if you look

353

00:22:03,520 --> 00:22:07,120

at the big french banks like bnp paribas

354

00:22:07,120 --> 00:22:10,320

uh south gen crediagrical

355

00:22:10,320 --> 00:22:12,559

at home in france they do all this and

356

00:22:12,559 --> 00:22:13,840

more

357

00:22:13,840 --> 00:22:16,320

but in hong kong they don't have the

358

00:22:16,320 --> 00:22:19,120

retail and consumer banking part

359

00:22:19,120 --> 00:22:21,440

okay so the bnp paribas has the

360

00:22:21,440 --> 00:22:23,360

commercial banking investment banking

361

00:22:23,360 --> 00:22:23,840

part

362

00:22:23,840 --> 00:22:26,159

and the asset management private banking

363

00:22:26,159 --> 00:22:27,200

part

364

00:22:27,200 --> 00:22:29,200

similar for crediagrical although they

365

00:22:29,200 --> 00:22:30,880

don't have private banking they have

366

00:22:30,880 --> 00:22:32,400

asset management

367

00:22:32,400 --> 00:22:36,400

okay so you have different strategies

368

00:22:36,400 --> 00:22:39,200

depending on the market where you are

369

00:22:39,200 --> 00:22:40,320

operating

370

00:22:40,320 --> 00:22:42,320

but broadly speaking when you look at

371

00:22:42,320 --> 00:22:43,840

large commercial banks

372

00:22:43,840 --> 00:22:47,120

this is what you will see

373

00:22:47,200 --> 00:22:49,200

all right so i'm going to send you in

374

00:22:49,200 --> 00:22:51,120

breakout rooms so that you can

375

00:22:51,120 --> 00:22:52,559

brainstorm

376

00:22:52,559 --> 00:22:55,760

about the business of commercial banking

377

00:22:55,760 --> 00:22:58,799

so i want you to tell me

378

00:22:58,799 --> 00:23:00,640

what's the difference between retail

379

00:23:00,640 --> 00:23:02,880

banking and wholesale banking

380

00:23:02,880 --> 00:23:04,960

who are some of the competitors what

381

00:23:04,960 --> 00:23:06,960

kind of products do they

382

00:23:06,960 --> 00:23:10,000

offer so i'm going to send you into

383

00:23:10,000 --> 00:23:10,799

breakout

384

00:23:10,799 --> 00:23:14,240

rooms for about

385

00:23:14,240 --> 00:23:22,080

10 minutes

386

00:23:22,080 --> 00:23:26,159

maybe 12 there 12 breakout rooms

387

00:23:26,159 --> 00:23:29,200

are you ready yeah

388

00:23:29,200 --> 00:23:37,840

let's go

389

00:23:48,840 --> 00:23:51,840

do

390

00:24:30,840 --> 00:24:32,799

like

391

00:24:32,799 --> 00:24:34,640

all right i have a few people who have

392

00:24:34,640 --> 00:24:38,240

not joined their breakout room here

393

00:24:38,240 --> 00:24:42,320

yunju okay

394

00:24:42,320 --> 00:24:44,840

who's not chang day what's going on with

395

00:24:44,840 --> 00:24:46,320

you

396

00:24:46,320 --> 00:24:48,799

um professor i have two accounts in the

397

00:24:48,799 --> 00:24:49,520

um

398

00:24:49,520 --> 00:24:52,720

zoom meeting so i got my pc into the

399

00:24:52,720 --> 00:24:53,520

breakout room

400

00:24:53,520 --> 00:24:55,679

but not the phone otherwise i will be

401

00:24:55,679 --> 00:24:57,200

joining two breakout rooms

402

00:24:57,200 --> 00:24:59,600

oh okay okay okay okay i understand all

403

00:24:59,600 --> 00:25:01,840

right

404

00:25:05,440 --> 00:25:08,880

chi-ho what's going on

405

00:25:13,039 --> 00:25:15,840

chi-ho

406

00:25:16,720 --> 00:25:19,279

hello

407

00:25:20,240 --> 00:25:24,720

i think chi-ho has turned on this uh

408

00:25:24,720 --> 00:25:29,679

camera but is not actually attending

409

00:25:40,840 --> 00:25:43,840

anything

410

00:25:54,840 --> 00:25:57,840

so

411

00:26:50,840 --> 00:26:53,840

so

412

00:27:04,840 --> 00:27:07,840

so

413

00:28:15,840 --> 00:28:17,919

you

414

00:28:56,840 --> 00:28:59,840

so

415

00:29:10,840 --> 00:29:13,840

so

416

00:29:24,840 --> 00:29:27,840

so

417

00:29:38,840 --> 00:29:41,840

so

418

00:29:52,840 --> 00:29:55,840

so

419

00:30:20,840 --> 00:30:23,840

so

420

00:31:02,840 --> 00:31:05,840

so

421

00:31:30,840 --> 00:31:33,840

so

422

00:32:54,840 --> 00:32:57,840

so

423

00:33:02,960 --> 00:33:07,200

yes strength day oops i'm sorry i i

424

00:33:07,200 --> 00:33:11,840

i missed the bottom

425

00:33:36,840 --> 00:33:39,840

um

426

00:33:45,279 --> 00:33:47,519

all right so very soon everybody should

427

00:33:47,519 --> 00:33:50,799

be back into the main room

428

00:33:50,799 --> 00:33:54,320

here we go all right so let's start the

429

00:33:54,320 --> 00:33:55,360

debriefing

430

00:33:55,360 --> 00:33:58,559

process there was a lot to discuss so

431

00:33:58,559 --> 00:34:00,640

let's start with room one

432

00:34:00,640 --> 00:34:03,679

we had shiraz nothing oh ching

433

00:34:03,679 --> 00:34:06,960

chuk fung man hey

434

00:34:07,279 --> 00:34:10,239

aryan do you want to tell me what you

435

00:34:10,239 --> 00:34:12,799

talked about

436

00:34:13,440 --> 00:34:20,719

who's going to raise a hand and talk

437

00:34:20,719 --> 00:34:24,399

anybody okay nothing

438

00:34:24,399 --> 00:34:26,879

yeah maybe i can do it so as for

439

00:34:26,879 --> 00:34:30,399

question one we discussed that um

440

00:34:30,399 --> 00:34:33,679

the commercial banks are usually over

441

00:34:33,679 --> 00:34:34,719

the services of

442

00:34:34,719 --> 00:34:37,918

um depository and also

443

00:34:37,918 --> 00:34:41,040

lending and also some kind of financial

444

00:34:41,040 --> 00:34:42,480

services like um

445

00:34:42,480 --> 00:34:45,599

credit cards yeah

446

00:34:45,599 --> 00:34:48,879

lending as well yeah and so on yeah and

447

00:34:48,879 --> 00:34:51,359

there uh who are the competitors of

448

00:34:51,359 --> 00:34:52,399

banks

449

00:34:52,399 --> 00:34:55,199

um we identified there are several like

450

00:34:55,199 --> 00:34:55,679

some

451

00:34:55,679 --> 00:34:58,000

financial instruments some companies

452

00:34:58,000 --> 00:35:00,079

which provide financial

453

00:35:00,079 --> 00:35:02,480

instruments or securities because there

454

00:35:02,480 --> 00:35:03,920

are some kind of um

455

00:35:03,920 --> 00:35:09,119

substitutes of deposits in the bank

456

00:35:09,119 --> 00:35:12,560

coins for example and then uh

457

00:35:12,560 --> 00:35:15,920

yeah and also like futures and so on um

458

00:35:15,920 --> 00:35:17,280

also there are some other

459

00:35:17,280 --> 00:35:19,839

lenders or creditors in the market they

460

00:35:19,839 --> 00:35:21,520

they are providing some kind of like

461

00:35:21,520 --> 00:35:25,200

fast um landing service within 24 hours

462

00:35:25,200 --> 00:35:27,040

and they're highly accessible

463

00:35:27,040 --> 00:35:28,800

which doesn't even require you to show

464

00:35:28,800 --> 00:35:30,960

like id cards on the kind of thing and

465

00:35:30,960 --> 00:35:32,400

they are also

466

00:35:32,400 --> 00:35:34,480

kind of one of the competitors of the

467

00:35:34,480 --> 00:35:36,960

banks because they're providing similar

468

00:35:36,960 --> 00:35:40,320

functions yeah my good may sound raising

469

00:35:40,320 --> 00:35:42,320

hands as well so maybe i just stop here

470

00:35:42,320 --> 00:35:46,160

okay uh so who was in the same group

471

00:35:46,160 --> 00:35:48,800

aryan go ahead

472

00:35:48,800 --> 00:35:51,200

uh yeah i guess i'll just add on to some

473

00:35:51,200 --> 00:35:52,000

of the points

474

00:35:52,000 --> 00:35:55,040

uh she made uh so for the products and

475

00:35:55,040 --> 00:35:56,160

services

476

00:35:56,160 --> 00:35:58,160

uh there are expanded services also

477

00:35:58,160 --> 00:36:00,640

provided by commercial banks such as

478

00:36:00,640 --> 00:36:03,359

uh maybe uh private banking or

479

00:36:03,359 --> 00:36:04,640

retirement planning or

480

00:36:04,640 --> 00:36:07,839

other wealth management services and uh

481

00:36:07,839 --> 00:36:10,880

certificates of deposits etc so there

482

00:36:10,880 --> 00:36:11,359

are many

483

00:36:11,359 --> 00:36:14,640

products of that sort and adding on to

484

00:36:14,640 --> 00:36:16,640

the discussion we had regarding the

485

00:36:16,640 --> 00:36:17,839

competitors

486

00:36:17,839 --> 00:36:20,079

we also spoke uh regarding

487

00:36:20,079 --> 00:36:21,920

cryptocurrencies as one of our team

488

00:36:21,920 --> 00:36:22,400

members

489

00:36:22,400 --> 00:36:25,359

brought it up as it's a substitute for

490

00:36:25,359 --> 00:36:26,880

transactions in

491

00:36:26,880 --> 00:36:30,240

uh that whole arena of retail banking

492

00:36:30,240 --> 00:36:33,520

and uh yeah for the

493

00:36:33,520 --> 00:36:35,040

for the business model difference

494

00:36:35,040 --> 00:36:37,599

between retail banks and wholesale banks

495

00:36:37,599 --> 00:36:40,640

uh i guess one big difference is

496

00:36:40,640 --> 00:36:43,040

uh who they cater to and that a retail

497

00:36:43,040 --> 00:36:45,200

banks cater to individual investors and

498

00:36:45,200 --> 00:36:46,880

retail investors

499

00:36:46,880 --> 00:36:50,480

and uh the wholesale banks

500

00:36:50,480 --> 00:36:53,359

have services towards corporate bodies

501

00:36:53,359 --> 00:36:54,640

or large companies

502

00:36:54,640 --> 00:36:57,280

and their source of revenue is mostly

503

00:36:57,280 --> 00:36:58,400

from

504

00:36:58,400 --> 00:37:00,880

interests and fees uh they get from the

505

00:37:00,880 --> 00:37:02,560

services they provide

506

00:37:02,560 --> 00:37:05,280

and uh the financial volume of

507

00:37:05,280 --> 00:37:06,880

transactions is also

508

00:37:06,880 --> 00:37:09,040

a bit higher than the retail banking

509

00:37:09,040 --> 00:37:10,240

size

510

00:37:10,240 --> 00:37:13,280

side because of the the

511

00:37:13,280 --> 00:37:17,520

clients they cater to very good

512

00:37:17,520 --> 00:37:21,680

and then we have uh taxpayer

513

00:37:21,680 --> 00:37:23,680

yeah i just want to add some points on

514

00:37:23,680 --> 00:37:25,280

the products and services that are

515

00:37:25,280 --> 00:37:25,839

offered

516

00:37:25,839 --> 00:37:28,079

uh by the commercial blanks to their

517

00:37:28,079 --> 00:37:29,839

clients that includes the currency

518

00:37:29,839 --> 00:37:31,599

exchange part you can go to the banks

519

00:37:31,599 --> 00:37:33,200

view currency exchange

520

00:37:33,200 --> 00:37:35,119

and some of the banks also offer

521

00:37:35,119 --> 00:37:37,760

insurances for their clients

522

00:37:37,760 --> 00:37:40,720

like hsbc insurance something like that

523

00:37:40,720 --> 00:37:42,800

for example and they also do

524

00:37:42,800 --> 00:37:47,599

a mortgage stock trading and

525

00:37:48,160 --> 00:37:50,320

transfer services uh with uh

526

00:37:50,320 --> 00:37:51,760

domestically

527

00:37:51,760 --> 00:37:54,640

or internationally that's the banks that

528

00:37:54,640 --> 00:37:55,520

currently

529

00:37:55,520 --> 00:37:59,280

uh is doing and and one of the points

530

00:37:59,280 --> 00:38:00,160

that we've talked

531

00:38:00,160 --> 00:38:02,240

we've discussed with my group mays in

532

00:38:02,240 --> 00:38:04,400

the bank competitors is

533

00:38:04,400 --> 00:38:06,079

the fintech companies nowadays for

534

00:38:06,079 --> 00:38:08,480

example paypal or square

535

00:38:08,480 --> 00:38:11,280

uh you know people are now you know uh

536

00:38:11,280 --> 00:38:12,160

really

537

00:38:12,160 --> 00:38:15,119

one of faster payment services and the

538

00:38:15,119 --> 00:38:15,680

banks

539

00:38:15,680 --> 00:38:18,640

are just too slow to do a transfer or if

540

00:38:18,640 --> 00:38:19,040

you're

541

00:38:19,040 --> 00:38:20,400

going to if they are going to do the

542

00:38:20,400 --> 00:38:21,839

international transfer they're going to

543

00:38:21,839 --> 00:38:23,359

going to use swift

544

00:38:23,359 --> 00:38:26,160

which costs money and time so uh it will

545

00:38:26,160 --> 00:38:26,880

disrupt

546

00:38:26,880 --> 00:38:29,280

bank's ecosystem on transferring assets

547

00:38:29,280 --> 00:38:31,520

from one country to another country

548

00:38:31,520 --> 00:38:34,480

so uh which is a very hot topic right

549

00:38:34,480 --> 00:38:34,880

now

550

00:38:34,880 --> 00:38:38,560

it's a very huge competitors yeah that's

551

00:38:38,560 --> 00:38:43,280

what i want to add very good checkpoint

552

00:38:43,280 --> 00:38:45,280

yeah just a pointer add on the

553

00:38:45,280 --> 00:38:47,359

competitors on the of the banks

554

00:38:47,359 --> 00:38:50,160

yeah for example there are now many some

555

00:38:50,160 --> 00:38:50,640

lending

556

00:38:50,640 --> 00:38:53,200

online platforms which is suited to the

557

00:38:53,200 --> 00:38:55,119

public such as the p2p

558

00:38:55,119 --> 00:38:59,200

so that lenders do not have to um

559

00:38:59,200 --> 00:39:01,599

to lend money to can can they monitor

560

00:39:01,599 --> 00:39:02,960

others directly

561

00:39:02,960 --> 00:39:06,079

instead of with the process with the

562

00:39:06,079 --> 00:39:09,359

banks very good

563

00:39:09,359 --> 00:39:12,480

very good uh kindly lower your hand once

564

00:39:12,480 --> 00:39:15,040

you've spoken so i don't get confused

565

00:39:15,040 --> 00:39:16,880

who's still waiting to speak thank you

566

00:39:16,880 --> 00:39:19,839

that was very very good contributions

567

00:39:19,839 --> 00:39:23,440

uh okay in room two we had

568

00:39:23,440 --> 00:39:26,560

theo waihong chu

569

00:39:26,560 --> 00:39:29,040

tao

570

00:39:38,079 --> 00:39:42,400

go ahead

571

00:39:42,400 --> 00:39:44,320

i think the business model of the retail

572

00:39:44,320 --> 00:39:45,440

banking is

573

00:39:45,440 --> 00:39:48,480

more related to interest rate uh by

574

00:39:48,480 --> 00:39:51,359

lending their money to the customers and

575

00:39:51,359 --> 00:39:53,200

also they may invest

576

00:39:53,200 --> 00:39:56,400

invest the invest in what the

577

00:39:56,400 --> 00:39:59,599

customer deposited to their bank

578

00:39:59,599 --> 00:40:02,240

by using the wholesale banking and lend

579

00:40:02,240 --> 00:40:03,520

this money to the

580

00:40:03,520 --> 00:40:06,640

corporates or the institutions i think

581

00:40:06,640 --> 00:40:09,119

however the horse's banking is different

582

00:40:09,119 --> 00:40:10,079

in the business

583

00:40:10,079 --> 00:40:12,480

business model in that they are more

584

00:40:12,480 --> 00:40:13,920

concentrated on the

585

00:40:13,920 --> 00:40:17,040

brokerage services

586

00:40:17,359 --> 00:40:19,920

okay

587

00:40:21,119 --> 00:40:23,839

all right anybody else yes i mean and

588

00:40:23,839 --> 00:40:25,760

now you still have your hand up did you

589

00:40:25,760 --> 00:40:28,079

want to add something

590

00:40:28,079 --> 00:40:31,200

yeah i want to add something um

591

00:40:31,200 --> 00:40:33,760

especially in china there the implement

592

00:40:33,760 --> 00:40:34,319

platform

593

00:40:34,319 --> 00:40:37,599

like the early page they also provide

594

00:40:37,599 --> 00:40:40,240

financial service and so far i know they

595

00:40:40,240 --> 00:40:41,119

encourage

596

00:40:41,119 --> 00:40:44,160

their users to deposit money and they

597

00:40:44,160 --> 00:40:44,640

offer

598

00:40:44,640 --> 00:40:48,560

quite a quite high interest rate

599

00:40:50,640 --> 00:40:53,040

if you deposit them they will ultimately

600

00:40:53,040 --> 00:40:54,000

um

601

00:40:54,000 --> 00:40:57,200

help you to buy in funds

602

00:40:57,200 --> 00:40:59,040

yeah this is really interesting what's

603

00:40:59,040 --> 00:41:01,440

going on with unfinancial alipay and all

604

00:41:01,440 --> 00:41:02,240

these guys

605

00:41:02,240 --> 00:41:04,640

so we'll talk about that thank you yes

606

00:41:04,640 --> 00:41:05,520

then

607

00:41:05,520 --> 00:41:08,880

uh all right um

608

00:41:08,880 --> 00:41:12,319

three we had ju ming

609

00:41:12,319 --> 00:41:15,920

mantic my new hollis

610

00:41:15,920 --> 00:41:19,440

swan soy wing song

611

00:41:19,440 --> 00:41:22,880

i have some tactic twice

612

00:41:22,880 --> 00:41:26,640

oh no sunghak suntak now windy

613

00:41:26,640 --> 00:41:29,520

and emmanuel

614

00:41:30,400 --> 00:41:35,839

so who wants to talk

615

00:41:37,760 --> 00:41:39,359

come on people you must have talked

616

00:41:39,359 --> 00:41:42,160

about something

617

00:41:42,720 --> 00:41:45,680

for 10 minutes

618

00:41:46,400 --> 00:41:49,440

and for wholesale banking we have

619

00:41:49,440 --> 00:41:50,480

discussed that

620

00:41:50,480 --> 00:41:54,160

and that the scale of hotel banking is

621

00:41:54,160 --> 00:41:55,040

larger and

622

00:41:55,040 --> 00:41:58,560

provide by merchants banks to larger

623

00:41:58,560 --> 00:42:01,119

scales business organ organizations and

624

00:42:01,119 --> 00:42:02,000

even maybe

625

00:42:02,000 --> 00:42:05,119

for government institutions yes very

626

00:42:05,119 --> 00:42:06,240

good skills is

627

00:42:06,240 --> 00:42:09,599

much bigger and for the retail banking

628

00:42:09,599 --> 00:42:10,640

is usually

629

00:42:10,640 --> 00:42:14,160

giving loans to individuals like windows

630

00:42:14,160 --> 00:42:16,160

and orphans

631

00:42:16,160 --> 00:42:18,960

very good

632

00:42:19,599 --> 00:42:22,560

okay well done um i think i have

633

00:42:22,560 --> 00:42:23,839

something to add for

634

00:42:23,839 --> 00:42:26,880

uh uh wholesale banking

635

00:42:26,880 --> 00:42:30,400

they would have more branches spread out

636

00:42:30,400 --> 00:42:33,520

geographically more spread out because

637

00:42:33,520 --> 00:42:35,760

the individuals are also more spread out

638

00:42:35,760 --> 00:42:37,520

whereas their corporate

639

00:42:37,520 --> 00:42:41,280

offices aren't as spread out very good

640

00:42:41,280 --> 00:42:46,400

very good anything else from women three

641

00:42:47,440 --> 00:42:50,079

okay if not we move on to room four and

642

00:42:50,079 --> 00:42:51,839

i appreciate you probably

643

00:42:51,839 --> 00:42:54,079

discuss some of the things that your

644

00:42:54,079 --> 00:42:56,079

classmates have mentioned okay no

645

00:42:56,079 --> 00:42:57,359

problem you can

646

00:42:57,359 --> 00:42:59,839

say something about what you've

647

00:42:59,839 --> 00:43:00,880

discussed

648

00:43:00,880 --> 00:43:04,240

uh room four we have sidney shang yuan

649

00:43:04,240 --> 00:43:07,839

cyrus june xiumin jian then

650

00:43:07,839 --> 00:43:11,040

chuck him we knew we

651

00:43:11,040 --> 00:43:14,400

you and yasmine huh

652

00:43:14,400 --> 00:43:17,599

yasmin oh

653

00:43:17,599 --> 00:43:20,880

it's not the same yes mean is it

654

00:43:20,880 --> 00:43:22,640

i get people with the same name it's

655

00:43:22,640 --> 00:43:24,160

very confusing and have

656

00:43:24,160 --> 00:43:27,280

naying in room four

657

00:43:27,280 --> 00:43:30,800

and oh it was nothing people you're

658

00:43:30,800 --> 00:43:32,480

confusing me endlessly

659

00:43:32,480 --> 00:43:35,680

okay so who wants to talk

660

00:43:35,680 --> 00:43:39,440

so yes means already chair the bed

661

00:43:39,440 --> 00:43:42,800

but anybody wants to share for room for

662

00:43:42,800 --> 00:43:46,000

see nietzsche and jung cyrus june xiumin

663

00:43:46,000 --> 00:43:49,520

jen fang chuck him ring you

664

00:43:49,520 --> 00:43:52,880

and yes finn uh

665

00:43:52,880 --> 00:43:56,319

i think in the retail uh bank sometimes

666

00:43:56,319 --> 00:43:57,920

they will provide some service

667

00:43:57,920 --> 00:43:59,760

that uh help you to know more

668

00:43:59,760 --> 00:44:03,359

information about finance

669

00:44:05,520 --> 00:44:09,839

very good that is true

670

00:44:11,920 --> 00:44:14,720

anything else

671

00:44:15,440 --> 00:44:17,680

i'm gonna add one about the competitors

672

00:44:17,680 --> 00:44:19,440

of the bank

673

00:44:19,440 --> 00:44:22,880

since um because painting services

674

00:44:22,880 --> 00:44:26,640

is like one of their most used services

675

00:44:26,640 --> 00:44:28,400

but it's being replaced by a lot of

676

00:44:28,400 --> 00:44:30,560

companies like in starbucks they have

677

00:44:30,560 --> 00:44:32,000

their own loyalty cards

678

00:44:32,000 --> 00:44:36,240

so they weren't ready to withdraw money

679

00:44:36,240 --> 00:44:40,720

very good very good well done

680

00:44:40,720 --> 00:44:43,440

very good

681

00:44:44,880 --> 00:44:48,560

excellent yes one scene

682

00:44:48,560 --> 00:44:51,839

anybody else

683

00:44:52,720 --> 00:44:55,760

okay let's move to room five then we

684

00:44:55,760 --> 00:44:56,880

have jengdae

685

00:44:56,880 --> 00:45:00,079

ching yi sir hint why

686

00:45:00,079 --> 00:45:05,040

how man calvin george toho

687

00:45:09,200 --> 00:45:12,240

go ahead um for

688

00:45:12,240 --> 00:45:15,040

uh what what retail banks do uh i think

689

00:45:15,040 --> 00:45:15,359

they

690

00:45:15,359 --> 00:45:17,599

check they does the checking and saving

691

00:45:17,599 --> 00:45:18,480

accounts

692

00:45:18,480 --> 00:45:21,520

mortgages personal loans credit card

693

00:45:21,520 --> 00:45:22,480

services

694

00:45:22,480 --> 00:45:25,520

and um most importantly things like

695

00:45:25,520 --> 00:45:28,800

a certificate of deposit basically

696

00:45:28,800 --> 00:45:30,160

retail banks does

697

00:45:30,160 --> 00:45:33,200

those kind of individual and

698

00:45:33,200 --> 00:45:35,040

smaller business services and for

699

00:45:35,040 --> 00:45:37,359

wholesale banks it does service to um

700

00:45:37,359 --> 00:45:37,920

larger

701

00:45:37,920 --> 00:45:39,760

businesses like corporations and

702

00:45:39,760 --> 00:45:41,440

probably other banks

703

00:45:41,440 --> 00:45:44,720

and um government and for

704

00:45:44,720 --> 00:45:46,720

competitors i have something to add on

705

00:45:46,720 --> 00:45:48,079

the online

706

00:45:48,079 --> 00:45:50,960

online companies like uh in china alipay

707

00:45:50,960 --> 00:45:53,359

and wechat they have been very

708

00:45:53,359 --> 00:45:55,280

popular recently and i believe there are

709

00:45:55,280 --> 00:45:57,040

some government regulations on those

710

00:45:57,040 --> 00:45:57,599

things

711

00:45:57,599 --> 00:46:00,480

to um kind of protect protect the

712

00:46:00,480 --> 00:46:01,119

traditional

713

00:46:01,119 --> 00:46:05,760

banks and um for the difference between

714

00:46:05,760 --> 00:46:07,760

a wholesale bank and retail bank they

715

00:46:07,760 --> 00:46:09,200

are scale and um

716

00:46:09,200 --> 00:46:13,200

targeted consumer like targeted busters

717

00:46:13,200 --> 00:46:15,359

like uh targeted objectives are

718

00:46:15,359 --> 00:46:16,720

different

719

00:46:16,720 --> 00:46:22,079

yes very good different

720

00:46:22,560 --> 00:46:25,839

i'm very good very good

721

00:46:25,839 --> 00:46:28,880

my typing is bad excellent

722

00:46:28,880 --> 00:46:30,960

anybody else from room five wants oh

723

00:46:30,960 --> 00:46:32,000

it's so why

724

00:46:32,000 --> 00:46:35,040

go ahead um

725

00:46:35,040 --> 00:46:38,480

the retail banking the service includes

726

00:46:38,480 --> 00:46:41,040

some utility functions like um

727

00:46:41,040 --> 00:46:43,920

to provide safe deposit boxes and

728

00:46:43,920 --> 00:46:45,119

provide money

729

00:46:45,119 --> 00:46:48,480

transfer facility and to issue

730

00:46:48,480 --> 00:46:51,680

the travelers checks and

731

00:46:51,680 --> 00:46:54,880

also um for the differences between uh

732

00:46:54,880 --> 00:46:56,079

wholesale banking

733

00:46:56,079 --> 00:46:59,839

and retail banking is that um

734

00:46:59,839 --> 00:47:02,960

the wholesale banking service is like a

735

00:47:02,960 --> 00:47:04,319

facility that um

736

00:47:04,319 --> 00:47:07,520

they only serve the large the large

737

00:47:07,520 --> 00:47:10,319

organization so that they offer a

738

00:47:10,319 --> 00:47:11,599

discount

739

00:47:11,599 --> 00:47:15,040

if um business meets like a minimum

740

00:47:15,040 --> 00:47:17,839

cash reserve requirement and minimum

741

00:47:17,839 --> 00:47:20,079

monthly transaction requirement

742

00:47:20,079 --> 00:47:24,800

so um the per

743

00:47:24,800 --> 00:47:28,319

the the order will be have uh in a much

744

00:47:28,319 --> 00:47:30,640

lower price

745

00:47:30,640 --> 00:47:34,400

okay very good all right let's move

746

00:47:34,400 --> 00:47:38,000

on to room six six we

747

00:47:38,000 --> 00:47:41,920

have elliot pointing

748

00:47:41,920 --> 00:47:45,520

visit shai anson amy trixie or kathleen

749

00:47:45,520 --> 00:47:47,839

again i'm not sure which one you use

750

00:47:47,839 --> 00:47:53,440

catching and lying

751

00:47:53,440 --> 00:47:56,559

okay she's a chime yeah um i

752

00:47:56,559 --> 00:47:58,000

i think a lot of the things that we

753

00:47:58,000 --> 00:48:00,000

discussed was already mentioned but then

754

00:48:00,000 --> 00:48:03,280

um there uh one thing that is um a

755

00:48:03,280 --> 00:48:05,040

difference between retail and wholesale

756

00:48:05,040 --> 00:48:06,400

banking would be that

757

00:48:06,400 --> 00:48:09,440

the value proposition of retail bankings

758

00:48:09,440 --> 00:48:12,240

are a little more catered towards the

759

00:48:12,240 --> 00:48:13,680

convenience of

760

00:48:13,680 --> 00:48:17,040

um the customers as as in

761

00:48:17,040 --> 00:48:20,800

um they wanted to be

762

00:48:20,800 --> 00:48:24,880

not a centralized um banking system but

763

00:48:24,880 --> 00:48:27,920

a more um dispersed

764

00:48:27,920 --> 00:48:31,359

uh services that would kind of provide

765

00:48:31,359 --> 00:48:35,839

um banking services kind of everywhere

766

00:48:37,920 --> 00:48:41,599

just for retail right yeah

767

00:48:41,599 --> 00:48:45,280

okay thank you very good

768

00:48:45,280 --> 00:48:47,599

i have to find a way to get everybody

769

00:48:47,599 --> 00:48:49,359

country but maybe i'll limit

770

00:48:49,359 --> 00:48:52,400

to a couple of things next time

771

00:48:52,400 --> 00:48:54,559

because we still have a few of them room

772

00:48:54,559 --> 00:48:56,640

seven ray hang

773

00:48:56,640 --> 00:49:00,319

wing yan car carry cancun

774

00:49:00,319 --> 00:49:04,559

jasper loptens phone and cheating

775

00:49:04,559 --> 00:49:07,440

okay winyan

776

00:49:07,920 --> 00:49:09,760

one difference between the retail and

777

00:49:09,760 --> 00:49:12,480

hotel bank is that the retail one has

778

00:49:12,480 --> 00:49:15,760

a lower customer intimacy but for the

779

00:49:15,760 --> 00:49:18,400

wholesale bank because you have one

780

00:49:18,400 --> 00:49:20,240

personal banker for each client

781

00:49:20,240 --> 00:49:22,880

so you have higher intimacy customer

782

00:49:22,880 --> 00:49:24,800

intimacy between the

783

00:49:24,800 --> 00:49:28,400

bank and the customer client

784

00:49:28,400 --> 00:49:31,119

so you're talking about higher intimacy

785

00:49:31,119 --> 00:49:32,319

with the

786

00:49:32,319 --> 00:49:35,839

core customer relationship for the bank

787

00:49:35,839 --> 00:49:37,040

and the client

788

00:49:37,040 --> 00:49:40,480

for which one sorry

789

00:49:40,480 --> 00:49:43,760

for which one for retail for

790

00:49:43,760 --> 00:49:46,800

oh this one is for wholesale okay very

791

00:49:46,800 --> 00:49:49,040

good

792

00:49:49,680 --> 00:49:53,599

very good all right jasper

793

00:49:53,599 --> 00:49:55,280

a lot of stuff is actually being covered

794

00:49:55,280 --> 00:49:57,119

by the previous team but i would like to

795

00:49:57,119 --> 00:49:59,760

add on to the uh banking competitors

796

00:49:59,760 --> 00:50:00,720

just now i saw

797

00:50:00,720 --> 00:50:02,880

uh the first group talked about the fast

798

00:50:02,880 --> 00:50:03,760

landing service

799

00:50:03,760 --> 00:50:05,599

of some companies but then actually

800

00:50:05,599 --> 00:50:07,359

there are more and more

801

00:50:07,359 --> 00:50:09,359

uh startups often tech companies

802

00:50:09,359 --> 00:50:11,520

actually providing some sort of uh

803

00:50:11,520 --> 00:50:13,119

credit card payment solutions for

804

00:50:13,119 --> 00:50:15,280

company to for smes to actually

805

00:50:15,280 --> 00:50:17,839

gain instant credits so they can pay off

806

00:50:17,839 --> 00:50:19,440

all their bills with the use of credit

807

00:50:19,440 --> 00:50:21,520

cards so we have stripe in u.s and as

808

00:50:21,520 --> 00:50:22,160

well as

809

00:50:22,160 --> 00:50:24,839

a company called reap in hong kong as

810

00:50:24,839 --> 00:50:27,839

well

811

00:50:28,960 --> 00:50:32,559

very good point jasper

812

00:50:35,040 --> 00:50:38,079

hello hello

813

00:50:39,119 --> 00:50:41,119

okay just a point to add on for the

814

00:50:41,119 --> 00:50:44,000

services that wholesale banking offer

815

00:50:44,000 --> 00:50:47,359

um not just um not over service to big

816

00:50:47,359 --> 00:50:48,319

companies um

817

00:50:48,319 --> 00:50:50,319

it's not just include landing capital

818

00:50:50,319 --> 00:50:51,520

but also include

819

00:50:51,520 --> 00:50:54,800

like providing m a services and also to

820

00:50:54,800 --> 00:50:55,520

provide

821

00:50:55,520 --> 00:50:58,079

financial and strategic consultation to

822

00:50:58,079 --> 00:51:00,160

these companies

823

00:51:00,160 --> 00:51:02,400

so hold on you're talking about nvt

824

00:51:02,400 --> 00:51:04,000

services

825

00:51:04,000 --> 00:51:07,119

i'm talking about um like merger and

826

00:51:07,119 --> 00:51:08,240

acquisitions oh

827

00:51:08,240 --> 00:51:11,040

yes yes yes yes yes yes so for wholesale

828

00:51:11,040 --> 00:51:12,960

banking yes

829

00:51:12,960 --> 00:51:16,480

so corporate finance advice yes

830

00:51:16,480 --> 00:51:19,119

very good

831

00:51:20,880 --> 00:51:24,079

well done very good okay let's move on

832

00:51:24,079 --> 00:51:26,800

to room eight where we had

833

00:51:26,800 --> 00:51:31,119

kam chun kochun

834

00:51:31,119 --> 00:51:36,480

chuck leek adrian coover

835

00:51:41,599 --> 00:51:45,200

okay soon you go ahead yes

836

00:51:45,200 --> 00:51:48,160

so i want to ask a example for the

837

00:51:48,160 --> 00:51:49,200

competitor

838

00:51:49,200 --> 00:51:52,720

so there are some financial other some

839

00:51:52,720 --> 00:51:54,640

lenders company for example like ua and

840

00:51:54,640 --> 00:51:56,000

performance in hong kong

841

00:51:56,000 --> 00:51:58,640

and also we have several virtual banks

842

00:51:58,640 --> 00:51:59,280

here

843

00:51:59,280 --> 00:52:01,760

providing similar function and they are

844

00:52:01,760 --> 00:52:03,440

growing very fast

845

00:52:03,440 --> 00:52:07,200

and for wholesale banking

846

00:52:07,200 --> 00:52:10,160

it has a lower operation operating

847

00:52:10,160 --> 00:52:12,079

expenses compared to retail banking

848

00:52:12,079 --> 00:52:12,880

because

849

00:52:12,880 --> 00:52:16,319

retail has more advantages and also

850

00:52:16,319 --> 00:52:18,480

there are some expenses for example like

851

00:52:18,480 --> 00:52:19,760

chase bank

852

00:52:19,760 --> 00:52:23,440

in jp morgan so

853

00:52:23,440 --> 00:52:27,599

chase what what do chase and jpm provide

854

00:52:27,599 --> 00:52:30,839

facebook is a wholesale banking uh-huh

855

00:52:30,839 --> 00:52:32,400

yeah

856

00:52:32,400 --> 00:52:36,000

and uh so it has a lower

857

00:52:36,000 --> 00:52:38,079

operating expenses and higher

858

00:52:38,079 --> 00:52:39,359

transaction size

859

00:52:39,359 --> 00:52:44,000

compared to those details okay good

860

00:52:44,000 --> 00:52:47,200

uh anybody else from room

861

00:52:47,200 --> 00:52:49,839

eight wants to say something oh talk tim

862

00:52:49,839 --> 00:52:51,200

go ahead

863

00:52:51,200 --> 00:52:54,319

hello uh for hello

864

00:52:54,319 --> 00:52:56,720

yeah yeah for the first question we may

865

00:52:56,720 --> 00:52:58,559

think that uh the band provides an

866

00:52:58,559 --> 00:53:00,960

atm for people to withdraw money very

867

00:53:00,960 --> 00:53:01,680

good

868

00:53:01,680 --> 00:53:05,680

very good yay

869

00:53:05,680 --> 00:53:07,119

and for the second question the

870

00:53:07,119 --> 00:53:09,040

competitors maybe

871

00:53:09,040 --> 00:53:11,440

to me maybe all the companies that

872

00:53:11,440 --> 00:53:12,079

provide

873

00:53:12,079 --> 00:53:14,000

installment loan may be the competitors

874

00:53:14,000 --> 00:53:15,359

of the bank because

875

00:53:15,359 --> 00:53:16,960

the customers do not need to borrow

876

00:53:16,960 --> 00:53:19,040

money from the bank

877

00:53:19,040 --> 00:53:22,720

and for the good very good

878

00:53:22,720 --> 00:53:28,079

yes um maybe um

879

00:53:28,079 --> 00:53:31,839

that's very good the competition also

880

00:53:31,839 --> 00:53:34,559

the securities company also is uh

881

00:53:34,559 --> 00:53:38,000

competitors because uh some of the com

882

00:53:38,000 --> 00:53:41,760

for example womanhood people can

883

00:53:41,760 --> 00:53:44,319

buy stock by themselves all night simply

884

00:53:44,319 --> 00:53:44,960

by an

885

00:53:44,960 --> 00:53:48,400

app they do not need to uh get through

886

00:53:48,400 --> 00:53:49,440

the banks

887

00:53:49,440 --> 00:53:53,359

and so uh the commission um

888

00:53:53,359 --> 00:53:56,160

that that the commission that the bank

889

00:53:56,160 --> 00:53:57,280

can earn will be

890

00:53:57,280 --> 00:54:01,440

become lower very good

891

00:54:01,440 --> 00:54:03,599

great bonds back them wonderful

892

00:54:03,599 --> 00:54:04,960

wonderful

893

00:54:04,960 --> 00:54:07,200

all right let's move on see you can add

894

00:54:07,200 --> 00:54:08,640

more stuff as we go

895

00:54:08,640 --> 00:54:12,160

room nine we had aria warden

896

00:54:12,160 --> 00:54:15,520

tick one hong phai wing chi

897

00:54:15,520 --> 00:54:18,800

ching long ching long once

898

00:54:18,800 --> 00:54:25,040

uh yat tang using and wing soon

899

00:54:25,040 --> 00:54:28,960

yeah so once the dock okay area warden

900

00:54:28,960 --> 00:54:31,119

go ahead

901

00:54:31,119 --> 00:54:34,000

um so basically for services provided by

902

00:54:34,000 --> 00:54:35,280

commercial bank

903

00:54:35,280 --> 00:54:38,000

they also provide and they also provide

904

00:54:38,000 --> 00:54:39,839

consulting services to widows and

905

00:54:39,839 --> 00:54:41,359

orphans so that they can

906

00:54:41,359 --> 00:54:43,119

like make an informed decision while

907

00:54:43,119 --> 00:54:45,280

investing in investing

908

00:54:45,280 --> 00:54:47,599

so you talking about banking or

909

00:54:47,599 --> 00:54:49,680

wholesale banking

910

00:54:49,680 --> 00:54:52,000

retail banking which here okay so

911

00:54:52,000 --> 00:54:55,599

services your advisory

912

00:54:57,119 --> 00:55:00,000

yes very good

913

00:55:00,480 --> 00:55:02,799

and as far as wholesale banking is

914

00:55:02,799 --> 00:55:04,079

concerned

915

00:55:04,079 --> 00:55:06,720

um so they also collaborate with other

916

00:55:06,720 --> 00:55:07,359

banks and

917

00:55:07,359 --> 00:55:10,079

wholesale bankings because the inve the

918

00:55:10,079 --> 00:55:11,119

transaction

919

00:55:11,119 --> 00:55:14,319

is quite large so they mean so

920

00:55:14,319 --> 00:55:16,400

unparticular bank may not have enough

921

00:55:16,400 --> 00:55:18,079

money at that time

922

00:55:18,079 --> 00:55:20,720

very good point excellent point yes

923

00:55:20,720 --> 00:55:21,359

indeed

924

00:55:21,359 --> 00:55:24,240

that's called syndicate finance that's

925

00:55:24,240 --> 00:55:25,200

what i used to do

926

00:55:25,200 --> 00:55:28,319

really good okay anybody where

927

00:55:28,319 --> 00:55:31,359

else in room nine

928

00:55:32,880 --> 00:55:35,119

that's so great points you know i'm so

929

00:55:35,119 --> 00:55:36,640

proud of you guys

930

00:55:36,640 --> 00:55:39,839

look at that all right room 10

931

00:55:39,839 --> 00:55:44,000

then we had adrian

932

00:55:44,000 --> 00:55:48,960

wing yan one sean chuck nam

933

00:55:53,200 --> 00:55:57,200

roman go ahead i think

934

00:55:57,200 --> 00:55:59,599

with the other groups pretty much

935

00:55:59,599 --> 00:56:01,280

everything has been said

936

00:56:01,280 --> 00:56:03,599

like the difference is that the retail

937

00:56:03,599 --> 00:56:05,280

banks target like small and like

938

00:56:05,280 --> 00:56:07,680

consumers like us and then wholesale is

939

00:56:07,680 --> 00:56:08,480

more about big

940

00:56:08,480 --> 00:56:12,240

corporate customers but something that

941

00:56:12,240 --> 00:56:14,880

i don't think i've heard maybe i have

942

00:56:14,880 --> 00:56:16,799

but for the competitors

943

00:56:16,799 --> 00:56:19,440

for for example retail banks especially

944

00:56:19,440 --> 00:56:20,319

if they have

945

00:56:20,319 --> 00:56:22,720

if they offer credit cards might be the

946

00:56:22,720 --> 00:56:24,319

companies that consumers buy from

947

00:56:24,319 --> 00:56:25,920

themselves like sometimes they

948

00:56:25,920 --> 00:56:28,960

even offer their own credit systems like

949

00:56:28,960 --> 00:56:31,839

for example starbucks

950

00:56:42,160 --> 00:56:46,480

very good and one chan

951

00:56:46,559 --> 00:56:49,359

um i think the customers of retail banks

952

00:56:49,359 --> 00:56:51,359

are not only the individuals but also

953

00:56:51,359 --> 00:56:55,440

the small to medium-sized business

954

00:56:56,839 --> 00:56:59,839

okay

955

00:57:00,400 --> 00:57:02,240

so it depends on the banks but that's a

956

00:57:02,240 --> 00:57:03,839

great point one chen

957

00:57:03,839 --> 00:57:08,160

great point very good

958

00:57:08,160 --> 00:57:13,839

uh all right uh then room eleven

959

00:57:14,319 --> 00:57:17,839

is park waisin

960

00:57:17,839 --> 00:57:21,119

marco jangdae sutin shuan

961

00:57:21,119 --> 00:57:26,079

hoyen and ho yin

962

00:57:26,079 --> 00:57:29,520

um go ahead hi professor like i would

963

00:57:29,520 --> 00:57:30,640

like to add on

964

00:57:30,640 --> 00:57:32,720

on the difference between uh retail

965

00:57:32,720 --> 00:57:34,319

banking and wholesale banking

966

00:57:34,319 --> 00:57:36,480

yeah one point have been missed out is

967

00:57:36,480 --> 00:57:38,240

about the pricing structure

968

00:57:38,240 --> 00:57:40,079

so for wholesale banking there are a lot

969

00:57:40,079 --> 00:57:42,000

more on a fee business

970

00:57:42,000 --> 00:57:44,079

so they collect fee from their clients

971

00:57:44,079 --> 00:57:46,400

customers by providing uh professional

972

00:57:46,400 --> 00:57:47,280

services such as

973

00:57:47,280 --> 00:57:50,400

mma advisory uh cash management advisor

974

00:57:50,400 --> 00:57:51,119

etc

975

00:57:51,119 --> 00:57:53,119

so for retail banking most certainly are

976

00:57:53,119 --> 00:57:54,640

they during the

977

00:57:54,640 --> 00:57:56,400

difference between interest rate instead

978

00:57:56,400 --> 00:57:59,520

of collecting fee from customers

979

00:57:59,520 --> 00:58:01,359

so this is the point i would like to

980

00:58:01,359 --> 00:58:08,400

make okay

981

00:58:08,400 --> 00:58:11,920

okay very good anybody else in room 11

982

00:58:11,920 --> 00:58:15,119

wants to add something

983

00:58:19,920 --> 00:58:22,640

then we go to the last room oh sorry

984

00:58:22,640 --> 00:58:25,520

zhang day go ahead go ahead

985

00:58:25,520 --> 00:58:27,920

oh i have some uh some things to add on

986

00:58:27,920 --> 00:58:28,960

the competitor

987

00:58:28,960 --> 00:58:32,160

parts sure like some um

988

00:58:32,160 --> 00:58:34,400

so some retail banks might have some

989

00:58:34,400 --> 00:58:36,160

competitors such as

990

00:58:36,160 --> 00:58:39,200

um such as like

991

00:58:39,200 --> 00:58:41,599

some kind of investment banks of

992

00:58:41,599 --> 00:58:42,880

investment

993

00:58:42,880 --> 00:58:46,559

um uh what is that

994

00:58:46,559 --> 00:58:50,160

i think investment bond is that

995

00:58:50,160 --> 00:58:53,520

and also uh credit unions yeah yeah

996

00:58:53,520 --> 00:58:57,280

very good uh and for um for wholesale

997

00:58:57,280 --> 00:58:57,760

banks

998

00:58:57,760 --> 00:59:00,480

probably some um corporations like their

999

00:59:00,480 --> 00:59:01,599

investment department

1000

00:59:01,599 --> 00:59:05,839

might be the yes yes very good

1001

00:59:13,040 --> 00:59:16,160

very very good

1002

00:59:16,720 --> 00:59:20,000

well done and last but not least we have

1003

00:59:20,000 --> 00:59:21,040

room 12

1004

00:59:21,040 --> 00:59:24,559

we have dishai fang po ching

1005

00:59:24,559 --> 00:59:27,760

man kwan min kyu hoi kyu

1006

00:59:27,760 --> 00:59:32,559

and hu tong and yiton go ahead

1007

00:59:32,559 --> 00:59:35,280

uh i want something about the bank

1008

00:59:35,280 --> 00:59:36,720

competitors

1009

00:59:36,720 --> 00:59:39,040

and i guess that maybe in some countries

1010

00:59:39,040 --> 00:59:40,160

some

1011

00:59:40,160 --> 00:59:42,880

government department will be

1012

00:59:42,880 --> 00:59:44,960

competitors of bank

1013

00:59:44,960 --> 00:59:48,319

huh interesting perspective

1014

00:59:48,319 --> 00:59:51,760

on what kind of products but i haven't

1015

00:59:51,760 --> 00:59:54,559

found an example yet

1016

00:59:54,559 --> 00:59:57,599

so i'll put the question mark

1017

00:59:57,599 --> 01:00:00,559

and bought ritual banking and wholesale

1018

01:00:00,559 --> 01:00:01,599

banking

1019

01:00:01,599 --> 01:00:04,400

i think that risk banking requires large

1020

01:00:04,400 --> 01:00:05,359

network of

1021

01:00:05,359 --> 01:00:09,680

branches in order to cater to large

1022

01:00:09,680 --> 01:00:13,280

customer base and hence it results in

1023

01:00:13,280 --> 01:00:16,559

high operational costs

1024

01:00:16,559 --> 01:00:19,599

high cost okay high operational cost and

1025

01:00:19,599 --> 01:00:22,720

this will be low lower

1026

01:00:22,720 --> 01:00:27,119

of the wholesale bank okay

1027

01:00:27,119 --> 01:00:30,400

all right and thank you

1028

01:00:30,400 --> 01:00:32,720

i just wanted to add to the competitors

1029

01:00:32,720 --> 01:00:33,680

so

1030

01:00:33,680 --> 01:00:36,640

recently the new business model called

1031

01:00:36,640 --> 01:00:38,400

buy now pay later

1032

01:00:38,400 --> 01:00:41,280

they have been getting gaining

1033

01:00:41,280 --> 01:00:42,880

popularity

1034

01:00:42,880 --> 01:00:44,720

sorry i can't hear you very can you say

1035

01:00:44,720 --> 01:00:47,119

that again so the business model of buy

1036

01:00:47,119 --> 01:00:49,040

now and pay later

1037

01:00:49,040 --> 01:00:53,280

they have been getting more popularity

1038

01:00:53,280 --> 01:00:57,599

as a alternate to credit cards

1039

01:00:57,599 --> 01:01:00,480

what what kind of payment system is that

1040

01:01:00,480 --> 01:01:02,079

a buy now pay later

1041

01:01:02,079 --> 01:01:05,119

oh yes very good

1042

01:01:05,119 --> 01:01:10,319

excellent wow

1043

01:01:10,319 --> 01:01:13,520

this is very good

1044

01:01:13,520 --> 01:01:16,880

okay my goodness people

1045

01:01:16,880 --> 01:01:20,160

you've managed to on earth a lot it's

1046

01:01:20,160 --> 01:01:21,280

really good

1047

01:01:21,280 --> 01:01:24,640

very proud of my class this is excellent

1048

01:01:24,640 --> 01:01:28,000

okay so we've talked about

1049

01:01:28,000 --> 01:01:31,200

a lot of things so when we talk about

1050

01:01:31,200 --> 01:01:33,839

retail banking you can see that banks

1051

01:01:33,839 --> 01:01:36,079

provide many many services

1052

01:01:36,079 --> 01:01:38,640

which you would associate with banking

1053

01:01:38,640 --> 01:01:40,640

right so the first things that comes to

1054

01:01:40,640 --> 01:01:41,920

mind would be

1055

01:01:41,920 --> 01:01:45,599

you know lending collecting deposits

1056

01:01:45,599 --> 01:01:48,000

credit card then you have things that

1057

01:01:48,000 --> 01:01:50,400

have been added over time like currency

1058

01:01:50,400 --> 01:01:51,760

exchange

1059

01:01:51,760 --> 01:01:54,000

by providing insurance it's not a

1060

01:01:54,000 --> 01:01:55,520

banking product

1061

01:01:55,520 --> 01:01:58,799

but banks act as platforms to

1062

01:01:58,799 --> 01:02:02,400

distribute other financial services

1063

01:02:02,400 --> 01:02:06,319

like insurance like stock trading

1064

01:02:06,319 --> 01:02:09,599

i they also provide

1065

01:02:09,599 --> 01:02:12,400

educational services that's very very

1066

01:02:12,400 --> 01:02:14,559

well seen

1067

01:02:14,559 --> 01:02:16,400

then you talked about some of the

1068

01:02:16,400 --> 01:02:18,240

ancillary functions

1069

01:02:18,240 --> 01:02:21,440

like providing safe deposit boxes

1070

01:02:21,440 --> 01:02:23,839

travelers checks that goes together with

1071

01:02:23,839 --> 01:02:26,480

foreign exchange currency exchange

1072

01:02:26,480 --> 01:02:29,599

the original fintech atm

1073

01:02:29,599 --> 01:02:34,000

very good advisory services or wealth

1074

01:02:34,000 --> 01:02:36,079

management services which strictly

1075

01:02:36,079 --> 01:02:38,799

speaking is not a banking product

1076

01:02:38,799 --> 01:02:42,079

it is something that is added on i

1077

01:02:42,079 --> 01:02:44,319

one thing you did not mention here you

1078

01:02:44,319 --> 01:02:46,319

said the advice for investment you

1079

01:02:46,319 --> 01:02:46,960

didn't

1080

01:02:46,960 --> 01:02:49,760

talk about the investments themselves so

1081

01:02:49,760 --> 01:02:51,119

many banks provide

1082

01:02:51,119 --> 01:02:54,079

investment services so they will sell

1083

01:02:54,079 --> 01:02:55,359

you mutual funds

1084

01:02:55,359 --> 01:02:58,960

unit trusts annuities etc

1085

01:02:58,960 --> 01:03:01,839

etc so they can provide a platform for

1086

01:03:01,839 --> 01:03:05,280

investment services as well

1087

01:03:05,280 --> 01:03:09,039

there's a question that was

1088

01:03:09,039 --> 01:03:11,760

raised about the customer base for

1089

01:03:11,760 --> 01:03:12,960

retail is it just

1090

01:03:12,960 --> 01:03:16,079

individuals or does it include smes

1091

01:03:16,079 --> 01:03:19,200

that will depend very much on the bank

1092

01:03:19,200 --> 01:03:21,760

so many banks will have a separate

1093

01:03:21,760 --> 01:03:22,480

counter

1094

01:03:22,480 --> 01:03:25,039

for corporate functions because

1095

01:03:25,039 --> 01:03:26,880

typically it requires more

1096

01:03:26,880 --> 01:03:29,920

due diligence more money laundering

1097

01:03:29,920 --> 01:03:30,880

compliance

1098

01:03:30,880 --> 01:03:34,960

things but um

1099

01:03:35,200 --> 01:03:39,599

yes when yen is has got an afterthought

1100

01:03:40,160 --> 01:03:42,400

people use bank accounts to prove their

1101

01:03:42,400 --> 01:03:44,559

credit scores so it depends on the

1102

01:03:44,559 --> 01:03:45,280

country

1103

01:03:45,280 --> 01:03:48,480

so this credit scoring it's

1104

01:03:48,480 --> 01:03:51,760

a method to quickly estimate whether

1105

01:03:51,760 --> 01:03:54,720

a customer is credit worthy or not in

1106

01:03:54,720 --> 01:03:56,960

the united states and we'll talk about

1107

01:03:56,960 --> 01:03:58,480

it later when we talk about

1108

01:03:58,480 --> 01:04:00,720

bank management there's an organization

1109

01:04:00,720 --> 01:04:01,760

called

1110

01:04:01,760 --> 01:04:05,039

fair eyesight corporation

1111

01:04:05,039 --> 01:04:07,520

so i'll type the name in the in the chat

1112

01:04:07,520 --> 01:04:09,920

box

1113

01:04:10,839 --> 01:04:12,240

okay

1114

01:04:12,240 --> 01:04:16,640

and uh it's called fico

1115

01:04:16,640 --> 01:04:20,240

so everybody gets a fico score

1116

01:04:20,240 --> 01:04:23,119

and based on your fico score the banks

1117

01:04:23,119 --> 01:04:23,520

will

1118

01:04:23,520 --> 01:04:26,559

provide you or less

1119

01:04:26,559 --> 01:04:30,160

services so it tracks basically your

1120

01:04:30,160 --> 01:04:31,119

whole

1121

01:04:31,119 --> 01:04:34,640

banking history whether you've had any

1122

01:04:34,640 --> 01:04:36,880

problems paying back your loans

1123

01:04:36,880 --> 01:04:38,640

how many credit cards have you been

1124

01:04:38,640 --> 01:04:40,640

rejected for all of that

1125

01:04:40,640 --> 01:04:44,000

we don't yet have this in hong kong but

1126

01:04:44,000 --> 01:04:44,559

we do

1127

01:04:44,559 --> 01:04:47,599

have uh a credit bureau so

1128

01:04:47,599 --> 01:04:50,319

banks have been exchanging information

1129

01:04:50,319 --> 01:04:52,839

so if you're a delinquent

1130

01:04:52,839 --> 01:04:56,400

borrower they will find out about it

1131

01:04:56,400 --> 01:04:59,640

okay uh so

1132

01:04:59,640 --> 01:05:02,720

peer-to-peer person-to-person

1133

01:05:02,720 --> 01:05:06,839

peer-to-peer lending yes business to

1134

01:05:06,839 --> 01:05:08,400

business

1135

01:05:08,400 --> 01:05:10,319

there's a lot of discussion in the chat

1136

01:05:10,319 --> 01:05:11,440

okay

1137

01:05:11,440 --> 01:05:14,559

um so the first point about uh

1138

01:05:14,559 --> 01:05:17,039

retail banking is to showcase the

1139

01:05:17,039 --> 01:05:18,160

diversity

1140

01:05:18,160 --> 01:05:21,359

of services that banks can provide

1141

01:05:21,359 --> 01:05:24,559

and even in some countries the atm

1142

01:05:24,559 --> 01:05:27,200

can offer other functions for example

1143

01:05:27,200 --> 01:05:27,920

booking

1144

01:05:27,920 --> 01:05:32,079

a movie ticket and things like that so

1145

01:05:32,079 --> 01:05:35,280

atms can be multifunctional not just for

1146

01:05:35,280 --> 01:05:36,079

depositing

1147

01:05:36,079 --> 01:05:38,240

and withdrawing money but they can

1148

01:05:38,240 --> 01:05:40,240

provide many other functions so the

1149

01:05:40,240 --> 01:05:42,000

changing technology

1150

01:05:42,000 --> 01:05:45,039

has been quite astounding now

1151

01:05:45,039 --> 01:05:47,920

competitors so you covered a lot of

1152

01:05:47,920 --> 01:05:48,400

ground

1153

01:05:48,400 --> 01:05:51,359

and it was delightful because i'm very

1154

01:05:51,359 --> 01:05:53,440

very happy to see that you're thinking

1155

01:05:53,440 --> 01:05:55,839

outside the box and yes you are

1156

01:05:55,839 --> 01:05:57,520

absolutely right there are a

1157

01:05:57,520 --> 01:06:00,720

whole range of companies businesses

1158

01:06:00,720 --> 01:06:03,920

that provide alternatives to some of the

1159

01:06:03,920 --> 01:06:05,599

bank services

1160

01:06:05,599 --> 01:06:08,559

the big disruption area is payments

1161

01:06:08,559 --> 01:06:09,200

because

1162

01:06:09,200 --> 01:06:12,160

particularly international payments

1163

01:06:12,160 --> 01:06:13,119

through banks

1164

01:06:13,119 --> 01:06:16,640

is very costly and quite slow

1165

01:06:16,640 --> 01:06:19,440

although not that slow anymore but very

1166

01:06:19,440 --> 01:06:21,119

costly

1167

01:06:21,119 --> 01:06:23,119

so there's a lot of competition to

1168

01:06:23,119 --> 01:06:26,559

provide payment services

1169

01:06:26,559 --> 01:06:29,280

there is also a lot of competition to

1170

01:06:29,280 --> 01:06:29,839

provide

1171

01:06:29,839 --> 01:06:33,520

credit as you pointed out so indeed you

1172

01:06:33,520 --> 01:06:36,319

have a lot of retailers

1173

01:06:36,319 --> 01:06:39,680

like starbucks walmart

1174

01:06:39,680 --> 01:06:43,440

uh kafu in france all these guys

1175

01:06:43,440 --> 01:06:45,920

provide financial services they actually

1176

01:06:45,920 --> 01:06:46,799

provide

1177

01:06:46,799 --> 01:06:49,200

their own credit card they provide

1178

01:06:49,200 --> 01:06:50,160

payments

1179

01:06:50,160 --> 01:06:54,160

uh installment loans to buy their stuff

1180

01:06:54,160 --> 01:06:57,599

okay so you can go to a fortress and you

1181

01:06:57,599 --> 01:06:58,400

might have

1182

01:06:58,400 --> 01:07:02,000

like no interest

1183

01:07:02,000 --> 01:07:05,520

credit for example so there is a lot of

1184

01:07:05,520 --> 01:07:09,200

competition you correctly identified

1185

01:07:09,200 --> 01:07:12,559

other financial institutions which may

1186

01:07:12,559 --> 01:07:13,359

be

1187

01:07:13,359 --> 01:07:15,520

encroaching into the business of the

1188

01:07:15,520 --> 01:07:16,640

banks and one

1189

01:07:16,640 --> 01:07:20,000

big example uh as far as investment bank

1190

01:07:20,000 --> 01:07:22,319

is concerned is goldman sachs

1191

01:07:22,319 --> 01:07:25,440

the goldman sachs got into uh

1192

01:07:25,440 --> 01:07:28,720

commercial back into

1193

01:07:28,720 --> 01:07:32,319

retail banking with marcus okay marcus

1194

01:07:32,319 --> 01:07:36,400

is the online

1195

01:07:36,799 --> 01:07:39,359

online

1196

01:07:39,920 --> 01:07:43,119

retail banking and consumer finance

1197

01:07:43,119 --> 01:07:46,240

from goldman sachs

1198

01:07:46,720 --> 01:07:50,160

and you also have you did point out

1199

01:07:50,160 --> 01:07:52,000

other depository institutions like

1200

01:07:52,000 --> 01:07:53,200

credit unions

1201

01:07:53,200 --> 01:07:56,559

securities companies so brokerage firms

1202

01:07:56,559 --> 01:07:59,359

broker dealer firms that can offer some

1203

01:07:59,359 --> 01:08:00,960

lending facilities

1204

01:08:00,960 --> 01:08:04,880

for example on margin trading is very

1205

01:08:04,880 --> 01:08:07,520

popular particularly in hong kong

1206

01:08:07,520 --> 01:08:11,119

there is one that you have not mentioned

1207

01:08:11,119 --> 01:08:13,200

and i'm surprised because i have quite a

1208

01:08:13,200 --> 01:08:16,319

few korean students in my class

1209

01:08:16,319 --> 01:08:19,120

which type of companies in particularly

1210

01:08:19,120 --> 01:08:20,158

in korea

1211

01:08:20,158 --> 01:08:22,640

provide financial services which are not

1212

01:08:22,640 --> 01:08:25,839

listed here

1213

01:08:31,439 --> 01:08:33,920

yes trimming teaching sorry so you're

1214

01:08:33,920 --> 01:08:35,520

not korean but you're answering for my

1215

01:08:35,520 --> 01:08:37,040

korean students

1216

01:08:37,040 --> 01:08:40,560

very good yes samsung and mobile phone

1217

01:08:40,560 --> 01:08:41,359

companies

1218

01:08:41,359 --> 01:08:45,279

do provide financial services okay so

1219

01:08:45,279 --> 01:08:48,158

uh there are many mobile phone companies

1220

01:08:48,158 --> 01:08:48,479

in

1221

01:08:48,479 --> 01:08:50,960

different part of the world both

1222

01:08:50,960 --> 01:08:53,198

developed world like south korea

1223

01:08:53,198 --> 01:08:55,520

and not so developed world like in

1224

01:08:55,520 --> 01:08:56,560

africa

1225

01:08:56,560 --> 01:09:00,640

where they provide um yes and the apple

1226

01:09:00,640 --> 01:09:04,080

credit card yes very good which is

1227

01:09:04,080 --> 01:09:04,640

actually

1228

01:09:04,640 --> 01:09:07,120

jointly done with goldman sachs which is

1229

01:09:07,120 --> 01:09:09,040

kind of interesting when you think about

1230

01:09:09,040 --> 01:09:09,839

it

1231

01:09:09,839 --> 01:09:13,839

so you can see how banking services

1232

01:09:13,839 --> 01:09:16,560

are being attacked from different

1233

01:09:16,560 --> 01:09:18,158

competitors and they

1234

01:09:18,158 --> 01:09:20,479

don't necessarily all come from the

1235

01:09:20,479 --> 01:09:22,158

financial sector

1236

01:09:22,158 --> 01:09:24,560

so you've talked about the fintech

1237

01:09:24,560 --> 01:09:26,198

companies

1238

01:09:26,198 --> 01:09:29,279

cryptocurrencies online platforms but

1239

01:09:29,279 --> 01:09:32,319

also old school

1240

01:09:32,319 --> 01:09:35,759

brick and mortar retailers mobile phone

1241

01:09:35,759 --> 01:09:37,759

companies

1242

01:09:37,759 --> 01:09:40,799

car manufacturers that provide

1243

01:09:40,799 --> 01:09:43,920

installment loans as you said

1244

01:09:43,920 --> 01:09:46,080

okay so there's a it's a great

1245

01:09:46,080 --> 01:09:48,158

discussion because you really so yes

1246

01:09:48,158 --> 01:09:50,000

that's right gm finance

1247

01:09:50,000 --> 01:09:53,359

yes mean very good yes so you have a lot

1248

01:09:53,359 --> 01:09:54,560

of companies

1249

01:09:54,560 --> 01:09:56,719

that you don't think of as financial

1250

01:09:56,719 --> 01:09:57,600

companies

1251

01:09:57,600 --> 01:10:00,560

but whose codes do have quite a

1252

01:10:00,560 --> 01:10:01,760

significant

1253

01:10:01,760 --> 01:10:04,880

retail finance business okay consumer

1254

01:10:04,880 --> 01:10:05,600

finance

1255

01:10:05,600 --> 01:10:08,640

retail finance and then uh

1256

01:10:08,640 --> 01:10:11,360

we we discussed why did i ask you to

1257

01:10:11,360 --> 01:10:13,840

think about retail versus wholesale

1258

01:10:13,840 --> 01:10:14,640

banking

1259

01:10:14,640 --> 01:10:16,239

because these are very different

1260

01:10:16,239 --> 01:10:18,000

business models

1261

01:10:18,000 --> 01:10:21,440

so commercial banks have these two big

1262

01:10:21,440 --> 01:10:24,560

business models with quite different

1263

01:10:24,560 --> 01:10:26,960

so when we talk retail you know you're

1264

01:10:26,960 --> 01:10:28,000

talking about

1265

01:10:28,000 --> 01:10:32,000

small customers small transaction side

1266

01:10:32,000 --> 01:10:34,880

but a lot and a lot of them

1267

01:10:34,880 --> 01:10:37,280

right so when you talk about a business

1268

01:10:37,280 --> 01:10:39,199

like that what you want is

1269

01:10:39,199 --> 01:10:42,080

automation standardization investment in

1270

01:10:42,080 --> 01:10:43,840

technology

1271

01:10:43,840 --> 01:10:47,159

by contrast when you're servicing large

1272

01:10:47,159 --> 01:10:51,440

corporations large customers

1273

01:10:51,440 --> 01:10:54,640

governments there is much more

1274

01:10:54,640 --> 01:10:57,840

tailored advice and some of you have

1275

01:10:57,840 --> 01:11:00,480

pointed it out the customer relationship

1276

01:11:00,480 --> 01:11:01,840

is very different

1277

01:11:01,840 --> 01:11:04,800

there's more intimacy there's more

1278

01:11:04,800 --> 01:11:05,440

in-depth

1279

01:11:05,440 --> 01:11:07,920

knowledge of the customer to be able to

1280

01:11:07,920 --> 01:11:08,719

succeed

1281

01:11:08,719 --> 01:11:10,960

you have to be able to really understand

1282

01:11:10,960 --> 01:11:12,719

the business of your

1283

01:11:12,719 --> 01:11:15,600

customer and to promote services that

1284

01:11:15,600 --> 01:11:17,280

make sense to them

1285

01:11:17,280 --> 01:11:19,920

right so it's really important to

1286

01:11:19,920 --> 01:11:20,800

understand

1287

01:11:20,800 --> 01:11:23,120

that we are talking about very different

1288

01:11:23,120 --> 01:11:24,800

business models

1289

01:11:24,800 --> 01:11:27,840

and the keys to success in each business

1290

01:11:27,840 --> 01:11:30,000

model is quite different

1291

01:11:30,000 --> 01:11:33,760

okay so you did really well i'm very

1292

01:11:33,760 --> 01:11:35,760

very happy with this

1293

01:11:35,760 --> 01:11:39,600

so we talked about retail banking versus

1294

01:11:39,600 --> 01:11:40,800

wholesale banking

1295

01:11:40,800 --> 01:11:44,640

very good and i had a group

1296

01:11:44,640 --> 01:11:47,679

that sent me some information about

1297

01:11:47,679 --> 01:11:55,840

mortgage mortgage business so here we go

1298

01:12:34,840 --> 01:12:37,840

my

1299

01:13:16,840 --> 01:13:19,840

do

1300

01:13:27,280 --> 01:13:29,440

why have mortgage payments in hong kong

1301

01:13:29,440 --> 01:13:30,640

just gone up

1302

01:13:30,640 --> 01:13:33,199

it's a domino effect of sorts and it's

1303

01:13:33,199 --> 01:13:35,440

all tied to the u.s central bank

1304

01:13:35,440 --> 01:13:37,840

which they called the federal reserve on

1305

01:13:37,840 --> 01:13:39,679

26th of september

1306

01:13:39,679 --> 01:13:42,000

the fed raised interest rates for the

1307

01:13:42,000 --> 01:13:42,800

third time

1308

01:13:42,800 --> 01:13:46,000

in 2018. that sent ripple effects

1309

01:13:46,000 --> 01:13:48,400

all the way across the pacific to here

1310

01:13:48,400 --> 01:13:49,440

in hong kong

1311

01:13:49,440 --> 01:13:51,520

where the city's monetary authority

1312

01:13:51,520 --> 01:13:53,440

raised the base lending rate

1313

01:13:53,440 --> 01:13:55,360

that's the interest rate banks pay on

1314

01:13:55,360 --> 01:13:57,280

the money they borrow from the city's de

1315

01:13:57,280 --> 01:13:59,040

facto central bank

1316

01:13:59,040 --> 01:14:01,600

that caused hsbc to raise its prime

1317

01:14:01,600 --> 01:14:02,640

lending rate

1318

01:14:02,640 --> 01:14:04,320

the lowest interest that charges

1319

01:14:04,320 --> 01:14:06,000

customers who borrow money

1320

01:14:06,000 --> 01:14:09,040

for the first time in 12 years and other

1321

01:14:09,040 --> 01:14:10,080

banks in the city

1322

01:14:10,080 --> 01:14:12,800

followed suit so what does this mean for

1323

01:14:12,800 --> 01:14:14,239

people who have mortgages

1324

01:14:14,239 --> 01:14:17,760

tied to the prime rate hsb has raised

1325

01:14:17,760 --> 01:14:18,480

that rate

1326

01:14:18,480 --> 01:14:23,760

by 12.5 basis points from 5 to 5.125

1327

01:14:23,760 --> 01:14:27,199

most banks offer 2.75 below the crime

1328

01:14:27,199 --> 01:14:27,760

rate

1329

01:14:27,760 --> 01:14:29,600

meaning an effective mortgage rate

1330

01:14:29,600 --> 01:14:32,000

increase from 2.25

1331

01:14:32,000 --> 01:14:36,239

to 2.375 that means for every 1 million

1332

01:14:36,239 --> 01:14:38,159

hong kong dollars someone has borrowed

1333

01:14:38,159 --> 01:14:39,600

in a mortgage loan

1334

01:14:39,600 --> 01:14:41,760

they will now have to pay an additional

1335

01:14:41,760 --> 01:14:43,679

67 hong kong dollars

1336

01:14:43,679 --> 01:14:46,960

or 1.75 per month on their mortgage

1337

01:14:46,960 --> 01:14:47,840

payment

1338

01:14:47,840 --> 01:14:50,000

the rate hike is going to tighten the

1339

01:14:50,000 --> 01:14:52,320

squeeze on hong kong homeowners

1340

01:14:52,320 --> 01:14:54,640

many of whom spend 60 percent of their

1341

01:14:54,640 --> 01:14:55,679

monthly income

1342

01:14:55,679 --> 01:14:58,960

on mortgage repayments one brokerage

1343

01:14:58,960 --> 01:14:59,600

service

1344

01:14:59,600 --> 01:15:02,719

forecasts that could rise to 70 by the

1345

01:15:02,719 --> 01:15:04,880

end of 2018.

1346

01:15:04,880 --> 01:15:07,280

the average mortgage in hong kong is 4

1347

01:15:07,280 --> 01:15:09,440

million hong kong dollars

1348

01:15:09,440 --> 01:15:12,000

the new prime lending rate means anyone

1349

01:15:12,000 --> 01:15:14,239

who borrowed that amount of money today

1350

01:15:14,239 --> 01:15:16,719

would have to repay 93 000 hong kong

1351

01:15:16,719 --> 01:15:18,480

dollars more

1352

01:15:18,480 --> 01:15:20,719

but there is a silver lining of sorts to

1353

01:15:20,719 --> 01:15:22,239

the interest rate hike

1354

01:15:22,239 --> 01:15:24,560

with loan repayments going up the

1355

01:15:24,560 --> 01:15:26,560

soaring hot prices of hong kong

1356

01:15:26,560 --> 01:15:27,440

properties

1357

01:15:27,440 --> 01:15:29,600

are expected to finally start cooling

1358

01:15:29,600 --> 01:15:31,840

down

1359

01:15:36,800 --> 01:15:39,920

well sadly this did not come to pass

1360

01:15:39,920 --> 01:15:43,440

as usual house prices are very very high

1361

01:15:43,440 --> 01:15:44,560

and it's a little bit

1362

01:15:44,560 --> 01:15:47,840

old so it actually is

1363

01:15:47,840 --> 01:15:50,239

kind of the opposite way since then but

1364

01:15:50,239 --> 01:15:52,560

it's interesting because it explains to

1365

01:15:52,560 --> 01:15:53,920

you the linkages

1366

01:15:53,920 --> 01:15:58,320

okay and the article that the group

1367

01:15:58,320 --> 01:15:59,360

submitted

1368

01:15:59,360 --> 01:16:01,760

was about the different kinds of

1369

01:16:01,760 --> 01:16:03,760

mortgages in hong kong

1370

01:16:03,760 --> 01:16:06,800

so you have fixed rate mortgage flexible

1371

01:16:06,800 --> 01:16:07,920

rate mortgage

1372

01:16:07,920 --> 01:16:11,120

and deposit linked mortgages so this is

1373

01:16:11,120 --> 01:16:12,400

from the

1374

01:16:12,400 --> 01:16:16,480

money hero educational page

1375

01:16:16,480 --> 01:16:20,640

all right okay so

1376

01:16:20,640 --> 01:16:25,199

let's continue the discussion

1377

01:16:25,600 --> 01:16:28,560

all right so as part of you know the

1378

01:16:28,560 --> 01:16:29,520

evolution

1379

01:16:29,520 --> 01:16:31,840

of banking so you've seen we've talked

1380

01:16:31,840 --> 01:16:32,800

about

1381

01:16:32,800 --> 01:16:35,920

new entrants new competitors

1382

01:16:35,920 --> 01:16:38,719

not just in your own country but you

1383

01:16:38,719 --> 01:16:39,840

have also

1384

01:16:39,840 --> 01:16:43,199

foreign competitors coming into your

1385

01:16:43,199 --> 01:16:45,840

country because of globalization

1386

01:16:45,840 --> 01:16:49,440

then technology called changes which

1387

01:16:49,440 --> 01:16:51,920

can have some really good positive

1388

01:16:51,920 --> 01:16:53,120

impact on the bank

1389

01:16:53,120 --> 01:16:56,400

or very negative impact and

1390

01:16:56,400 --> 01:16:59,600

innovation so all of that

1391

01:16:59,600 --> 01:17:02,080

with the phenomena of regulation and

1392

01:17:02,080 --> 01:17:04,080

deregulation we will talk about

1393

01:17:04,080 --> 01:17:07,280

puts a squeeze on profit margins

1394

01:17:07,280 --> 01:17:10,080

and much more competition for the banks

1395

01:17:10,080 --> 01:17:12,159

so of course they cannot sit still

1396

01:17:12,159 --> 01:17:15,199

they have to respond to all these

1397

01:17:15,199 --> 01:17:17,360

changes so what does it mean it means

1398

01:17:17,360 --> 01:17:19,840

that the structure of banking

1399

01:17:19,840 --> 01:17:23,280

has evolved to adapt to the changes

1400

01:17:23,280 --> 01:17:25,679

that means the banks are doing less

1401

01:17:25,679 --> 01:17:26,400

lending

1402

01:17:26,400 --> 01:17:29,719

and more capital market business this is

1403

01:17:29,719 --> 01:17:31,520

disintermediation

1404

01:17:31,520 --> 01:17:34,640

they have to continue innovating both

1405

01:17:34,640 --> 01:17:37,760

new products but also new processes to

1406

01:17:37,760 --> 01:17:40,000

become more efficient

1407

01:17:40,000 --> 01:17:41,840

and they have to keep up with the

1408

01:17:41,840 --> 01:17:43,920

transformation of the regulatory

1409

01:17:43,920 --> 01:17:46,880

framework so we'll talk about regulation

1410

01:17:46,880 --> 01:17:50,080

a little bit later now

1411

01:17:50,080 --> 01:17:52,800

with all of that commercial banks have

1412

01:17:52,800 --> 01:17:53,760

evolved

1413

01:17:53,760 --> 01:17:55,840

so they traditional products and

1414

01:17:55,840 --> 01:17:56,800

services

1415

01:17:56,800 --> 01:17:58,880

including all the stuff that we

1416

01:17:58,880 --> 01:18:00,080

discussed

1417

01:18:00,080 --> 01:18:03,120

but also as far as corporations are

1418

01:18:03,120 --> 01:18:03,760

concerned

1419

01:18:03,760 --> 01:18:06,159

trade services credit enhancement

1420

01:18:06,159 --> 01:18:07,760

payment guarantees

1421

01:18:07,760 --> 01:18:10,840

supply chain finance all of that is a

1422

01:18:10,840 --> 01:18:13,440

traditional banking product

1423

01:18:13,440 --> 01:18:16,480

but the banks have added a lot of

1424

01:18:16,480 --> 01:18:19,520

new products and services including

1425

01:18:19,520 --> 01:18:21,920

investment banking services

1426

01:18:21,920 --> 01:18:25,199

consulting risk management

1427

01:18:25,199 --> 01:18:27,760

broker dealer services insurance

1428

01:18:27,760 --> 01:18:28,560

services

1429

01:18:28,560 --> 01:18:32,080

asset management services so

1430

01:18:32,080 --> 01:18:34,960

as competition increased the bank

1431

01:18:34,960 --> 01:18:35,920

started

1432

01:18:35,920 --> 01:18:38,320

encroaching on other financial

1433

01:18:38,320 --> 01:18:40,239

institutions business

1434

01:18:40,239 --> 01:18:43,040

and other financial institutions started

1435

01:18:43,040 --> 01:18:45,520

encroaching on the banking business

1436

01:18:45,520 --> 01:18:49,520

so what used to be a very simple

1437

01:18:49,520 --> 01:18:53,440

one institution fits one model

1438

01:18:53,440 --> 01:18:56,560

has become all convergence

1439

01:18:56,560 --> 01:18:58,640

which is why it's important to

1440

01:18:58,640 --> 01:19:01,280

understand what were the basic functions

1441

01:19:01,280 --> 01:19:04,640

initially but to understand that for a

1442

01:19:04,640 --> 01:19:05,719

specific

1443

01:19:05,719 --> 01:19:08,560

institution it may actually be

1444

01:19:08,560 --> 01:19:10,239

performing many different

1445

01:19:10,239 --> 01:19:14,320

financial services so investment banks

1446

01:19:14,320 --> 01:19:17,360

can have commercial banking services

1447

01:19:17,360 --> 01:19:19,840

wealth management services

1448

01:19:19,840 --> 01:19:22,960

and a commercial bank may have

1449

01:19:22,960 --> 01:19:26,159

insurance services think about hsbc for

1450

01:19:26,159 --> 01:19:27,199

example

1451

01:19:27,199 --> 01:19:29,360

bank of china they have insurance

1452

01:19:29,360 --> 01:19:31,600

companies life insurance companies

1453

01:19:31,600 --> 01:19:34,640

etc so you have this convergence in the

1454

01:19:34,640 --> 01:19:36,560

financial industry which makes it a

1455

01:19:36,560 --> 01:19:38,640

little bit more complicated

1456

01:19:38,640 --> 01:19:40,560

to understand what are the core

1457

01:19:40,560 --> 01:19:41,840

businesses

1458

01:19:41,840 --> 01:19:45,280

of each of these institutions on top of

1459

01:19:45,280 --> 01:19:47,600

that you overlay the technology so this

1460

01:19:47,600 --> 01:19:48,560

is what

1461

01:19:48,560 --> 01:19:51,840

my grandparents dealt with this is banks

1462

01:19:51,840 --> 01:19:54,159

in the very old days so what you see is

1463

01:19:54,159 --> 01:19:55,120

like

1464

01:19:55,120 --> 01:19:58,320

massive rich opulence

1465

01:19:58,320 --> 01:20:02,239

safe retail

1466

01:20:02,239 --> 01:20:05,520

positioned in main street so in the

1467

01:20:05,520 --> 01:20:08,719

main center of the business district

1468

01:20:08,719 --> 01:20:11,760

so very rich and you would go there

1469

01:20:11,760 --> 01:20:13,840

and it would look very very safe you

1470

01:20:13,840 --> 01:20:16,320

wouldn't have a lot of security

1471

01:20:16,320 --> 01:20:19,120

and you fast forward to today and this

1472

01:20:19,120 --> 01:20:21,040

is what you have

1473

01:20:21,040 --> 01:20:23,920

okay it's all on your mobile phone so

1474

01:20:23,920 --> 01:20:25,600

you can see that we have

1475

01:20:25,600 --> 01:20:28,560

changed the model of banking has changed

1476

01:20:28,560 --> 01:20:29,040

quite

1477

01:20:29,040 --> 01:20:32,719

considerably over the matter of just a

1478

01:20:32,719 --> 01:20:35,600

few decades

1479

01:20:35,679 --> 01:20:38,159

and also another important thing to

1480

01:20:38,159 --> 01:20:40,400

remember is that banks themselves

1481

01:20:40,400 --> 01:20:44,239

also play multiple roles in the economy

1482

01:20:44,239 --> 01:20:47,760

the banks provide lendings they are

1483

01:20:47,760 --> 01:20:51,120

lending they provide loans to both

1484

01:20:51,120 --> 01:20:54,400

the retail side and the wholesale side

1485

01:20:54,400 --> 01:20:57,040

but they're also borrowers so they

1486

01:20:57,040 --> 01:20:58,800

borrow

1487

01:20:58,800 --> 01:21:01,199

when you put a deposit in a bank you're

1488

01:21:01,199 --> 01:21:03,760

actually lending money to the bank

1489

01:21:03,760 --> 01:21:06,719

so they borrow from you but they also

1490

01:21:06,719 --> 01:21:07,679

borrow from

1491

01:21:07,679 --> 01:21:12,639

other banks and all their customers

1492

01:21:12,639 --> 01:21:15,600

they provide liquidity so remember by

1493

01:21:15,600 --> 01:21:17,239

being a financial

1494

01:21:17,239 --> 01:21:21,199

intermediary they increase liquidity for

1495

01:21:21,199 --> 01:21:21,760

both

1496

01:21:21,760 --> 01:21:25,120

parties with which they work

1497

01:21:25,120 --> 01:21:27,520

but particularly for the depositors

1498

01:21:27,520 --> 01:21:29,760

because when you put money in deposit

1499

01:21:29,760 --> 01:21:30,320

you

1500

01:21:30,320 --> 01:21:31,840

if it's a savings account you can

1501

01:21:31,840 --> 01:21:34,480

withdraw the money at any time

1502

01:21:34,480 --> 01:21:37,040

they also provide credit enhancements

1503

01:21:37,040 --> 01:21:38,080

you remember

1504

01:21:38,080 --> 01:21:40,800

we talked about this you remember an

1505

01:21:40,800 --> 01:21:42,080

example of credit

1506

01:21:42,080 --> 01:21:44,800

enhancement

1507

01:21:47,920 --> 01:21:50,159

go ahead fizzy child you look like

1508

01:21:50,159 --> 01:21:52,159

you're nodding you remember

1509

01:21:52,159 --> 01:21:57,360

what's an example of credit enhancement

1510

01:21:57,360 --> 01:22:02,080

it's it's not going to be ah

1511

01:22:03,440 --> 01:22:06,239

well insurance can be used for credit

1512

01:22:06,239 --> 01:22:07,920

enhancement but the

1513

01:22:07,920 --> 01:22:10,560

this the classic example of credit

1514

01:22:10,560 --> 01:22:11,520

enhancement

1515

01:22:11,520 --> 01:22:14,000

is

1516

01:22:15,840 --> 01:22:18,000

just because you took a quiz doesn't

1517

01:22:18,000 --> 01:22:20,239

thank you win yen

1518

01:22:20,239 --> 01:22:24,159

guarantee okay providing a guarantee

1519

01:22:24,159 --> 01:22:26,880

so banks provide guarantees to their

1520

01:22:26,880 --> 01:22:28,960

customers just like your mom and dad

1521

01:22:28,960 --> 01:22:31,120

can provide guarantees for you when you

1522

01:22:31,120 --> 01:22:32,719

borrow your first loan

1523

01:22:32,719 --> 01:22:36,800

okay so banks can provide guarantees to

1524

01:22:36,800 --> 01:22:39,600

their customers it's a very important

1525

01:22:39,600 --> 01:22:42,000

function

1526

01:22:42,000 --> 01:22:44,880

they are the conduit for monetary policy

1527

01:22:44,880 --> 01:22:46,159

they provide

1528

01:22:46,159 --> 01:22:49,199

custodian and trustee services

1529

01:22:49,199 --> 01:22:52,719

and they provide a payment channel

1530

01:22:52,719 --> 01:22:55,360

so you can see how the banks have

1531

01:22:55,360 --> 01:22:58,080

multiple roles in the economy

1532

01:22:58,080 --> 01:23:00,159

so what it means is that when the

1533

01:23:00,159 --> 01:23:01,520

banking sector

1534

01:23:01,520 --> 01:23:04,960

is not functioning then the economy is

1535

01:23:04,960 --> 01:23:06,080

going to be

1536

01:23:06,080 --> 01:23:08,639

not functioning very well okay because

1537

01:23:08,639 --> 01:23:09,360

they are so

1538

01:23:09,360 --> 01:23:12,880

central to the to the

1539

01:23:12,880 --> 01:23:16,000

entire economy

1540

01:23:16,000 --> 01:23:19,040

but one of the most important role

1541

01:23:19,040 --> 01:23:23,120

of banks is that they create money

1542

01:23:23,120 --> 01:23:26,480

this is one of the most critical most

1543

01:23:26,480 --> 01:23:28,639

fundamental roles of banks in the

1544

01:23:28,639 --> 01:23:29,840

economy

1545

01:23:29,840 --> 01:23:34,719

they create money and how do they create

1546

01:23:34,719 --> 01:23:38,560

money by making loans

1547

01:23:38,560 --> 01:23:41,920

so a lot of people get it wrong because

1548

01:23:41,920 --> 01:23:42,239

they

1549

01:23:42,239 --> 01:23:46,840

start the opposite way but how does it

1550

01:23:46,840 --> 01:23:48,000

work

1551

01:23:48,000 --> 01:23:51,040

so imagine a bank

1552

01:23:51,040 --> 01:23:54,960

and then it makes a loan to a business

1553

01:23:54,960 --> 01:23:58,239

that business in order to get the money

1554

01:23:58,239 --> 01:24:01,040

has to open an account with the bank

1555

01:24:01,040 --> 01:24:01,520

thus

1556

01:24:01,520 --> 01:24:05,520

creating a deposit

1557

01:24:05,520 --> 01:24:09,600

so the loan is an asset for the bank

1558

01:24:09,600 --> 01:24:12,639

and a liability for the customer and the

1559

01:24:12,639 --> 01:24:13,520

deposit

1560

01:24:13,520 --> 01:24:16,560

is a liability for the bank and an asset

1561

01:24:16,560 --> 01:24:18,400

for the customer

1562

01:24:18,400 --> 01:24:21,760

always remember when

1563

01:24:21,760 --> 01:24:25,120

you open a deposit account

1564

01:24:25,120 --> 01:24:29,760

you are lending the money to the bank

1565

01:24:29,760 --> 01:24:33,199

okay so it's

1566

01:24:33,199 --> 01:24:36,400

a liability for the bank they owe you

1567

01:24:36,400 --> 01:24:39,520

that money they have to pay back and

1568

01:24:39,520 --> 01:24:41,600

it's an asset for you

1569

01:24:41,600 --> 01:24:44,400

but the money is no longer with you it's

1570

01:24:44,400 --> 01:24:46,000

with the bank

1571

01:24:46,000 --> 01:24:48,239

so you're effectively lending money to

1572

01:24:48,239 --> 01:24:49,520

the bank

1573

01:24:49,520 --> 01:24:52,719

and as you as the bank

1574

01:24:52,719 --> 01:24:55,760

opens makes a loan and then

1575

01:24:55,760 --> 01:24:58,960

opens an account the the client opens

1576

01:24:58,960 --> 01:25:01,360

the deposit account with the bank

1577

01:25:01,360 --> 01:25:05,360

it creates money because bank deposits

1578

01:25:05,360 --> 01:25:08,480

are part of the money supply

1579

01:25:08,480 --> 01:25:11,040

so if you start from scratch with a bank

1580

01:25:11,040 --> 01:25:12,880

that has nothing else

1581

01:25:12,880 --> 01:25:16,639

with the first loan it makes

1582

01:25:16,639 --> 01:25:20,000

it starts creating money and that's

1583

01:25:20,000 --> 01:25:22,239

because of the way

1584

01:25:22,239 --> 01:25:25,520

that the banks are set up and

1585

01:25:25,520 --> 01:25:29,360

how monetary policy works okay

1586

01:25:29,360 --> 01:25:32,000

now suraj is asking me is there a

1587

01:25:32,000 --> 01:25:33,760

minimum deposit the bank

1588

01:25:33,760 --> 01:25:36,400

must keep so we will talk about reserve

1589

01:25:36,400 --> 01:25:37,840

requirements

1590

01:25:37,840 --> 01:25:41,440

okay which is a tool for the ba

1591

01:25:41,440 --> 01:25:45,520

for regulators to sort of

1592

01:25:45,600 --> 01:25:47,600

try to prevent a run on the banks we'll

1593

01:25:47,600 --> 01:25:51,600

talk about liquidity management later

1594

01:25:51,600 --> 01:25:53,360

okay so the different tools and

1595

01:25:53,360 --> 01:25:55,679

prudential ratios that the banks have to

1596

01:25:55,679 --> 01:25:56,800

meet

1597

01:25:56,800 --> 01:25:58,639

all right so it's really really

1598

01:25:58,639 --> 01:26:00,000

important that you

1599

01:26:00,000 --> 01:26:03,040

understand that money creation

1600

01:26:03,040 --> 01:26:07,120

arises from loans not from the deposit

1601

01:26:07,120 --> 01:26:09,920

the deposit is a consequence of the loan

1602

01:26:09,920 --> 01:26:12,560

so even if this bank had no deposit to

1603

01:26:12,560 --> 01:26:13,760

work with

1604

01:26:13,760 --> 01:26:16,719

simply by making a loan it would create

1605

01:26:16,719 --> 01:26:18,960

a deposit

1606

01:26:18,960 --> 01:26:22,000

okay so very often this is taught very

1607

01:26:22,000 --> 01:26:25,600

badly in economics

1608

01:26:25,920 --> 01:26:29,040

all right and i'm going to finish with

1609

01:26:29,040 --> 01:26:30,239

this one

1610

01:26:30,239 --> 01:26:32,159

which is digital thank you i haven't

1611

01:26:32,159 --> 01:26:36,480

seen it yet

1612

01:26:36,480 --> 01:26:40,080

oh my friend tat

1613

01:26:42,000 --> 01:26:44,719

our lives have gone digital we are now a

1614

01:26:44,719 --> 01:26:46,719

click away from shopping and dining

1615

01:26:46,719 --> 01:26:48,840

and our banking system has done just the

1616

01:26:48,840 --> 01:26:50,080

same

1617

01:26:50,080 --> 01:26:52,800

virtual banks also known as neo banks or

1618

01:26:52,800 --> 01:26:54,239

digital only banks

1619

01:26:54,239 --> 01:26:56,560

provide retail banking services online

1620

01:26:56,560 --> 01:26:58,000

through mobile phones

1621

01:26:58,000 --> 01:27:00,080

and customers no longer have to visit a

1622

01:27:00,080 --> 01:27:02,880

physical branch

1623

01:27:02,880 --> 01:27:04,880

the idea isn't as modern as we might

1624

01:27:04,880 --> 01:27:07,120

think currently in the uk

1625

01:27:07,120 --> 01:27:09,679

there are around 13 million digital only

1626

01:27:09,679 --> 01:27:10,719

bank customers

1627

01:27:10,719 --> 01:27:13,840

double the number that existed in 2018

1628

01:27:13,840 --> 01:27:16,000

and this figure is expected to almost

1629

01:27:16,000 --> 01:27:18,719

triple by 2020.

1630

01:27:18,719 --> 01:27:21,040

to move hong kong into the new era of

1631

01:27:21,040 --> 01:27:22,239

smart banking

1632

01:27:22,239 --> 01:27:25,440

hkma hong kong's de facto central bank

1633

01:27:25,440 --> 01:27:27,840

is welcoming eight new virtual banks by

1634

01:27:27,840 --> 01:27:29,199

late 2019

1635

01:27:29,199 --> 01:27:32,800

or early 2020. the idea which targets

1636

01:27:32,800 --> 01:27:35,440

underserved retail and sme customers in

1637

01:27:35,440 --> 01:27:36,239

the city

1638

01:27:36,239 --> 01:27:38,639

disrupts the banking landscape and hopes

1639

01:27:38,639 --> 01:27:40,400

to move the industry into a more

1640

01:27:40,400 --> 01:27:43,920

tech driven future however as a large

1641

01:27:43,920 --> 01:27:44,560

amount of

1642

01:27:44,560 --> 01:27:46,800

overseas digital only banks are still

1643

01:27:46,800 --> 01:27:48,960

struggling to become profitable

1644

01:27:48,960 --> 01:27:51,360

many question virtual banks long-term

1645

01:27:51,360 --> 01:27:53,520

sustainability

1646

01:27:53,520 --> 01:27:55,679

hong kong banks being some of the most

1647

01:27:55,679 --> 01:27:57,120

profitable in the world

1648

01:27:57,120 --> 01:28:00,239

are earning a total of 268 billion hong

1649

01:28:00,239 --> 01:28:03,040

kong dollars in operating profits

1650

01:28:03,040 --> 01:28:06,159

among a total of 164 licensed banks in

1651

01:28:06,159 --> 01:28:07,040

hong kong

1652

01:28:07,040 --> 01:28:09,360

the market is led by five dominating

1653

01:28:09,360 --> 01:28:10,639

players

1654

01:28:10,639 --> 01:28:12,800

would virtual banks be able to disrupt

1655

01:28:12,800 --> 01:28:15,040

the scene and gain enough traction

1656

01:28:15,040 --> 01:28:17,120

or will they be a mere distraction and

1657

01:28:17,120 --> 01:28:20,320

remain overshadowed

1658

01:28:24,560 --> 01:28:28,159

i think in the long run um there will be

1659

01:28:28,159 --> 01:28:30,480

no more different trading between the

1660

01:28:30,480 --> 01:28:32,159

traditional ban or virtual brand i think

1661

01:28:32,159 --> 01:28:32,719

a lot of

1662

01:28:32,719 --> 01:28:34,239

different banks they will start to

1663

01:28:34,239 --> 01:28:36,400

accelerate the digital transformation

1664

01:28:36,400 --> 01:28:39,199

and in one day all of them will be

1665

01:28:39,199 --> 01:28:39,920

offering

1666

01:28:39,920 --> 01:28:42,560

mainly on a digital channel and kind of

1667

01:28:42,560 --> 01:28:44,719

um trying to reshape the banking

1668

01:28:44,719 --> 01:28:45,760

experience

1669

01:28:45,760 --> 01:28:48,239

honestly this will create a lot of

1670

01:28:48,239 --> 01:28:49,040

competition

1671

01:28:49,040 --> 01:28:50,560

in the market instead of you know

1672

01:28:50,560 --> 01:28:52,880

compete with the products or the pricing

1673

01:28:52,880 --> 01:28:54,960

these virtual banks will bring a lot of

1674

01:28:54,960 --> 01:28:56,239

customer experience

1675

01:28:56,239 --> 01:28:58,000

most probably no competition will be

1676

01:28:58,000 --> 01:29:00,159

different as a result of this

1677

01:29:00,159 --> 01:29:02,400

hong kong people will win and to be

1678

01:29:02,400 --> 01:29:04,000

honest hong kong people

1679

01:29:04,000 --> 01:29:06,159

deserves no better services better

1680

01:29:06,159 --> 01:29:07,760

digital solutions

1681

01:29:07,760 --> 01:29:09,840

no doubt i think consumers will be the

1682

01:29:09,840 --> 01:29:11,440

biggest winner in this

1683

01:29:11,440 --> 01:29:14,080

environment of intense competition

1684

01:29:14,080 --> 01:29:15,920

because it would imply that better and

1685

01:29:15,920 --> 01:29:17,280

newer financial products

1686

01:29:17,280 --> 01:29:19,840

can be offered to them at a lower cost

1687

01:29:19,840 --> 01:29:21,679

banking has to change

1688

01:29:21,679 --> 01:29:23,120

and it will not go back because

1689

01:29:23,120 --> 01:29:25,120

consumers expect

1690

01:29:25,120 --> 01:29:28,159

digital real-time convenience

1691

01:29:28,159 --> 01:29:31,199

fast cross-border i think all players in

1692

01:29:31,199 --> 01:29:32,719

hong kong

1693

01:29:32,719 --> 01:29:35,920

will share the view that we need many

1694

01:29:35,920 --> 01:29:37,040

more talents

1695

01:29:37,040 --> 01:29:39,520

who will join this digital banking

1696

01:29:39,520 --> 01:29:41,520

transformation journey which is going to

1697

01:29:41,520 --> 01:29:42,880

last

1698

01:29:42,880 --> 01:29:45,280

in the long foreseeable future i also

1699

01:29:45,280 --> 01:29:46,400

hear

1700

01:29:46,400 --> 01:29:49,440

a lot of banks and also fintechs

1701

01:29:49,440 --> 01:29:51,280

talk about their biggest pain point

1702

01:29:51,280 --> 01:29:53,600

being the lack of talent

1703

01:29:53,600 --> 01:29:55,920

the lack of developer talent the lack of

1704

01:29:55,920 --> 01:29:57,040

fighty talents

1705

01:29:57,040 --> 01:29:59,280

in hong kong hong kong does not have

1706

01:29:59,280 --> 01:30:00,560

enough talent

1707

01:30:00,560 --> 01:30:03,840

particularly on the tab on a ted talent

1708

01:30:03,840 --> 01:30:06,560

right now we always look for talent with

1709

01:30:06,560 --> 01:30:06,880

um

1710

01:30:06,880 --> 01:30:08,800

banking experience but at the same time

1711

01:30:08,800 --> 01:30:10,480

they are having a good

1712

01:30:10,480 --> 01:30:12,320

time mindset and they are being test

1713

01:30:12,320 --> 01:30:15,120

savvy the countdown begins

1714

01:30:15,120 --> 01:30:17,040

will you switch to this new form of

1715

01:30:17,040 --> 01:30:18,480

banking

1716

01:30:18,480 --> 01:30:20,719

my digital banking potentially be an

1717

01:30:20,719 --> 01:30:24,320

ideal career path for you

1718

01:30:25,360 --> 01:30:29,040

okay so as i mentioned in the chat box

1719

01:30:29,040 --> 01:30:30,960

you were free to leave it was

1720

01:30:30,960 --> 01:30:33,440

because we ran over time but if you have

1721

01:30:33,440 --> 01:30:34,159

any questions

1722

01:30:34,159 --> 01:30:37,760

just let me know okay otherwise i will

1723

01:30:37,760 --> 01:30:38,159

see

1724

01:30:38,159 --> 01:30:41,520

you on friday

1725

01:30:43,600 --> 01:30:46,080

thank you

1726

01:30:47,360 --> 01:30:49,840

bye-bye

1727

01:30:50,400 --> 01:30:53,760

uh professor i have a question here oh

1728

01:30:53,760 --> 01:30:57,120

yeah so um like this is like very

1729

01:30:57,120 --> 01:31:00,000

um like a basic understanding but like

1730

01:31:00,000 --> 01:31:01,040

i've heard that

1731

01:31:01,040 --> 01:31:03,040

you know some banks have or some

1732

01:31:03,040 --> 01:31:04,800

reserves have like a gold

1733

01:31:04,800 --> 01:31:08,239

reserve or something like that um

1734

01:31:08,239 --> 01:31:11,440

like for like for example um

1735

01:31:11,440 --> 01:31:13,040

i think like the bank of england or

1736

01:31:13,040 --> 01:31:16,080

something they have like

1737

01:31:16,080 --> 01:31:18,000

yeah with central banks yeah central

1738

01:31:18,000 --> 01:31:20,159

bank so central banks have to manage

1739

01:31:20,159 --> 01:31:20,719

their

1740

01:31:20,719 --> 01:31:23,920

foreign uh reserves so because they have

1741

01:31:23,920 --> 01:31:26,080

to manage foreign reserves they have to

1742

01:31:26,080 --> 01:31:27,520

keep a certain amount

1743

01:31:27,520 --> 01:31:30,719

of foreign currencies but also

1744

01:31:30,719 --> 01:31:33,360

some of them have gold and so it depends

1745

01:31:33,360 --> 01:31:34,800

on the view

1746

01:31:34,800 --> 01:31:37,280

of the central bank and the related

1747

01:31:37,280 --> 01:31:37,920

government

1748

01:31:37,920 --> 01:31:41,199

as to what it what they think is prudent

1749

01:31:41,199 --> 01:31:43,280

in terms of managing the country's

1750

01:31:43,280 --> 01:31:45,120

reserves and particularly foreign

1751

01:31:45,120 --> 01:31:46,000

reserves

1752

01:31:46,000 --> 01:31:48,880

so when for example when the rnb the

1753

01:31:48,880 --> 01:31:50,760

chinese u.n started to

1754

01:31:50,760 --> 01:31:54,480

internationalize and was a few years ago

1755

01:31:54,480 --> 01:31:57,600

there was a rebalancing of the

1756

01:31:57,600 --> 01:32:00,800

sdr which are the special drawing

1757

01:32:00,800 --> 01:32:04,639

rights uh which is a sort of fictional

1758

01:32:04,639 --> 01:32:06,800

international currency which is a basket

1759

01:32:06,800 --> 01:32:08,320

of the most

1760

01:32:08,320 --> 01:32:12,320

liquid currencies in the world and after

1761

01:32:12,320 --> 01:32:12,719

the

1762

01:32:12,719 --> 01:32:16,800

r b started internationalizing

1763

01:32:16,800 --> 01:32:20,080

and becoming used for trade as well as

1764

01:32:20,080 --> 01:32:22,639

uh currency exchange then they

1765

01:32:22,639 --> 01:32:24,560

incorporated the rmb

1766

01:32:24,560 --> 01:32:28,080

in that basket and as a result of the

1767

01:32:28,080 --> 01:32:30,639

rmb being part of that basket many

1768

01:32:30,639 --> 01:32:32,000

central banks

1769

01:32:32,000 --> 01:32:35,040

started getting r b so that they would

1770

01:32:35,040 --> 01:32:35,760

have

1771

01:32:35,760 --> 01:32:38,159

enough reserves in a variety of

1772

01:32:38,159 --> 01:32:39,679

different currencies

1773

01:32:39,679 --> 01:32:42,960

so central banks do have to

1774

01:32:42,960 --> 01:32:45,840

manage their international exposure so

1775

01:32:45,840 --> 01:32:48,639

they have to have enough currencies

1776

01:32:48,639 --> 01:32:51,120

for you know financing international

1777

01:32:51,120 --> 01:32:52,000

trade

1778

01:32:52,000 --> 01:32:55,360

and for also helping the banks

1779

01:32:55,360 --> 01:32:58,159

in their country with international

1780

01:32:58,159 --> 01:33:00,239

transactions so for example during the

1781

01:33:00,239 --> 01:33:02,320

global financial crisis

1782

01:33:02,320 --> 01:33:05,840

uh in the fourth quarter of 2008 there

1783

01:33:05,840 --> 01:33:07,520

was a big

1784

01:33:07,520 --> 01:33:11,440

squeeze and particularly in u.s dollar

1785

01:33:11,440 --> 01:33:14,480

so in order to remedy that central banks

1786

01:33:14,480 --> 01:33:16,239

had entered into

1787

01:33:16,239 --> 01:33:18,719

swap agreement currency swap agreement

1788

01:33:18,719 --> 01:33:20,000

with the fed

1789

01:33:20,000 --> 01:33:22,239

so that the fed would provide us dollar

1790

01:33:22,239 --> 01:33:24,639

in exchange for their own currency

1791

01:33:24,639 --> 01:33:26,800

so that in turn the central banks were

1792

01:33:26,800 --> 01:33:29,600

able to provide us dollars to the banks

1793

01:33:29,600 --> 01:33:32,960

in their country so this is a

1794

01:33:32,960 --> 01:33:35,679

very important aspect of central bank

1795

01:33:35,679 --> 01:33:37,440

management

1796

01:33:37,440 --> 01:33:41,199

and the gold is um

1797

01:33:41,280 --> 01:33:44,560

a kind of remnant i think of the gold

1798

01:33:44,560 --> 01:33:46,320

standard in the old days where

1799

01:33:46,320 --> 01:33:48,560

currencies were packed to the gold but

1800

01:33:48,560 --> 01:33:51,040

also it could be a more prudential tool

1801

01:33:51,040 --> 01:33:53,360

of managing the reserves

1802

01:33:53,360 --> 01:33:56,960

oh okay and so when

1803

01:33:56,960 --> 01:33:58,880

when when like the central banks like

1804

01:33:58,880 --> 01:34:00,480

when they print more

1805

01:34:00,480 --> 01:34:03,520

money um like

1806

01:34:03,520 --> 01:34:06,239

like do they tie it to to some sort of

1807

01:34:06,239 --> 01:34:07,199

um

1808

01:34:07,199 --> 01:34:09,120

like value based on that like for

1809

01:34:09,120 --> 01:34:11,440

example if if they print out like 100

1810

01:34:11,440 --> 01:34:12,239

million

1811

01:34:12,239 --> 01:34:14,880

us dollars like does it just not mean

1812

01:34:14,880 --> 01:34:17,280

anything

1813

01:34:17,440 --> 01:34:20,880

no not anymore it's fiat currency

1814

01:34:20,880 --> 01:34:25,040

in the us you trust or you don't

1815

01:34:25,360 --> 01:34:28,480

oh that's like that's

1816

01:34:28,480 --> 01:34:30,880

cool but it's also kind of scary as well

1817

01:34:30,880 --> 01:34:32,080

it is very scary

1818

01:34:32,080 --> 01:34:34,080

when you start looking at the history of

1819

01:34:34,080 --> 01:34:35,920

money it is very scary

1820

01:34:35,920 --> 01:34:38,719

and it was not that scary when the us

1821

01:34:38,719 --> 01:34:40,320

was the most stable

1822

01:34:40,320 --> 01:34:45,280

power but when they

1823

01:34:45,280 --> 01:34:48,480

the political discussion started kind of

1824

01:34:48,480 --> 01:34:50,639

paralyzing the government system in the

1825

01:34:50,639 --> 01:34:53,199

u.s and when you started having

1826

01:34:53,199 --> 01:34:56,639

uh total dysfunction in congress which

1827

01:34:56,639 --> 01:34:57,600

resulted

1828

01:34:57,600 --> 01:35:01,280

in they not being able to agree on a

1829

01:35:01,280 --> 01:35:03,199

debt ceiling or anything like that and

1830

01:35:03,199 --> 01:35:05,280

then the government stopped operating

1831

01:35:05,280 --> 01:35:09,280

the us was that close to default

1832

01:35:09,280 --> 01:35:11,920

and at that point everybody kind of got

1833

01:35:11,920 --> 01:35:14,320

scared because they realize that

1834

01:35:14,320 --> 01:35:16,400

oh my god we're depending on the us

1835

01:35:16,400 --> 01:35:19,280

dollar on the u.s financial system

1836

01:35:19,280 --> 01:35:22,400

and look at all these crazy people

1837

01:35:22,400 --> 01:35:24,880

not not managing the country and that is

1838

01:35:24,880 --> 01:35:26,080

the point

1839

01:35:26,080 --> 01:35:29,440

at which china started thinking well

1840

01:35:29,440 --> 01:35:32,000

we better start stop relying on the us

1841

01:35:32,000 --> 01:35:33,199

dollars so much for

1842

01:35:33,199 --> 01:35:36,080

our trade we need to start using our own

1843

01:35:36,080 --> 01:35:37,199

currency

1844

01:35:37,199 --> 01:35:40,840

and of course the trump uh rain did not

1845

01:35:40,840 --> 01:35:42,159

help

1846

01:35:42,159 --> 01:35:44,560

we are sure people right so now of

1847

01:35:44,560 --> 01:35:46,480

course we have biden which is sort of

1848

01:35:46,480 --> 01:35:48,880

reassuring but

1849

01:35:48,880 --> 01:35:52,159

you know this has proven that you cannot

1850

01:35:52,159 --> 01:35:55,360

expect that the stability will will last

1851

01:35:55,360 --> 01:35:57,600

forever

1852

01:35:57,600 --> 01:35:59,840

so yeah it is not terribly reassuring

1853

01:35:59,840 --> 01:36:02,000

i'm sorry

1854

01:36:02,000 --> 01:36:05,360

yeah all right thank you

1855

01:36:05,360 --> 01:36:08,320

okay no problem all right have a good

1856

01:36:08,320 --> 01:36:08,960

evening

1857

01:36:08,960 --> 01:36:11,840

bye bye

==end 0315==

==start 0319==

1

00:03:14,630 --> 00:03:17,699

[Applause]

2

00:05:05,600 --> 00:05:06,800

all right

3

00:05:06,800 --> 00:05:09,600

good afternoon welcome back i hope

4

00:05:09,600 --> 00:05:12,160

you're all well today

5

00:05:12,160 --> 00:05:16,240

i i there any questions before we

6

00:05:16,240 --> 00:05:20,400

continue our discussions on banks

7

00:05:22,479 --> 00:05:25,840

no ways

8

00:05:26,160 --> 00:05:29,919

you don't okay um

9

00:05:29,919 --> 00:05:33,680

all right if no questions and we

10

00:05:33,680 --> 00:05:37,280

we looked at the video last time on

11

00:05:37,280 --> 00:05:40,320

monday and a little bit

12

00:05:40,320 --> 00:05:43,280

of sharing on the digital and virtual

13

00:05:43,280 --> 00:05:45,199

banks in hong kong

14

00:05:45,199 --> 00:05:48,720

as you can see so this is from

15

00:05:48,720 --> 00:05:52,479

a marks presentation that i i attended

16

00:05:52,479 --> 00:05:56,000

uh there were eight awardees

17

00:05:56,000 --> 00:05:59,600

of virtual banking licenses in hong kong

18

00:05:59,600 --> 00:06:02,639

in 2019 these

19

00:06:02,639 --> 00:06:06,080

are all the winners right there and the

20

00:06:06,080 --> 00:06:07,199

objective was

21

00:06:07,199 --> 00:06:10,560

to excuse me oops

22

00:06:17,840 --> 00:06:20,880

sorry sorry sorry i had not put the

23

00:06:20,880 --> 00:06:24,160

uh i had not put the

24

00:06:24,160 --> 00:06:26,810

sign on my door um

25

00:06:26,810 --> 00:06:29,440

[Music]

26

00:06:29,440 --> 00:06:34,160

so uh yes so the objective was to

27

00:06:34,160 --> 00:06:38,240

increase access to banking services

28

00:06:38,240 --> 00:06:41,360

to spur head innovation and

29

00:06:41,360 --> 00:06:45,360

improve customer experience and

30

00:06:45,360 --> 00:06:48,000

these are some of the similarities and

31

00:06:48,000 --> 00:06:49,360

differences

32

00:06:49,360 --> 00:06:51,520

between virtual bank and conventional

33

00:06:51,520 --> 00:06:53,759

banks one of the things that you should

34

00:06:53,759 --> 00:06:54,240

know

35

00:06:54,240 --> 00:06:57,039

that in hong kong the regulators have

36

00:06:57,039 --> 00:06:58,560

made it

37

00:06:58,560 --> 00:07:01,599

quite hard to get a banking license

38

00:07:01,599 --> 00:07:02,000

virtual

39

00:07:02,000 --> 00:07:05,360

banking license because they ask for

40

00:07:05,360 --> 00:07:08,720

kind of the same constraint as

41

00:07:08,720 --> 00:07:11,759

physical banks do have

42

00:07:11,759 --> 00:07:15,680

so that means high

43

00:07:15,680 --> 00:07:18,080

threshold in terms of capital

44

00:07:18,080 --> 00:07:19,599

requirement

45

00:07:19,599 --> 00:07:23,039

um and then there are

46

00:07:23,039 --> 00:07:26,800

different operating models for the

47

00:07:26,800 --> 00:07:30,479

virtual banks um this

48

00:07:30,479 --> 00:07:33,840

is sharing some big trends uh this was

49

00:07:33,840 --> 00:07:36,160

from the mckinsey global report

50

00:07:36,160 --> 00:07:39,919

uh global banking report 2020.

51

00:07:39,919 --> 00:07:43,440

so you can see how uh there's

52

00:07:43,440 --> 00:07:46,879

some really interesting things happening

53

00:07:46,879 --> 00:07:49,599

so their point of view is we have

54

00:07:49,599 --> 00:07:50,840

increased

55

00:07:50,840 --> 00:07:53,680

deglobalization and of course more

56

00:07:53,680 --> 00:07:55,680

geopolitical concerns which is

57

00:07:55,680 --> 00:07:58,400

definitely the case

58

00:07:58,400 --> 00:08:01,520

many changes in a micro environment the

59

00:08:01,520 --> 00:08:03,039

ways we work

60

00:08:03,039 --> 00:08:05,120

the challenges from the tech players

61

00:08:05,120 --> 00:08:07,599

which is what we've been discussing

62

00:08:07,599 --> 00:08:10,639

uh transform customer expectations with

63

00:08:10,639 --> 00:08:13,199

younger generations coming

64

00:08:13,199 --> 00:08:16,800

into the workforce we have a digitally

65

00:08:16,800 --> 00:08:18,319

aware

66

00:08:18,319 --> 00:08:21,919

workforce and they are less likely to

67

00:08:21,919 --> 00:08:24,160

put up with very stodgy customer

68

00:08:24,160 --> 00:08:26,240

experience such as we've

69

00:08:26,240 --> 00:08:28,879

experienced in hong kong for a long time

70

00:08:28,879 --> 00:08:30,479

and more awareness

71

00:08:30,479 --> 00:08:33,680

on esg

72

00:08:33,839 --> 00:08:37,120

and increasingly so this is a report

73

00:08:37,120 --> 00:08:38,000

from

74

00:08:38,000 --> 00:08:40,640

bcg boston consulting group back in

75

00:08:40,640 --> 00:08:42,320

december 2020

76

00:08:42,320 --> 00:08:46,480

on banking and this is documenting

77

00:08:46,480 --> 00:08:49,600

the increased use

78

00:08:49,600 --> 00:08:52,959

of digital banking by traditional bank

79

00:08:52,959 --> 00:08:56,160

customers so

80

00:08:56,160 --> 00:08:59,760

um here we have a video from

81

00:08:59,760 --> 00:09:08,080

group 3 about china

82

00:09:08,080 --> 00:09:09,839

is about to launch one of the most

83

00:09:09,839 --> 00:09:12,160

revolutionary financial projects in the

84

00:09:12,160 --> 00:09:12,720

world

85

00:09:12,720 --> 00:09:14,560

it's turning its physical coins and

86

00:09:14,560 --> 00:09:16,160

banknotes digital

87

00:09:16,160 --> 00:09:18,480

unlike most other cryptocurrencies like

88

00:09:18,480 --> 00:09:19,200

bitcoin

89

00:09:19,200 --> 00:09:20,880

which work outside the control of a

90

00:09:20,880 --> 00:09:22,320

central authority

91

00:09:22,320 --> 00:09:24,160

the digital uin will be the world's

92

00:09:24,160 --> 00:09:26,000

first that is state-owned

93

00:09:26,000 --> 00:09:29,040

issued by the central bank you can use

94

00:09:29,040 --> 00:09:30,640

digital yuan anywhere

95

00:09:30,640 --> 00:09:33,440

since it works exactly like cash except

96

00:09:33,440 --> 00:09:37,839

it's on your phone

97

00:09:49,040 --> 00:09:51,120

what does money in your phone look like

98

00:09:51,120 --> 00:09:53,600

well digital urine might be stored in a

99

00:09:53,600 --> 00:09:54,640

digital wallet

100

00:09:54,640 --> 00:09:58,240

like this the additional wallet

101

00:09:58,240 --> 00:10:00,399

as we see right now only requires a

102

00:10:00,399 --> 00:10:01,279

download of an

103

00:10:01,279 --> 00:10:03,519

app on a mobile phone it does not

104

00:10:03,519 --> 00:10:05,600

require mobile phone

105

00:10:05,600 --> 00:10:08,320

data signals even to make a transaction

106

00:10:08,320 --> 00:10:10,959

to take place

107

00:10:11,279 --> 00:10:14,000

which is a technology what we call the

108

00:10:14,000 --> 00:10:14,880

nfc

109

00:10:14,880 --> 00:10:16,959

uh the near fuel communication i think

110

00:10:16,959 --> 00:10:19,200

this is also one of the major

111

00:10:19,200 --> 00:10:20,880

differences compared to

112

00:10:20,880 --> 00:10:24,000

alipay and richard pay because the nfc

113

00:10:24,000 --> 00:10:26,720

allows you to do offline payments

114

00:10:26,720 --> 00:10:28,880

so even if you can't get a signal say

115

00:10:28,880 --> 00:10:30,959

you're mountain climbing or on a flight

116

00:10:30,959 --> 00:10:33,360

you'll still be able to pay with digital

117

00:10:33,360 --> 00:10:34,800

un

118

00:10:34,800 --> 00:10:37,040

all this leads to one big plus for

119

00:10:37,040 --> 00:10:38,800

china's authorities

120

00:10:38,800 --> 00:10:41,279

the government can check every single

121

00:10:41,279 --> 00:10:43,200

transfer that happens to the platform

122

00:10:43,200 --> 00:10:44,800

they can eliminate counterfeiting they

123

00:10:44,800 --> 00:10:46,320

can eliminate money laundering

124

00:10:46,320 --> 00:10:47,440

and they have a much more clear

125

00:10:47,440 --> 00:10:50,560

understanding of who is spending what

126

00:10:50,560 --> 00:10:53,360

hold up wait what every single transfer

127

00:10:53,360 --> 00:10:54,800

every single

128

00:10:54,800 --> 00:10:58,160

transfer this does raise potential

129

00:10:58,160 --> 00:11:01,690

privacy issues

130

00:11:01,690 --> 00:11:04,739

[Music]

131

00:11:08,720 --> 00:11:11,360

in other words you could go on indulging

132

00:11:11,360 --> 00:11:13,200

in virtual gifts for your favorite live

133

00:11:13,200 --> 00:11:14,399

stream celebrity

134

00:11:14,399 --> 00:11:17,120

or advice like gambling but your

135

00:11:17,120 --> 00:11:19,680

transactions may all be monitored

136

00:11:19,680 --> 00:11:21,120

the government has a lot more control

137

00:11:21,120 --> 00:11:23,519

over their currency so for example if we

138

00:11:23,519 --> 00:11:26,880

had a very low social credit score or

139

00:11:26,880 --> 00:11:28,800

the government maybe wanted to increase

140

00:11:28,800 --> 00:11:30,240

their finances very quickly

141

00:11:30,240 --> 00:11:31,680

they would have a lot of power to

142

00:11:31,680 --> 00:11:32,880

prevent you from doing something with

143

00:11:32,880 --> 00:11:33,440

their money

144

00:11:33,440 --> 00:11:35,040

because they're controlling the digital

145

00:11:35,040 --> 00:11:37,440

system on the flip side

146

00:11:37,440 --> 00:11:39,600

visitors to china will find it much

147

00:11:39,600 --> 00:11:42,640

easier to use renminbi travelers can't

148

00:11:42,640 --> 00:11:44,720

use wechat or alipay if they don't have

149

00:11:44,720 --> 00:11:46,480

a chinese bank account or chinese

150

00:11:46,480 --> 00:11:48,079

registered credit card

151

00:11:48,079 --> 00:11:49,760

you might have to ask someone to send

152

00:11:49,760 --> 00:11:52,320

you a red packet in wechat or alipay

153

00:11:52,320 --> 00:11:54,160

or risk dirty looks when you try to pay

154

00:11:54,160 --> 00:11:55,440

with cash

155

00:11:55,440 --> 00:11:58,399

and that will change with digital yen on

156

00:11:58,399 --> 00:11:59,440

a basic level

157

00:11:59,440 --> 00:12:01,519

you do not need a bank account to

158

00:12:01,519 --> 00:12:04,000

essentially use digital

159

00:12:04,000 --> 00:12:06,320

it gives more opportunities more

160

00:12:06,320 --> 00:12:07,920

significantly to people

161

00:12:07,920 --> 00:12:10,639

who live in remote areas such as people

162

00:12:10,639 --> 00:12:11,200

in

163

00:12:11,200 --> 00:12:14,959

qinghai or tibet who are significantly

164

00:12:14,959 --> 00:12:16,160

underbanked

165

00:12:16,160 --> 00:12:18,240

businesses may find it more efficient to

166

00:12:18,240 --> 00:12:19,440

deal directly

167

00:12:19,440 --> 00:12:21,680

with digital yen so right now if i want

168

00:12:21,680 --> 00:12:23,760

to send money from a bank in china to a

169

00:12:23,760 --> 00:12:26,240

bank overseas i basically have to use

170

00:12:26,240 --> 00:12:28,320

the swift network or one of a couple of

171

00:12:28,320 --> 00:12:29,279

other networks

172

00:12:29,279 --> 00:12:30,480

and it's going to be much cheaper for

173

00:12:30,480 --> 00:12:32,959

them to do transactions the digital unit

174

00:12:32,959 --> 00:12:34,720

is expected to launch in the next

175

00:12:34,720 --> 00:12:38,000

one to two years at the moment it's

176

00:12:38,000 --> 00:12:40,399

undergoing trials in four cities

177

00:12:40,399 --> 00:12:44,399

shenzhen suzhou and chengdu

178

00:12:44,399 --> 00:12:46,800

actually right now i'm in sudo one of

179

00:12:46,800 --> 00:12:48,079

the travel cities

180

00:12:48,079 --> 00:12:50,480

it said the government employees will

181

00:12:50,480 --> 00:12:51,279

get

182

00:12:51,279 --> 00:12:54,000

travelling around halfway through hours

183

00:12:54,000 --> 00:12:56,399

for now

184

00:12:56,639 --> 00:13:00,240

and then ironically american franchises

185

00:13:00,240 --> 00:13:02,800

such as the mcdonald's as barbecue

186

00:13:02,800 --> 00:13:03,600

subway

187

00:13:03,600 --> 00:13:06,720

have become the first vendors the tender

188

00:13:06,720 --> 00:13:08,639

chinese teachers yes so we must say

189

00:13:08,639 --> 00:13:09,760

these are all

190

00:13:09,760 --> 00:13:12,720

great new experiences it's also believed

191

00:13:12,720 --> 00:13:13,120

that

192

00:13:13,120 --> 00:13:15,120

the digital yen will be piloted at the

193

00:13:15,120 --> 00:13:17,279

winter olympics in 2022 with

194

00:13:17,279 --> 00:13:19,839

international

195

00:13:19,839 --> 00:13:21,440

be interesting to see how that plays out

196

00:13:21,440 --> 00:13:23,519

i i think some countries may be

197

00:13:23,519 --> 00:13:25,200

concerned because they don't want data

198

00:13:25,200 --> 00:13:27,200

control to rest in china

199

00:13:27,200 --> 00:13:28,800

i think that's a question that the

200

00:13:28,800 --> 00:13:30,399

china's going to have to answer is you

201

00:13:30,399 --> 00:13:32,160

know what exactly is being tracked

202

00:13:32,160 --> 00:13:33,680

by the government versus what's just

203

00:13:33,680 --> 00:13:37,040

being tracked so that's secure

204

00:13:38,639 --> 00:13:41,760

well very interesting video

205

00:13:41,760 --> 00:13:44,560

thank you very much to group three for

206

00:13:44,560 --> 00:13:45,600

picking that

207

00:13:45,600 --> 00:13:49,760

i learned a lot uh okay

208

00:13:49,760 --> 00:13:52,880

so let me switch back to my powerpoint

209

00:13:52,880 --> 00:13:55,440

where is it

210

00:13:57,519 --> 00:14:00,560

yeah all right some

211

00:14:00,560 --> 00:14:03,199

very very good videos so we've learned

212

00:14:03,199 --> 00:14:05,199

quite a bit of things

213

00:14:05,199 --> 00:14:08,000

in this section and just to show you the

214

00:14:08,000 --> 00:14:09,600

size

215

00:14:09,600 --> 00:14:13,279

of financial intermediation globally

216

00:14:13,279 --> 00:14:15,279

we're talking about 5.5

217

00:14:15,279 --> 00:14:18,279

trillion dollars estimated revenue in

218

00:14:18,279 --> 00:14:19,519

2019

219

00:14:19,519 --> 00:14:22,720

according to the mckinsey global banking

220

00:14:22,720 --> 00:14:23,639

report

221

00:14:23,639 --> 00:14:27,680

2020 and you can see the part here

222

00:14:27,680 --> 00:14:31,279

about retail banking payments

223

00:14:31,279 --> 00:14:34,320

commercial and corporate banking you

224

00:14:34,320 --> 00:14:36,959

have the wealth management side here

225

00:14:36,959 --> 00:14:39,680

market infrastructure infrastructure and

226

00:14:39,680 --> 00:14:40,800

then we're going to be

227

00:14:40,800 --> 00:14:43,600

talking about investment banking in our

228

00:14:43,600 --> 00:14:44,240

next

229

00:14:44,240 --> 00:14:48,240

session all right so from this

230

00:14:48,240 --> 00:14:50,800

part of the course you should have

231

00:14:50,800 --> 00:14:52,079

understood

232

00:14:52,079 --> 00:14:54,320

what are commercial banks what is it

233

00:14:54,320 --> 00:14:55,760

that they do

234

00:14:55,760 --> 00:14:58,720

who are they emerging competitors and

235

00:14:58,720 --> 00:15:00,320

what is the role

236

00:15:00,320 --> 00:15:04,240

of banks in money creation

237

00:15:04,240 --> 00:15:07,760

so now we're going to talk about bank

238

00:15:07,760 --> 00:15:10,399

management

239

00:15:10,880 --> 00:15:13,360

so we've touched upon hint in uh

240

00:15:13,360 --> 00:15:14,880

previous

241

00:15:14,880 --> 00:15:18,880

uh discussions but uh i'm going to

242

00:15:18,880 --> 00:15:21,839

uh send you all into breakout rooms

243

00:15:21,839 --> 00:15:23,040

again

244

00:15:23,040 --> 00:15:26,240

uh and this time what i want you to

245

00:15:26,240 --> 00:15:27,199

figure out

246

00:15:27,199 --> 00:15:30,880

is if you were

247

00:15:30,880 --> 00:15:34,880

suddenly waking up and you were the ceo

248

00:15:34,880 --> 00:15:38,639

of a large bank

249

00:15:38,959 --> 00:15:42,959

what would keep you awake at night and

250

00:15:42,959 --> 00:15:47,120

why and so i'm going to give you about

251

00:15:47,120 --> 00:15:55,839

seven minutes

252

00:16:20,839 --> 00:16:23,839

so

253

00:17:30,840 --> 00:17:33,840

so

254

00:17:58,840 --> 00:18:01,840

do

255

00:18:12,840 --> 00:18:15,840

so

256

00:18:25,840 --> 00:18:43,840

okay so chang day what's happening

257

00:18:48,000 --> 00:18:50,480

i still have three students in the main

258

00:18:50,480 --> 00:18:51,039

room this

259

00:18:51,039 --> 00:18:57,760

is weird

260

00:18:57,760 --> 00:19:00,880

did you not get uh a room

261

00:19:00,880 --> 00:19:03,200

i'm confused as to what's happening with

262

00:19:03,200 --> 00:19:11,600

you why are you still in the

263

00:19:11,600 --> 00:19:13,919

you're into groups again but but i'm

264

00:19:13,919 --> 00:19:17,679

still seeing you in the main room

265

00:19:22,000 --> 00:19:26,240

and i have tsuna sayat and reihang why

266

00:19:26,240 --> 00:19:27,039

are you still

267

00:19:27,039 --> 00:19:30,320

in the main room and not joining

268

00:19:30,320 --> 00:19:33,039

room two

269

00:19:36,000 --> 00:19:39,840

are you really here

270

00:19:50,840 --> 00:19:53,840

aha

271

00:19:57,760 --> 00:20:03,360

so not yet are you here

272

00:20:05,520 --> 00:20:09,200

you should join your breakout room

273

00:20:14,000 --> 00:20:21,840

so yeah then sana

274

00:20:28,320 --> 00:20:35,840

what's happening with giant day

275

00:21:15,760 --> 00:21:17,840

foreign

276

00:22:10,320 --> 00:22:13,840

okay three minutes

277

00:23:06,840 --> 00:23:09,840

wow

278

00:23:48,840 --> 00:23:51,840

so

279

00:24:16,840 --> 00:24:19,840

nope

280

00:24:30,840 --> 00:24:33,840

my

281

00:24:48,080 --> 00:24:51,039

okay so i'm getting everybody back more

282

00:24:51,039 --> 00:24:53,760

or less

283

00:24:54,000 --> 00:24:56,240

ah there's a room that is still hard at

284

00:24:56,240 --> 00:24:57,200

discussion

285

00:24:57,200 --> 00:25:00,320

very good all right

286

00:25:00,320 --> 00:25:02,880

so the way we're going to do it this

287

00:25:02,880 --> 00:25:05,200

time i want to make sure everybody has a

288

00:25:05,200 --> 00:25:06,799

chance to contribute so

289

00:25:06,799 --> 00:25:10,080

i'll just ask each room in turn for two

290

00:25:10,080 --> 00:25:13,520

contributions and then we can go back

291

00:25:13,520 --> 00:25:16,240

and reopen the discussion so i think i

292

00:25:16,240 --> 00:25:18,559

have everybody now

293

00:25:18,559 --> 00:25:22,240

back yeah looks like we do

294

00:25:22,240 --> 00:25:25,360

okay so i'm going to start by asking

295

00:25:25,360 --> 00:25:26,559

somebody from room

296

00:25:26,559 --> 00:25:29,840

1 to share two things you came up with

297

00:25:29,840 --> 00:25:33,440

so that's pong king pooching wan shan

298

00:25:33,440 --> 00:25:36,960

hoy yan hauman min kyu

299

00:25:36,960 --> 00:25:40,159

soy in shu yin manchu

300

00:25:40,159 --> 00:25:43,840

and hoyen

301

00:25:44,000 --> 00:25:47,039

so uh one chan go ahead

302

00:25:47,039 --> 00:25:50,480

uh if i were the ceo of jp morgan in

303

00:25:50,480 --> 00:25:52,799

hong kong maybe i'll worry about

304

00:25:52,799 --> 00:25:55,120

how the government policy change in the

305

00:25:55,120 --> 00:25:56,480

united states

306

00:25:56,480 --> 00:25:59,440

and is there any shocking financial news

307

00:25:59,440 --> 00:26:01,200

in united states because why

308

00:26:01,200 --> 00:26:04,000

in different time zone and what happened

309

00:26:04,000 --> 00:26:06,159

in the states may affect the financial

310

00:26:06,159 --> 00:26:08,400

market in hong kong in the next day

311

00:26:08,400 --> 00:26:11,840

so you were the ceo of which bank

312

00:26:11,840 --> 00:26:14,720

like jp morgan in hong kong which bank

313

00:26:14,720 --> 00:26:15,279

like

314

00:26:15,279 --> 00:26:19,440

jp morgan oh jpm okay

315

00:26:21,039 --> 00:26:24,799

okay very good so policy changes

316

00:26:24,799 --> 00:26:29,120

and geopolitical news i suppose

317

00:26:29,120 --> 00:26:32,320

okay all right room two

318

00:26:32,320 --> 00:26:35,360

we have etong

319

00:26:35,360 --> 00:26:38,880

uh shooting

320

00:26:50,559 --> 00:26:52,159

our group has mentioned that the stock

321

00:26:52,159 --> 00:26:53,760

market maybe have

322

00:26:53,760 --> 00:26:57,200

drastic fluctuations at night when

323

00:26:57,200 --> 00:27:00,559

maybe the political stability or radical

324

00:27:00,559 --> 00:27:01,120

news

325

00:27:01,120 --> 00:27:03,279

about something happened in the other

326

00:27:03,279 --> 00:27:04,840

time zone

327

00:27:04,840 --> 00:27:07,840

um

328

00:27:09,120 --> 00:27:12,320

very good okay

329

00:27:12,320 --> 00:27:14,880

so i'll come back to to the other people

330

00:27:14,880 --> 00:27:16,799

who raise their hands i just want two

331

00:27:16,799 --> 00:27:17,279

things

332

00:27:17,279 --> 00:27:19,919

initially okay and then we'll come back

333

00:27:19,919 --> 00:27:21,760

to you so keep you

334

00:27:21,760 --> 00:27:24,399

keep there uh you know raise your hand

335

00:27:24,399 --> 00:27:25,200

later

336

00:27:25,200 --> 00:27:28,480

uh room three shiraz manchik

337

00:27:28,480 --> 00:27:31,919

wing long ching long shlock jasper

338

00:27:31,919 --> 00:27:35,200

song tag to why mak mankwan

339

00:27:35,200 --> 00:27:37,600

and wing sum so we have jasper has

340

00:27:37,600 --> 00:27:39,039

raised his hand

341

00:27:39,039 --> 00:27:41,840

co-head jasper when we talk about like

342

00:27:41,840 --> 00:27:43,520

how bitcoin is actually drive

343

00:27:43,520 --> 00:27:45,440

decentralized the whole equity system in

344

00:27:45,440 --> 00:27:46,000

the world and

345

00:27:46,000 --> 00:27:49,200

how it is driving the money and cash out

346

00:27:49,200 --> 00:27:50,640

of the banking system

347

00:27:50,640 --> 00:27:54,000

into bitcoin

348

00:27:54,000 --> 00:27:56,559

okay bitcoin impact and what's the

349

00:27:56,559 --> 00:27:59,200

second thing

350

00:27:59,440 --> 00:28:02,799

i would like to add the

351

00:28:06,240 --> 00:28:11,039

thanks okay thank you very much

352

00:28:11,039 --> 00:28:14,399

room for we have shanyan

353

00:28:14,399 --> 00:28:16,960

anson

354

00:28:26,240 --> 00:28:30,799

yes and so we are the ceo of hcsbc in

355

00:28:30,799 --> 00:28:32,960

hong kong branch and we worried about

356

00:28:32,960 --> 00:28:34,640

some sudden policy announced by the

357

00:28:34,640 --> 00:28:35,840

central government

358

00:28:35,840 --> 00:28:37,600

and some contagious rumors that can

359

00:28:37,600 --> 00:28:39,440

result in bank run

360

00:28:39,440 --> 00:28:41,039

and this is the first one and the second

361

00:28:41,039 --> 00:28:42,840

one is security problem

362

00:28:42,840 --> 00:28:46,159

robbery security problem

363

00:28:46,159 --> 00:28:50,320

yeah like robbery oh yes

364

00:28:51,520 --> 00:28:55,360

very good all right let me move on to

365

00:28:55,360 --> 00:28:56,840

room

366

00:28:56,840 --> 00:29:00,399

five wai hang winche

367

00:29:00,399 --> 00:29:04,000

amy chuhan lok ching chi ching

368

00:29:04,000 --> 00:29:08,240

kathleen yo ying emmanuel cinna

369

00:29:08,240 --> 00:29:10,240

attacked him and when you we have

370

00:29:10,240 --> 00:29:11,600

chi-ching okay

371

00:29:11,600 --> 00:29:14,799

let's go chichu um if i'm the

372

00:29:14,799 --> 00:29:17,840

ceo of an eye bank like goldman sachs

373

00:29:17,840 --> 00:29:20,640

i would like probably be worrying about

374

00:29:20,640 --> 00:29:23,360

not getting a big deal like some ipo

375

00:29:23,360 --> 00:29:26,559

projects which can like generate big

376

00:29:26,559 --> 00:29:29,760

revenue for the company i mean for the

377

00:29:29,760 --> 00:29:31,440

bank

378

00:29:31,440 --> 00:29:34,799

yeah good okay and the other thing

379

00:29:34,799 --> 00:29:37,440

two things

380

00:29:38,840 --> 00:29:42,480

um oh we have uh maybe

381

00:29:42,480 --> 00:29:45,440

maybe um i think we may have flight of

382

00:29:45,440 --> 00:29:46,880

the ipo project

383

00:29:46,880 --> 00:29:48,960

for example like the ant bank they may

384

00:29:48,960 --> 00:29:50,640

be affected by the legal

385

00:29:50,640 --> 00:29:54,000

by the legal policy maybe

386

00:29:54,000 --> 00:29:57,760

for the uh if we are the with help

387

00:29:57,760 --> 00:29:59,520

the ceo of the retail banking when we

388

00:29:59,520 --> 00:30:02,720

are afraid of the ban run

389

00:30:03,120 --> 00:30:06,840

very good thank you okay let me move on

390

00:30:06,840 --> 00:30:08,320

to room

391

00:30:08,320 --> 00:30:11,679

six where we have elliot

392

00:30:11,679 --> 00:30:15,039

ishan chu ming oinning support more

393

00:30:15,039 --> 00:30:15,919

culture

394

00:30:15,919 --> 00:30:19,200

tao o ching ting li yeah thanks cyrus

395

00:30:19,200 --> 00:30:21,440

and catching so okay watching

396

00:30:21,440 --> 00:30:24,480

you go um we have talked about uh

397

00:30:24,480 --> 00:30:27,520

corporate social responsibility like how

398

00:30:27,520 --> 00:30:29,840

the social issues and recent news are

399

00:30:29,840 --> 00:30:31,840

affecting the brand image and

400

00:30:31,840 --> 00:30:34,799

how that will affect uh the people

401

00:30:34,799 --> 00:30:35,520

perceive

402

00:30:35,520 --> 00:30:38,399

our bank is or yeah so we didn't talk

403

00:30:38,399 --> 00:30:39,840

about some examples

404

00:30:39,840 --> 00:30:43,360

yeah thank you good great anything else

405

00:30:43,360 --> 00:30:46,000

with two things

406

00:30:46,000 --> 00:30:48,399

we have also talked about the staff

407

00:30:48,399 --> 00:30:49,840

morale because the

408

00:30:49,840 --> 00:30:52,799

behavior of a staff would affect like if

409

00:30:52,799 --> 00:30:54,960

they are doing some business unethical

410

00:30:54,960 --> 00:30:56,480

things then it would

411

00:30:56,480 --> 00:30:59,679

impact our image also very good

412

00:30:59,679 --> 00:31:02,720

excellent excellent very very good i

413

00:31:02,720 --> 00:31:04,720

like that

414

00:31:04,720 --> 00:31:08,399

okay we have room seven

415

00:31:08,399 --> 00:31:11,919

theo ti kwang fizzy chai shin lang yi

416

00:31:11,919 --> 00:31:13,200

sang manwa

417

00:31:13,200 --> 00:31:16,399

adren renee menhei pokang

418

00:31:16,399 --> 00:31:19,600

ching kai raise his hand

419

00:31:19,600 --> 00:31:22,559

okay yeah um so i guess um one thing

420

00:31:22,559 --> 00:31:23,360

would be

421

00:31:23,360 --> 00:31:26,559

how to kind of foster talents or

422

00:31:26,559 --> 00:31:28,799

attract um people that are more

423

00:31:28,799 --> 00:31:30,240

digitally

424

00:31:30,240 --> 00:31:32,880

savvy or more tech savvy to get with the

425

00:31:32,880 --> 00:31:33,760

times

426

00:31:33,760 --> 00:31:36,799

um and and another

427

00:31:36,799 --> 00:31:40,159

thing uh would be um kind of

428

00:31:40,159 --> 00:31:42,960

new market expansions where can the bank

429

00:31:42,960 --> 00:31:43,760

explore

430

00:31:43,760 --> 00:31:46,480

um you know next where can they um you

431

00:31:46,480 --> 00:31:47,120

know

432

00:31:47,120 --> 00:31:50,720

grow very good well done

433

00:31:50,720 --> 00:31:55,120

excellent okay room eight we had many

434

00:31:55,120 --> 00:31:58,559

shiny jung day su ming wing yen

435

00:31:58,559 --> 00:32:02,399

calvin aryan hutong and binet say

436

00:32:02,399 --> 00:32:05,840

okay jen they go ahead if i am a

437

00:32:05,840 --> 00:32:08,880

ceo of a conventional bank i would be um

438

00:32:08,880 --> 00:32:11,120

i will wake up by night because of two

439

00:32:11,120 --> 00:32:13,200

reasons uh the first one would be

440

00:32:13,200 --> 00:32:16,399

the like the um invention of

441

00:32:16,399 --> 00:32:19,200

virtual currency that may challenge uh

442

00:32:19,200 --> 00:32:20,880

conventional banks

443

00:32:20,880 --> 00:32:23,600

um as a new new competitor and the

444

00:32:23,600 --> 00:32:24,159

second

445

00:32:24,159 --> 00:32:27,039

reason being a sudden withdrawal of

446

00:32:27,039 --> 00:32:28,159

deposits

447

00:32:28,159 --> 00:32:31,120

by clients during the financial crisis

448

00:32:31,120 --> 00:32:32,159

which may lead to

449

00:32:32,159 --> 00:32:35,360

immediate bankruptcy

450

00:32:36,880 --> 00:32:40,799

thank you very good

451

00:32:40,840 --> 00:32:44,159

okay and then we have room

452

00:32:44,159 --> 00:32:49,200

ten oh nine sorry sorry i'm jumping one

453

00:32:49,200 --> 00:32:52,720

uh arya warden hong fight way hang soy

454

00:32:52,720 --> 00:32:54,559

wings windy come chun

455

00:32:54,559 --> 00:32:56,880

coat

456

00:32:59,600 --> 00:33:02,720

and roman raised his hand okay

457

00:33:02,720 --> 00:33:04,720

so i think one of the biggest uh things

458

00:33:04,720 --> 00:33:06,240

that would keep me up at night

459

00:33:06,240 --> 00:33:10,159

um being the ceo of hsbc

460

00:33:10,159 --> 00:33:16,399

would probably be data breaches or hacks

461

00:33:18,320 --> 00:33:20,440

okay and

462

00:33:20,440 --> 00:33:22,720

[Music]

463

00:33:22,720 --> 00:33:27,679

yeah maybe also innovative competitors

464

00:33:28,159 --> 00:33:31,360

innovative competitors

465

00:33:33,120 --> 00:33:37,360

thank you great and last but not least

466

00:33:37,360 --> 00:33:38,399

we have room

467

00:33:38,399 --> 00:33:42,240

10. why sing wing yan siwan

468

00:33:42,240 --> 00:33:45,679

jung day na ting won

469

00:33:45,679 --> 00:33:50,840

adrian hai ching and lying and jang day

470

00:33:50,840 --> 00:33:53,679

okay if i am a ceo of commercial uh

471

00:33:53,679 --> 00:33:56,240

investment bank i will be wake up at

472

00:33:56,240 --> 00:33:56,799

night

473

00:33:56,799 --> 00:33:59,039

for three reasons the first one being a

474

00:33:59,039 --> 00:34:00,559

seven change in market

475

00:34:00,559 --> 00:34:04,000

such as uh interest rates and a sudden

476

00:34:04,000 --> 00:34:06,640

rise or fall of a market price of some

477

00:34:06,640 --> 00:34:07,519

stock

478

00:34:07,519 --> 00:34:10,719

the second one being like a uncertain

479

00:34:10,719 --> 00:34:11,760

risk of my

480

00:34:11,760 --> 00:34:15,359

clients or my targeted corporation

481

00:34:15,359 --> 00:34:17,679

and third one being the invention of a

482

00:34:17,679 --> 00:34:19,679

new kind of technology

483

00:34:19,679 --> 00:34:23,040

which i may need to and analyze it

484

00:34:23,040 --> 00:34:25,839

um to see if it will be like changing

485

00:34:25,839 --> 00:34:29,520

the future environment of the market

486

00:34:29,918 --> 00:34:35,838

very good

487

00:34:36,320 --> 00:34:39,679

all right very good let me just adapt

488

00:34:39,679 --> 00:34:41,760

this a little bit so that we have more

489

00:34:41,760 --> 00:34:43,040

space

490

00:34:43,040 --> 00:34:45,679

okay so anybody wants to add something i

491

00:34:45,679 --> 00:34:46,719

have aryan

492

00:34:46,719 --> 00:34:50,639

aryan go ahead uh yeah professor so

493

00:34:50,639 --> 00:34:53,280

we also felt that data breaches and

494

00:34:53,280 --> 00:34:55,119

security breaches would be

495

00:34:55,119 --> 00:34:58,079

a severe problem and the way we perceive

496

00:34:58,079 --> 00:34:59,599

the question was

497

00:34:59,599 --> 00:35:01,760

as a sudden event that would suppose

498

00:35:01,760 --> 00:35:03,599

wake a ceo up at night

499

00:35:03,599 --> 00:35:06,800

that would uh so for that we

500

00:35:06,800 --> 00:35:09,839

thought of a loss of a client suppose in

501

00:35:09,839 --> 00:35:11,839

a big international client that would

502

00:35:11,839 --> 00:35:12,880

have uh

503

00:35:12,880 --> 00:35:16,400

seriously i'm talking in terms of a

504

00:35:16,400 --> 00:35:17,440

corporate rank

505

00:35:17,440 --> 00:35:20,480

uh who would have lost a big client and

506

00:35:20,480 --> 00:35:23,520

another was uh certain situations like

507

00:35:23,520 --> 00:35:25,200

suppose the treasury bond yields as they

508

00:35:25,200 --> 00:35:26,240

go up and

509

00:35:26,240 --> 00:35:28,480

uh suppose there's an increase in your

510

00:35:28,480 --> 00:35:30,240

liabilities over your assets

511

00:35:30,240 --> 00:35:34,000

and suppose your employees and certain

512

00:35:34,000 --> 00:35:34,880

bank employees

513

00:35:34,880 --> 00:35:37,280

are administering more loans than you'd

514

00:35:37,280 --> 00:35:38,000

like

515

00:35:38,000 --> 00:35:41,680

so that would also be uh i think

516

00:35:41,680 --> 00:35:45,040

a problem to oversee for big banks

517

00:35:45,040 --> 00:35:48,560

commercial bank okay thank you

518

00:35:48,560 --> 00:35:53,280

nyen yes

519

00:35:53,760 --> 00:35:57,200

extra species increase in the

520

00:35:57,200 --> 00:36:00,079

bad death and don't forget one of the

521

00:36:00,079 --> 00:36:00,880

things that can

522

00:36:00,880 --> 00:36:04,160

keep me awake yeah because um if they're

523

00:36:04,160 --> 00:36:06,000

better english

524

00:36:06,000 --> 00:36:08,800

the cost and the financial statement

525

00:36:08,800 --> 00:36:09,680

will be worsened

526

00:36:09,680 --> 00:36:13,359

as well yeah very heavy

527

00:36:13,359 --> 00:36:18,079

stock price excellent

528

00:36:18,640 --> 00:36:22,079

very good and then we have uh

529

00:36:22,079 --> 00:36:25,839

seonghak i think one more point to add

530

00:36:25,839 --> 00:36:27,040

is that the

531

00:36:27,040 --> 00:36:29,280

banks care about the inter-bank interest

532

00:36:29,280 --> 00:36:30,720

rate

533

00:36:30,720 --> 00:36:32,160

and the changes in the interbank

534

00:36:32,160 --> 00:36:34,160

industry may affect their

535

00:36:34,160 --> 00:36:37,119

liquidity also recently there is a

536

00:36:37,119 --> 00:36:39,040

change in the libor system

537

00:36:39,040 --> 00:36:42,160

and transition to the new system so that

538

00:36:42,160 --> 00:36:43,920

can be very

539

00:36:43,920 --> 00:36:45,839

hard for the bank to adjust to the new

540

00:36:45,839 --> 00:36:49,440

system so there can be another problem

541

00:36:51,359 --> 00:36:55,920

very good and we still have nothing

542

00:36:55,920 --> 00:36:58,720

okay so because like the points are

543

00:36:58,720 --> 00:37:00,720

mostly mentioned and i just like to add

544

00:37:00,720 --> 00:37:02,560

a bit more

545

00:37:02,560 --> 00:37:04,560

like regarding uh like for example i

546

00:37:04,560 --> 00:37:08,640

find this ceo of gottman sex

547

00:37:11,040 --> 00:37:13,200

the end group was going on ipo but

548

00:37:13,200 --> 00:37:14,960

suddenly because there's a change in the

549

00:37:14,960 --> 00:37:17,040

government policy

550

00:37:17,040 --> 00:37:20,000

and and the ipo was suspended so i guess

551

00:37:20,000 --> 00:37:21,760

like that kind of news sudden change

552

00:37:21,760 --> 00:37:23,359

will also cause a lot of trouble and

553

00:37:23,359 --> 00:37:23,920

also

554

00:37:23,920 --> 00:37:26,560

worry in inside of me well i think at

555

00:37:26,560 --> 00:37:28,240

the same time like some ethical issues

556

00:37:28,240 --> 00:37:28,960

of the

557

00:37:28,960 --> 00:37:31,599

um the bank of the company which has

558

00:37:31,599 --> 00:37:33,520

already gone listing for example like

559

00:37:33,520 --> 00:37:34,560

the look and

560

00:37:34,560 --> 00:37:37,680

looking coffee that one like after

561

00:37:37,680 --> 00:37:40,720

being iv after his initial public

562

00:37:40,720 --> 00:37:42,240

offering in the u.s market

563

00:37:42,240 --> 00:37:44,000

and then it was like kind of the

564

00:37:44,000 --> 00:37:47,680

accounting information was actually

565

00:37:47,680 --> 00:37:50,480

facing a fraud and then the whole

566

00:37:50,480 --> 00:37:52,560

company is like being kind of

567

00:37:52,560 --> 00:37:55,200

facing some kind of um under

568

00:37:55,200 --> 00:37:57,119

investigation so on that kind of thing

569

00:37:57,119 --> 00:37:58,560

will be also

570

00:37:58,560 --> 00:38:00,960

a big concern if i'm doing the ipo for

571

00:38:00,960 --> 00:38:02,720

that company

572

00:38:02,720 --> 00:38:07,280

very good excellent and emmanuel

573

00:38:07,280 --> 00:38:10,480

um i have a question uh what issues like

574

00:38:10,480 --> 00:38:12,320

hyperinflation

575

00:38:12,320 --> 00:38:16,160

e problems for banks sorry

576

00:38:16,160 --> 00:38:18,480

what issues like hyperinflation be a

577

00:38:18,480 --> 00:38:19,680

problem for banks

578

00:38:19,680 --> 00:38:22,960

oh yeah it could be yes so how you adapt

579

00:38:22,960 --> 00:38:24,640

to this kind of change in

580

00:38:24,640 --> 00:38:26,880

in market circumstances changing the

581

00:38:26,880 --> 00:38:29,440

economy that would definitely be

582

00:38:29,440 --> 00:38:32,880

uh you know you would have to

583

00:38:32,880 --> 00:38:34,800

see how that impacts your product

584

00:38:34,800 --> 00:38:36,800

offering your customers and everything

585

00:38:36,800 --> 00:38:40,480

yes clearly so not just changing market

586

00:38:40,480 --> 00:38:40,880

but

587

00:38:40,880 --> 00:38:47,839

changes in the economy as well

588

00:38:47,839 --> 00:38:50,960

anything else you want to contribute

589

00:38:50,960 --> 00:38:53,440

oh i was just not very sure about how

590

00:38:53,440 --> 00:38:55,440

exactly hyperinflation would affect

591

00:38:55,440 --> 00:38:56,240

banks

592

00:38:56,240 --> 00:38:58,480

yeah uh well let's pray we don't

593

00:38:58,480 --> 00:38:59,680

experience it

594

00:38:59,680 --> 00:39:03,440

shall we you probably don't want to

595

00:39:03,440 --> 00:39:04,960

experience it

596

00:39:04,960 --> 00:39:08,560

uh anything else

597

00:39:08,880 --> 00:39:11,280

i still have two hands up not denying

598

00:39:11,280 --> 00:39:13,839

any manual so

599

00:39:13,839 --> 00:39:16,079

yeah okay now yank you still have

600

00:39:16,079 --> 00:39:19,200

something you want to mention

601

00:39:20,800 --> 00:39:24,400

dying oh i just pressed one or just i

602

00:39:24,400 --> 00:39:26,000

don't know already i just forgot to put

603

00:39:26,000 --> 00:39:27,359

my hands down sorry

604

00:39:27,359 --> 00:39:30,800

okay okay okay no problem okay this

605

00:39:30,800 --> 00:39:34,079

is very very good and one of the

606

00:39:34,079 --> 00:39:37,599

reasons security of customers bank

607

00:39:37,599 --> 00:39:41,119

information yes yes yes very good

608

00:39:41,119 --> 00:39:45,680

uh so data privacy

609

00:39:46,240 --> 00:39:49,839

very good excellent i am very very glad

610

00:39:49,839 --> 00:39:50,880

that you've mentioned

611

00:39:50,880 --> 00:39:53,119

all of these things because all of these

612

00:39:53,119 --> 00:39:55,440

things have of course been impacting the

613

00:39:55,440 --> 00:39:57,200

banks

614

00:39:57,200 --> 00:39:59,440

yes liquidity we're going to be talking

615

00:39:59,440 --> 00:40:00,400

about

616

00:40:00,400 --> 00:40:04,000

within the uh the discussion later

617

00:40:04,000 --> 00:40:05,839

so there's a lot of things and what i

618

00:40:05,839 --> 00:40:08,480

want you to do with this brainstorming

619

00:40:08,480 --> 00:40:11,839

is to get you to realize how what a

620

00:40:11,839 --> 00:40:12,960

variety

621

00:40:12,960 --> 00:40:17,040

of issues bank ceos have to deal with

622

00:40:17,040 --> 00:40:20,640

and also the degree to which

623

00:40:20,640 --> 00:40:24,319

those are bank or country specific

624

00:40:24,319 --> 00:40:26,720

okay so when we're talking about digital

625

00:40:26,720 --> 00:40:28,880

over digital currency

626

00:40:28,880 --> 00:40:31,760

right now this is something that bank

627

00:40:31,760 --> 00:40:32,480

ceos

628

00:40:32,480 --> 00:40:35,599

in in the china and hong kong

629

00:40:35,599 --> 00:40:39,119

are are you know having to adapt to

630

00:40:39,119 --> 00:40:40,960

because this is coming no matter

631

00:40:40,960 --> 00:40:43,200

whether they like it or not but there

632

00:40:43,200 --> 00:40:45,839

are also discussions going on in europe

633

00:40:45,839 --> 00:40:46,720

and uh

634

00:40:46,720 --> 00:40:50,000

in the us around that so ceos have to

635

00:40:50,000 --> 00:40:50,800

wrap their head

636

00:40:50,800 --> 00:40:53,520

around first of all the the product

637

00:40:53,520 --> 00:40:55,920

itself which is very very new and most

638

00:40:55,920 --> 00:40:58,319

importantly the implications

639

00:40:58,319 --> 00:41:01,119

uh then you have things that are like

640

00:41:01,119 --> 00:41:03,200

one of you mentioned that you

641

00:41:03,200 --> 00:41:06,000

you went at the issue of the question

642

00:41:06,000 --> 00:41:08,079

from a sudden perspective

643

00:41:08,079 --> 00:41:11,040

but you may have recurring things that

644

00:41:11,040 --> 00:41:13,040

that you keep worrying about your

645

00:41:13,040 --> 00:41:14,240

reputation

646

00:41:14,240 --> 00:41:17,280

hsbc has been in the news with

647

00:41:17,280 --> 00:41:21,119

bad bad stuff for

648

00:41:21,119 --> 00:41:25,119

quite a while so if you were hsbc ceo

649

00:41:25,119 --> 00:41:27,040

you're probably worried about what is

650

00:41:27,040 --> 00:41:29,920

the next headline going to be and where

651

00:41:29,920 --> 00:41:33,280

where from my huge organization will bad

652

00:41:33,280 --> 00:41:34,000

news come

653

00:41:34,000 --> 00:41:37,200

from and and that could be

654

00:41:37,200 --> 00:41:39,599

as you mentioned some of your staff

655

00:41:39,599 --> 00:41:40,480

behaving

656

00:41:40,480 --> 00:41:43,839

behaving badly it could be

657

00:41:43,839 --> 00:41:46,160

some very bad market conduct it could be

658

00:41:46,160 --> 00:41:48,560

a rogue trader it could be many many

659

00:41:48,560 --> 00:41:49,839

different things

660

00:41:49,839 --> 00:41:53,119

so we will see how all these things have

661

00:41:53,119 --> 00:41:56,880

uh issues about legal and reputational

662

00:41:56,880 --> 00:41:59,280

risk operational risk all of these are

663

00:41:59,280 --> 00:42:01,200

very very critical

664

00:42:01,200 --> 00:42:04,240

um so thank you very much

665

00:42:04,240 --> 00:42:07,520

for all this wonderful sharing

666

00:42:07,520 --> 00:42:10,000

and now we're going to talk about four

667

00:42:10,000 --> 00:42:11,200

main aspects

668

00:42:11,200 --> 00:42:14,400

of bank management that uh

669

00:42:14,400 --> 00:42:16,960

is a recurring thing so it's not like

670

00:42:16,960 --> 00:42:19,200

sudden changes or anything

671

00:42:19,200 --> 00:42:21,599

but this is something that bank senior

672

00:42:21,599 --> 00:42:22,560

management

673

00:42:22,560 --> 00:42:25,040

has to be concerned about and has to

674

00:42:25,040 --> 00:42:26,000

work on

675

00:42:26,000 --> 00:42:29,920

on a day-to-day basis so there are four

676

00:42:29,920 --> 00:42:31,760

major aspects

677

00:42:31,760 --> 00:42:35,680

the first one is liquidity management

678

00:42:35,680 --> 00:42:37,920

okay so liquidity management is

679

00:42:37,920 --> 00:42:40,160

basically making sure

680

00:42:40,160 --> 00:42:44,000

that you can meet your customers demands

681

00:42:44,000 --> 00:42:47,200

okay in terms of cash

682

00:42:47,200 --> 00:42:50,400

so you or you mentioned this uh

683

00:42:50,400 --> 00:42:53,440

when you talk about the bank run here

684

00:42:53,440 --> 00:42:56,640

okay so he always already

685

00:42:56,640 --> 00:42:59,440

highlighted this okay sudden deposit

686

00:42:59,440 --> 00:43:00,720

withdrawal

687

00:43:00,720 --> 00:43:04,400

this is basically an issue of liquidity

688

00:43:04,400 --> 00:43:05,280

management

689

00:43:05,280 --> 00:43:08,880

okay so why is it number one

690

00:43:08,880 --> 00:43:12,079

because the bank may be solvent but

691

00:43:12,079 --> 00:43:15,200

if it doesn't have the money to face

692

00:43:15,200 --> 00:43:18,319

a sudden run then it will be bankrupt

693

00:43:18,319 --> 00:43:22,040

even while being solvent so liquidity is

694

00:43:22,040 --> 00:43:24,960

absolutely critical and we're going to

695

00:43:24,960 --> 00:43:26,000

look at different

696

00:43:26,000 --> 00:43:29,280

ways that we can manage liquidity

697

00:43:29,280 --> 00:43:32,800

then some of you talked about bad debts

698

00:43:32,800 --> 00:43:36,800

right so bad debts and bad customers so

699

00:43:36,800 --> 00:43:38,880

what happens with that

700

00:43:38,880 --> 00:43:42,079

this is a matter of asset management

701

00:43:42,079 --> 00:43:44,480

so when you're looking at the asset side

702

00:43:44,480 --> 00:43:45,680

of the balance sheet

703

00:43:45,680 --> 00:43:48,800

for bank it's mostly loans

704

00:43:48,800 --> 00:43:50,640

but of course different kinds of

705

00:43:50,640 --> 00:43:52,400

investment but broadly speaking for

706

00:43:52,400 --> 00:43:53,520

commercial bank

707

00:43:53,520 --> 00:43:57,440

the bulk of it will be loans so there

708

00:43:57,440 --> 00:44:00,960

you want to have acceptable risk

709

00:44:00,960 --> 00:44:03,200

so you need some risk in order to get

710

00:44:03,200 --> 00:44:06,079

returns but you don't want too much risk

711

00:44:06,079 --> 00:44:09,359

so that you um you're having a

712

00:44:09,359 --> 00:44:12,319

uh a problem with non-performing loans

713

00:44:12,319 --> 00:44:13,760

and bad debt so we'll

714

00:44:13,760 --> 00:44:17,119

we'll dig into that uh as we go deeper

715

00:44:17,119 --> 00:44:18,480

into each of these

716

00:44:18,480 --> 00:44:22,240

aspects we have a saying in banking that

717

00:44:22,240 --> 00:44:26,079

you want to have customers with no risks

718

00:44:26,079 --> 00:44:28,480

that pay very high returns this is kind

719

00:44:28,480 --> 00:44:28,800

of

720

00:44:28,800 --> 00:44:33,200

trying to square the circle

721

00:44:33,680 --> 00:44:37,040

acquiring funds at low cost so

722

00:44:37,040 --> 00:44:40,000

funding yourself so you guys did not

723

00:44:40,000 --> 00:44:40,480

mention

724

00:44:40,480 --> 00:44:44,160

that that i can see except a little bit

725

00:44:44,160 --> 00:44:44,640

about

726

00:44:44,640 --> 00:44:48,240

interbank here but this is

727

00:44:48,240 --> 00:44:51,599

besides deposits how the bank

728

00:44:51,599 --> 00:44:55,119

funds itself and this is the liability

729

00:44:55,119 --> 00:44:57,040

management side so

730

00:44:57,040 --> 00:45:00,640

how much short-term versus medium-term

731

00:45:00,640 --> 00:45:01,200

versus

732

00:45:01,200 --> 00:45:04,720

long-term funding sources we should have

733

00:45:04,720 --> 00:45:08,079

to finance our business and then

734

00:45:08,079 --> 00:45:11,280

uh part of this liability side of the

735

00:45:11,280 --> 00:45:12,160

balance sheet

736

00:45:12,160 --> 00:45:15,040

is our capital management and we will

737

00:45:15,040 --> 00:45:15,440

see

738

00:45:15,440 --> 00:45:17,920

that banks are not free to do whatever

739

00:45:17,920 --> 00:45:19,119

they want

740

00:45:19,119 --> 00:45:22,240

they are regulations that apply that

741

00:45:22,240 --> 00:45:23,359

dictate

742

00:45:23,359 --> 00:45:26,160

the minimum amount of capital that banks

743

00:45:26,160 --> 00:45:27,280

have to keep

744

00:45:27,280 --> 00:45:29,839

on the balance sheet and we will dig

745

00:45:29,839 --> 00:45:30,640

into that

746

00:45:30,640 --> 00:45:34,960

quite a lot when we go into regulations

747

00:45:34,960 --> 00:45:38,240

okay so these two

748

00:45:38,240 --> 00:45:41,920

aspects asset and liability we call that

749

00:45:41,920 --> 00:45:43,920

asset and liability management because

750

00:45:43,920 --> 00:45:46,000

you cannot do one without the other you

751

00:45:46,000 --> 00:45:47,839

have to look at the balance sheet on a

752

00:45:47,839 --> 00:45:50,000

holistic basis

753

00:45:50,000 --> 00:45:52,640

and of course liquidity management will

754

00:45:52,640 --> 00:45:53,119

have

755

00:45:53,119 --> 00:45:56,480

impact both on asset and liability

756

00:45:56,480 --> 00:45:57,520

management

757

00:45:57,520 --> 00:46:02,720

so it's all linked together okay

758

00:46:02,720 --> 00:46:05,760

all right so let's dig into uh

759

00:46:05,760 --> 00:46:08,720

liquidity management first and we're

760

00:46:08,720 --> 00:46:09,839

going to look

761

00:46:09,839 --> 00:46:14,079

at a scenario with why are you moving uh

762

00:46:14,079 --> 00:46:15,200

a scenario

763

00:46:15,200 --> 00:46:18,480

with a bank bank a

764

00:46:18,480 --> 00:46:20,720

that has this is bizarre i don't know

765

00:46:20,720 --> 00:46:22,960

why my thing is moving

766

00:46:22,960 --> 00:46:26,319

um it is a simplified balance sheet

767

00:46:26,319 --> 00:46:30,079

of bank a and bank a is an american bank

768

00:46:30,079 --> 00:46:31,040

so in the

769

00:46:31,040 --> 00:46:34,560

in the united states banks have to keep

770

00:46:34,560 --> 00:46:38,800

a minimum amount of 10 of their deposits

771

00:46:38,800 --> 00:46:41,839

as reserves with the central bank with

772

00:46:41,839 --> 00:46:43,599

the fed

773

00:46:43,599 --> 00:46:46,720

okay so as you can see here the biggest

774

00:46:46,720 --> 00:46:49,040

source of liabilities for this bank is

775

00:46:49,040 --> 00:46:50,400

deposits

776

00:46:50,400 --> 00:46:53,839

and it has 10 million of capital

777

00:46:53,839 --> 00:46:56,560

so with a hundred million in deposits

778

00:46:56,560 --> 00:46:57,920

you have to have

779

00:46:57,920 --> 00:47:01,520

ten percent of your reserve of your

780

00:47:01,520 --> 00:47:04,400

of that amount in reserves but you

781

00:47:04,400 --> 00:47:05,359

observe

782

00:47:05,359 --> 00:47:08,079

that this bank has 20 million dollars in

783

00:47:08,079 --> 00:47:10,000

reserves what does it mean

784

00:47:10,000 --> 00:47:13,200

it means it's a very prudent bank so

785

00:47:13,200 --> 00:47:14,400

they like to have

786

00:47:14,400 --> 00:47:17,440

an extra cushion just in case something

787

00:47:17,440 --> 00:47:18,560

happens

788

00:47:18,560 --> 00:47:22,160

so it has excess reserves of 10 million

789

00:47:22,160 --> 00:47:23,200

dollars

790

00:47:23,200 --> 00:47:26,480

right now you might say this is

791

00:47:26,480 --> 00:47:30,400

a policy that is costly for the bank

792

00:47:30,400 --> 00:47:33,280

because uh before the global financial

793

00:47:33,280 --> 00:47:34,400

crisis

794

00:47:34,400 --> 00:47:36,960

uh banks were not getting any interest

795

00:47:36,960 --> 00:47:38,559

on reserves

796

00:47:38,559 --> 00:47:40,800

that has changed that has changed since

797

00:47:40,800 --> 00:47:42,400

the global financial crisis

798

00:47:42,400 --> 00:47:45,520

in the u.s the u.s now pays

799

00:47:45,520 --> 00:47:48,800

interest on reserves um

800

00:47:48,800 --> 00:47:52,240

but let's look at what happens if we

801

00:47:52,240 --> 00:47:52,640

have

802

00:47:52,640 --> 00:47:56,240

a sudden outflow of 10 million dollars

803

00:47:56,240 --> 00:47:59,440

of deposits so 10 of

804

00:47:59,440 --> 00:48:02,480

our deposits walk out the door

805

00:48:02,480 --> 00:48:05,680

okay what does what does it mean from

806

00:48:05,680 --> 00:48:07,760

the balance sheet perspective

807

00:48:07,760 --> 00:48:10,640

well obviously our 100 million dollar

808

00:48:10,640 --> 00:48:12,160

deposits now become

809

00:48:12,160 --> 00:48:15,359

90 million and since they

810

00:48:15,359 --> 00:48:17,599

are walking out the door they take their

811

00:48:17,599 --> 00:48:18,559

money with them

812

00:48:18,559 --> 00:48:21,760

so that's 10 million of reduction in

813

00:48:21,760 --> 00:48:25,040

our reserves okay but reserves the same

814

00:48:25,040 --> 00:48:25,760

as cash

815

00:48:25,760 --> 00:48:28,800

so 10 million dollars reduction

816

00:48:28,800 --> 00:48:32,720

in reserves now what's the

817

00:48:32,720 --> 00:48:36,640

outcome of that well we're still okay

818

00:48:36,640 --> 00:48:39,920

from the 10 percent reserve requirement

819

00:48:39,920 --> 00:48:43,440

aspect because 10 of 90 million is 9

820

00:48:43,440 --> 00:48:44,000

million

821

00:48:44,000 --> 00:48:47,119

dollar so we don't have to take any

822

00:48:47,119 --> 00:48:48,160

immediate

823

00:48:48,160 --> 00:48:51,119

steps we still have one million dollar

824

00:48:51,119 --> 00:48:51,440

of

825

00:48:51,440 --> 00:48:54,480

excess reserves so we've been

826

00:48:54,480 --> 00:48:57,520

able to handle

827

00:48:57,520 --> 00:49:00,640

this small bank run or some

828

00:49:00,640 --> 00:49:03,200

important run 10 is actually pretty

829

00:49:03,200 --> 00:49:04,559

significant

830

00:49:04,559 --> 00:49:08,160

okay but now let's compare and contrast

831

00:49:08,160 --> 00:49:11,520

with a more aggressive bank bank

832

00:49:11,520 --> 00:49:15,280

b the bank b ceo considers reserves

833

00:49:15,280 --> 00:49:17,920

as a tax on the business so he only

834

00:49:17,920 --> 00:49:19,119

wants to keep

835

00:49:19,119 --> 00:49:21,520

the minimum amount of reserves so there

836

00:49:21,520 --> 00:49:22,400

is no

837

00:49:22,400 --> 00:49:26,160

excess reserves if they're hit by the

838

00:49:26,160 --> 00:49:26,800

same

839

00:49:26,800 --> 00:49:30,960

issue of a 10 million deposit outflow

840

00:49:30,960 --> 00:49:34,720

what you see is that they're exhausting

841

00:49:34,720 --> 00:49:36,720

their reserves right away

842

00:49:36,720 --> 00:49:39,599

which means they are immediately in

843

00:49:39,599 --> 00:49:40,559

violation

844

00:49:40,559 --> 00:49:43,359

of the reserve requirement which means

845

00:49:43,359 --> 00:49:45,760

the regulators will be breathing down

846

00:49:45,760 --> 00:49:47,200

their neck

847

00:49:47,200 --> 00:49:50,240

to tell them to replenish their reserves

848

00:49:50,240 --> 00:49:50,720

very

849

00:49:50,720 --> 00:49:53,839

quickly so they have to take

850

00:49:53,839 --> 00:49:57,599

immediate action what can they

851

00:49:57,599 --> 00:49:59,839

do

852

00:50:00,720 --> 00:50:02,720

tell me some suggestions what can they

853

00:50:02,720 --> 00:50:04,880

do you have the balance sheet simplified

854

00:50:04,880 --> 00:50:06,240

balance sheet what can they

855

00:50:06,240 --> 00:50:10,319

do call back the loan says anson

856

00:50:10,319 --> 00:50:13,440

interesting we do have 90 million

857

00:50:13,440 --> 00:50:14,319

dollars of

858

00:50:14,319 --> 00:50:18,000

loans so we could arguably call them

859

00:50:18,000 --> 00:50:19,599

back

860

00:50:19,599 --> 00:50:22,880

borrow money says nyeing from others

861

00:50:22,880 --> 00:50:27,200

or from the central bank says wenyen

862

00:50:27,200 --> 00:50:30,800

borrow from other banks is catching sell

863

00:50:30,800 --> 00:50:34,319

assets says ensen sell security says

864

00:50:34,319 --> 00:50:36,079

roman

865

00:50:36,079 --> 00:50:38,800

tomorrow from the central bank all very

866

00:50:38,800 --> 00:50:40,640

interesting propositions

867

00:50:40,640 --> 00:50:44,880

okay transfer stocks back to cash

868

00:50:44,880 --> 00:50:48,720

check from that what do you mean by that

869

00:50:51,040 --> 00:50:54,400

prepared to go to jail hopefully you can

870

00:50:54,400 --> 00:50:57,680

do something before

871

00:50:58,000 --> 00:51:01,520

okay all right okay let's walk through

872

00:51:01,520 --> 00:51:03,760

all your very very interesting

873

00:51:03,760 --> 00:51:04,800

suggestions

874

00:51:04,800 --> 00:51:08,720

okay apart from being prepared to go

875

00:51:08,720 --> 00:51:11,920

to go to jail hopefully we don't get to

876

00:51:11,920 --> 00:51:15,280

that drastic situation okay

877

00:51:15,280 --> 00:51:18,319

so first thing would be as some of you

878

00:51:18,319 --> 00:51:19,839

suggested

879

00:51:19,839 --> 00:51:23,359

set up coup from me you guys are

880

00:51:23,359 --> 00:51:24,960

historical okay

881

00:51:24,960 --> 00:51:27,119

so borrow from other banks and

882

00:51:27,119 --> 00:51:28,240

corporations

883

00:51:28,240 --> 00:51:31,440

okay on the face of it this is a good

884

00:51:31,440 --> 00:51:32,319

solution

885

00:51:32,319 --> 00:51:35,599

okay so notice my balance sheet

886

00:51:35,599 --> 00:51:38,880

right now okay my balance sheet right

887

00:51:38,880 --> 00:51:39,280

now

888

00:51:39,280 --> 00:51:41,920

has 90 million dollars of deposit 10

889

00:51:41,920 --> 00:51:43,680

million of capital

890

00:51:43,680 --> 00:51:45,839

90 million of loans and 10 million of

891

00:51:45,839 --> 00:51:47,440

securities so

892

00:51:47,440 --> 00:51:50,240

the asset and liability size is a

893

00:51:50,240 --> 00:51:51,920

hundred million

894

00:51:51,920 --> 00:51:55,440

if we borrow from other banks

895

00:51:55,440 --> 00:51:58,559

or corporations okay

896

00:51:58,559 --> 00:52:00,960

let's say nine million dollar the strict

897

00:52:00,960 --> 00:52:01,599

amount

898

00:52:01,599 --> 00:52:05,119

necessary to reconstitute our reserves

899

00:52:05,119 --> 00:52:08,400

okay so notice that immediately our

900

00:52:08,400 --> 00:52:10,240

balance sheet will increase again

901

00:52:10,240 --> 00:52:13,119

now it will be 109 million so you're

902

00:52:13,119 --> 00:52:14,880

adding to the balance sheet by doing

903

00:52:14,880 --> 00:52:15,440

that

904

00:52:15,440 --> 00:52:18,079

okay that might have other interesting

905

00:52:18,079 --> 00:52:20,079

implications which we'll talk about

906

00:52:20,079 --> 00:52:25,359

later but what's the problem with this

907

00:52:30,880 --> 00:52:33,200

interest payments okay the interest

908

00:52:33,200 --> 00:52:35,200

might be pretty high

909

00:52:35,200 --> 00:52:37,520

there will be a cost associated to it

910

00:52:37,520 --> 00:52:39,760

yeah

911

00:52:39,760 --> 00:52:42,559

anything else

912

00:52:45,359 --> 00:52:47,359

what do you mean visit shy by credit

913

00:52:47,359 --> 00:52:49,839

rating

914

00:52:52,880 --> 00:52:55,520

yes roman you put the you put your

915

00:52:55,520 --> 00:52:56,400

finger on it

916

00:52:56,400 --> 00:53:00,160

and wing in yeah availability

917

00:53:00,160 --> 00:53:03,200

and you may not be able to do it right

918

00:53:03,200 --> 00:53:06,480

imagine the situation where uh the bank

919

00:53:06,480 --> 00:53:08,559

has been suffering a bank run

920

00:53:08,559 --> 00:53:12,319

so bank runs a very public event okay

921

00:53:12,319 --> 00:53:15,680

so that means

922

00:53:15,680 --> 00:53:18,960

that other banks may not be

923

00:53:18,960 --> 00:53:22,880

terribly inclined to lend you money

924

00:53:22,880 --> 00:53:25,040

okay because if you've suffered a

925

00:53:25,040 --> 00:53:27,040

bankrupt that's typically because

926

00:53:27,040 --> 00:53:30,160

there's been some bad news about you

927

00:53:30,160 --> 00:53:33,280

so typically other banks will

928

00:53:33,280 --> 00:53:35,760

immediately stop lending to you so the

929

00:53:35,760 --> 00:53:36,240

first

930

00:53:36,240 --> 00:53:38,800

source of funding that evaporates for

931

00:53:38,800 --> 00:53:42,079

banks when there's bad news and rumors

932

00:53:42,079 --> 00:53:45,440

is interbank so the other banks will be

933

00:53:45,440 --> 00:53:48,960

very quick to cancel their lines

934

00:53:48,960 --> 00:53:52,160

that's the first thing that goes now

935

00:53:52,160 --> 00:53:55,280

you might be able to issue some

936

00:53:55,280 --> 00:53:58,160

short-term securities to the market

937

00:53:58,160 --> 00:54:01,359

but that takes time and again you

938

00:54:01,359 --> 00:54:03,599

you also some one of you was talking

939

00:54:03,599 --> 00:54:06,800

about this and i think it was the

940

00:54:06,800 --> 00:54:10,720

uh uh buh

941

00:54:10,720 --> 00:54:12,720

i think it was physical your rating

942

00:54:12,720 --> 00:54:14,480

might be impacted

943

00:54:14,480 --> 00:54:16,720

so if you weigh if you're downgraded

944

00:54:16,720 --> 00:54:19,040

that will also impact whether you can

945

00:54:19,040 --> 00:54:19,599

actually

946

00:54:19,599 --> 00:54:22,319

issue in the market and the price that

947

00:54:22,319 --> 00:54:24,160

you will be paying for it

948

00:54:24,160 --> 00:54:27,359

okay so on paper

949

00:54:27,359 --> 00:54:30,240

a good solution the thing you need to

950

00:54:30,240 --> 00:54:30,720

know is

951

00:54:30,720 --> 00:54:33,599

interbank markets tend to dry up much

952

00:54:33,599 --> 00:54:34,480

faster than

953

00:54:34,480 --> 00:54:38,720

any other form of funding

954

00:54:38,720 --> 00:54:41,280

now second solution that you talked

955

00:54:41,280 --> 00:54:43,599

about

956

00:54:44,240 --> 00:54:47,920

is and that was um roman's

957

00:54:47,920 --> 00:54:50,839

suggestion let's sell our security

958

00:54:50,839 --> 00:54:53,359

portfolio okay we have 10 million

959

00:54:53,359 --> 00:54:54,000

dollars

960

00:54:54,000 --> 00:54:56,799

of securities portfolio and we know that

961

00:54:56,799 --> 00:54:58,640

securities are negotiable

962

00:54:58,640 --> 00:55:02,319

transferable financial instruments so

963

00:55:02,319 --> 00:55:05,599

on paper they're very liquid

964

00:55:05,599 --> 00:55:07,839

so that sounds like a good solution

965

00:55:07,839 --> 00:55:10,000

notice this solution

966

00:55:10,000 --> 00:55:12,319

does not change the size of your balance

967

00:55:12,319 --> 00:55:13,359

sheet

968

00:55:13,359 --> 00:55:15,680

okay you're simply liquidating your

969

00:55:15,680 --> 00:55:16,960

portfolio

970

00:55:16,960 --> 00:55:19,760

and cashing it in so it doesn't change

971

00:55:19,760 --> 00:55:21,599

the size of your balance sheet

972

00:55:21,599 --> 00:55:25,359

now what's the problem with this

973

00:55:32,839 --> 00:55:35,839

solution

974

00:55:39,520 --> 00:55:42,240

so you have a diversification lower

975

00:55:42,240 --> 00:55:45,280

return the liquidity thank you

976

00:55:45,280 --> 00:55:50,000

the price transaction cost it takes time

977

00:55:50,000 --> 00:55:53,599

you forgo the potential return very good

978

00:55:53,599 --> 00:55:57,040

all excellent points now

979

00:55:57,040 --> 00:55:59,920

the securities portfolio is at 10

980

00:55:59,920 --> 00:56:00,880

million

981

00:56:00,880 --> 00:56:03,839

on our balance sheet what is this is the

982

00:56:03,839 --> 00:56:04,240

book

983

00:56:04,240 --> 00:56:06,640

value or the mark to market value that

984

00:56:06,640 --> 00:56:08,960

they have at the latest statements

985

00:56:08,960 --> 00:56:13,119

but what is the true market value

986

00:56:13,119 --> 00:56:16,079

so first thing you need to know is when

987

00:56:16,079 --> 00:56:17,599

a bank is in trouble

988

00:56:17,599 --> 00:56:20,240

all the competitors know about it they

989

00:56:20,240 --> 00:56:21,920

know the bank will have to sell

990

00:56:21,920 --> 00:56:25,359

assets so it's a fire sale situation

991

00:56:25,359 --> 00:56:29,359

the prices may not be very attractive

992

00:56:29,359 --> 00:56:32,400

and on top of that if you

993

00:56:32,400 --> 00:56:35,280

are in a bad market that is you're not

994

00:56:35,280 --> 00:56:37,280

the only bank in trouble

995

00:56:37,280 --> 00:56:40,960

imagine fourth quarter 2008

996

00:56:40,960 --> 00:56:43,520

liquidity crunch the market is in a

997

00:56:43,520 --> 00:56:44,720

panic

998

00:56:44,720 --> 00:56:48,240

there is no market nobody

999

00:56:48,240 --> 00:56:51,920

will give you a price okay so don't

1000

00:56:51,920 --> 00:56:53,920

believe your economics teacher when they

1001

00:56:53,920 --> 00:56:55,760

say there's always a price that's not

1002

00:56:55,760 --> 00:56:56,880

true

1003

00:56:56,880 --> 00:57:00,720

okay in extreme market volatility

1004

00:57:00,720 --> 00:57:03,920

nobody will give you a price

1005

00:57:03,920 --> 00:57:07,040

okay so you might believe

1006

00:57:07,040 --> 00:57:09,839

you have liquid securities before you to

1007

00:57:09,839 --> 00:57:12,160

liquidate in case of a crisis but in

1008

00:57:12,160 --> 00:57:14,280

case of a crisis liquidity

1009

00:57:14,280 --> 00:57:17,359

evaporates very fast

1010

00:57:17,359 --> 00:57:19,880

so for example in the fourth quarter

1011

00:57:19,880 --> 00:57:21,040

2008

1012

00:57:21,040 --> 00:57:24,319

a number of banks had portfolios of

1013

00:57:24,319 --> 00:57:29,440

aaa rated mortgage-backed securities

1014

00:57:29,440 --> 00:57:32,480

two things happened simultaneously

1015

00:57:32,480 --> 00:57:34,960

okay there was a huge liquidity crisis

1016

00:57:34,960 --> 00:57:36,480

in the interbank market

1017

00:57:36,480 --> 00:57:41,839

and two the rating agencies downgraded

1018

00:57:41,839 --> 00:57:43,920

the mortgage-backed securities from

1019

00:57:43,920 --> 00:57:46,960

investment grade to junk

1020

00:57:46,960 --> 00:57:52,160

that means the entire market evaporated

1021

00:57:52,160 --> 00:57:54,880

okay there was no market nobody wanted

1022

00:57:54,880 --> 00:57:56,640

to buy that stuff

1023

00:57:56,640 --> 00:58:00,559

so ultimately the government stepped in

1024

00:58:00,559 --> 00:58:04,079

and rescued the market but there was no

1025

00:58:04,079 --> 00:58:05,359

market

1026

00:58:05,359 --> 00:58:08,720

okay so on paper again

1027

00:58:08,720 --> 00:58:12,720

great solution in practice all kinds of

1028

00:58:12,720 --> 00:58:16,240

impacts so the biggest difficulty is

1029

00:58:16,240 --> 00:58:17,520

that liquidity is

1030

00:58:17,520 --> 00:58:21,440

relative so you may not have a market

1031

00:58:21,440 --> 00:58:24,240

if you get a price it's going to be

1032

00:58:24,240 --> 00:58:26,160

probably very different from what you

1033

00:58:26,160 --> 00:58:27,280

expected

1034

00:58:27,280 --> 00:58:30,480

it will cost you and it will take time

1035

00:58:30,480 --> 00:58:35,200

less time than other solutions but still

1036

00:58:35,200 --> 00:58:38,079

now let's look at two more possible

1037

00:58:38,079 --> 00:58:38,960

solutions

1038

00:58:38,960 --> 00:58:42,480

yes cents on the dollar uh

1039

00:58:42,480 --> 00:58:44,880

the third possible solution which you

1040

00:58:44,880 --> 00:58:46,079

all pointed out

1041

00:58:46,079 --> 00:58:48,720

was okay let's borrow from the central

1042

00:58:48,720 --> 00:58:49,359

bank

1043

00:58:49,359 --> 00:58:51,599

okay so this being an american bank it

1044

00:58:51,599 --> 00:58:53,119

can borrow from the fed

1045

00:58:53,119 --> 00:58:56,160

it goes to the discount window of their

1046

00:58:56,160 --> 00:58:56,640

local

1047

00:58:56,640 --> 00:58:59,920

federal reserve bank and borrow money

1048

00:58:59,920 --> 00:59:02,720

so again notice this will increase the

1049

00:59:02,720 --> 00:59:04,559

size of the balance sheet you're getting

1050

00:59:04,559 --> 00:59:07,040

external funding

1051

00:59:07,040 --> 00:59:10,480

what is the downside to that

1052

00:59:10,480 --> 00:59:18,799

what are the problems with this solution

1053

00:59:18,799 --> 00:59:22,240

the rates till june okay so the cost of

1054

00:59:22,240 --> 00:59:25,359

the discount rate

1055

00:59:27,040 --> 00:59:30,400

anything else yes that's the cost

1056

00:59:30,400 --> 00:59:33,839

sketching yeah

1057

00:59:35,040 --> 00:59:38,960

must share info with the fed yeah they

1058

00:59:38,960 --> 00:59:42,720

they know about you anyway will the bank

1059

00:59:42,720 --> 00:59:43,599

be taken

1060

00:59:43,599 --> 00:59:46,880

over not just because of that

1061

00:59:46,880 --> 00:59:49,599

but it might be the ultimate consequence

1062

00:59:49,599 --> 00:59:50,960

if the situation is

1063

00:59:50,960 --> 00:59:54,559

bad enough okay the fed may reject the

1064

00:59:54,559 --> 00:59:55,440

loan

1065

00:59:55,440 --> 00:59:58,480

this is a remote possibility

1066

00:59:58,480 --> 01:00:01,599

but it is a possibility but

1067

01:00:01,599 --> 01:00:04,720

the bank the fed tends to want to

1068

01:00:04,720 --> 01:00:08,000

protect the banks so rather than

1069

01:00:08,000 --> 01:00:10,720

refusing loans uh the solution would

1070

01:00:10,720 --> 01:00:14,000

probably be to take the bank over

1071

01:00:14,000 --> 01:00:17,040

discourage potential clients yeah so

1072

01:00:17,040 --> 01:00:19,520

you're almost there aria warden so when

1073

01:00:19,520 --> 01:00:22,160

it is when you go to the discount window

1074

01:00:22,160 --> 01:00:25,280

because you have a liquidity crisis

1075

01:00:25,280 --> 01:00:28,400

then the market will know about it

1076

01:00:28,400 --> 01:00:31,760

so it has an announcement effect

1077

01:00:31,760 --> 01:00:34,400

which tends to be that's right cheating

1078

01:00:34,400 --> 01:00:36,319

the reputation of the bank

1079

01:00:36,319 --> 01:00:38,640

okay and of course the fed will be

1080

01:00:38,640 --> 01:00:39,920

breezing down your neck

1081

01:00:39,920 --> 01:00:42,640

and expecting some changes in the

1082

01:00:42,640 --> 01:00:44,960

management of the bank that has brought

1083

01:00:44,960 --> 01:00:48,640

about this dire situation okay

1084

01:00:48,640 --> 01:00:51,200

now one exemption from that is if

1085

01:00:51,200 --> 01:00:53,839

everybody is in the same boat

1086

01:00:53,839 --> 01:00:56,160

as happened in the global financial

1087

01:00:56,160 --> 01:00:57,040

crisis

1088

01:00:57,040 --> 01:00:59,119

then the central bank will actually

1089

01:00:59,119 --> 01:01:00,720

encourage

1090

01:01:00,720 --> 01:01:03,839

banks that don't actually need it

1091

01:01:03,839 --> 01:01:05,839

to borrow from the fed to send a

1092

01:01:05,839 --> 01:01:07,040

positive signal

1093

01:01:07,040 --> 01:01:09,040

that the fed will support the banking

1094

01:01:09,040 --> 01:01:10,079

system

1095

01:01:10,079 --> 01:01:14,480

so as to calm down the market panic

1096

01:01:14,480 --> 01:01:17,680

okay so it's very different if you're on

1097

01:01:17,680 --> 01:01:19,839

the only bank in that situation

1098

01:01:19,839 --> 01:01:22,880

or whether the banks all of them are

1099

01:01:22,880 --> 01:01:23,599

suffering

1100

01:01:23,599 --> 01:01:26,960

a major liquidity crisis

1101

01:01:26,960 --> 01:01:30,640

monetary policy is uh different

1102

01:01:30,640 --> 01:01:33,359

uh well it is part of monetary policy

1103

01:01:33,359 --> 01:01:35,119

it's part of the response

1104

01:01:35,119 --> 01:01:38,559

to uh to the bank so the

1105

01:01:38,559 --> 01:01:41,680

one of the tools of monetary policy in

1106

01:01:41,680 --> 01:01:44,559

normal circumstances discount loans but

1107

01:01:44,559 --> 01:01:47,680

also in severe situation when the fed

1108

01:01:47,680 --> 01:01:50,480

acts as lender of last resort so central

1109

01:01:50,480 --> 01:01:51,520

bank act

1110

01:01:51,520 --> 01:01:54,559

as lender of last resort okay

1111

01:01:54,559 --> 01:01:57,119

so broadly speaking of the tools we're

1112

01:01:57,119 --> 01:01:58,400

looking at

1113

01:01:58,400 --> 01:02:01,920

banks can generally rely on the central

1114

01:02:01,920 --> 01:02:04,559

bank and the government to offer some

1115

01:02:04,559 --> 01:02:07,760

some sort of lifeline okay

1116

01:02:07,760 --> 01:02:10,559

uh and then the tools that one of you

1117

01:02:10,559 --> 01:02:12,319

mentioned at the very beginning which

1118

01:02:12,319 --> 01:02:14,160

was to call back the loans

1119

01:02:14,160 --> 01:02:17,280

okay so you had 90 million dollar in

1120

01:02:17,280 --> 01:02:19,359

loans you could try to call back

1121

01:02:19,359 --> 01:02:22,400

nine million of those loans to get cash

1122

01:02:22,400 --> 01:02:26,400

what's the problem with this solution

1123

01:02:33,680 --> 01:02:38,319

okay deposit contraction

1124

01:02:38,480 --> 01:02:41,280

missing potential interest so yeah bad

1125

01:02:41,280 --> 01:02:43,359

debt well we don't know

1126

01:02:43,359 --> 01:02:46,839

what loans we have there

1127

01:02:46,839 --> 01:02:50,400

okay very good

1128

01:02:50,400 --> 01:02:53,760

it takes time so rise impact on future

1129

01:02:53,760 --> 01:02:54,400

clients

1130

01:02:54,400 --> 01:02:57,119

very good uh borrowers might not have

1131

01:02:57,119 --> 01:02:57,839

the money

1132

01:02:57,839 --> 01:03:02,160

yeah and they may not be able to repay

1133

01:03:02,160 --> 01:03:03,039

as well

1134

01:03:03,039 --> 01:03:05,280

very good so there are a number of

1135

01:03:05,280 --> 01:03:06,160

problems with

1136

01:03:06,160 --> 01:03:10,240

loans okay so the bad debt and bad loans

1137

01:03:10,240 --> 01:03:13,520

normally as a bank you have to uh

1138

01:03:13,520 --> 01:03:16,640

put provisions for uh bad

1139

01:03:16,640 --> 01:03:19,119

bad loans so non-performing loans so the

1140

01:03:19,119 --> 01:03:20,799

portfolio nowadays

1141

01:03:20,799 --> 01:03:23,119

because we have mark to market should

1142

01:03:23,119 --> 01:03:24,640

reflect

1143

01:03:24,640 --> 01:03:27,520

the quality of the portfolio okay that

1144

01:03:27,520 --> 01:03:29,280

was not the case in the old days when

1145

01:03:29,280 --> 01:03:31,359

you had historical value accounting

1146

01:03:31,359 --> 01:03:33,119

which is a little bit more tricky you

1147

01:03:33,119 --> 01:03:35,200

had to look at the bad loan provisions

1148

01:03:35,200 --> 01:03:36,319

and things like that

1149

01:03:36,319 --> 01:03:38,880

nowadays it's a little bit easier

1150

01:03:38,880 --> 01:03:40,160

however

1151

01:03:40,160 --> 01:03:43,039

all kinds of very interesting situations

1152

01:03:43,039 --> 01:03:44,079

because

1153

01:03:44,079 --> 01:03:47,839

the loan contract may not allow

1154

01:03:47,839 --> 01:03:50,960

the bank to call back the loan okay so

1155

01:03:50,960 --> 01:03:54,720

first thing is you cannot do it okay

1156

01:03:54,720 --> 01:03:59,000

uh and if you do it then it has very bad

1157

01:03:59,000 --> 01:04:02,000

implications for the relationship with

1158

01:04:02,000 --> 01:04:03,280

the customers

1159

01:04:03,280 --> 01:04:06,559

and of course the loss of revenue going

1160

01:04:06,559 --> 01:04:09,920

forward and if even if you can do it

1161

01:04:09,920 --> 01:04:11,520

it's going to take time

1162

01:04:11,520 --> 01:04:13,599

okay it's going to take time it's kind

1163

01:04:13,599 --> 01:04:15,520

of a desperate measure

1164

01:04:15,520 --> 01:04:17,839

so it's probably the last one that you

1165

01:04:17,839 --> 01:04:19,039

want to try out

1166

01:04:19,039 --> 01:04:22,880

out of all of this now

1167

01:04:22,880 --> 01:04:26,000

let me tell you what happens in real

1168

01:04:26,000 --> 01:04:28,720

life for this kind of situation because

1169

01:04:28,720 --> 01:04:30,799

i was right in the middle of this kind

1170

01:04:30,799 --> 01:04:32,000

of thing

1171

01:04:32,000 --> 01:04:35,640

back in 1984. so i started working in

1172

01:04:35,640 --> 01:04:37,280

1980

1173

01:04:37,280 --> 01:04:40,720

and in 1980

1174

01:04:40,720 --> 01:04:43,599

i moved to london to an american bank of

1175

01:04:43,599 --> 01:04:44,880

chicago

1176

01:04:44,880 --> 01:04:48,640

i joined the bank in april 1984.

1177

01:04:48,640 --> 01:04:51,920

by the middle of 84 there was a banking

1178

01:04:51,920 --> 01:04:52,640

crisis

1179

01:04:52,640 --> 01:04:56,240

in the midwest of the united states so

1180

01:04:56,240 --> 01:04:58,400

first chicago headquartered in chicago

1181

01:04:58,400 --> 01:04:59,680

illinois

1182

01:04:59,680 --> 01:05:02,880

was one of the banks affected by that

1183

01:05:02,880 --> 01:05:04,799

crisis which came

1184

01:05:04,799 --> 01:05:08,319

right after a major international

1185

01:05:08,319 --> 01:05:11,200

debt crisis in 1982 when mexico

1186

01:05:11,200 --> 01:05:13,920

defaulted on its obligation

1187

01:05:13,920 --> 01:05:18,319

and triggered a massive latin american

1188

01:05:18,319 --> 01:05:20,000

debt crisis

1189

01:05:20,000 --> 01:05:22,400

so for chicago was an international bank

1190

01:05:22,400 --> 01:05:24,079

so it had suffered during

1191

01:05:24,079 --> 01:05:26,400

the latin american debt crisis then it

1192

01:05:26,400 --> 01:05:27,599

got hit

1193

01:05:27,599 --> 01:05:30,720

by the crisis in the midwest and they

1194

01:05:30,720 --> 01:05:33,359

were not the only ones our major rival

1195

01:05:33,359 --> 01:05:34,839

was continental

1196

01:05:34,839 --> 01:05:38,400

illinois so both banks were suffering

1197

01:05:38,400 --> 01:05:42,240

a huge crisis that crisis was compounded

1198

01:05:42,240 --> 01:05:42,799

because

1199

01:05:42,799 --> 01:05:44,960

both banks were subject to banking

1200

01:05:44,960 --> 01:05:46,000

regulations

1201

01:05:46,000 --> 01:05:50,000

in the u.s and at the time you could not

1202

01:05:50,000 --> 01:05:53,920

open more than one branch

1203

01:05:53,920 --> 01:05:56,400

within a certain parameter from the head

1204

01:05:56,400 --> 01:05:57,920

office in illinois

1205

01:05:57,920 --> 01:06:01,839

and interstate banking was illegal

1206

01:06:01,839 --> 01:06:05,119

so we had literally two

1207

01:06:05,119 --> 01:06:08,400

branches the head office and one branch

1208

01:06:08,400 --> 01:06:10,480

so the collection of deposits was

1209

01:06:10,480 --> 01:06:12,240

severely hampered

1210

01:06:12,240 --> 01:06:14,880

so how did first chicago and continental

1211

01:06:14,880 --> 01:06:15,520

illinois

1212

01:06:15,520 --> 01:06:19,599

finance their international expansion

1213

01:06:19,599 --> 01:06:22,880

through the interbank market

1214

01:06:22,880 --> 01:06:26,480

okay now there was a small difference

1215

01:06:26,480 --> 01:06:28,720

in the way that both banks were managed

1216

01:06:28,720 --> 01:06:31,920

from a liquidity management standpoint

1217

01:06:31,920 --> 01:06:32,799

continental

1218

01:06:32,799 --> 01:06:35,440

illinois relied entirely on the

1219

01:06:35,440 --> 01:06:37,440

interbank market

1220

01:06:37,440 --> 01:06:40,160

first chicago has started diversifying

1221

01:06:40,160 --> 01:06:41,440

their funding

1222

01:06:41,440 --> 01:06:45,200

through the issuance of

1223

01:06:45,200 --> 01:06:48,640

cds commercial certificates of deposit

1224

01:06:48,640 --> 01:06:49,359

wholesale

1225

01:06:49,359 --> 01:06:52,400

and commercial paper in particular

1226

01:06:52,400 --> 01:06:55,839

and those short-term debt securities

1227

01:06:55,839 --> 01:06:59,039

had maturities of on average

1228

01:06:59,039 --> 01:07:03,200

about six months so both banks got hit

1229

01:07:03,200 --> 01:07:06,400

in the summer both banks faced a

1230

01:07:06,400 --> 01:07:09,520

crushing liquidity crisis

1231

01:07:09,520 --> 01:07:12,880

so what to do well we did

1232

01:07:12,880 --> 01:07:16,559

all of this we did everything

1233

01:07:16,559 --> 01:07:19,839

we had a fire sale

1234

01:07:19,839 --> 01:07:23,119

so i was in charge of liquidating our

1235

01:07:23,119 --> 01:07:24,480

europe middle east and

1236

01:07:24,480 --> 01:07:28,319

africa loan portfolio which at the time

1237

01:07:28,319 --> 01:07:30,240

was very complicated because

1238

01:07:30,240 --> 01:07:33,039

loans did not allow you to call them

1239

01:07:33,039 --> 01:07:34,079

back

1240

01:07:34,079 --> 01:07:35,920

so the only thing you could do was try

1241

01:07:35,920 --> 01:07:38,160

to sell them to somebody else

1242

01:07:38,160 --> 01:07:41,079

needless to say the other banks were

1243

01:07:41,079 --> 01:07:43,039

extracting

1244

01:07:43,039 --> 01:07:46,079

extortionate prices to buy to buy these

1245

01:07:46,079 --> 01:07:49,359

assets okay so we sold

1246

01:07:49,359 --> 01:07:52,160

everything we could so when a bank is in

1247

01:07:52,160 --> 01:07:53,839

a situation like that

1248

01:07:53,839 --> 01:07:57,200

it will do all of this

1249

01:07:57,200 --> 01:08:00,000

all of these

1250

01:08:00,319 --> 01:08:03,920

the reason why first chicago survived

1251

01:08:03,920 --> 01:08:06,480

and continental illinois was taken over

1252

01:08:06,480 --> 01:08:08,160

by the fed

1253

01:08:08,160 --> 01:08:12,000

was that we had a time window

1254

01:08:12,000 --> 01:08:14,559

because we had diversified our funding

1255

01:08:14,559 --> 01:08:16,479

with six months

1256

01:08:16,479 --> 01:08:20,719

cp and cd we had a little bit more time

1257

01:08:20,719 --> 01:08:22,960

because the interbank market dried up

1258

01:08:22,960 --> 01:08:24,319

right away

1259

01:08:24,319 --> 01:08:28,000

but lucky for us we had diversified our

1260

01:08:28,000 --> 01:08:29,359

funding source

1261

01:08:29,359 --> 01:08:32,479

so it bought us time to liquidate the

1262

01:08:32,479 --> 01:08:34,479

portfolio

1263

01:08:34,479 --> 01:08:38,000

all right so huge painful

1264

01:08:38,000 --> 01:08:41,359

lesson learned okay in a situation like

1265

01:08:41,359 --> 01:08:43,439

that so this was not a market-wide

1266

01:08:43,439 --> 01:08:45,920

crisis this was a crisis that really

1267

01:08:45,920 --> 01:08:49,359

impacted banks in a specific region

1268

01:08:49,359 --> 01:08:52,479

for a specific

1269

01:08:52,479 --> 01:08:55,759

set of circumstances so luckily the

1270

01:08:55,759 --> 01:08:57,520

whole market was not dying

1271

01:08:57,520 --> 01:09:01,279

just two banks and my bank survived

1272

01:09:01,279 --> 01:09:02,000

while the

1273

01:09:02,000 --> 01:09:06,238

main competitor did not only because

1274

01:09:06,238 --> 01:09:08,640

the management had been smart enough to

1275

01:09:08,640 --> 01:09:09,520

diversify

1276

01:09:09,520 --> 01:09:12,799

our funding sources okay

1277

01:09:12,799 --> 01:09:15,839

so the lesson from that is

1278

01:09:15,839 --> 01:09:18,880

your liability management is very

1279

01:09:18,880 --> 01:09:21,359

important and we will see when we talk

1280

01:09:21,359 --> 01:09:22,640

about regulation

1281

01:09:22,640 --> 01:09:26,080

how regulators have taken that lesson

1282

01:09:26,080 --> 01:09:30,479

into consideration on changing the rules

1283

01:09:30,479 --> 01:09:34,719

in basel 3 and puzzle 4.

1284

01:09:34,719 --> 01:09:37,600

any questions

1285

01:09:38,799 --> 01:09:42,238

okay so just to show yes yes

1286

01:09:42,238 --> 01:09:45,839

uh i had one regarding of whether a bank

1287

01:09:45,839 --> 01:09:48,799

can borrow from certain depositors money

1288

01:09:48,799 --> 01:09:50,960

temporarily take that money to pay

1289

01:09:50,960 --> 01:09:54,480

some of the other outflows what

1290

01:09:54,480 --> 01:09:57,360

can can banks temporarily borrow from

1291

01:09:57,360 --> 01:09:59,920

the depositors money

1292

01:09:59,920 --> 01:10:03,199

to pay of other outflows

1293

01:10:03,199 --> 01:10:05,199

but you already be borrowing from your

1294

01:10:05,199 --> 01:10:06,400

depositors

1295

01:10:06,400 --> 01:10:09,760

merely because a deposit is

1296

01:10:09,760 --> 01:10:12,239

for a bank you know you when you're

1297

01:10:12,239 --> 01:10:14,080

making a deposit you're lending money to

1298

01:10:14,080 --> 01:10:16,159

the bank

1299

01:10:16,159 --> 01:10:19,520

so you're not quite sure what you mean

1300

01:10:19,520 --> 01:10:22,320

uh so so the cash outflows have to go

1301

01:10:22,320 --> 01:10:24,000

from the reserves right

1302

01:10:24,000 --> 01:10:27,520

well reserves is basically uh includes

1303

01:10:27,520 --> 01:10:30,719

cash okay so this is cash that you have

1304

01:10:30,719 --> 01:10:32,480

to set aside

1305

01:10:32,480 --> 01:10:35,360

and you have on account with the central

1306

01:10:35,360 --> 01:10:37,120

bank

1307

01:10:37,120 --> 01:10:39,760

okay so when imagine you know imagine

1308

01:10:39,760 --> 01:10:41,600

you have a deposit with

1309

01:10:41,600 --> 01:10:44,800

hsbc and there's some really really

1310

01:10:44,800 --> 01:10:46,960

really really really really really bad

1311

01:10:46,960 --> 01:10:47,440

news

1312

01:10:47,440 --> 01:10:49,120

worse than all the news you've heard

1313

01:10:49,120 --> 01:10:51,760

about and so

1314

01:10:51,760 --> 01:10:53,360

you want your money back because you

1315

01:10:53,360 --> 01:10:56,400

don't trust hsbc to still be alive

1316

01:10:56,400 --> 01:10:59,840

okay so what do you do

1317

01:11:00,159 --> 01:11:01,840

you ask for the money back you take out

1318

01:11:01,840 --> 01:11:04,560

your deposit so you run to the bank

1319

01:11:04,560 --> 01:11:08,159

you know why it's called the bank run

1320

01:11:08,800 --> 01:11:11,199

okay you have to run because first come

1321

01:11:11,199 --> 01:11:12,719

first served

1322

01:11:12,719 --> 01:11:16,480

okay yeah so if you don't run

1323

01:11:16,480 --> 01:11:19,360

and you at the back of the queue all the

1324

01:11:19,360 --> 01:11:20,080

monies that

1325

01:11:20,080 --> 01:11:22,080

is in the bank vault will have to be

1326

01:11:22,080 --> 01:11:24,159

paid will be paid out first come first

1327

01:11:24,159 --> 01:11:26,159

serve so all the people who come ahead

1328

01:11:26,159 --> 01:11:27,280

of you

1329

01:11:27,280 --> 01:11:29,600

will get their money before you do

1330

01:11:29,600 --> 01:11:33,040

that's why it's called a bank run

1331

01:11:33,040 --> 01:11:36,320

yes yes yes yes it's a very very very

1332

01:11:36,320 --> 01:11:38,000

scary situation

1333

01:11:38,000 --> 01:11:41,360

now it's mitigated because

1334

01:11:41,360 --> 01:11:44,000

in most developed countries we have what

1335

01:11:44,000 --> 01:11:45,360

is called deposit

1336

01:11:45,360 --> 01:11:48,400

insurance protection okay so your

1337

01:11:48,400 --> 01:11:51,600

deposits are protected by the government

1338

01:11:51,600 --> 01:11:54,080

up to a certain threshold we will talk

1339

01:11:54,080 --> 01:11:55,679

about this when we talk about banking

1340

01:11:55,679 --> 01:11:57,440

regulation

1341

01:11:57,440 --> 01:12:00,239

all right nevertheless it can be very

1342

01:12:00,239 --> 01:12:01,679

scary so let me tell you

1343

01:12:01,679 --> 01:12:03,760

an interesting anecdote that happened

1344

01:12:03,760 --> 01:12:06,480

about a couple of decades ago

1345

01:12:06,480 --> 01:12:08,320

and it was a situation with one of the

1346

01:12:08,320 --> 01:12:10,159

banks in hong kong that had the

1347

01:12:10,159 --> 01:12:12,000

misfortune

1348

01:12:12,000 --> 01:12:15,600

of having a branch right next to a bus

1349

01:12:15,600 --> 01:12:19,280

stop and there was some problem with the

1350

01:12:19,280 --> 01:12:21,760

buses so there was a very very long line

1351

01:12:21,760 --> 01:12:22,000

at

1352

01:12:22,000 --> 01:12:24,080

the bus stop so it was kind of going

1353

01:12:24,080 --> 01:12:26,560

around the corner of the bank

1354

01:12:26,560 --> 01:12:29,520

so people passing by saw this very long

1355

01:12:29,520 --> 01:12:30,000

line

1356

01:12:30,000 --> 01:12:31,840

and immediately thought there was a

1357

01:12:31,840 --> 01:12:33,600

problem with the bank

1358

01:12:33,600 --> 01:12:35,679

they thought there was a run on the bank

1359

01:12:35,679 --> 01:12:36,880

because people were

1360

01:12:36,880 --> 01:12:40,159

queuing all around the bank so

1361

01:12:40,159 --> 01:12:43,440

immediately they message each other

1362

01:12:43,440 --> 01:12:45,360

have you heard about the bank run on

1363

01:12:45,360 --> 01:12:47,280

banks so and so

1364

01:12:47,280 --> 01:12:50,719

so the rumor amplified and people

1365

01:12:50,719 --> 01:12:53,760

ran to all the branches of that bank to

1366

01:12:53,760 --> 01:12:56,960

withdraw their cash

1367

01:12:57,440 --> 01:12:59,600

so there was immediately announcements

1368

01:12:59,600 --> 01:13:01,040

that were made and

1369

01:13:01,040 --> 01:13:04,000

you know uh the big tycoons in the city

1370

01:13:04,000 --> 01:13:06,960

stepped up to say no no no

1371

01:13:06,960 --> 01:13:10,400

don't worry it's safe etc but you can

1372

01:13:10,400 --> 01:13:10,800

see

1373

01:13:10,800 --> 01:13:14,800

how this very it was a rumor there was

1374

01:13:14,800 --> 01:13:18,000

nothing wrong with it but it triggered

1375

01:13:18,000 --> 01:13:21,360

an absolute panic even though in hong

1376

01:13:21,360 --> 01:13:23,280

kong we have deposit insurance

1377

01:13:23,280 --> 01:13:25,040

protection

1378

01:13:25,040 --> 01:13:29,120

okay so banks are very susceptible to

1379

01:13:29,120 --> 01:13:30,400

rumors

1380

01:13:30,400 --> 01:13:34,000

and when deposits depositors come to the

1381

01:13:34,000 --> 01:13:34,480

bank

1382

01:13:34,480 --> 01:13:36,159

and want to close their account and get

1383

01:13:36,159 --> 01:13:38,400

their money back

1384

01:13:38,400 --> 01:13:40,560

you have to pay them out of the cash in

1385

01:13:40,560 --> 01:13:41,600

your vault

1386

01:13:41,600 --> 01:13:44,560

if you don't have it then you have to

1387

01:13:44,560 --> 01:13:46,320

close the bank

1388

01:13:46,320 --> 01:13:48,800

okay so this is a really really really

1389

01:13:48,800 --> 01:13:49,920

bad

1390

01:13:49,920 --> 01:13:55,199

situation very very very bad situation

1391

01:13:55,840 --> 01:13:58,560

thank you thank you you're welcome so

1392

01:13:58,560 --> 01:13:59,280

this

1393

01:13:59,280 --> 01:14:01,600

chart which is from an article on

1394

01:14:01,600 --> 01:14:04,800

bloomberg very recently showed you

1395

01:14:04,800 --> 01:14:08,400

how much money the major banks in the us

1396

01:14:08,400 --> 01:14:12,640

have on reserves so you can see

1397

01:14:12,640 --> 01:14:16,159

reserves have increased considerably

1398

01:14:16,159 --> 01:14:18,159

in the u.s so the banks are sitting on

1399

01:14:18,159 --> 01:14:20,719

pies and pilots and piles of cash

1400

01:14:20,719 --> 01:14:22,960

at the central bank so there's some

1401

01:14:22,960 --> 01:14:24,080

really interesting

1402

01:14:24,080 --> 01:14:26,880

things going on in the us in terms of

1403

01:14:26,880 --> 01:14:29,199

the proportion of reserves that the bank

1404

01:14:29,199 --> 01:14:30,159

are keeping

1405

01:14:30,159 --> 01:14:32,239

the supplementary leverage ratio and all

1406

01:14:32,239 --> 01:14:34,159

of that things we will discuss when we

1407

01:14:34,159 --> 01:14:34,560

talk

1408

01:14:34,560 --> 01:14:38,560

about regulations all right so we talked

1409

01:14:38,560 --> 01:14:38,960

about

1410

01:14:38,960 --> 01:14:42,080

liquidity management and i like to

1411

01:14:42,080 --> 01:14:45,360

over emphasize this because uh

1412

01:14:45,360 --> 01:14:48,560

it is absolutely key and it's

1413

01:14:48,560 --> 01:14:51,840

very difficult because it's relative

1414

01:14:51,840 --> 01:14:54,400

so you think you are fine and you have

1415

01:14:54,400 --> 01:14:56,719

liquid assets and boom something happens

1416

01:14:56,719 --> 01:14:58,080

and you find out

1417

01:14:58,080 --> 01:15:01,600

that no you don't okay so it's a very

1418

01:15:01,600 --> 01:15:05,040

very tricky thing to manage

1419

01:15:05,040 --> 01:15:07,760

now assets and liability management are

1420

01:15:07,760 --> 01:15:08,239

linked

1421

01:15:08,239 --> 01:15:10,480

together you cannot do one without the

1422

01:15:10,480 --> 01:15:12,000

other okay

1423

01:15:12,000 --> 01:15:16,000

so from the asset side what you want

1424

01:15:16,000 --> 01:15:19,440

is to have loans and securities with

1425

01:15:19,440 --> 01:15:22,960

as little default risk as possible

1426

01:15:22,960 --> 01:15:26,640

but as much return as possible

1427

01:15:26,640 --> 01:15:29,840

okay so you want to diversify

1428

01:15:29,840 --> 01:15:32,880

your portfolios so that you avoid

1429

01:15:32,880 --> 01:15:36,480

one of the major dangers in asset

1430

01:15:36,480 --> 01:15:39,600

management is what we call concentration

1431

01:15:39,600 --> 01:15:40,800

risk

1432

01:15:40,800 --> 01:15:43,840

concentration risk is when you have

1433

01:15:43,840 --> 01:15:47,120

too much exposure on one single

1434

01:15:47,120 --> 01:15:50,480

name one single customer so one of the

1435

01:15:50,480 --> 01:15:52,719

interesting things about green cell

1436

01:15:52,719 --> 01:15:53,679

capitals

1437

01:15:53,679 --> 01:15:57,360

failure is the extraordinary amount of

1438

01:15:57,360 --> 01:15:59,280

concentration risk

1439

01:15:59,280 --> 01:16:02,800

that they had on one company or group of

1440

01:16:02,800 --> 01:16:04,640

companies related companies

1441

01:16:04,640 --> 01:16:08,560

geology capital a glg group of companies

1442

01:16:08,560 --> 01:16:12,320

so that's one thing and you also want to

1443

01:16:12,320 --> 01:16:14,880

help liquidity management by having

1444

01:16:14,880 --> 01:16:17,360

liquid assets and managing your reserves

1445

01:16:17,360 --> 01:16:20,000

so you can see how liquidity management

1446

01:16:20,000 --> 01:16:22,159

is going to be related to asset

1447

01:16:22,159 --> 01:16:23,600

management

1448

01:16:23,600 --> 01:16:27,120

on the liability side you your funding

1449

01:16:27,120 --> 01:16:27,440

is

1450

01:16:27,440 --> 01:16:30,560

not generally limited to deposit because

1451

01:16:30,560 --> 01:16:34,239

if you only fund yourself with deposit

1452

01:16:34,239 --> 01:16:36,159

then you're opening yourself up to

1453

01:16:36,159 --> 01:16:39,440

considerable maturity intermediation

1454

01:16:39,440 --> 01:16:43,520

risk okay so you want to diversify

1455

01:16:43,520 --> 01:16:46,239

your liability management and as i

1456

01:16:46,239 --> 01:16:48,320

explained to you with the case of first

1457

01:16:48,320 --> 01:16:49,360

chicago

1458

01:16:49,360 --> 01:16:52,640

it can be a matter of survival okay

1459

01:16:52,640 --> 01:16:54,880

so nowadays you will see that the

1460

01:16:54,880 --> 01:16:55,840

regulators

1461

01:16:55,840 --> 01:16:59,040

have imposed a number of prudential

1462

01:16:59,040 --> 01:17:01,520

ratios on the banks so that they do just

1463

01:17:01,520 --> 01:17:03,040

that

1464

01:17:03,040 --> 01:17:06,159

okay so issuing cds uh

1465

01:17:06,159 --> 01:17:09,360

issuing longer term debt obligations

1466

01:17:09,360 --> 01:17:12,000

diversifying your funding sources so you

1467

01:17:12,000 --> 01:17:13,360

don't rely on just

1468

01:17:13,360 --> 01:17:16,880

one source is prudent liability

1469

01:17:16,880 --> 01:17:18,719

management

1470

01:17:18,719 --> 01:17:21,920

now in this whole thing we're looking at

1471

01:17:21,920 --> 01:17:24,320

the balance sheet of the bank but one of

1472

01:17:24,320 --> 01:17:24,719

the

1473

01:17:24,719 --> 01:17:26,640

interesting aspects about banking

1474

01:17:26,640 --> 01:17:28,480

business is that not everything is

1475

01:17:28,480 --> 01:17:31,760

actually reflected on the balance sheet

1476

01:17:31,760 --> 01:17:35,199

are activities that involve trading

1477

01:17:35,199 --> 01:17:37,679

fee business that do not necessarily

1478

01:17:37,679 --> 01:17:38,560

appear

1479

01:17:38,560 --> 01:17:41,360

on the bank balance sheet for example

1480

01:17:41,360 --> 01:17:41,840

fee

1481

01:17:41,840 --> 01:17:45,360

income from foreign exchange trades

1482

01:17:45,360 --> 01:17:47,920

servicing mortgage-backed securities

1483

01:17:47,920 --> 01:17:50,560

providing guarantees

1484

01:17:50,560 --> 01:17:55,199

providing liquidity facilities

1485

01:17:55,199 --> 01:17:58,719

revenues from trading of derivatives

1486

01:17:58,719 --> 01:18:01,600

foreign exchange etc

1487

01:18:01,600 --> 01:18:03,440

revenues from trading your loan

1488

01:18:03,440 --> 01:18:06,640

portfolio this is something that

1489

01:18:06,640 --> 01:18:09,199

started after the banking crisis of the

1490

01:18:09,199 --> 01:18:10,560

80s

1491

01:18:10,560 --> 01:18:13,199

all of these things they generate

1492

01:18:13,199 --> 01:18:14,080

returns

1493

01:18:14,080 --> 01:18:17,760

but they also generate risk

1494

01:18:17,760 --> 01:18:20,640

and in particular this kind of

1495

01:18:20,640 --> 01:18:22,880

contingent liabilities this

1496

01:18:22,880 --> 01:18:26,000

is things that banks promise to do

1497

01:18:26,000 --> 01:18:27,920

but never expect to actually have to

1498

01:18:27,920 --> 01:18:29,199

deliver

1499

01:18:29,199 --> 01:18:32,400

so providing a bank guarantee

1500

01:18:32,400 --> 01:18:34,719

in the form of a letter of credit and

1501

01:18:34,719 --> 01:18:36,960

things like that

1502

01:18:36,960 --> 01:18:39,920

generally you don't expect your customer

1503

01:18:39,920 --> 01:18:41,040

to default

1504

01:18:41,040 --> 01:18:44,000

and you to have to step in to meet their

1505

01:18:44,000 --> 01:18:46,000

obligations

1506

01:18:46,000 --> 01:18:49,360

similarly providing liquidity facilities

1507

01:18:49,360 --> 01:18:51,600

you don't really expect your customers

1508

01:18:51,600 --> 01:18:54,480

to run out of liquidity and they're

1509

01:18:54,480 --> 01:18:55,840

having to draw

1510

01:18:55,840 --> 01:18:59,280

down on the lines of credit

1511

01:18:59,280 --> 01:19:03,040

but if they do what happens these are

1512

01:19:03,040 --> 01:19:06,159

these materialize and will immediately

1513

01:19:06,159 --> 01:19:07,920

appear on your balance sheet which means

1514

01:19:07,920 --> 01:19:10,239

you will have to fund them

1515

01:19:10,239 --> 01:19:13,920

okay so the problem that we saw

1516

01:19:13,920 --> 01:19:16,000

specifically during the global financial

1517

01:19:16,000 --> 01:19:17,920

crisis

1518

01:19:17,920 --> 01:19:19,840

is that a number of these contingent

1519

01:19:19,840 --> 01:19:22,320

liabilities were triggered

1520

01:19:22,320 --> 01:19:25,600

because customers were in serious

1521

01:19:25,600 --> 01:19:27,600

distress so they drew

1522

01:19:27,600 --> 01:19:30,719

down on their lines of credit

1523

01:19:30,719 --> 01:19:34,320

they evoked the guarantees so that

1524

01:19:34,320 --> 01:19:37,679

meant the banks had to step in and

1525

01:19:37,679 --> 01:19:41,199

had to fund these right in the middle

1526

01:19:41,199 --> 01:19:44,880

of a terrible liquidity crisis

1527

01:19:44,880 --> 01:19:48,159

so it's all fine and well but you need

1528

01:19:48,159 --> 01:19:49,199

to remember

1529

01:19:49,199 --> 01:19:52,560

that these off-balance sheet activities

1530

01:19:52,560 --> 01:19:56,400

generate risk as well as return

1531

01:19:56,400 --> 01:19:58,560

so this need to be taken into

1532

01:19:58,560 --> 01:20:00,159

consideration

1533

01:20:00,159 --> 01:20:04,400

in prudential management

1534

01:20:04,400 --> 01:20:08,159

the fourth part is capital adequacy

1535

01:20:08,159 --> 01:20:11,280

so we will talk about it at length when

1536

01:20:11,280 --> 01:20:13,600

we talk about regulation because in the

1537

01:20:13,600 --> 01:20:15,040

banking sector

1538

01:20:15,040 --> 01:20:19,040

the regulators impose requirements

1539

01:20:19,040 --> 01:20:21,920

now the amount of equity capital that

1540

01:20:21,920 --> 01:20:22,560

you have

1541

01:20:22,560 --> 01:20:24,639

on your balance sheet provides a

1542

01:20:24,639 --> 01:20:26,000

trade-off between

1543

01:20:26,000 --> 01:20:29,040

safety and return

1544

01:20:29,040 --> 01:20:32,560

the more capital you have

1545

01:20:32,560 --> 01:20:35,679

or more equity you have the lower the

1546

01:20:35,679 --> 01:20:37,360

return on equity for

1547

01:20:37,360 --> 01:20:40,400

everything else being equal on the other

1548

01:20:40,400 --> 01:20:40,880

hand

1549

01:20:40,880 --> 01:20:45,199

your capital is also an absorption

1550

01:20:45,199 --> 01:20:48,239

for your loan losses

1551

01:20:48,239 --> 01:20:51,440

okay so when you have losses

1552

01:20:51,440 --> 01:20:54,639

then the capital the equity capital that

1553

01:20:54,639 --> 01:20:56,400

you have will absorb

1554

01:20:56,400 --> 01:21:00,400

those loan losses okay so

1555

01:21:00,400 --> 01:21:03,679

the idea is that the more

1556

01:21:03,679 --> 01:21:06,800

capital you have the more cushion you

1557

01:21:06,800 --> 01:21:09,920

have the more the shareholders

1558

01:21:09,920 --> 01:21:13,040

will expect management

1559

01:21:13,040 --> 01:21:16,159

you know to be very prudent uh

1560

01:21:16,159 --> 01:21:18,400

in terms of the kind of losses that

1561

01:21:18,400 --> 01:21:20,080

you're supposed to

1562

01:21:20,080 --> 01:21:23,520

to take but also will be very

1563

01:21:23,520 --> 01:21:25,760

concerned because there will be much

1564

01:21:25,760 --> 01:21:28,159

less return

1565

01:21:28,159 --> 01:21:31,440

on the equity so it's a big trade-off

1566

01:21:31,440 --> 01:21:34,880

now banks manage capital by just like

1567

01:21:34,880 --> 01:21:36,400

any other company

1568

01:21:36,400 --> 01:21:39,840

by issuing or buying back stock

1569

01:21:39,840 --> 01:21:42,239

they can change their dividend policies

1570

01:21:42,239 --> 01:21:45,440

that will impact your retained earnings

1571

01:21:45,440 --> 01:21:48,960

and you can also adjust your balance

1572

01:21:48,960 --> 01:21:49,760

sheet

1573

01:21:49,760 --> 01:21:52,639

so if you cannot issue capital because

1574

01:21:52,639 --> 01:21:54,480

you have to meet more

1575

01:21:54,480 --> 01:21:56,960

capital adequacy ratio one of the

1576

01:21:56,960 --> 01:21:57,679

solution

1577

01:21:57,679 --> 01:22:00,159

is to shrink the balance sheet to sell

1578

01:22:00,159 --> 01:22:01,199

off

1579

01:22:01,199 --> 01:22:05,280

loans uh securities get out of certain

1580

01:22:05,280 --> 01:22:07,360

sectors of activity

1581

01:22:07,360 --> 01:22:10,639

okay so you can work on different levels

1582

01:22:10,639 --> 01:22:12,880

we will discuss at length capital

1583

01:22:12,880 --> 01:22:13,679

requirements

1584

01:22:13,679 --> 01:22:16,159

of the banks and how those have evolved

1585

01:22:16,159 --> 01:22:17,600

over time

1586

01:22:17,600 --> 01:22:22,159

all right so we just have time to do one

1587

01:22:22,159 --> 01:22:25,840

iprs benson

1588

01:22:29,760 --> 01:22:34,560

so we have one iprs question coming up

1589

01:22:36,639 --> 01:22:40,719

okay so it's a theoretical question

1590

01:22:40,719 --> 01:22:42,880

what is the theoretical background for

1591

01:22:42,880 --> 01:22:53,840

capital adequacy requirement

1592

01:23:18,840 --> 01:23:21,840

so

1593

01:23:33,940 --> 01:23:37,370

[Music]

1594

01:24:00,840 --> 01:24:03,840

so

1595

01:24:32,780 --> 01:24:43,920

[Music]

1596

01:24:44,800 --> 01:24:47,920

okay so uh thank you

1597

01:24:47,920 --> 01:24:52,320

the correct answer is all of the above

1598

01:24:52,320 --> 01:24:56,400

okay so that's the correct answer

1599

01:24:56,400 --> 01:24:59,679

uh because you want more uh cushion for

1600

01:24:59,679 --> 01:25:00,320

losses

1601

01:25:00,320 --> 01:25:03,440

and also it provides an incentive for

1602

01:25:03,440 --> 01:25:05,360

shareholders to monitor management

1603

01:25:05,360 --> 01:25:07,040

because they have more money

1604

01:25:07,040 --> 01:25:10,080

more skin in the game so

1605

01:25:10,080 --> 01:25:13,440

uh it's 1 20 feel free to leave i know

1606

01:25:13,440 --> 01:25:15,520

some of you have other classes or other

1607

01:25:15,520 --> 01:25:16,400

things to

1608

01:25:16,400 --> 01:25:19,440

attend as usual i will hang around to

1609

01:25:19,440 --> 01:25:21,040

answer any questions

1610

01:25:21,040 --> 01:25:24,320

uh thank you very much so rise had a

1611

01:25:24,320 --> 01:25:26,639

question albaro is forced to accept loan

1612

01:25:26,639 --> 01:25:27,440

callbacks

1613

01:25:27,440 --> 01:25:29,600

no it depends on the terms of the

1614

01:25:29,600 --> 01:25:32,239

contract

1615

01:25:32,400 --> 01:25:35,679

okay so you have to look at every single

1616

01:25:35,679 --> 01:25:38,239

contract

1617

01:25:38,239 --> 01:25:41,440

thanks roman

1618

01:25:41,440 --> 01:25:44,480

how about typical mortgages in

1619

01:25:44,480 --> 01:25:47,520

hong kong and usa so again

1620

01:25:47,520 --> 01:25:50,719

it will depend on the uh

1621

01:25:50,719 --> 01:25:54,000

terms of the contracts so as far as i

1622

01:25:54,000 --> 01:25:58,239

know in the us you can

1623

01:25:58,239 --> 01:26:01,199

refinance your mortgages i'm not sure

1624

01:26:01,199 --> 01:26:02,880

about hong kong i haven't looked at

1625

01:26:02,880 --> 01:26:05,280

it but refinancing mortgages is very

1626

01:26:05,280 --> 01:26:07,520

common and paying them back early

1627

01:26:07,520 --> 01:26:09,679

so there might be penalties associated

1628

01:26:09,679 --> 01:26:10,719

with it

1629

01:26:10,719 --> 01:26:14,639

but it really depends on the contract

1630

01:26:18,080 --> 01:26:21,280

okay so chuck fung is asking me why

1631

01:26:21,280 --> 01:26:23,199

selling liquidity securities have

1632

01:26:23,199 --> 01:26:24,480

affected liquidity

1633

01:26:24,480 --> 01:26:27,520

so if you're selling an asset whether

1634

01:26:27,520 --> 01:26:28,320

it's a loan

1635

01:26:28,320 --> 01:26:31,520

or a pp e or

1636

01:26:31,520 --> 01:26:34,320

a security portfolio then you will get

1637

01:26:34,320 --> 01:26:36,159

cash for it right so

1638

01:26:36,159 --> 01:26:38,480

you will immediately get that cash and

1639

01:26:38,480 --> 01:26:40,320

then that will increase your reserve

1640

01:26:40,320 --> 01:26:41,199

account

1641

01:26:41,199 --> 01:26:44,239

now the problem is that

1642

01:26:44,239 --> 01:26:47,280

the price at which you are selling

1643

01:26:47,280 --> 01:26:49,679

any asset will depend on whether there

1644

01:26:49,679 --> 01:26:51,760

is a market for it

1645

01:26:51,760 --> 01:26:54,560

and how long it's going to take you so

1646

01:26:54,560 --> 01:26:56,320

what are the transaction costs

1647

01:26:56,320 --> 01:26:59,440

involved in liquidating an asset and the

1648

01:26:59,440 --> 01:27:00,000

price

1649

01:27:00,000 --> 01:27:04,719

at which you can sell that asset

1650

01:27:04,719 --> 01:27:06,719

we will talk about the supplementary

1651

01:27:06,719 --> 01:27:09,120

leverage ratio later to tow when we talk

1652

01:27:09,120 --> 01:27:10,239

about regulation

1653

01:27:10,239 --> 01:27:14,000

it's basically what the american banks

1654

01:27:14,000 --> 01:27:17,679

call the basel for basel three leverage

1655

01:27:17,679 --> 01:27:20,080

ratio

1656

01:27:22,480 --> 01:27:26,080

okay any other questions we have very

1657

01:27:26,080 --> 01:27:26,480

good

1658

01:27:26,480 --> 01:27:30,080

questions yes visit chai go ahead

1659

01:27:30,080 --> 01:27:31,840

yeah i had a question about the off

1660

01:27:31,840 --> 01:27:33,440

balance sheet activities

1661

01:27:33,440 --> 01:27:36,719

yeah um yeah so i it wasn't very clear

1662

01:27:36,719 --> 01:27:37,679

to me like when

1663

01:27:37,679 --> 01:27:40,800

when do they um the one that is circled

1664

01:27:40,800 --> 01:27:41,679

in red like

1665

01:27:41,679 --> 01:27:45,840

so those ones go on the balance sheet

1666

01:27:45,840 --> 01:27:48,320

okay so they're not on balance sheets

1667

01:27:48,320 --> 01:27:49,840

okay so for example

1668

01:27:49,840 --> 01:27:54,159

imagine that um

1669

01:27:54,159 --> 01:27:57,280

hsbc has a big

1670

01:27:57,280 --> 01:27:59,040

chinese customer they know very very

1671

01:27:59,040 --> 01:28:00,400

well okay

1672

01:28:00,400 --> 01:28:02,880

and that chinese customer let's say

1673

01:28:02,880 --> 01:28:04,159

synocam

1674

01:28:04,159 --> 01:28:07,120

is issuing uh debt securities in the

1675

01:28:07,120 --> 01:28:09,440

market to finance themselves

1676

01:28:09,440 --> 01:28:12,560

but just in case they want to be uh

1677

01:28:12,560 --> 01:28:14,960

to be sure that they always have access

1678

01:28:14,960 --> 01:28:16,320

to liquidity

1679

01:28:16,320 --> 01:28:18,960

so they enter into an agreement with

1680

01:28:18,960 --> 01:28:19,840

hsbc

1681

01:28:19,840 --> 01:28:22,639

whereby hsbc says well we understand you

1682

01:28:22,639 --> 01:28:23,840

fund themselves

1683

01:28:23,840 --> 01:28:26,400

in the capital markets but if capital

1684

01:28:26,400 --> 01:28:27,280

markets dry

1685

01:28:27,280 --> 01:28:31,199

up we have this facility in place where

1686

01:28:31,199 --> 01:28:32,639

you can

1687

01:28:32,639 --> 01:28:35,760

borrow money from us in step and we will

1688

01:28:35,760 --> 01:28:37,199

charge you blah blah blah

1689

01:28:37,199 --> 01:28:40,560

okay so hsbc fully expect that synocam

1690

01:28:40,560 --> 01:28:42,239

will keep funding itself in the market

1691

01:28:42,239 --> 01:28:45,120

and we'll never have to borrow from them

1692

01:28:45,120 --> 01:28:48,880

but if there is a market liquidity event

1693

01:28:48,880 --> 01:28:51,360

then under the terms of the contract

1694

01:28:51,360 --> 01:28:53,600

signucam can turn to hsbc and say we'd

1695

01:28:53,600 --> 01:28:54,400

like to bother

1696

01:28:54,400 --> 01:28:57,600

the money now by the way so at that

1697

01:28:57,600 --> 01:28:58,080

point

1698

01:28:58,080 --> 01:29:01,280

hsbc really doesn't have much choice

1699

01:29:01,280 --> 01:29:04,080

they have to fund at that point it

1700

01:29:04,080 --> 01:29:05,600

becomes a loan

1701

01:29:05,600 --> 01:29:07,600

then it goes on to the balance sheet so

1702

01:29:07,600 --> 01:29:09,360

it becomes an asset

1703

01:29:09,360 --> 01:29:12,800

which has to be funded you understand

1704

01:29:12,800 --> 01:29:16,320

yeah right so you have the similar

1705

01:29:16,320 --> 01:29:18,560

situation with the guarantee

1706

01:29:18,560 --> 01:29:21,760

what does the guarantee says okay if my

1707

01:29:21,760 --> 01:29:24,320

customer

1708

01:29:24,560 --> 01:29:27,040

you know my customer is performing but

1709

01:29:27,040 --> 01:29:27,920

if they don't

1710

01:29:27,920 --> 01:29:31,520

they now step in their shoes same thing

1711

01:29:31,520 --> 01:29:36,080

right so the banks normally get

1712

01:29:36,080 --> 01:29:38,880

quite a lot of fees and commissions from

1713

01:29:38,880 --> 01:29:40,320

these services

1714

01:29:40,320 --> 01:29:42,639

but of course if the market turns very

1715

01:29:42,639 --> 01:29:44,560

bad and their customers is in a bad

1716

01:29:44,560 --> 01:29:48,080

situation then they have to step in

1717

01:29:48,080 --> 01:29:52,000

okay oh okay so um like they only go

1718

01:29:52,000 --> 01:29:54,560

on on the balance sheet when when

1719

01:29:54,560 --> 01:29:56,320

something happens like but other than

1720

01:29:56,320 --> 01:29:57,440

that it's always off

1721

01:29:57,440 --> 01:29:59,440

yeah because until then it's just a

1722

01:29:59,440 --> 01:30:01,920

promise so a promise is not

1723

01:30:01,920 --> 01:30:05,040

really reflected on the balance sheet so

1724

01:30:05,040 --> 01:30:06,719

you have to be very careful when you

1725

01:30:06,719 --> 01:30:07,920

analyze

1726

01:30:07,920 --> 01:30:10,320

financial institutions risk you really

1727

01:30:10,320 --> 01:30:11,440

need to look at the

1728

01:30:11,440 --> 01:30:15,040

notes for the financial statements

1729

01:30:16,000 --> 01:30:19,199

all right got it thank you i would like

1730

01:30:19,199 --> 01:30:20,000

to ask why

1731

01:30:20,000 --> 01:30:22,159

capital is categorizing the liabilities

1732

01:30:22,159 --> 01:30:23,120

section

1733

01:30:23,120 --> 01:30:26,639

okay man check so um

1734

01:30:26,639 --> 01:30:29,280

so yes and no so if you remember the

1735

01:30:29,280 --> 01:30:30,719

balance sheet

1736

01:30:30,719 --> 01:30:32,719

okay there's an asset side and the

1737

01:30:32,719 --> 01:30:34,960

liability and equity side

1738

01:30:34,960 --> 01:30:37,199

okay so you have liability and equity at

1739

01:30:37,199 --> 01:30:38,400

the bottom

1740

01:30:38,400 --> 01:30:41,600

so i put it on the same side okay so you

1741

01:30:41,600 --> 01:30:44,159

can look at it at the overhaul liability

1742

01:30:44,159 --> 01:30:47,120

and equity or you can separate it but

1743

01:30:47,120 --> 01:30:48,800

it's on the same side of the balance

1744

01:30:48,800 --> 01:30:51,040

sheet

1745

01:30:53,360 --> 01:30:55,520

allowance for bad debt is a completely

1746

01:30:55,520 --> 01:30:57,199

different thing that's what we call the

1747

01:30:57,199 --> 01:30:57,840

loan loss

1748

01:30:57,840 --> 01:31:01,679

provision okay so professor i would like

1749

01:31:01,679 --> 01:31:03,920

to ask in the scenario uh

1750

01:31:03,920 --> 01:31:06,960

the capital is under the liability so is

1751

01:31:06,960 --> 01:31:09,120

there any examples can be given that

1752

01:31:09,120 --> 01:31:11,120

what is the capital

1753

01:31:11,120 --> 01:31:14,239

o capital is the equity okay so equity

1754

01:31:14,239 --> 01:31:17,920

okay here here it's a window

1755

01:31:17,920 --> 01:31:21,600

in banks in banking we call it

1756

01:31:21,600 --> 01:31:24,880

equity capital okay so they call it

1757

01:31:24,880 --> 01:31:26,800

capital because we call it capital

1758

01:31:26,800 --> 01:31:27,840

requirement

1759

01:31:27,840 --> 01:31:30,960

and the way that the bank regulators

1760

01:31:30,960 --> 01:31:34,159

define capital is a little bit different

1761

01:31:34,159 --> 01:31:36,719

from the normal accounting definition of

1762

01:31:36,719 --> 01:31:37,679

capital

1763

01:31:37,679 --> 01:31:40,400

so we'll dig into that much more when we

1764

01:31:40,400 --> 01:31:43,679

talk about banking regulation

1765

01:31:43,679 --> 01:31:46,880

oh thank you you're very welcome arie

1766

01:31:46,880 --> 01:31:49,600

and you had a question

1767

01:31:49,600 --> 01:31:53,520

uh yes professor regarding the

1768

01:31:53,520 --> 01:31:57,679

uh off balance sheet uh activities

1769

01:31:57,679 --> 01:32:00,880

it also mentions loan sales there but

1770

01:32:00,880 --> 01:32:03,760

aren't loans here supposed to be on the

1771

01:32:03,760 --> 01:32:05,280

balance sheet

1772

01:32:05,280 --> 01:32:07,920

okay so that's a very good question so

1773

01:32:07,920 --> 01:32:09,600

if you have a loan

1774

01:32:09,600 --> 01:32:13,280

trading activity it's it's

1775

01:32:13,280 --> 01:32:15,440

the accounting treatment is a little bit

1776

01:32:15,440 --> 01:32:16,960

different

1777

01:32:16,960 --> 01:32:20,400

okay so normally the banks

1778

01:32:20,400 --> 01:32:23,520

hold their assets uh to maturity

1779

01:32:23,520 --> 01:32:26,159

okay but the loan portfolio if you have

1780

01:32:26,159 --> 01:32:28,880

a loan portfolio for trading purposes

1781

01:32:28,880 --> 01:32:30,320

then it's different

1782

01:32:30,320 --> 01:32:33,360

and the revenue that you generate from

1783

01:32:33,360 --> 01:32:36,880

trading loans is kind of like the

1784

01:32:36,880 --> 01:32:38,800

revenue you generate from trading

1785

01:32:38,800 --> 01:32:40,800

derivatives and foreign exchange

1786

01:32:40,800 --> 01:32:43,920

so the revenue okay so they're treating

1787

01:32:43,920 --> 01:32:45,199

it like an instrument then

1788

01:32:45,199 --> 01:32:48,560

as a as a financial instrument yeah

1789

01:32:48,560 --> 01:32:50,719

loan sales have evolved quite a lot

1790

01:32:50,719 --> 01:32:52,000

since the 80s

1791

01:32:52,000 --> 01:32:54,080

so loans have become particularly from

1792

01:32:54,080 --> 01:32:56,000

syndicated loans have become much more

1793

01:32:56,000 --> 01:32:58,239

like securities that securities they're

1794

01:32:58,239 --> 01:33:01,440

much more tradable than they used to be

1795

01:33:01,440 --> 01:33:03,520

but you don't need to know that for this

1796

01:33:03,520 --> 01:33:04,800

this is just like

1797

01:33:04,800 --> 01:33:07,040

additional information and providing

1798

01:33:07,040 --> 01:33:09,280

okay so all you need to know

1799

01:33:09,280 --> 01:33:11,760

is that all balance sheet activities

1800

01:33:11,760 --> 01:33:12,719

involve

1801

01:33:12,719 --> 01:33:17,199

all these and generate risk

1802

01:33:17,199 --> 01:33:20,800

okay okay thank you i had another dog

1803

01:33:20,800 --> 01:33:21,760

professor

1804

01:33:21,760 --> 01:33:25,760

yeah do do uh countries

1805

01:33:25,760 --> 01:33:28,159

provide special provisions to banks to

1806

01:33:28,159 --> 01:33:30,320

call back loans like even if it's not in

1807

01:33:30,320 --> 01:33:31,440

the contract

1808

01:33:31,440 --> 01:33:35,199

if they're having trouble staying afloat

1809

01:33:35,199 --> 01:33:38,639

um so that would be a

1810

01:33:38,639 --> 01:33:43,600

legal question and again that applies to

1811

01:33:43,600 --> 01:33:45,760

you know you would have to look at where

1812

01:33:45,760 --> 01:33:48,080

is the bank what are the laws that apply

1813

01:33:48,080 --> 01:33:48,880

to it

1814

01:33:48,880 --> 01:33:50,719

uh what are the different contracts

1815

01:33:50,719 --> 01:33:52,880

underneath you have to really dig deeply

1816

01:33:52,880 --> 01:33:54,320

into it

1817

01:33:54,320 --> 01:33:57,520

okay and uh last one i

1818

01:33:57,520 --> 01:34:00,960

had a similar question like mandek was

1819

01:34:00,960 --> 01:34:04,480

the the classification of capital

1820

01:34:04,480 --> 01:34:07,840

can it also be considered as an asset

1821

01:34:07,840 --> 01:34:11,120

equity capital no it's always on the

1822

01:34:11,120 --> 01:34:12,800

liability side

1823

01:34:12,800 --> 01:34:15,600

okay remember the basic balance sheet

1824

01:34:15,600 --> 01:34:17,040

that we looked at at the beginning of

1825

01:34:17,040 --> 01:34:18,480

the class

1826

01:34:18,480 --> 01:34:21,840

yeah yeah the other side of the balance

1827

01:34:21,840 --> 01:34:22,719

sheet

1828

01:34:22,719 --> 01:34:26,639

okay okay thank you you're welcome

1829

01:34:26,639 --> 01:34:29,679

any more questions

1830

01:34:30,400 --> 01:34:32,320

all right then it's time for lunch

1831

01:34:32,320 --> 01:34:33,440

people

1832

01:34:33,440 --> 01:34:47,840

lovely to see you i see you on monday

1833

01:34:49,239 --> 01:34:52,239

just

==end 0319==

==start 0322==

1

00:04:49,199 --> 00:04:51,440

all right good afternoon everybody

2

00:04:51,440 --> 00:04:54,840

i hope you all well and had a very nice

3

00:04:54,840 --> 00:04:59,840

weekend enjoyed the weather

4

00:05:00,800 --> 00:05:03,280

i don't see any questions yet if you

5

00:05:03,280 --> 00:05:04,400

have any questions

6

00:05:04,400 --> 00:05:06,880

please don't don't hesitate raise your

7

00:05:06,880 --> 00:05:08,240

hand or

8

00:05:08,240 --> 00:05:10,400

type it in the chat box whichever way

9

00:05:10,400 --> 00:05:11,600

you want

10

00:05:11,600 --> 00:05:13,280

or you can always send me an email

11

00:05:13,280 --> 00:05:15,680

afterwards okay

12

00:05:15,680 --> 00:05:18,800

so we are in the process of still

13

00:05:18,800 --> 00:05:19,759

discussing

14

00:05:19,759 --> 00:05:22,800

uh banks and we talked about

15

00:05:22,800 --> 00:05:26,720

the typology so the taxonomy

16

00:05:26,720 --> 00:05:29,039

what is it that they do we talk about

17

00:05:29,039 --> 00:05:30,400

fact management

18

00:05:30,400 --> 00:05:33,919

and now we're going to dig into

19

00:05:33,919 --> 00:05:38,960

risk and risk management

20

00:05:38,960 --> 00:05:42,400

so all right

21

00:05:42,400 --> 00:05:46,720

so risk management 101

22

00:05:46,720 --> 00:05:49,840

okay what do we do so i'm sure you'll

23

00:05:49,840 --> 00:05:52,080

take risk management courses at some

24

00:05:52,080 --> 00:05:53,520

point to another

25

00:05:53,520 --> 00:05:56,639

but the fundamentals

26

00:05:56,639 --> 00:06:00,720

first identify the risks

27

00:06:00,720 --> 00:06:04,800

now identification is the first step and

28

00:06:04,800 --> 00:06:06,800

it's a very difficult step

29

00:06:06,800 --> 00:06:10,000

because sometimes we can think

30

00:06:10,000 --> 00:06:12,639

outside the box and it's very hard to

31

00:06:12,639 --> 00:06:14,240

imagine things

32

00:06:14,240 --> 00:06:17,759

that have not happened yet okay

33

00:06:17,759 --> 00:06:21,520

so things like the plane

34

00:06:21,520 --> 00:06:24,479

in the terrorist attack on the world

35

00:06:24,479 --> 00:06:25,919

trade center

36

00:06:25,919 --> 00:06:29,600

nobody had thought of using planes as

37

00:06:29,600 --> 00:06:33,039

you know weapons to attack

38

00:06:33,039 --> 00:06:36,720

a civilian tower uh things like the

39

00:06:36,720 --> 00:06:38,080

combined

40

00:06:38,080 --> 00:06:42,319

catastrophe in fukushima all right so

41

00:06:42,319 --> 00:06:44,639

the job of the risk manager is very

42

00:06:44,639 --> 00:06:45,360

difficult

43

00:06:45,360 --> 00:06:48,319

because it requires thinking outside the

44

00:06:48,319 --> 00:06:48,800

box

45

00:06:48,800 --> 00:06:50,880

it requires having a very vivid

46

00:06:50,880 --> 00:06:54,800

imagination of things that can go wrong

47

00:06:54,800 --> 00:06:59,599

okay once you have identified the risks

48

00:06:59,599 --> 00:07:03,680

the second step is to quantify

49

00:07:03,680 --> 00:07:06,880

and that has two aspects

50

00:07:06,880 --> 00:07:09,479

you have to first quantify the

51

00:07:09,479 --> 00:07:11,520

probability

52

00:07:11,520 --> 00:07:15,599

so how likely is it that we will be hit

53

00:07:15,599 --> 00:07:19,440

by this problem the second is the

54

00:07:19,440 --> 00:07:21,039

severity

55

00:07:21,039 --> 00:07:25,280

if we get hit how bad will it be

56

00:07:25,280 --> 00:07:28,800

okay so you have many risks

57

00:07:28,800 --> 00:07:32,880

that are very probable but with very low

58

00:07:32,880 --> 00:07:36,960

severity okay any business has recurrent

59

00:07:36,960 --> 00:07:38,000

risks

60

00:07:38,000 --> 00:07:40,319

that they have to deal with that are

61

00:07:40,319 --> 00:07:42,160

very likely but doesn't have

62

00:07:42,160 --> 00:07:45,919

a very high severity there are a few

63

00:07:45,919 --> 00:07:46,720

what we call

64

00:07:46,720 --> 00:07:49,919

tail risks which are very

65

00:07:49,919 --> 00:07:53,199

very low probability but

66

00:07:53,199 --> 00:07:56,560

if they happen very high

67

00:07:56,560 --> 00:07:59,440

severity to the point where it's a

68

00:07:59,440 --> 00:08:00,319

threat

69

00:08:00,319 --> 00:08:04,720

to business continuity you have some

70

00:08:04,720 --> 00:08:07,360

risks that have low probability and low

71

00:08:07,360 --> 00:08:08,879

severity

72

00:08:08,879 --> 00:08:12,400

so these you can probably kind of ignore

73

00:08:12,400 --> 00:08:14,639

but if they have low probability and

74

00:08:14,639 --> 00:08:17,039

very high severity you cannot

75

00:08:17,039 --> 00:08:20,400

ignore them because if it happens and

76

00:08:20,400 --> 00:08:22,080

you haven't done anything

77

00:08:22,080 --> 00:08:25,599

to prepare for it that means that your

78

00:08:25,599 --> 00:08:26,080

business

79

00:08:26,080 --> 00:08:30,879

will be out okay so the first two steps

80

00:08:30,879 --> 00:08:34,880

are very complicated okay then once you

81

00:08:34,880 --> 00:08:38,240

have identified and quantified the rest

82

00:08:38,240 --> 00:08:40,399

then you have to decide what to do about

83

00:08:40,399 --> 00:08:41,360

it

84

00:08:41,360 --> 00:08:44,399

that's what i call manage okay

85

00:08:44,399 --> 00:08:46,399

so when you think about it that many

86

00:08:46,399 --> 00:08:48,640

different things you can do

87

00:08:48,640 --> 00:08:52,399

you can try to eliminate the risk

88

00:08:52,399 --> 00:08:54,640

you can try to keep the you can keep the

89

00:08:54,640 --> 00:08:56,640

risk because it's a fundamental part of

90

00:08:56,640 --> 00:08:58,080

the business and that is

91

00:08:58,080 --> 00:09:00,959

why your shareholders have invested in

92

00:09:00,959 --> 00:09:02,800

you

93

00:09:02,800 --> 00:09:06,240

you can mitigate that is to keep some of

94

00:09:06,240 --> 00:09:09,279

the risk but try to reduce the severity

95

00:09:09,279 --> 00:09:12,240

when it happens and sometimes you want

96

00:09:12,240 --> 00:09:13,040

to take on

97

00:09:13,040 --> 00:09:15,760

more of that risk because you know how

98

00:09:15,760 --> 00:09:17,040

to handle it

99

00:09:17,040 --> 00:09:19,440

it's part of your core business and so

100

00:09:19,440 --> 00:09:21,200

you might want to add even

101

00:09:21,200 --> 00:09:24,640

more risk okay so it's

102

00:09:24,640 --> 00:09:28,000

in very simple terms the basic steps

103

00:09:28,000 --> 00:09:31,279

in risk in the risk management process

104

00:09:31,279 --> 00:09:34,480

and then of course then you have to set

105

00:09:34,480 --> 00:09:36,720

up the policies and then you have to

106

00:09:36,720 --> 00:09:37,519

verify

107

00:09:37,519 --> 00:09:40,480

and then you have to update so it's not

108

00:09:40,480 --> 00:09:42,720

a static process

109

00:09:42,720 --> 00:09:47,040

all right now if you decide to

110

00:09:47,040 --> 00:09:51,200

eliminate or mitigate the risks

111

00:09:51,200 --> 00:09:53,040

there are a number of things that you

112

00:09:53,040 --> 00:09:55,440

can possibly do

113

00:09:55,440 --> 00:09:58,399

and sometimes it requires the use of

114

00:09:58,399 --> 00:10:00,560

financial instruments we call

115

00:10:00,560 --> 00:10:03,600

derivatives so derivatives

116

00:10:03,600 --> 00:10:06,800

on financial instruments where the price

117

00:10:06,800 --> 00:10:10,160

is derived from something else

118

00:10:10,160 --> 00:10:13,440

okay so let's say for example you

119

00:10:13,440 --> 00:10:17,120

are an airline company

120

00:10:17,279 --> 00:10:20,720

and you are selling your tickets

121

00:10:20,720 --> 00:10:24,320

in different currencies but your home

122

00:10:24,320 --> 00:10:28,880

currency is say the us dollar

123

00:10:28,880 --> 00:10:31,040

so because you're selling tickets to

124

00:10:31,040 --> 00:10:32,079

different people in

125

00:10:32,079 --> 00:10:35,279

in the world you have foreign exchange

126

00:10:35,279 --> 00:10:36,800

risk

127

00:10:36,800 --> 00:10:40,079

that risk can be mitigated

128

00:10:40,079 --> 00:10:43,440

by using foreign exchange derivatives

129

00:10:43,440 --> 00:10:47,279

you can use options you can use

130

00:10:47,279 --> 00:10:50,640

swaps you can use forwards

131

00:10:50,640 --> 00:10:52,240

you can use different kinds of

132

00:10:52,240 --> 00:10:54,160

instrument

133

00:10:54,160 --> 00:10:58,240

however some of these instruments

134

00:10:58,240 --> 00:11:01,600

require you to take risk

135

00:11:01,600 --> 00:11:04,320

on the counterparty on the other side of

136

00:11:04,320 --> 00:11:06,160

the trade

137

00:11:06,160 --> 00:11:09,600

so remember when you do that

138

00:11:09,600 --> 00:11:12,160

you're replacing one risk the foreign

139

00:11:12,160 --> 00:11:13,519

exchange risk

140

00:11:13,519 --> 00:11:17,200

with another risk the counterparty risk

141

00:11:17,200 --> 00:11:20,320

so be very wary that when you are trying

142

00:11:20,320 --> 00:11:21,440

to

143

00:11:21,440 --> 00:11:24,800

eliminate or mitigate

144

00:11:24,800 --> 00:11:28,160

a risk by using certain types of

145

00:11:28,160 --> 00:11:31,760

instruments you are actually creating

146

00:11:31,760 --> 00:11:35,040

another risk okay the risk of your

147

00:11:35,040 --> 00:11:37,920

counterparty

148

00:11:38,000 --> 00:11:42,640

okay so this is very very basic stuff

149

00:11:42,640 --> 00:11:45,920

so a company will be very often

150

00:11:45,920 --> 00:11:49,200

able to mitigate some of the risk

151

00:11:49,200 --> 00:11:53,279

naturally okay through the balance sheet

152

00:11:53,279 --> 00:11:56,800

for example imagine a company

153

00:11:56,800 --> 00:12:00,000

that has business is headquartered in

154

00:12:00,000 --> 00:12:01,120

hong kong

155

00:12:01,120 --> 00:12:05,040

but who has a subsidiary in singapore

156

00:12:05,040 --> 00:12:08,160

and is selling some stuff in singapore

157

00:12:08,160 --> 00:12:11,519

so it's generating income in singapore

158

00:12:11,519 --> 00:12:12,639

dollar

159

00:12:12,639 --> 00:12:15,760

well you can hatch part of this by

160

00:12:15,760 --> 00:12:18,880

financing that security that subsidiary

161

00:12:18,880 --> 00:12:20,160

in singapore

162

00:12:20,160 --> 00:12:24,000

locally so you borrow singapore dollar

163

00:12:24,000 --> 00:12:26,240

and you can use the singapore dollars

164

00:12:26,240 --> 00:12:28,560

generated by the subsidiary

165

00:12:28,560 --> 00:12:31,440

to service the debt financing this is

166

00:12:31,440 --> 00:12:32,320

what we call

167

00:12:32,320 --> 00:12:36,240

natural hedging or balance sheet hedging

168

00:12:36,240 --> 00:12:39,440

okay in that case you're using your own

169

00:12:39,440 --> 00:12:41,680

business and your own balance sheet to

170

00:12:41,680 --> 00:12:44,639

mitigate some of the risks

171

00:12:44,639 --> 00:12:52,000

okay any questions on this

172

00:12:52,000 --> 00:12:55,760

this is really the abcs of risk

173

00:12:55,760 --> 00:12:57,200

management

174

00:12:57,200 --> 00:13:00,560

it sounds simple in practice it's very

175

00:13:00,560 --> 00:13:03,360

complicated

176

00:13:03,519 --> 00:13:07,360

all right okay

177

00:13:07,360 --> 00:13:10,560

now let's zoom on banking and think

178

00:13:10,560 --> 00:13:13,680

about all the kinds of risks

179

00:13:13,680 --> 00:13:17,279

that happen and arise

180

00:13:17,279 --> 00:13:20,480

out of the business of banking so we're

181

00:13:20,480 --> 00:13:21,360

going to look

182

00:13:21,360 --> 00:13:24,639

at the first the first at the credit

183

00:13:24,639 --> 00:13:25,440

risk which

184

00:13:25,440 --> 00:13:27,680

is the one that everybody immediately

185

00:13:27,680 --> 00:13:29,360

thinks about when they're thinking of

186

00:13:29,360 --> 00:13:30,399

banks

187

00:13:30,399 --> 00:13:33,920

then we'll look at liquidity risk market

188

00:13:33,920 --> 00:13:35,040

risk

189

00:13:35,040 --> 00:13:38,480

operational risk and then legal

190

00:13:38,480 --> 00:13:42,240

and reputational risks okay

191

00:13:42,240 --> 00:13:45,360

so the first part is the one that

192

00:13:45,360 --> 00:13:46,639

everybody thinks about

193

00:13:46,639 --> 00:13:49,040

and then think about a bank is what is

194

00:13:49,040 --> 00:13:51,279

called credit risk

195

00:13:51,279 --> 00:13:54,399

now credit risk is

196

00:13:54,399 --> 00:13:57,680

often misunderstood it has

197

00:13:57,680 --> 00:14:03,120

different dimensions so

198

00:14:03,120 --> 00:14:06,880

it has to do with the ability

199

00:14:06,880 --> 00:14:10,399

but also the willingness

200

00:14:10,399 --> 00:14:13,920

of a borrower to pay

201

00:14:13,920 --> 00:14:17,120

when you so as you know

202

00:14:17,120 --> 00:14:20,320

banks regularly make loans

203

00:14:20,320 --> 00:14:24,079

right and they expect the borrower of

204

00:14:24,079 --> 00:14:24,880

the loan

205

00:14:24,880 --> 00:14:28,320

to pay interest and then to pay back

206

00:14:28,320 --> 00:14:31,040

the money at the end according to the

207

00:14:31,040 --> 00:14:33,920

terms of the contract

208

00:14:33,920 --> 00:14:37,680

if the borrower does not pay any amounts

209

00:14:37,680 --> 00:14:38,160

due

210

00:14:38,160 --> 00:14:42,160

under the contract when it is due

211

00:14:42,160 --> 00:14:46,480

we say the borrower is in default

212

00:14:46,480 --> 00:14:49,600

okay so default rates the same thing as

213

00:14:49,600 --> 00:14:53,279

credit risk now how can this happen

214

00:14:53,279 --> 00:14:56,560

there's two ways one

215

00:14:56,560 --> 00:14:59,199

the borrower does not have the money so

216

00:14:59,199 --> 00:15:00,680

it does not have the

217

00:15:00,680 --> 00:15:05,120

ability to pay the second one is

218

00:15:05,120 --> 00:15:07,920

they don't want to pay they may have the

219

00:15:07,920 --> 00:15:08,880

money

220

00:15:08,880 --> 00:15:13,279

but not the willingness to pay

221

00:15:13,279 --> 00:15:17,279

now this might happen when

222

00:15:17,279 --> 00:15:19,440

the borrower has a limited amount of

223

00:15:19,440 --> 00:15:20,320

money

224

00:15:20,320 --> 00:15:23,680

and they have conflicting

225

00:15:23,680 --> 00:15:27,600

engagements imagine for a minute

226

00:15:27,600 --> 00:15:31,120

if you were the president

227

00:15:31,120 --> 00:15:34,480

of a country

228

00:15:34,480 --> 00:15:38,000

a very poor country that has

229

00:15:38,000 --> 00:15:42,800

borrowed from international creditors

230

00:15:42,959 --> 00:15:46,480

and it has to pay back some of the money

231

00:15:46,480 --> 00:15:48,720

on a certain date

232

00:15:48,720 --> 00:15:52,079

it has the money to pay it but there is

233

00:15:52,079 --> 00:15:53,120

a terrible

234

00:15:53,120 --> 00:15:57,279

famine going on what would you do

235

00:15:57,279 --> 00:16:00,160

use the money to pay the creditors or

236

00:16:00,160 --> 00:16:01,279

the money to buy

237

00:16:01,279 --> 00:16:04,800

food for your people

238

00:16:04,800 --> 00:16:09,360

very often the choice can be that bad

239

00:16:09,360 --> 00:16:12,399

okay so it's not just the ability but

240

00:16:12,399 --> 00:16:15,759

also the willingness to pay

241

00:16:15,759 --> 00:16:18,880

sometimes like

242

00:16:18,880 --> 00:16:21,120

during the globe the asian financial

243

00:16:21,120 --> 00:16:22,720

crisis in 97

244

00:16:22,720 --> 00:16:25,759

98 some companies

245

00:16:25,759 --> 00:16:30,160

had the money to pay but the competitors

246

00:16:30,160 --> 00:16:33,440

did not and defaulted

247

00:16:33,440 --> 00:16:35,600

so then the companies who had the money

248

00:16:35,600 --> 00:16:36,959

thought why should

249

00:16:36,959 --> 00:16:40,000

i pay i'm putting myself at this

250

00:16:40,000 --> 00:16:41,759

disadvantage

251

00:16:41,759 --> 00:16:44,240

right so you had six you have a

252

00:16:44,240 --> 00:16:47,199

situation where you have the ability

253

00:16:47,199 --> 00:16:49,600

but the choice of paying or not paying

254

00:16:49,600 --> 00:16:50,399

you can weigh

255

00:16:50,399 --> 00:16:53,440

the pros and cons okay given the

256

00:16:53,440 --> 00:16:56,399

situation the competition etc

257

00:16:56,399 --> 00:17:00,560

so this part of the credit risk analysis

258

00:17:00,560 --> 00:17:03,680

traditional bankers call that character

259

00:17:03,680 --> 00:17:05,839

so they associate willingness with

260

00:17:05,839 --> 00:17:07,280

character

261

00:17:07,280 --> 00:17:10,799

okay now

262

00:17:10,799 --> 00:17:13,919

once a default has happened that is to

263

00:17:13,919 --> 00:17:14,720

say

264

00:17:14,720 --> 00:17:18,079

the client has not paid

265

00:17:18,079 --> 00:17:20,640

there are two for there's two dimensions

266

00:17:20,640 --> 00:17:22,559

the default risk is

267

00:17:22,559 --> 00:17:24,799

ability and willingness to pay when due

268

00:17:24,799 --> 00:17:28,079

so will the client pay or not pay that's

269

00:17:28,079 --> 00:17:30,240

your default risk

270

00:17:30,240 --> 00:17:33,600

but then there's an another angle

271

00:17:33,600 --> 00:17:37,679

once they have defaulted the recovery

272

00:17:37,679 --> 00:17:39,039

risk

273

00:17:39,039 --> 00:17:42,400

is how much can i hope

274

00:17:42,400 --> 00:17:46,000

as a creditor to get back of the money

275

00:17:46,000 --> 00:17:49,200

that is owed to me

276

00:17:49,200 --> 00:17:52,960

okay in other words my client has

277

00:17:52,960 --> 00:17:54,480

defaulted

278

00:17:54,480 --> 00:17:57,679

how many cents on the dollar can i hope

279

00:17:57,679 --> 00:17:58,799

to recover

280

00:17:58,799 --> 00:18:03,360

in the liquidation or bankruptcy process

281

00:18:03,360 --> 00:18:06,799

all right and that in turn

282

00:18:06,799 --> 00:18:10,880

is a function of the contract

283

00:18:10,880 --> 00:18:14,320

and whether you have security

284

00:18:14,320 --> 00:18:17,520

or collateral and where you rank

285

00:18:17,520 --> 00:18:20,799

in the priority order so that is called

286

00:18:20,799 --> 00:18:21,480

your

287

00:18:21,480 --> 00:18:25,440

seniority in the capital structure

288

00:18:25,440 --> 00:18:28,400

broadly speaking when a company goes in

289

00:18:28,400 --> 00:18:30,160

liquidation

290

00:18:30,160 --> 00:18:32,960

the last ones that get anything other

291

00:18:32,960 --> 00:18:35,360

shareholders

292

00:18:35,360 --> 00:18:37,919

there are exceptions okay i will not get

293

00:18:37,919 --> 00:18:40,080

into that is too complicated

294

00:18:40,080 --> 00:18:43,360

but normally when a company goes in

295

00:18:43,360 --> 00:18:44,240

liquidation

296

00:18:44,240 --> 00:18:46,559

the last ones that get paid are the

297

00:18:46,559 --> 00:18:49,200

common shareholders

298

00:18:49,200 --> 00:18:52,320

and then above them there's a whole

299

00:18:52,320 --> 00:18:57,280

pecking order a hierarchy of investors

300

00:18:57,280 --> 00:19:02,000

okay now who can tell me in hong kong

301

00:19:02,000 --> 00:19:07,360

in case of liquidation who gets paid

302

00:19:08,840 --> 00:19:11,840

first

303

00:19:12,400 --> 00:19:15,200

any ideas

304

00:19:17,200 --> 00:19:20,880

creditors bondholders

305

00:19:22,840 --> 00:19:25,280

employees

306

00:19:25,280 --> 00:19:29,360

good ideas very good holly scott the

307

00:19:29,360 --> 00:19:32,559

answer the firm doing the liquidation

308

00:19:32,559 --> 00:19:37,600

so indeed the liquidator gets paid first

309

00:19:37,600 --> 00:19:41,039

okay the liquidators get paid first

310

00:19:41,039 --> 00:19:43,200

closely followed by the government and

311

00:19:43,200 --> 00:19:44,960

the employees

312

00:19:44,960 --> 00:19:48,160

in my country in france the employees

313

00:19:48,160 --> 00:19:50,320

and the government are what we call

314

00:19:50,320 --> 00:19:52,720

super priority creditors

315

00:19:52,720 --> 00:19:55,840

they rank ahead of everybody else so

316

00:19:55,840 --> 00:20:00,799

interestingly the creditors

317

00:20:00,799 --> 00:20:05,360

are behind okay so for each country

318

00:20:05,360 --> 00:20:08,720

and each legal system

319

00:20:08,720 --> 00:20:12,120

whether you have bankruptcy

320

00:20:12,120 --> 00:20:14,400

reorganization or not

321

00:20:14,400 --> 00:20:16,480

whether you know what is the pecking

322

00:20:16,480 --> 00:20:18,480

order all of these things are very very

323

00:20:18,480 --> 00:20:19,760

important to know

324

00:20:19,760 --> 00:20:23,120

before you get into a contract okay

325

00:20:23,120 --> 00:20:26,799

because that impacts how many cents of

326

00:20:26,799 --> 00:20:28,159

the dollar

327

00:20:28,159 --> 00:20:32,840

you can hope to recover if a default

328

00:20:32,840 --> 00:20:34,159

happens

329

00:20:34,159 --> 00:20:38,559

okay then of course if you have security

330

00:20:38,559 --> 00:20:40,720

if you have collateral

331

00:20:40,720 --> 00:20:43,520

does the value of that collateral or

332

00:20:43,520 --> 00:20:45,640

security and by which i mean the

333

00:20:45,640 --> 00:20:46,880

liquidation

334

00:20:46,880 --> 00:20:50,880

value does it cover

335

00:20:50,880 --> 00:20:54,000

the amount that you have left think

336

00:20:54,000 --> 00:20:56,000

about for example

337

00:20:56,000 --> 00:20:59,039

um a retail banking client

338

00:20:59,039 --> 00:21:02,559

who buys a house with a mortgage

339

00:21:02,559 --> 00:21:05,200

okay the mortgages has the house as

340

00:21:05,200 --> 00:21:07,280

collateral

341

00:21:07,280 --> 00:21:10,640

if the value of the house is less than

342

00:21:10,640 --> 00:21:11,679

the amount you

343

00:21:11,679 --> 00:21:15,039

owe to the bank under the mortgage

344

00:21:15,039 --> 00:21:18,799

what happens well different things in

345

00:21:18,799 --> 00:21:20,640

different countries

346

00:21:20,640 --> 00:21:23,039

in the u.s you can just send the keys of

347

00:21:23,039 --> 00:21:24,720

the house to the bank

348

00:21:24,720 --> 00:21:28,799

and walk out that's called jingle mail

349

00:21:28,799 --> 00:21:30,880

in my country the bank will come after

350

00:21:30,880 --> 00:21:33,200

you for the difference

351

00:21:33,200 --> 00:21:36,240

okay so again

352

00:21:36,240 --> 00:21:40,000

different things in different countries

353

00:21:40,159 --> 00:21:44,320

now the third dimension here is

354

00:21:44,320 --> 00:21:47,600

okay we have a problem the cla

355

00:21:47,600 --> 00:21:50,000

the company has not paid there is a

356

00:21:50,000 --> 00:21:51,600

default situations

357

00:21:51,600 --> 00:21:56,720

what do we do the bank has a choice

358

00:21:56,720 --> 00:22:00,080

it can force the company into the courts

359

00:22:00,080 --> 00:22:01,600

and liquidate

360

00:22:01,600 --> 00:22:07,120

or it can try to find a solution

361

00:22:07,120 --> 00:22:10,159

by which we mean work out

362

00:22:10,159 --> 00:22:13,360

the problem not work out in the gym okay

363

00:22:13,360 --> 00:22:17,520

working out the problem so

364

00:22:17,520 --> 00:22:21,520

what do you think banks do

365

00:22:22,799 --> 00:22:26,080

what do you think they prefer to do

366

00:22:26,080 --> 00:22:29,520

work it out why

367

00:22:29,679 --> 00:22:32,720

have a chat yeah send out the big

368

00:22:32,720 --> 00:22:36,720

the big guy to have a chat with you

369

00:22:38,000 --> 00:22:40,480

liquidate with lower than market value

370

00:22:40,480 --> 00:22:43,200

liquidation is costly and long

371

00:22:43,200 --> 00:22:46,240

very good so their costs

372

00:22:46,240 --> 00:22:49,840

involve those time involved the value

373

00:22:49,840 --> 00:22:52,320

that you can extract the recovery might

374

00:22:52,320 --> 00:22:54,559

be very low

375

00:22:54,559 --> 00:22:59,120

yes what else

376

00:23:01,200 --> 00:23:04,000

anything else

377

00:23:04,400 --> 00:23:08,640

potential full bounce back yes

378

00:23:08,640 --> 00:23:11,840

they can't get back the money

379

00:23:11,840 --> 00:23:16,080

wow su yen so what do you mean by that

380

00:23:17,840 --> 00:23:19,919

i mean that if you go to liquidation you

381

00:23:19,919 --> 00:23:23,120

cannot get back the money it depends

382

00:23:23,120 --> 00:23:25,280

less people stuff yeah nobody likes

383

00:23:25,280 --> 00:23:28,640

dealing with lawyers right

384

00:23:29,280 --> 00:23:33,760

so mean very good point the reputation

385

00:23:33,760 --> 00:23:36,799

nobody likes banks right so

386

00:23:36,799 --> 00:23:40,080

if the bank is dragging a poor little

387

00:23:40,080 --> 00:23:42,480

customer to court

388

00:23:42,480 --> 00:23:45,679

it looks bad the judges are normally

389

00:23:45,679 --> 00:23:48,159

not very inclined to find in favor of

390

00:23:48,159 --> 00:23:48,880

the bank

391

00:23:48,880 --> 00:23:52,640

okay so broadly speaking

392

00:23:52,640 --> 00:23:56,559

banks prefer to try to find a solution

393

00:23:56,559 --> 00:24:00,080

and there's another very important

394

00:24:00,080 --> 00:24:05,039

reason why banks like to find a solution

395

00:24:05,039 --> 00:24:08,960

besides all the things you've said

396

00:24:10,880 --> 00:24:12,960

no theo there's no guarantee that you

397

00:24:12,960 --> 00:24:14,720

will get any money back it really

398

00:24:14,720 --> 00:24:15,440

depends

399

00:24:15,440 --> 00:24:19,919

on the circumstances so why do the banks

400

00:24:19,919 --> 00:24:22,960

not like it

401

00:24:23,600 --> 00:24:27,440

why do they try to work

402

00:24:27,440 --> 00:24:31,039

out a situation

403

00:24:31,279 --> 00:24:34,960

what are the consequences for the banks

404

00:24:34,960 --> 00:24:37,760

if there is a default followed by

405

00:24:37,760 --> 00:24:40,640

liquidation

406

00:24:42,000 --> 00:24:45,760

yes they do lose a customer

407

00:24:45,760 --> 00:24:49,679

receiving earlier is better

408

00:24:50,400 --> 00:24:54,400

bad debt yes assuming very good

409

00:24:54,400 --> 00:24:58,640

they have to recognize a bad debt

410

00:24:58,640 --> 00:25:02,799

the loan becomes non-performing

411

00:25:02,799 --> 00:25:05,600

they have to show that they have to

412

00:25:05,600 --> 00:25:06,159

absorb

413

00:25:06,159 --> 00:25:10,720

the losses not a happy situation

414

00:25:10,720 --> 00:25:13,440

okay nobody wants to be the first bank

415

00:25:13,440 --> 00:25:15,760

to recognize bad debt

416

00:25:15,760 --> 00:25:19,039

nobody wants to have growing losses

417

00:25:19,039 --> 00:25:21,679

nobody wants to increase their provision

418

00:25:21,679 --> 00:25:22,159

for

419

00:25:22,159 --> 00:25:26,840

bad loans okay it looks

420

00:25:26,840 --> 00:25:29,919

bad and the regulators will start

421

00:25:29,919 --> 00:25:30,640

watching

422

00:25:30,640 --> 00:25:32,799

at the situation and thinking what's

423

00:25:32,799 --> 00:25:34,320

going on over there

424

00:25:34,320 --> 00:25:37,279

especially if your competitors are not

425

00:25:37,279 --> 00:25:40,000

having the same problem

426

00:25:40,000 --> 00:25:42,480

even if your competitors are in the same

427

00:25:42,480 --> 00:25:44,000

boat

428

00:25:44,000 --> 00:25:47,600

you don't like recognizing bad loans

429

00:25:47,600 --> 00:25:57,840

so what can you do

430

00:25:57,919 --> 00:26:00,960

so what can you do

431

00:26:04,159 --> 00:26:06,559

change the loan terms very good roman so

432

00:26:06,559 --> 00:26:11,840

what would you change

433

00:26:12,240 --> 00:26:15,360

the maturity okay so we can extend the

434

00:26:15,360 --> 00:26:17,039

maturity

435

00:26:17,039 --> 00:26:20,640

very good cheetah maturity yes

436

00:26:20,640 --> 00:26:24,960

uh some pac haircut so

437

00:26:24,960 --> 00:26:29,440

we reduce the amount that they owe us

438

00:26:30,400 --> 00:26:35,600

the rate yes we can change the rate

439

00:26:35,600 --> 00:26:37,919

to make it more flexible to pay them

440

00:26:37,919 --> 00:26:39,520

back yes

441

00:26:39,520 --> 00:26:42,960

so you can act on like what they did to

442

00:26:42,960 --> 00:26:45,679

greece very good

443

00:26:45,679 --> 00:26:49,440

very good yes indeed okay

444

00:26:49,440 --> 00:26:52,480

different ways of paying back

445

00:26:52,480 --> 00:26:56,880

so way back in japan

446

00:26:56,880 --> 00:27:00,720

okay when japan uh collapsed because of

447

00:27:00,720 --> 00:27:01,200

the

448

00:27:01,200 --> 00:27:05,840

um huge real estate bubble

449

00:27:05,840 --> 00:27:08,880

japanese banks were faced with

450

00:27:08,880 --> 00:27:11,919

bad loans up the wazoo

451

00:27:11,919 --> 00:27:14,159

so what do banks do in that case they

452

00:27:14,159 --> 00:27:16,080

look very carefully

453

00:27:16,080 --> 00:27:20,640

at how regulators define bad loans

454

00:27:20,640 --> 00:27:23,279

and then they negotiate with their

455

00:27:23,279 --> 00:27:24,559

clients

456

00:27:24,559 --> 00:27:27,520

to rearrange things so that that does

457

00:27:27,520 --> 00:27:28,240

not

458

00:27:28,240 --> 00:27:31,679

qualify as a bad loan so

459

00:27:31,679 --> 00:27:35,120

rolling over the debt

460

00:27:35,120 --> 00:27:38,640

extending the maturity making them pay

461

00:27:38,640 --> 00:27:40,880

just enough so that there's some

462

00:27:40,880 --> 00:27:44,159

payment that will save them

463

00:27:44,159 --> 00:27:47,720

from having to classify the debt as

464

00:27:47,720 --> 00:27:50,720

non-performing

465

00:27:51,760 --> 00:27:55,279

and not just the japanese banks

466

00:27:55,279 --> 00:27:58,399

the chinese banks before they were

467

00:27:58,399 --> 00:28:00,000

privatized

468

00:28:00,000 --> 00:28:02,559

the american banks during the global

469

00:28:02,559 --> 00:28:04,320

financial crisis

470

00:28:04,320 --> 00:28:06,799

the european banks during the sovereign

471

00:28:06,799 --> 00:28:08,480

debt crisis

472

00:28:08,480 --> 00:28:11,760

you name it okay

473

00:28:11,760 --> 00:28:14,960

so very important

474

00:28:14,960 --> 00:28:18,080

because the real level

475

00:28:18,080 --> 00:28:20,960

of non-performing loan is often very

476

00:28:20,960 --> 00:28:21,760

different

477

00:28:21,760 --> 00:28:24,159

from what it appears because banks are

478

00:28:24,159 --> 00:28:25,600

very very good

479

00:28:25,600 --> 00:28:28,720

at looking at what makes a loan a

480

00:28:28,720 --> 00:28:30,799

non-performing loan

481

00:28:30,799 --> 00:28:33,679

and then negotiating with customers as

482

00:28:33,679 --> 00:28:35,520

often as possible

483

00:28:35,520 --> 00:28:37,679

to try to keep the level of

484

00:28:37,679 --> 00:28:39,840

non-performing loans the bad loan

485

00:28:39,840 --> 00:28:40,559

problem

486

00:28:40,559 --> 00:28:43,600

under constraint okay

487

00:28:43,600 --> 00:28:46,320

indian banks are also very good at that

488

00:28:46,320 --> 00:28:47,120

game

489

00:28:47,120 --> 00:28:50,240

very very good okay i don't think of any

490

00:28:50,240 --> 00:28:52,000

country that's not really good at that

491

00:28:52,000 --> 00:28:53,200

game

492

00:28:53,200 --> 00:28:56,240

okay so the impact of classifying it as

493

00:28:56,240 --> 00:28:58,960

a bad debt is very bad because then

494

00:28:58,960 --> 00:29:01,039

you have to take the loss which has to

495

00:29:01,039 --> 00:29:03,120

be absorbed by your

496

00:29:03,120 --> 00:29:06,880

capital basically and also

497

00:29:06,880 --> 00:29:09,919

your level of provisions and level of

498

00:29:09,919 --> 00:29:11,279

bad loans

499

00:29:11,279 --> 00:29:14,880

compared to your competitors so then you

500

00:29:14,880 --> 00:29:15,200

look

501

00:29:15,200 --> 00:29:18,559

bad the f you know if you have

502

00:29:18,559 --> 00:29:20,720

more bad loans as a proportion of your

503

00:29:20,720 --> 00:29:22,960

total asset than your main competitors

504

00:29:22,960 --> 00:29:25,279

and you look bad so your reputation is

505

00:29:25,279 --> 00:29:26,080

set

506

00:29:26,080 --> 00:29:28,320

and your clients will want to deal with

507

00:29:28,320 --> 00:29:29,440

somebody else

508

00:29:29,440 --> 00:29:31,600

and your counter body risk doesn't look

509

00:29:31,600 --> 00:29:33,760

good and your debt rating

510

00:29:33,760 --> 00:29:36,640

goes down so you can be downgraded so

511

00:29:36,640 --> 00:29:38,240

all kinds of really

512

00:29:38,240 --> 00:29:43,440

bad consequences right

513

00:29:43,520 --> 00:29:47,520

so be aware of that

514

00:29:47,520 --> 00:29:50,640

all right so it's very important you

515

00:29:50,640 --> 00:29:53,520

understand the dimensions of credit risk

516

00:29:53,520 --> 00:29:55,360

because it's such a fundamental risk in

517

00:29:55,360 --> 00:29:58,320

the banking business

518

00:29:58,320 --> 00:30:00,960

all right now there are many many

519

00:30:00,960 --> 00:30:01,520

different

520

00:30:01,520 --> 00:30:03,919

aspects of credit risk when you're

521

00:30:03,919 --> 00:30:05,919

running back

522

00:30:05,919 --> 00:30:07,919

the first one that's the one we've been

523

00:30:07,919 --> 00:30:09,440

talking about is when you're dealing

524

00:30:09,440 --> 00:30:09,760

with

525

00:30:09,760 --> 00:30:12,880

borrowers on loans and typically

526

00:30:12,880 --> 00:30:16,159

corporate borrowers then you also have

527

00:30:16,159 --> 00:30:18,240

counterparty rates so i've been using

528

00:30:18,240 --> 00:30:19,760

that term

529

00:30:19,760 --> 00:30:23,279

but what does it mean counterparty is

530

00:30:23,279 --> 00:30:23,600

the

531

00:30:23,600 --> 00:30:26,880

other side of a trade so

532

00:30:26,880 --> 00:30:30,480

if i'm trading foreign exchange

533

00:30:30,480 --> 00:30:32,559

let's say i'm trading for an exchange

534

00:30:32,559 --> 00:30:34,080

with eton

535

00:30:34,080 --> 00:30:37,360

so i'm selling him us dollar and

536

00:30:37,360 --> 00:30:41,200

buying in exchange i'm buying hong kong

537

00:30:41,200 --> 00:30:41,679

dollar

538

00:30:41,679 --> 00:30:44,399

so obviously he does the opposite i'm

539

00:30:44,399 --> 00:30:46,159

taking a risk

540

00:30:46,159 --> 00:30:50,720

that when i'm selling him the us dollar

541

00:30:50,720 --> 00:30:53,520

expecting to receive hong kong dollar

542

00:30:53,520 --> 00:30:55,520

he's not going to send me the hong kong

543

00:30:55,520 --> 00:30:57,440

dollar but i will already have sent the

544

00:30:57,440 --> 00:30:58,640

us dollar

545

00:30:58,640 --> 00:31:01,600

so i'm taking a risk that he will not

546

00:31:01,600 --> 00:31:02,480

deliver

547

00:31:02,480 --> 00:31:04,880

on what he's supposed to do that is

548

00:31:04,880 --> 00:31:06,799

counter body risk

549

00:31:06,799 --> 00:31:09,840

so whenever you're trading you have

550

00:31:09,840 --> 00:31:13,279

counter body risk okay it's a form of

551

00:31:13,279 --> 00:31:14,640

credit risk

552

00:31:14,640 --> 00:31:17,519

because it's the risk that the other

553

00:31:17,519 --> 00:31:18,640

side will not

554

00:31:18,640 --> 00:31:22,559

perform their obligations when due

555

00:31:22,559 --> 00:31:26,159

now you have country risk country risk

556

00:31:26,159 --> 00:31:28,960

is when you're operating in a country

557

00:31:28,960 --> 00:31:31,519

that is not your own

558

00:31:31,519 --> 00:31:33,919

and you are therefore exposed to all

559

00:31:33,919 --> 00:31:35,519

kinds of possible

560

00:31:35,519 --> 00:31:38,640

bad stuff that can happen can you think

561

00:31:38,640 --> 00:31:38,960

of

562

00:31:38,960 --> 00:31:41,519

bad stuff that can happen to you when

563

00:31:41,519 --> 00:31:47,360

you're operating in a different country

564

00:31:47,360 --> 00:31:50,159

so iton credit risk and reputation risks

565

00:31:50,159 --> 00:31:51,120

are very different

566

00:31:51,120 --> 00:31:53,919

credit risk is the risk you're not going

567

00:31:53,919 --> 00:31:57,600

to receive something you entitled to

568

00:31:57,600 --> 00:32:01,440

reputation risk is that your reputation

569

00:32:01,440 --> 00:32:04,480

will become very bad that's not

570

00:32:04,480 --> 00:32:06,399

necessarily a tangible

571

00:32:06,399 --> 00:32:10,320

money risk okay country

572

00:32:10,320 --> 00:32:12,799

rating downgrades yes but what does it

573

00:32:12,799 --> 00:32:17,360

mean songhaq in terms of my business

574

00:32:19,360 --> 00:32:22,159

mankind regulations yes you could have

575

00:32:22,159 --> 00:32:24,799

regulations to deal with

576

00:32:24,799 --> 00:32:27,279

different legal systems so that's not

577

00:32:27,279 --> 00:32:30,080

strictly speaking country risk

578

00:32:30,080 --> 00:32:32,559

okay country risk is something where you

579

00:32:32,559 --> 00:32:33,760

might lose money

580

00:32:33,760 --> 00:32:37,120

because something happens in the country

581

00:32:37,120 --> 00:32:39,760

where you're doing business

582

00:32:39,760 --> 00:32:43,200

okay so the legal risk exists but it's a

583

00:32:43,200 --> 00:32:46,399

different kind of risk

584

00:32:46,399 --> 00:32:50,159

political unrest and instability yes

585

00:32:50,159 --> 00:32:53,840

cultural conflict is not a monetary risk

586

00:32:53,840 --> 00:32:58,000

so much it's more an execution risk

587

00:32:58,000 --> 00:33:01,120

okay natural disaster is a different

588

00:33:01,120 --> 00:33:02,320

kind of thing

589

00:33:02,320 --> 00:33:05,440

it's an operational risk

590

00:33:05,440 --> 00:33:10,720

but what can happen so

591

00:33:10,720 --> 00:33:15,200

all right economic risk

592

00:33:15,200 --> 00:33:17,919

yes you might have economic risk because

593

00:33:17,919 --> 00:33:19,279

you're dealing in a different country

594

00:33:19,279 --> 00:33:20,880

the country can go to war

595

00:33:20,880 --> 00:33:24,000

or can have conflicts then what is the

596

00:33:24,000 --> 00:33:27,039

impact right so the

597

00:33:27,039 --> 00:33:30,000

the problem is that your business might

598

00:33:30,000 --> 00:33:31,120

be destroyed

599

00:33:31,120 --> 00:33:34,559

your people might get killed or

600

00:33:34,559 --> 00:33:38,799

taken hostage yes all of that

601

00:33:38,799 --> 00:33:40,640

so when you're dealing in another

602

00:33:40,640 --> 00:33:42,799

country part of

603

00:33:42,799 --> 00:33:45,919

your analysis of the risks of doing

604

00:33:45,919 --> 00:33:48,000

business in that country

605

00:33:48,000 --> 00:33:50,880

will look at what is the risk of

606

00:33:50,880 --> 00:33:52,080

conflict

607

00:33:52,080 --> 00:33:55,440

the risk of wars the risk of

608

00:33:55,440 --> 00:33:58,799

unrest what else

609

00:33:58,799 --> 00:34:01,720

means of production can be ceased yes

610

00:34:01,720 --> 00:34:03,320

expropriation

611

00:34:03,320 --> 00:34:06,480

nationalization absolutely

612

00:34:06,480 --> 00:34:09,440

okay so when you're doing business in

613

00:34:09,440 --> 00:34:11,918

another country you have to analyze

614

00:34:11,918 --> 00:34:15,199

the risks the political risks that might

615

00:34:15,199 --> 00:34:15,918

result

616

00:34:15,918 --> 00:34:19,440

in your inability to operate your

617

00:34:19,440 --> 00:34:20,000

business

618

00:34:20,000 --> 00:34:23,040

in your inability to get the money out

619

00:34:23,040 --> 00:34:24,800

of the country

620

00:34:24,800 --> 00:34:27,199

you know the damage to your assets

621

00:34:27,199 --> 00:34:28,399

property to your

622

00:34:28,399 --> 00:34:31,839

people etc okay

623

00:34:31,839 --> 00:34:35,760

so country risk is a very important

624

00:34:35,760 --> 00:34:38,879

dimension now you can

625

00:34:38,879 --> 00:34:41,918

hedge part of it through

626

00:34:41,918 --> 00:34:45,759

credit insurance from

627

00:34:46,000 --> 00:34:50,159

export credit agencies okay

628

00:34:50,159 --> 00:34:53,839

now we can also have industry risk

629

00:34:53,839 --> 00:34:57,680

so when you think about industry credit

630

00:34:57,680 --> 00:34:58,160

risk

631

00:34:58,160 --> 00:35:01,920

is risks that you might not receive your

632

00:35:01,920 --> 00:35:02,960

money when due

633

00:35:02,960 --> 00:35:05,680

because of something that happens to the

634

00:35:05,680 --> 00:35:07,119

industry

635

00:35:07,119 --> 00:35:09,680

to which you are exposed so can you

636

00:35:09,680 --> 00:35:11,440

think of some dimensions of

637

00:35:11,440 --> 00:35:17,839

industry risk

638

00:35:19,200 --> 00:35:22,640

new regulations yes very good

639

00:35:22,640 --> 00:35:26,240

which industry right now would be

640

00:35:26,240 --> 00:35:29,440

very subject to changes in regulations

641

00:35:29,440 --> 00:35:30,640

fossil fuels

642

00:35:30,640 --> 00:35:33,920

very very good change in technology so

643

00:35:33,920 --> 00:35:36,640

the risk of obsolescence

644

00:35:36,640 --> 00:35:39,680

right the risk of obsolescence

645

00:35:39,680 --> 00:35:45,839

all right what else

646

00:35:48,160 --> 00:35:51,119

what's one characteristics of some types

647

00:35:51,119 --> 00:35:51,440

of

648

00:35:51,440 --> 00:35:54,480

industry like

649

00:35:54,480 --> 00:35:58,400

shipping like property

650

00:35:58,400 --> 00:36:02,400

like chemicals

651

00:36:03,839 --> 00:36:07,119

okay so tariffs will be a dimension of

652

00:36:07,119 --> 00:36:09,040

political risk because they're typically

653

00:36:09,040 --> 00:36:10,240

imposed by

654

00:36:10,240 --> 00:36:13,839

the country

655

00:36:14,160 --> 00:36:16,240

but industry think about the nature of

656

00:36:16,240 --> 00:36:18,160

the business

657

00:36:18,160 --> 00:36:22,320

chemical industry uh shipping industry

658

00:36:22,320 --> 00:36:24,640

rise and fall of demand physician very

659

00:36:24,640 --> 00:36:25,680

good they

660

00:36:25,680 --> 00:36:29,680

are very cyclical

661

00:36:29,680 --> 00:36:32,079

okay you have some industry that are

662

00:36:32,079 --> 00:36:34,079

very very cyclical

663

00:36:34,079 --> 00:36:36,800

so depending on when you get in at what

664

00:36:36,800 --> 00:36:37,680

part of the

665

00:36:37,680 --> 00:36:40,880

cycle it can be very risky

666

00:36:40,880 --> 00:36:44,320

so shipping for

667

00:36:44,320 --> 00:36:46,320

chemicals are very well known as

668

00:36:46,320 --> 00:36:48,240

cyclical industry

669

00:36:48,240 --> 00:36:51,839

okay uh

670

00:36:51,839 --> 00:36:55,440

okay natural disasters that would be

671

00:36:55,440 --> 00:36:58,640

operational risk because natural

672

00:36:58,640 --> 00:37:00,160

disasters is not

673

00:37:00,160 --> 00:37:03,839

industry specific but it is

674

00:37:03,839 --> 00:37:06,320

you know a phenomenon of nature that is

675

00:37:06,320 --> 00:37:07,200

going to

676

00:37:07,200 --> 00:37:10,800

impact a lot of different things

677

00:37:10,800 --> 00:37:15,680

all right so you have industries that

678

00:37:15,680 --> 00:37:18,720

have cyclical risk that have

679

00:37:18,720 --> 00:37:22,480

regulational risk that have obsolescence

680

00:37:22,480 --> 00:37:26,040

risk you also have very important

681

00:37:26,040 --> 00:37:29,119

reputational risks if you're engaging

682

00:37:29,119 --> 00:37:31,359

with certain types of industry can you

683

00:37:31,359 --> 00:37:37,839

think of any

684

00:37:40,560 --> 00:37:42,800

but some of your shareholders will not

685

00:37:42,800 --> 00:37:43,920

be too happy

686

00:37:43,920 --> 00:37:47,839

if they find out weapons manufacturing

687

00:37:47,839 --> 00:37:50,880

very good that's one industry defense

688

00:37:50,880 --> 00:37:54,560

that is very controversial tobacco

689

00:37:54,560 --> 00:37:57,520

yes if you suddenly find that it's an

690

00:37:57,520 --> 00:37:59,760

industry that's using child labor

691

00:37:59,760 --> 00:38:05,760

prison labor all right

692

00:38:05,760 --> 00:38:08,720

what do you mean by pep you mean the

693

00:38:08,720 --> 00:38:10,720

chemical

694

00:38:10,720 --> 00:38:14,640

or politically exposed persons

695

00:38:15,520 --> 00:38:17,680

a politically exposed person okay so

696

00:38:17,680 --> 00:38:18,640

that's more

697

00:38:18,640 --> 00:38:21,680

in the corruption

698

00:38:21,680 --> 00:38:24,560

it's not so much industry specific it's

699

00:38:24,560 --> 00:38:26,560

more reputational risk

700

00:38:26,560 --> 00:38:28,640

we talk about this later money

701

00:38:28,640 --> 00:38:30,720

laundering that kind of thing

702

00:38:30,720 --> 00:38:34,400

um but you have things like gambling

703

00:38:34,400 --> 00:38:38,000

defense industry uh

704

00:38:38,000 --> 00:38:41,200

you know uh that kind of yeah

705

00:38:41,200 --> 00:38:44,720

well cannabis for sure the in in the us

706

00:38:44,720 --> 00:38:48,480

banks yeah they don't get involved

707

00:38:48,480 --> 00:38:51,280

because for so long drugs have been

708

00:38:51,280 --> 00:38:52,160

illegal

709

00:38:52,160 --> 00:38:55,520

right uh so think about you know the

710

00:38:55,520 --> 00:38:57,440

risk that you're taking if you're

711

00:38:57,440 --> 00:38:58,800

engaging with

712

00:38:58,800 --> 00:39:02,160

an increasingly yes somehow carbon

713

00:39:02,160 --> 00:39:04,079

intensive industries

714

00:39:04,079 --> 00:39:07,200

fossil fuels all that is becoming

715

00:39:07,200 --> 00:39:10,320

uh very very bad for

716

00:39:10,320 --> 00:39:14,480

banks who are financing some of these

717

00:39:14,480 --> 00:39:17,839

industries okay now uh

718

00:39:17,839 --> 00:39:20,880

consumer risk is similar to borrower

719

00:39:20,880 --> 00:39:23,040

risk but at the retail level

720

00:39:23,040 --> 00:39:26,160

so when the bank is doing retail banking

721

00:39:26,160 --> 00:39:28,400

it's the risk that their consumers will

722

00:39:28,400 --> 00:39:30,800

not pay back the loans that they owe to

723

00:39:30,800 --> 00:39:32,240

the bank

724

00:39:32,240 --> 00:39:34,640

and then you have settlement risk the

725

00:39:34,640 --> 00:39:36,160

settlement risk is

726

00:39:36,160 --> 00:39:39,839

linked to counter body risk so

727

00:39:39,839 --> 00:39:42,960

it is the rest that something happens

728

00:39:42,960 --> 00:39:46,400

in the period of time when one party

729

00:39:46,400 --> 00:39:48,480

pays and the other party

730

00:39:48,480 --> 00:39:51,839

um has to pay the counterparty

731

00:39:51,839 --> 00:39:54,960

so it's it's very hard to distinguish

732

00:39:54,960 --> 00:39:56,560

the two but that

733

00:39:56,560 --> 00:40:00,079

settlement risk is the reason why

734

00:40:00,079 --> 00:40:03,119

we tend to have collateral and margin

735

00:40:03,119 --> 00:40:04,079

calls

736

00:40:04,079 --> 00:40:07,599

okay now so there's like

737

00:40:07,599 --> 00:40:10,880

many different facets and many different

738

00:40:10,880 --> 00:40:11,920

angles

739

00:40:11,920 --> 00:40:15,680

in credit risk so what can the banks

740

00:40:15,680 --> 00:40:19,280

do about it well to start with

741

00:40:19,280 --> 00:40:22,400

you have to identify the risks right so

742

00:40:22,400 --> 00:40:24,160

the first step

743

00:40:24,160 --> 00:40:27,200

is to decide what risks are we

744

00:40:27,200 --> 00:40:28,960

comfortable with

745

00:40:28,960 --> 00:40:32,000

and what risks we don't want to take

746

00:40:32,000 --> 00:40:35,920

so your credit policy will determine

747

00:40:35,920 --> 00:40:38,000

the kind of risk you are happy to

748

00:40:38,000 --> 00:40:39,119

consider

749

00:40:39,119 --> 00:40:43,119

and the kind of risk you want to exclude

750

00:40:43,119 --> 00:40:45,280

and then within the credit policy you

751

00:40:45,280 --> 00:40:47,280

can set limits

752

00:40:47,280 --> 00:40:50,400

so i don't want more than x of my

753

00:40:50,400 --> 00:40:51,359

portfolio

754

00:40:51,359 --> 00:40:54,960

in china i don't want more than

755

00:40:54,960 --> 00:40:58,960

x percent of my portfolio on shipping

756

00:40:58,960 --> 00:41:02,400

so credit limits can be uh

757

00:41:02,400 --> 00:41:05,599

country limits industry limits and then

758

00:41:05,599 --> 00:41:09,119

more specifically on one single

759

00:41:09,119 --> 00:41:13,040

client so that's concentration limits

760

00:41:13,040 --> 00:41:16,480

so a prudent bank doesn't

761

00:41:16,480 --> 00:41:19,520

want more than a sir a small percentage

762

00:41:19,520 --> 00:41:22,720

of its total portfolio to be

763

00:41:22,720 --> 00:41:26,400

concentrated on one customer

764

00:41:26,400 --> 00:41:29,520

which is exactly the opposite

765

00:41:29,520 --> 00:41:32,319

of what green cell capital did they had

766

00:41:32,319 --> 00:41:35,040

high concentration very very high

767

00:41:35,040 --> 00:41:36,480

concentration

768

00:41:36,480 --> 00:41:40,119

on basically two customers okay so

769

00:41:40,119 --> 00:41:43,359

concentration it can be a

770

00:41:43,359 --> 00:41:46,240

significant risk which is why regulators

771

00:41:46,240 --> 00:41:46,560

will

772

00:41:46,560 --> 00:41:50,560

often impose concentration limits

773

00:41:50,560 --> 00:41:54,800

now you can also use tools tools like

774

00:41:54,800 --> 00:41:57,920

credit scoring so i talked about it

775

00:41:57,920 --> 00:41:59,200

before

776

00:41:59,200 --> 00:42:02,480

credit scoring is a methodology

777

00:42:02,480 --> 00:42:05,680

to try to identify risk

778

00:42:05,680 --> 00:42:09,119

at the consumer level okay so at the

779

00:42:09,119 --> 00:42:11,040

consumer level we talk about

780

00:42:11,040 --> 00:42:15,119

credit scoring uh we use

781

00:42:15,119 --> 00:42:17,839

credit bureau

782

00:42:18,480 --> 00:42:21,680

is linked together okay at the corporate

783

00:42:21,680 --> 00:42:22,880

level we talk about

784

00:42:22,880 --> 00:42:26,880

ratings so basically it's the same idea

785

00:42:26,880 --> 00:42:30,560

it's a methodology to try to identify

786

00:42:30,560 --> 00:42:33,760

key aspects of risk and then

787

00:42:33,760 --> 00:42:37,520

weigh them by importance and then give a

788

00:42:37,520 --> 00:42:38,480

score

789

00:42:38,480 --> 00:42:42,040

or a rating that tells you the

790

00:42:42,040 --> 00:42:44,960

probability of default

791

00:42:44,960 --> 00:42:48,880

of the corporate if it's a credit rating

792

00:42:48,880 --> 00:42:52,640

or the consumer if it's a credit score

793

00:42:52,640 --> 00:42:55,839

okay now let me talk about

794

00:42:55,839 --> 00:42:59,680

netting because netting is a super duper

795

00:42:59,680 --> 00:43:02,880

important uh thing

796

00:43:02,880 --> 00:43:05,520

when particularly when you're doing uh

797

00:43:05,520 --> 00:43:07,200

trading

798

00:43:07,200 --> 00:43:11,040

so netting comes from net

799

00:43:11,040 --> 00:43:14,560

as opposed to gross okay

800

00:43:14,560 --> 00:43:18,000

so imagine that um

801

00:43:18,000 --> 00:43:21,040

let's say i'm trading with roman all day

802

00:43:21,040 --> 00:43:23,119

i'm doing foreign exchange

803

00:43:23,119 --> 00:43:25,760

so i'm exchanging euros for us dollars

804

00:43:25,760 --> 00:43:26,640

all day long

805

00:43:26,640 --> 00:43:30,160

so we do spot effects all day long okay

806

00:43:30,160 --> 00:43:33,280

so i am

807

00:43:33,280 --> 00:43:36,720

doing spot effects with roman

808

00:43:36,720 --> 00:43:39,839

so today i buy

809

00:43:39,839 --> 00:43:43,440

50 million us dollar

810

00:43:43,440 --> 00:43:47,119

versus euro then a little bit later

811

00:43:47,119 --> 00:43:50,400

i sell 20 million

812

00:43:50,400 --> 00:43:56,160

then in the afternoon i buy 20 million

813

00:43:56,160 --> 00:44:00,319

and then i sell 50 million

814

00:44:00,319 --> 00:44:05,839

okay so i've done four trades with roman

815

00:44:05,839 --> 00:44:09,839

what's my exposure to roman

816

00:44:13,200 --> 00:44:15,680

ah-ha

817

00:44:18,400 --> 00:44:23,839

yes you're sure

818

00:44:24,160 --> 00:44:27,760

well it depends ha

819

00:44:27,760 --> 00:44:33,359

it depends if we're talking about

820

00:44:34,839 --> 00:44:37,280

net

821

00:44:37,280 --> 00:44:41,440

or if we're talking about growth

822

00:44:49,599 --> 00:44:54,400

okay net is i net out the size

823

00:44:54,400 --> 00:44:58,400

so i have zero at the end of the day

824

00:44:58,400 --> 00:45:05,280

but my gross exposure is 140.

825

00:45:05,280 --> 00:45:09,200

you see the difference i can only use

826

00:45:09,200 --> 00:45:12,079

net exposure if i have a netting

827

00:45:12,079 --> 00:45:14,000

agreement in place with

828

00:45:14,000 --> 00:45:17,200

roman okay

829

00:45:17,200 --> 00:45:20,240

so when we talk about regulators later

830

00:45:20,240 --> 00:45:22,720

you will see that has a very significant

831

00:45:22,720 --> 00:45:25,359

impact on how you calculate some of the

832

00:45:25,359 --> 00:45:27,359

prudential ratios

833

00:45:27,359 --> 00:45:30,720

whether you use the net exposure or the

834

00:45:30,720 --> 00:45:32,720

gross exposure

835

00:45:32,720 --> 00:45:35,920

okay the industry uses

836

00:45:35,920 --> 00:45:38,560

a lot of netting but you have to have

837

00:45:38,560 --> 00:45:40,640

agreements in place between the

838

00:45:40,640 --> 00:45:43,200

counterparties before you can do that

839

00:45:43,200 --> 00:45:45,680

otherwise you are stuck with the gross

840

00:45:45,680 --> 00:45:47,680

exposure which is of course

841

00:45:47,680 --> 00:45:51,599

much bigger so if you have the ability

842

00:45:51,599 --> 00:45:53,680

to net the transactions

843

00:45:53,680 --> 00:45:56,720

then your exposure is much smaller than

844

00:45:56,720 --> 00:45:58,560

if you don't

845

00:45:58,560 --> 00:46:02,079

okay this is also one of the reasons why

846

00:46:02,079 --> 00:46:04,480

when we have some time to settle the

847

00:46:04,480 --> 00:46:05,599

trades

848

00:46:05,599 --> 00:46:08,640

you know the t plus one t plus two gives

849

00:46:08,640 --> 00:46:11,280

you time to do the netting

850

00:46:11,280 --> 00:46:14,319

if you we're doing everything real time

851

00:46:14,319 --> 00:46:16,319

then you would have to do every

852

00:46:16,319 --> 00:46:18,160

transaction which amounts to

853

00:46:18,160 --> 00:46:22,240

gross transactions okay

854

00:46:22,480 --> 00:46:24,640

what is the significance of exposure

855

00:46:24,640 --> 00:46:29,200

what do you mean roman

856

00:46:29,200 --> 00:46:33,040

i don't understand your question roman

857

00:46:33,040 --> 00:46:35,040

what is that question i don't understand

858

00:46:35,040 --> 00:46:36,800

i'm i'm not sure

859

00:46:36,800 --> 00:46:39,440

what uh what exposure is and why it's

860

00:46:39,440 --> 00:46:42,720

bad or good to have more or less

861

00:46:42,720 --> 00:46:45,839

exposure is the risks that you have

862

00:46:45,839 --> 00:46:49,760

so i am exposed to

863

00:46:50,240 --> 00:46:53,359

borrower risk country risk industry risk

864

00:46:53,359 --> 00:46:54,480

trading risk

865

00:46:54,480 --> 00:46:57,760

so when we talk about risk

866

00:46:57,760 --> 00:47:01,200

it is the exposure is the amount at risk

867

00:47:01,200 --> 00:47:03,839

does that help

868

00:47:05,119 --> 00:47:07,760

okay all right so you understand the

869

00:47:07,760 --> 00:47:09,040

difference with nat

870

00:47:09,040 --> 00:47:12,319

and growth right it's really important

871

00:47:12,319 --> 00:47:14,800

to understand that you can only do that

872

00:47:14,800 --> 00:47:17,359

if you have the agreements in place if

873

00:47:17,359 --> 00:47:18,079

that is

874

00:47:18,079 --> 00:47:20,720

allowed

875

00:47:22,839 --> 00:47:25,520

okay all right

876

00:47:25,520 --> 00:47:29,200

so let's have a look at the video

877

00:47:29,200 --> 00:47:39,839

from our group four

878

00:47:42,240 --> 00:47:45,440

well no this one

879

00:47:45,440 --> 00:47:47,599

in the us but you're buying

880

00:47:47,599 --> 00:47:49,680

non-performing loans in southeast asia

881

00:47:49,680 --> 00:47:51,359

and you're on the lookout for more so

882

00:47:51,359 --> 00:47:54,400

can you tell us about some of the

883

00:48:04,839 --> 00:48:07,839

options

884

00:48:10,240 --> 00:48:13,359

uh professor we can't hear it you're not

885

00:48:13,359 --> 00:48:16,720

sharing the computer sound

886

00:48:16,720 --> 00:48:19,440

we are we keep our eye on sorry sorry

887

00:48:19,440 --> 00:48:20,880

sorry sorry

888

00:48:20,880 --> 00:48:23,440

your bond offerings in the us but you're

889

00:48:23,440 --> 00:48:23,920

buying

890

00:48:23,920 --> 00:48:26,000

non-performing loans in southeast asia

891

00:48:26,000 --> 00:48:27,680

and you're on the lookout for more so

892

00:48:27,680 --> 00:48:28,800

can you tell us about some of the

893

00:48:28,800 --> 00:48:30,800

opportunities you see there sure well

894

00:48:30,800 --> 00:48:32,640

we're buyers not only of non-performing

895

00:48:32,640 --> 00:48:33,599

loans but also

896

00:48:33,599 --> 00:48:35,200

issuers of loans where other more

897

00:48:35,200 --> 00:48:37,119

conventional sources are not available

898

00:48:37,119 --> 00:48:38,800

um in southeast asia we have we've

899

00:48:38,800 --> 00:48:40,400

bought npls in

900

00:48:40,400 --> 00:48:42,640

indonesia and have continued to look for

901

00:48:42,640 --> 00:48:43,440

more

902

00:48:43,440 --> 00:48:46,880

we are very focused on special situation

903

00:48:46,880 --> 00:48:48,480

real estate lending in thailand

904

00:48:48,480 --> 00:48:50,640

uh we are also looking uh quite a bit in

905

00:48:50,640 --> 00:48:51,760

the philippines

906

00:48:51,760 --> 00:48:54,160

um in addition to that we are we keep

907

00:48:54,160 --> 00:48:54,880

our eye on

908

00:48:54,880 --> 00:48:56,160

china and india which are kind of the

909

00:48:56,160 --> 00:48:58,000

big names um

910

00:48:58,000 --> 00:48:59,920

interestingly enough over the last four

911

00:48:59,920 --> 00:49:01,680

to six months we've started to get calls

912

00:49:01,680 --> 00:49:02,720

on hong kong

913

00:49:02,720 --> 00:49:04,240

uh that we haven't seen in many many

914

00:49:04,240 --> 00:49:05,839

years um obviously

915

00:49:05,839 --> 00:49:07,200

that started before the virus and

916

00:49:07,200 --> 00:49:08,720

actually around the time of the protest

917

00:49:08,720 --> 00:49:09,920

etc

918

00:49:09,920 --> 00:49:11,680

we haven't seen credit appropriately

919

00:49:11,680 --> 00:49:13,040

priced in in china

920

00:49:13,040 --> 00:49:15,440

and in india as much as we'd like to

921

00:49:15,440 --> 00:49:17,200

there are tremendous uh

922

00:49:17,200 --> 00:49:20,000

npo npl volumes there but npl's at the

923

00:49:20,000 --> 00:49:21,359

wrong price are

924

00:49:21,359 --> 00:49:24,000

remain npls uh and except they become

925

00:49:24,000 --> 00:49:25,280

yours uh so

926

00:49:25,280 --> 00:49:27,040

we're not we're not there yet uh but

927

00:49:27,040 --> 00:49:28,400

we're spending a lot of time focusing on

928

00:49:28,400 --> 00:49:28,800

it

929

00:49:28,800 --> 00:49:30,480

you do say there's plenty of liquidity

930

00:49:30,480 --> 00:49:32,000

out there but is it getting to the right

931

00:49:32,000 --> 00:49:33,280

place

932

00:49:33,280 --> 00:49:36,559

uh well i think uh it's it

933

00:49:36,559 --> 00:49:39,359

it is if you're a seller right and

934

00:49:39,359 --> 00:49:40,079

you're talking about

935

00:49:40,079 --> 00:49:41,680

very large volumes not only of bank

936

00:49:41,680 --> 00:49:43,200

loans but also corporate bonds now in

937

00:49:43,200 --> 00:49:44,079

china

938

00:49:44,079 --> 00:49:46,400

and in india you've most recently seen

939

00:49:46,400 --> 00:49:47,520

some real failures in the

940

00:49:47,520 --> 00:49:49,440

non-banking finance company uh space

941

00:49:49,440 --> 00:49:51,760

that are making people start to really

942

00:49:51,760 --> 00:49:54,160

look hard at the appropriate uh

943

00:49:54,160 --> 00:49:56,319

pricing of risk i said i don't think

944

00:49:56,319 --> 00:49:57,280

it's there yet

945

00:49:57,280 --> 00:49:59,920

um it's been too easy and we think it

946

00:49:59,920 --> 00:50:01,680

has a long long way to go down but we're

947

00:50:01,680 --> 00:50:04,480

certainly focused on it

948

00:50:04,480 --> 00:50:06,079

dan you talked about opportunities in

949

00:50:06,079 --> 00:50:09,119

hong kong since the protest what exactly

950

00:50:09,119 --> 00:50:13,760

and how do you view the risks there

951

00:50:13,760 --> 00:50:15,599

well you know i've been investing there

952

00:50:15,599 --> 00:50:16,960

uh since the 90s

953

00:50:16,960 --> 00:50:19,200

um certainly things are evolving the

954

00:50:19,200 --> 00:50:20,720

degree to which you have a

955

00:50:20,720 --> 00:50:23,760

recognizable system of credit resolution

956

00:50:23,760 --> 00:50:26,400

is not quite what it was then

957

00:50:26,400 --> 00:50:28,079

the kind of things we're looking at are

958

00:50:28,079 --> 00:50:29,680

basically um

959

00:50:29,680 --> 00:50:32,559

shorter term bridge loans and and um

960

00:50:32,559 --> 00:50:34,720

secured loans on real estate

961

00:50:34,720 --> 00:50:36,319

for a long long time there were a whole

962

00:50:36,319 --> 00:50:37,760

series of local

963

00:50:37,760 --> 00:50:39,440

folks there powered by very easy

964

00:50:39,440 --> 00:50:40,960

financing from the banks that had that

965

00:50:40,960 --> 00:50:42,480

occupied that market it's interesting to

966

00:50:42,480 --> 00:50:43,280

think that

967

00:50:43,280 --> 00:50:45,359

uh perhaps they may not be there as much

968

00:50:45,359 --> 00:50:46,640

uh but net i think

969

00:50:46,640 --> 00:50:49,200

we're long-term sanguine on on on value

970

00:50:49,200 --> 00:50:50,640

uh you know certainly

971

00:50:50,640 --> 00:50:52,079

as long as there's a lot of subordinated

972

00:50:52,079 --> 00:50:54,160

value below us as we think about

973

00:50:54,160 --> 00:50:55,280

uh the levels of which we're going to

974

00:50:55,280 --> 00:50:58,160

lend obviously we wouldn't be pouring

975

00:50:58,160 --> 00:50:59,520

ourselves in there right now given the

976

00:50:59,520 --> 00:51:00,880

uncertainty but we certainly think it's

977

00:51:00,880 --> 00:51:03,520

worth spending time on

978

00:51:03,520 --> 00:51:04,800

but when you talk about real estate

979

00:51:04,800 --> 00:51:06,400

there are views out there that could be

980

00:51:06,400 --> 00:51:08,960

a property crisis in hong kong

981

00:51:08,960 --> 00:51:12,240

your take your assessment

982

00:51:12,720 --> 00:51:14,960

everything at a price right there's a

983

00:51:14,960 --> 00:51:16,880

lot of data you can look at it you just

984

00:51:16,880 --> 00:51:19,200

if something's worth was worth a dollar

985

00:51:19,200 --> 00:51:20,400

yesterday

986

00:51:20,400 --> 00:51:21,760

uh and that same thing might have been

987

00:51:21,760 --> 00:51:23,680

worth 50 cents uh

988

00:51:23,680 --> 00:51:26,319

10 years ago and you're lending 25 cents

989

00:51:26,319 --> 00:51:27,520

you still might be okay

990

00:51:27,520 --> 00:51:29,680

yeah it's all about thinking about where

991

00:51:29,680 --> 00:51:31,440

does this asset trade in a

992

00:51:31,440 --> 00:51:33,280

as an example in october of 008 or an

993

00:51:33,280 --> 00:51:34,720

august of 98 type of

994

00:51:34,720 --> 00:51:37,119

market and am i materially covered by

995

00:51:37,119 --> 00:51:37,920

that level

996

00:51:37,920 --> 00:51:39,359

so you know that can be bracing for

997

00:51:39,359 --> 00:51:41,680

people kind of who who are used to very

998

00:51:41,680 --> 00:51:42,640

very easy

999

00:51:42,640 --> 00:51:44,000

benign markets like we've had for the

1000

00:51:44,000 --> 00:51:46,079

last thousand years we've spent some

1001

00:51:46,079 --> 00:51:47,520

recent days traveling around this part

1002

00:51:47,520 --> 00:51:48,960

of the world and

1003

00:51:48,960 --> 00:51:50,559

i like what you say about real estate

1004

00:51:50,559 --> 00:51:52,160

landing here in australia and new

1005

00:51:52,160 --> 00:51:54,160

zealand as well it's a special situation

1006

00:51:54,160 --> 00:51:56,880

that almost sounds like a euphemism

1007

00:51:56,880 --> 00:51:58,319

for something less polite i wonder if

1008

00:51:58,319 --> 00:52:00,640

you could tell us more well uh sometimes

1009

00:52:00,640 --> 00:52:01,440

you know

1010

00:52:01,440 --> 00:52:03,599

sometimes it means helping uh folks play

1011

00:52:03,599 --> 00:52:04,960

offense as well

1012

00:52:04,960 --> 00:52:06,480

uh certainly uh there's been a

1013

00:52:06,480 --> 00:52:08,240

tremendous amount of property lending in

1014

00:52:08,240 --> 00:52:09,119

australia

1015

00:52:09,119 --> 00:52:11,200

and elevating housing prices we haven't

1016

00:52:11,200 --> 00:52:13,680

seen real opportunities in australia yet

1017

00:52:13,680 --> 00:52:15,359

i think there will be some real backing

1018

00:52:15,359 --> 00:52:17,119

up of things at some point soon

1019

00:52:17,119 --> 00:52:18,640

for a lot of reasons in australia we

1020

00:52:18,640 --> 00:52:21,200

focus more on structured finance

1021

00:52:21,200 --> 00:52:22,720

and corporate situations the banks have

1022

00:52:22,720 --> 00:52:24,640

really pulled back uh from everything

1023

00:52:24,640 --> 00:52:26,480

other than residential mortgage lending

1024

00:52:26,480 --> 00:52:28,400

uh i and i do think that there are going

1025

00:52:28,400 --> 00:52:29,040

to be

1026

00:52:29,040 --> 00:52:30,960

a lot more opportunities to pursue in

1027

00:52:30,960 --> 00:52:32,640

new zealand there is a tremendous

1028

00:52:32,640 --> 00:52:33,680

housing shortage

1029

00:52:33,680 --> 00:52:35,440

so while residential mortgage lending is

1030

00:52:35,440 --> 00:52:37,680

readily available lending to create more

1031

00:52:37,680 --> 00:52:38,720

houses on which

1032

00:52:38,720 --> 00:52:41,359

mortgages will be borrowed uh is not

1033

00:52:41,359 --> 00:52:42,160

really available

1034

00:52:42,160 --> 00:52:44,720

and so we've been uh working uh with a

1035

00:52:44,720 --> 00:52:46,559

variety of uh developers

1036

00:52:46,559 --> 00:52:48,880

um with uh in partnership at times with

1037

00:52:48,880 --> 00:52:50,480

the new zealand government to kind of

1038

00:52:50,480 --> 00:52:53,440

help help mitigate that 50 to 100 000

1039

00:52:53,440 --> 00:53:01,839

home shortage

1040

00:53:02,640 --> 00:53:04,960

okay

1041

00:53:06,640 --> 00:53:09,920

okay so that was a very nice video and

1042

00:53:09,920 --> 00:53:12,880

then they also shared this uh

1043

00:53:12,880 --> 00:53:16,400

report from uh snp

1044

00:53:16,400 --> 00:53:20,160

uh that was back i think uh last year

1045

00:53:20,160 --> 00:53:24,319

uh in 2020 so when the crisis

1046

00:53:24,319 --> 00:53:26,480

hit there was a lot of concern that the

1047

00:53:26,480 --> 00:53:27,440

banks would have

1048

00:53:27,440 --> 00:53:31,920

massive portfolios of npls that hasn't

1049

00:53:31,920 --> 00:53:33,119

really

1050

00:53:33,119 --> 00:53:36,480

happened at this time

1051

00:53:36,480 --> 00:53:39,599

all right so let me get back

1052

00:53:39,599 --> 00:53:43,440

to my slides yep

1053

00:53:43,440 --> 00:53:46,640

okay so

1054

00:53:46,640 --> 00:53:49,119

the next dimension of risk we're going

1055

00:53:49,119 --> 00:53:51,119

to talk about and we've already talked

1056

00:53:51,119 --> 00:53:53,040

about it when we were talking about the

1057

00:53:53,040 --> 00:53:55,839

the dealers and the market makers is

1058

00:53:55,839 --> 00:53:57,520

market risk

1059

00:53:57,520 --> 00:54:00,960

so market rates can uh

1060

00:54:00,960 --> 00:54:04,000

have dimensions of interest rates

1061

00:54:04,000 --> 00:54:08,640

foreign exchange equity commodities

1062

00:54:08,640 --> 00:54:11,920

basically any time that asset prices are

1063

00:54:11,920 --> 00:54:12,960

moving

1064

00:54:12,960 --> 00:54:16,000

then you are exposed to

1065

00:54:16,000 --> 00:54:19,760

uh market risk so how to deal with that

1066

00:54:19,760 --> 00:54:22,319

well basically again you need to have

1067

00:54:22,319 --> 00:54:24,880

policies in place so that would be your

1068

00:54:24,880 --> 00:54:26,079

risk management

1069

00:54:26,079 --> 00:54:29,200

policy your asset and liability

1070

00:54:29,200 --> 00:54:31,920

management policy can provide you with a

1071

00:54:31,920 --> 00:54:34,079

natural hedge a balance sheet

1072

00:54:34,079 --> 00:54:37,599

hedge for some of this risk for example

1073

00:54:37,599 --> 00:54:41,920

on foreign exchange hedging policies so

1074

00:54:41,920 --> 00:54:43,119

hedging means

1075

00:54:43,119 --> 00:54:46,240

using another instrument

1076

00:54:46,240 --> 00:54:49,040

where the results of the market movement

1077

00:54:49,040 --> 00:54:50,559

will be the opposite

1078

00:54:50,559 --> 00:54:53,760

of your existing position right so for

1079

00:54:53,760 --> 00:54:54,480

example

1080

00:54:54,480 --> 00:54:57,680

taking um the opposite position

1081

00:54:57,680 --> 00:55:01,040

with a swap or an option but you have to

1082

00:55:01,040 --> 00:55:03,359

be careful when you're doing hatching

1083

00:55:03,359 --> 00:55:06,160

because then you are very often taking

1084

00:55:06,160 --> 00:55:08,160

counterparty exposure

1085

00:55:08,160 --> 00:55:10,240

so you might be hedging the foreign

1086

00:55:10,240 --> 00:55:12,720

exchange risk or the interest rate risk

1087

00:55:12,720 --> 00:55:14,880

but then you are taking counter body

1088

00:55:14,880 --> 00:55:17,200

exposure

1089

00:55:17,200 --> 00:55:21,040

okay um then liquidity

1090

00:55:21,040 --> 00:55:23,680

so liquidity we've talked about it as

1091

00:55:23,680 --> 00:55:24,400

well there's

1092

00:55:24,400 --> 00:55:27,440

two fundamental dimensions

1093

00:55:27,440 --> 00:55:31,040

of liquidity risk one is the funding

1094

00:55:31,040 --> 00:55:33,359

liquidity risk which is

1095

00:55:33,359 --> 00:55:36,559

when i do you have access

1096

00:55:36,559 --> 00:55:39,680

to the funding you need when you need it

1097

00:55:39,680 --> 00:55:42,240

okay so sources of funding available to

1098

00:55:42,240 --> 00:55:43,040

you

1099

00:55:43,040 --> 00:55:45,200

the other dimension is the market

1100

00:55:45,200 --> 00:55:46,640

liquidity risk

1101

00:55:46,640 --> 00:55:49,680

that is how quickly can i liquidate some

1102

00:55:49,680 --> 00:55:50,880

of my assets

1103

00:55:50,880 --> 00:55:54,640

against cash at the lowest possible

1104

00:55:54,640 --> 00:55:57,119

price difference in transaction cost so

1105

00:55:57,119 --> 00:55:58,240

the two

1106

00:55:58,240 --> 00:56:01,119

very important dimensions of liquidity

1107

00:56:01,119 --> 00:56:02,480

risk

1108

00:56:02,480 --> 00:56:05,839

so again you mitigate this with your

1109

00:56:05,839 --> 00:56:08,240

asset and liability management

1110

00:56:08,240 --> 00:56:11,359

policies your funding policy

1111

00:56:11,359 --> 00:56:14,640

to having a very conservative funding

1112

00:56:14,640 --> 00:56:15,720

policy

1113

00:56:15,720 --> 00:56:19,040

diversification of your funding sources

1114

00:56:19,040 --> 00:56:22,480

using conservative ratios having

1115

00:56:22,480 --> 00:56:25,680

enough cash and reserves cushion

1116

00:56:25,680 --> 00:56:29,280

to absorb uh extraordinary liquidity

1117

00:56:29,280 --> 00:56:31,599

events so we've talked about this when

1118

00:56:31,599 --> 00:56:32,799

we were talking about

1119

00:56:32,799 --> 00:56:35,839

liquidity management so this should not

1120

00:56:35,839 --> 00:56:36,880

be new

1121

00:56:36,880 --> 00:56:41,040

to you all right and always remember

1122

00:56:41,040 --> 00:56:44,240

liquidity is relative

1123

00:56:44,240 --> 00:56:47,119

it's always there when you don't need it

1124

00:56:47,119 --> 00:56:47,440

and

1125

00:56:47,440 --> 00:56:50,559

never there when you do okay so

1126

00:56:50,559 --> 00:56:52,880

it's one of these things that is very

1127

00:56:52,880 --> 00:56:55,280

difficult to get your head around

1128

00:56:55,280 --> 00:56:58,240

how to define a liquid assets because it

1129

00:56:58,240 --> 00:56:59,359

is so very

1130

00:56:59,359 --> 00:57:02,559

relative to the markets in which you

1131

00:57:02,559 --> 00:57:05,680

are and then

1132

00:57:05,680 --> 00:57:08,799

we talk about operational risk so

1133

00:57:08,799 --> 00:57:13,200

operational risk is you're exposed to

1134

00:57:13,200 --> 00:57:16,480

in the way you operate the business

1135

00:57:16,480 --> 00:57:20,319

so in your operations what are the risks

1136

00:57:20,319 --> 00:57:21,359

that you might

1137

00:57:21,359 --> 00:57:25,280

lose money okay so

1138

00:57:25,280 --> 00:57:28,720

there are many okay this is not

1139

00:57:28,720 --> 00:57:32,799

limitative this is non-exhaustive

1140

00:57:32,799 --> 00:57:35,440

inadequate information systems if your

1141

00:57:35,440 --> 00:57:38,240

information systems do not give you the

1142

00:57:38,240 --> 00:57:40,480

information you need

1143

00:57:40,480 --> 00:57:43,040

or do not give you that information in

1144

00:57:43,040 --> 00:57:44,000

time

1145

00:57:44,000 --> 00:57:46,240

then you will not be able to make the

1146

00:57:46,240 --> 00:57:48,160

right decisions

1147

00:57:48,160 --> 00:57:50,720

your systems might break down now this

1148

00:57:50,720 --> 00:57:51,920

has been happening

1149

00:57:51,920 --> 00:57:55,359

a lot more these days

1150

00:57:55,359 --> 00:57:58,720

because the design of the technology

1151

00:57:58,720 --> 00:58:00,640

backbone of the banks

1152

00:58:00,640 --> 00:58:04,480

goes back to a time when there was no

1153

00:58:04,480 --> 00:58:05,680

internet

1154

00:58:05,680 --> 00:58:09,599

and no broadband and no mobile internet

1155

00:58:09,599 --> 00:58:10,079

and no

1156

00:58:10,079 --> 00:58:12,799

internet of things so the systems are

1157

00:58:12,799 --> 00:58:13,440

not

1158

00:58:13,440 --> 00:58:16,799

designed to handle so much

1159

00:58:16,799 --> 00:58:20,839

data so very often you see operational

1160

00:58:20,839 --> 00:58:22,000

breakdown

1161

00:58:22,000 --> 00:58:25,200

you can have bridges in internal control

1162

00:58:25,200 --> 00:58:28,559

you know that has to be

1163

00:58:28,720 --> 00:58:32,799

linked to i.t security right

1164

00:58:32,799 --> 00:58:36,000

what about hackers now there's been two

1165

00:58:36,000 --> 00:58:38,799

huge hacking incidents in the us

1166

00:58:38,799 --> 00:58:40,160

recently

1167

00:58:40,160 --> 00:58:42,400

one the most recent one has to do with

1168

00:58:42,400 --> 00:58:44,079

microsoft exchange

1169

00:58:44,079 --> 00:58:48,000

email okay we all have we use

1170

00:58:48,000 --> 00:58:51,280

outlook okay so we are

1171

00:58:51,280 --> 00:58:54,799

all potential victims of this kind of

1172

00:58:54,799 --> 00:58:55,599

fraud and

1173

00:58:55,599 --> 00:58:58,240

and hacking and then just before that

1174

00:58:58,240 --> 00:59:00,160

you had the silence

1175

00:59:00,160 --> 00:59:03,200

hack that touched pretty much everything

1176

00:59:03,200 --> 00:59:04,000

in the united

1177

00:59:04,000 --> 00:59:07,760

states so if your

1178

00:59:07,760 --> 00:59:11,200

i.t security has been breached

1179

00:59:11,200 --> 00:59:15,040

if you have hackers into your system

1180

00:59:15,040 --> 00:59:17,760

then it can be really bad because they

1181

00:59:17,760 --> 00:59:18,640

can

1182

00:59:18,640 --> 00:59:21,200

steal data they can steal the money they

1183

00:59:21,200 --> 00:59:21,760

can

1184

00:59:21,760 --> 00:59:25,200

uh crash your system so you can no

1185

00:59:25,200 --> 00:59:25,680

longer

1186

00:59:25,680 --> 00:59:29,119

operate this is really really bad

1187

00:59:29,119 --> 00:59:32,319

unforeseen catastrophes so catastrophes

1188

00:59:32,319 --> 00:59:32,960

can be

1189

00:59:32,960 --> 00:59:36,720

man-made or they can be natural

1190

00:59:36,720 --> 00:59:39,599

so with climate change we are seeing an

1191

00:59:39,599 --> 00:59:40,559

increase

1192

00:59:40,559 --> 00:59:44,720

in the probability and severity

1193

00:59:44,720 --> 00:59:48,480

of natural catastrophes

1194

00:59:49,200 --> 00:59:51,920

you also have the probabilities of

1195

00:59:51,920 --> 00:59:53,040

man-made things

1196

00:59:53,040 --> 00:59:57,040

terrorist attacks in certain

1197

00:59:57,040 --> 01:00:00,400

regions all of these

1198

01:00:00,400 --> 01:00:03,920

the risks have increased very

1199

01:00:03,920 --> 01:00:06,400

very substantially in the past few

1200

01:00:06,400 --> 01:00:07,680

decades

1201

01:00:07,680 --> 01:00:10,240

and then risks of fraud that have always

1202

01:00:10,240 --> 01:00:11,359

been there

1203

01:00:11,359 --> 01:00:13,680

that are recurrent you have rogue

1204

01:00:13,680 --> 01:00:16,000

traders you have

1205

01:00:16,000 --> 01:00:19,280

all kinds of frauds possible and

1206

01:00:19,280 --> 01:00:21,599

every day there's new examples in the

1207

01:00:21,599 --> 01:00:23,359

press and

1208

01:00:23,359 --> 01:00:26,559

and so on and so forth right so

1209

01:00:26,559 --> 01:00:29,520

there are so many ways that banks can

1210

01:00:29,520 --> 01:00:30,799

suffer

1211

01:00:30,799 --> 01:00:34,079

operational risk some of it come

1212

01:00:34,079 --> 01:00:37,680

from their own security some of it comes

1213

01:00:37,680 --> 01:00:38,640

from

1214

01:00:38,640 --> 01:00:42,160

rogue agents some of it comes from the

1215

01:00:42,160 --> 01:00:42,640

way

1216

01:00:42,640 --> 01:00:45,839

the systems are designed uh

1217

01:00:45,839 --> 01:00:49,040

some of which is an act of god

1218

01:00:49,040 --> 01:00:52,559

okay so all of these things uh

1219

01:00:52,559 --> 01:00:54,720

not to mention pandemics and stuff like

1220

01:00:54,720 --> 01:00:56,079

that right

1221

01:00:56,079 --> 01:00:59,119

so so what can we do well again

1222

01:00:59,119 --> 01:01:01,040

you have to have a risk management

1223

01:01:01,040 --> 01:01:02,640

policy in place

1224

01:01:02,640 --> 01:01:05,440

and that risk management policy needs to

1225

01:01:05,440 --> 01:01:06,079

try

1226

01:01:06,079 --> 01:01:09,559

and anticipate even those

1227

01:01:09,559 --> 01:01:12,480

extraordinary events what we call the

1228

01:01:12,480 --> 01:01:13,839

black swan

1229

01:01:13,839 --> 01:01:19,119

events after nasim taleb all right

1230

01:01:19,440 --> 01:01:22,960

once you have tried to identify

1231

01:01:22,960 --> 01:01:26,480

then and quantify then you try to think

1232

01:01:26,480 --> 01:01:28,000

about

1233

01:01:28,000 --> 01:01:31,119

okay if we are faced with one of these

1234

01:01:31,119 --> 01:01:32,240

extreme events

1235

01:01:32,240 --> 01:01:34,960

that threaten our business continuity

1236

01:01:34,960 --> 01:01:36,240

what can we do

1237

01:01:36,240 --> 01:01:39,680

do we have backup plans in place do we

1238

01:01:39,680 --> 01:01:40,079

have

1239

01:01:40,079 --> 01:01:43,520

recovery plans in place and you

1240

01:01:43,520 --> 01:01:46,799

need to have those you need to try and

1241

01:01:46,799 --> 01:01:47,200

think

1242

01:01:47,200 --> 01:01:50,880

what can i do if my building is hit by

1243

01:01:50,880 --> 01:01:51,200

an

1244

01:01:51,200 --> 01:01:54,240

earthquake so that i can continue

1245

01:01:54,240 --> 01:01:57,280

operating what can i do

1246

01:01:57,280 --> 01:02:01,599

if my entire trading floor catches

1247

01:02:01,599 --> 01:02:04,839

the plague okay whatever plague it may

1248

01:02:04,839 --> 01:02:06,000

be

1249

01:02:06,000 --> 01:02:09,359

what can i do if

1250

01:02:09,359 --> 01:02:13,039

my building is flooded by a tsunami

1251

01:02:13,039 --> 01:02:15,440

all right so all of these means you need

1252

01:02:15,440 --> 01:02:18,799

to anticipate as much as possible

1253

01:02:18,799 --> 01:02:21,839

now do you know what

1254

01:02:21,839 --> 01:02:25,359

events banks plan for

1255

01:02:25,359 --> 01:02:28,000

set up all these backup and recovery

1256

01:02:28,000 --> 01:02:29,440

plans

1257

01:02:29,440 --> 01:02:35,839

and it did not happen

1258

01:02:37,520 --> 01:02:41,520

about that's right roman y2k very good

1259

01:02:41,520 --> 01:02:45,440

y2k the millennium bug

1260

01:02:45,440 --> 01:02:47,520

so can anybody tell me about that and

1261

01:02:47,520 --> 01:02:51,440

your classmates about the millennium bug

1262

01:02:51,599 --> 01:02:54,319

want to share

1263

01:02:57,039 --> 01:02:59,760

yeah that millennium chitao but tell us

1264

01:02:59,760 --> 01:03:03,839

what it was about

1265

01:03:05,119 --> 01:03:07,440

somebody tell me what it was about do i

1266

01:03:07,440 --> 01:03:11,520

have some engineers in this classroom

1267

01:03:13,839 --> 01:03:17,760

computer goes boom when he turns 2000

1268

01:03:17,760 --> 01:03:20,400

years old

1269

01:03:21,599 --> 01:03:24,000

come on engineers talk to me okay fizzy

1270

01:03:24,000 --> 01:03:26,960

shy talk to me

1271

01:03:26,960 --> 01:03:28,960

yeah um there was this belief that

1272

01:03:28,960 --> 01:03:31,359

computers were going to have like a bug

1273

01:03:31,359 --> 01:03:34,400

when the year would turn to 2000 because

1274

01:03:34,400 --> 01:03:35,920

because before that it always has been

1275

01:03:35,920 --> 01:03:39,280

like 1999 or 19 something

1276

01:03:39,280 --> 01:03:42,079

and that it would like um i think like

1277

01:03:42,079 --> 01:03:43,599

the calendar and all the storage and

1278

01:03:43,599 --> 01:03:44,960

stuff like that and the computer was

1279

01:03:44,960 --> 01:03:45,839

gonna

1280

01:03:45,839 --> 01:03:49,280

um be messed up so they were all scared

1281

01:03:49,280 --> 01:03:53,359

but why roman do you know the answer

1282

01:03:56,559 --> 01:03:59,839

i can't hear you

1283

01:04:03,760 --> 01:04:06,240

come on

1284

01:04:08,640 --> 01:04:12,000

hello yes um i don't know much

1285

01:04:12,000 --> 01:04:14,720

more than the tribe but it's basically

1286

01:04:14,720 --> 01:04:15,520

that

1287

01:04:15,520 --> 01:04:19,440

by switching from uh 90 base to 2000

1288

01:04:19,440 --> 01:04:20,079

would

1289

01:04:20,079 --> 01:04:22,480

it would uh the computers couldn't

1290

01:04:22,480 --> 01:04:23,680

handle that or they thought they

1291

01:04:23,680 --> 01:04:24,960

couldn't handle that

1292

01:04:24,960 --> 01:04:26,079

so they thought that everything was

1293

01:04:26,079 --> 01:04:28,160

going to break down yeah

1294

01:04:28,160 --> 01:04:31,440

why uh

1295

01:04:31,440 --> 01:04:34,400

professor maybe because the computers

1296

01:04:34,400 --> 01:04:35,440

wouldn't encode it

1297

01:04:35,440 --> 01:04:38,240

and they had concerns whether computers

1298

01:04:38,240 --> 01:04:40,319

were encoded to handle that change

1299

01:04:40,319 --> 01:04:43,200

in the calendar system and whether they

1300

01:04:43,200 --> 01:04:43,920

could

1301

01:04:43,920 --> 01:04:47,359

uh they had enough data for the uh

1302

01:04:47,359 --> 01:04:50,480

coming years for the 2000 onwards and

1303

01:04:50,480 --> 01:04:51,119

whether

1304

01:04:51,119 --> 01:04:53,760

uh they could handle that change the

1305

01:04:53,760 --> 01:04:54,720

court whether

1306

01:04:54,720 --> 01:04:56,720

the systems were prepared for that

1307

01:04:56,720 --> 01:04:59,039

change

1308

01:04:59,760 --> 01:05:03,119

i think i don't know song

1309

01:05:03,280 --> 01:05:06,880

i heard that because the date in 1990s

1310

01:05:06,880 --> 01:05:09,680

um and 20 centuries were recorded as

1311

01:05:09,680 --> 01:05:10,000

like

1312

01:05:10,000 --> 01:05:14,400

if 1969 they just kept as a 69

1313

01:05:14,400 --> 01:05:17,599

so when it turned into 2000 they the

1314

01:05:17,599 --> 01:05:19,599

record is 0-0

1315

01:05:19,599 --> 01:05:24,000

and that is confused with the 1900

1316

01:05:24,400 --> 01:05:27,839

very good so yes hollis has written also

1317

01:05:27,839 --> 01:05:31,920

the way the computer scientists were

1318

01:05:31,920 --> 01:05:34,640

coding they didn't want to use too much

1319

01:05:34,640 --> 01:05:35,680

space so they

1320

01:05:35,680 --> 01:05:37,839

when they put the years they were only

1321

01:05:37,839 --> 01:05:40,319

using the last two digits

1322

01:05:40,319 --> 01:05:43,200

so of course when you change millennia

1323

01:05:43,200 --> 01:05:44,799

that was a problem

1324

01:05:44,799 --> 01:05:49,119

okay so everybody was freaking out

1325

01:05:49,119 --> 01:05:52,480

about that the banks spent a lot of

1326

01:05:52,480 --> 01:05:53,200

money

1327

01:05:53,200 --> 01:05:57,119

a lot of money sending engineers to

1328

01:05:57,119 --> 01:06:00,319

check all the lines of code to try and

1329

01:06:00,319 --> 01:06:04,720

fix the problem and i was still working

1330

01:06:04,720 --> 01:06:06,559

in banking at the time and i have

1331

01:06:06,559 --> 01:06:07,599

nothing to do with

1332

01:06:07,599 --> 01:06:11,280

engineering but i can tell you

1333

01:06:11,280 --> 01:06:13,440

that all the senior management of the

1334

01:06:13,440 --> 01:06:14,480

bank was

1335

01:06:14,480 --> 01:06:19,039

on duty at you know the evening

1336

01:06:19,039 --> 01:06:22,720

of the 31st of december 1999

1337

01:06:22,720 --> 01:06:27,359

just in case the computer would go boom

1338

01:06:27,359 --> 01:06:31,599

okay and the computer didn't go boom

1339

01:06:31,599 --> 01:06:33,760

maybe because so much money had been

1340

01:06:33,760 --> 01:06:34,640

sent spent

1341

01:06:34,640 --> 01:06:38,240

on trying to fix this thing so we had

1342

01:06:38,240 --> 01:06:42,480

plans in place about what if

1343

01:06:42,480 --> 01:06:45,119

this happens what if our computers go

1344

01:06:45,119 --> 01:06:45,680

boom

1345

01:06:45,680 --> 01:06:48,960

right actually some computers did go

1346

01:06:48,960 --> 01:06:49,599

boom but

1347

01:06:49,599 --> 01:06:53,760

not in the first of january 2000

1348

01:06:53,760 --> 01:06:56,799

a few years later some i thought

1349

01:06:56,799 --> 01:06:59,039

do we have any german students in my

1350

01:06:59,039 --> 01:07:01,119

classroom but there was a germ

1351

01:07:01,119 --> 01:07:03,680

roman have you heard about a german bank

1352

01:07:03,680 --> 01:07:06,400

who had problems like that

1353

01:07:06,400 --> 01:07:09,119

just a couple of years later right one

1354

01:07:09,119 --> 01:07:10,400

german bank

1355

01:07:10,400 --> 01:07:13,680

adm stopped working so this was kind of

1356

01:07:13,680 --> 01:07:14,000

like

1357

01:07:14,000 --> 01:07:15,839

a delayed millennium bug or something

1358

01:07:15,839 --> 01:07:17,599

like this

1359

01:07:17,599 --> 01:07:21,599

so so the bank spent gazillions of money

1360

01:07:21,599 --> 01:07:25,119

fixing the millennium bug which

1361

01:07:25,119 --> 01:07:28,720

did not actually happen but

1362

01:07:28,720 --> 01:07:31,200

then there was a big crisis that nobody

1363

01:07:31,200 --> 01:07:33,440

had foreseen

1364

01:07:33,440 --> 01:07:36,000

and then we used the backup and recovery

1365

01:07:36,000 --> 01:07:37,200

plan you want to know

1366

01:07:37,200 --> 01:07:43,839

what that was

1367

01:07:44,559 --> 01:07:47,119

anybody

1368

01:07:49,280 --> 01:07:54,079

which crisis totally unforeseen

1369

01:07:54,079 --> 01:07:57,200

nobody had planned for it but the backup

1370

01:07:57,200 --> 01:07:59,359

and recovery plans that the banks had in

1371

01:07:59,359 --> 01:08:02,960

place were activated

1372

01:08:03,520 --> 01:08:06,640

9 11. that is correct so

1373

01:08:06,640 --> 01:08:11,839

in the u.s 9 11 what about hong kong

1374

01:08:13,920 --> 01:08:18,560

the source very good so

1375

01:08:18,560 --> 01:08:21,000

in both cases these were totally

1376

01:08:21,000 --> 01:08:22,640

unanticipated events

1377

01:08:22,640 --> 01:08:26,238

so when the stars hit in hong kong

1378

01:08:26,238 --> 01:08:28,479

i my husband and i were there my

1379

01:08:28,479 --> 01:08:30,560

daughter was just a few months old my

1380

01:08:30,560 --> 01:08:31,279

boy was

1381

01:08:31,279 --> 01:08:34,319

three years old and it was

1382

01:08:34,319 --> 01:08:38,238

very scary the sauce is a lot more

1383

01:08:38,238 --> 01:08:40,238

lethal than covered

1384

01:08:40,238 --> 01:08:43,120

and my husband was working in the

1385

01:08:43,120 --> 01:08:45,198

trading floor of success

1386

01:08:45,198 --> 01:08:48,238

so sakten activated all the backup and

1387

01:08:48,238 --> 01:08:50,799

recovery plans that had been drawn

1388

01:08:50,799 --> 01:08:54,238

a few years ago they split the trading

1389

01:08:54,238 --> 01:08:55,040

floor

1390

01:08:55,040 --> 01:08:57,359

team in different locations they

1391

01:08:57,359 --> 01:08:58,799

activated their

1392

01:08:58,799 --> 01:09:02,799

recovery and backup sites just in case

1393

01:09:02,799 --> 01:09:06,000

just in case and then my husband because

1394

01:09:06,000 --> 01:09:07,600

he was not a trader but more

1395

01:09:07,600 --> 01:09:09,839

origination he was working from home

1396

01:09:09,839 --> 01:09:10,719

already

1397

01:09:10,719 --> 01:09:14,799

at that time okay so backup and recovery

1398

01:09:14,799 --> 01:09:15,359

plans

1399

01:09:15,359 --> 01:09:18,479

are very important because you want to

1400

01:09:18,479 --> 01:09:19,520

ensure

1401

01:09:19,520 --> 01:09:22,399

the business continuity if something

1402

01:09:22,399 --> 01:09:23,679

happens

1403

01:09:23,679 --> 01:09:27,759

that is low probability very high

1404

01:09:27,759 --> 01:09:31,679

severity okay now to deal with

1405

01:09:31,679 --> 01:09:34,000

conflicts of interest remember we talked

1406

01:09:34,000 --> 01:09:36,158

about conflicts of interest

1407

01:09:36,158 --> 01:09:40,000

segregation of duty is a classic

1408

01:09:40,000 --> 01:09:44,080

in banks okay so you don't want

1409

01:09:44,080 --> 01:09:47,679

the dealers or traders to be in charge

1410

01:09:47,679 --> 01:09:49,679

of the back office

1411

01:09:49,679 --> 01:09:51,839

okay because you don't want things to

1412

01:09:51,839 --> 01:09:52,799

happen

1413

01:09:52,799 --> 01:09:56,560

like bearings and nick gleason

1414

01:09:56,560 --> 01:09:58,640

or you don't want things to happen like

1415

01:09:58,640 --> 01:10:01,760

your home caviar and sock jan

1416

01:10:01,760 --> 01:10:04,560

whatever his name was at credit suisse

1417

01:10:04,560 --> 01:10:05,280

so

1418

01:10:05,280 --> 01:10:08,400

to try to

1419

01:10:08,400 --> 01:10:10,960

mitigate the problem of rogue traders

1420

01:10:10,960 --> 01:10:12,719

separating

1421

01:10:12,719 --> 01:10:15,440

the trading function from the execution

1422

01:10:15,440 --> 01:10:16,480

function

1423

01:10:16,480 --> 01:10:20,000

segregation of duty is a big classic

1424

01:10:20,000 --> 01:10:23,360

now you can also mitigate some of the

1425

01:10:23,360 --> 01:10:24,239

risk by

1426

01:10:24,239 --> 01:10:28,320

outsourcing it to specialists

1427

01:10:28,320 --> 01:10:31,040

for example you can outsource your back

1428

01:10:31,040 --> 01:10:32,400

office

1429

01:10:32,400 --> 01:10:35,600

to um other firms in

1430

01:10:35,600 --> 01:10:38,400

other places in that case you also have

1431

01:10:38,400 --> 01:10:40,080

to be very careful

1432

01:10:40,080 --> 01:10:43,120

visa via customers who is responsible if

1433

01:10:43,120 --> 01:10:45,199

something goes wrong

1434

01:10:45,199 --> 01:10:48,239

you can also of course have

1435

01:10:48,239 --> 01:10:51,120

regular audits so if you have policies

1436

01:10:51,120 --> 01:10:52,000

in place you

1437

01:10:52,000 --> 01:10:54,640

must make sure that the policies are

1438

01:10:54,640 --> 01:10:55,440

actually

1439

01:10:55,440 --> 01:10:58,719

implemented there's not just the paper

1440

01:10:58,719 --> 01:10:59,120

there

1441

01:10:59,120 --> 01:11:01,280

that they're implemented they're updated

1442

01:11:01,280 --> 01:11:03,360

that everybody is aware of them

1443

01:11:03,360 --> 01:11:06,560

and they are actually being enforced

1444

01:11:06,560 --> 01:11:10,239

okay so this is just a few

1445

01:11:10,239 --> 01:11:13,560

of many many many many types of

1446

01:11:13,560 --> 01:11:16,640

operational risks that banks

1447

01:11:16,640 --> 01:11:20,719

are confronted with on a regular basis

1448

01:11:20,719 --> 01:11:23,679

you should be aware that things related

1449

01:11:23,679 --> 01:11:24,320

to

1450

01:11:24,320 --> 01:11:27,600

technology it's a very sensitive point

1451

01:11:27,600 --> 01:11:28,960

for the banks because

1452

01:11:28,960 --> 01:11:31,520

in kanban banks like banks that have

1453

01:11:31,520 --> 01:11:33,120

been established for a couple of

1454

01:11:33,120 --> 01:11:34,640

centuries

1455

01:11:34,640 --> 01:11:37,800

their whole i.t

1456

01:11:37,800 --> 01:11:40,800

infrastructure dates back to the

1457

01:11:40,800 --> 01:11:44,719

70s and 80s and

1458

01:11:44,719 --> 01:11:47,840

has been patched up and as they grew by

1459

01:11:47,840 --> 01:11:49,840

acquisition you have different systems

1460

01:11:49,840 --> 01:11:52,560

that don't necessarily talk very well to

1461

01:11:52,560 --> 01:11:53,679

each other

1462

01:11:53,679 --> 01:11:56,080

so there have been a few banks that

1463

01:11:56,080 --> 01:11:58,239

where the systems have crashed

1464

01:11:58,239 --> 01:12:00,800

because they cannot handle all the data

1465

01:12:00,800 --> 01:12:03,760

that's flooding in for example in the uk

1466

01:12:03,760 --> 01:12:05,199

i think it was the royal bank of

1467

01:12:05,199 --> 01:12:08,000

scotland because computers crashed

1468

01:12:08,000 --> 01:12:10,960

for a while because there was too much

1469

01:12:10,960 --> 01:12:13,440

overload of information

1470

01:12:13,440 --> 01:12:16,480

and it's very challenging for banks

1471

01:12:16,480 --> 01:12:20,000

because you want to keep your operations

1472

01:12:20,000 --> 01:12:20,640

going

1473

01:12:20,640 --> 01:12:22,719

and yet you want to take on new

1474

01:12:22,719 --> 01:12:24,000

technology but

1475

01:12:24,000 --> 01:12:26,080

it's very difficult to do both at the

1476

01:12:26,080 --> 01:12:27,600

same time so one of the

1477

01:12:27,600 --> 01:12:30,880

huge challenges that banks face

1478

01:12:30,880 --> 01:12:33,199

from the competition from fintech is

1479

01:12:33,199 --> 01:12:34,320

that fintech

1480

01:12:34,320 --> 01:12:36,640

and technology platform have brand new

1481

01:12:36,640 --> 01:12:37,760

technology

1482

01:12:37,760 --> 01:12:41,840

because they're new but the banks have

1483

01:12:41,840 --> 01:12:44,080

systems that were designed a long time

1484

01:12:44,080 --> 01:12:45,840

ago

1485

01:12:45,840 --> 01:12:49,360

using now can anybody tell me which

1486

01:12:49,360 --> 01:12:52,960

and i'm drawing on my engineering

1487

01:12:52,960 --> 01:12:56,560

students if you're around which computer

1488

01:12:56,560 --> 01:12:59,120

language

1489

01:13:00,080 --> 01:13:02,960

aha harley says jammed in are you an

1490

01:13:02,960 --> 01:13:04,080

engineering student

1491

01:13:04,080 --> 01:13:06,560

hollis

1492

01:13:07,600 --> 01:13:11,280

yes i'm a cs student

1493

01:13:11,360 --> 01:13:15,600

kobold yes kobold is vital

1494

01:13:15,600 --> 01:13:19,280

to critical infrastructure

1495

01:13:19,280 --> 01:13:22,560

yet is no longer being taught

1496

01:13:22,560 --> 01:13:26,159

so the few remaining experts in kobold

1497

01:13:26,159 --> 01:13:28,080

are very old

1498

01:13:28,080 --> 01:13:30,640

so if you learn kobo very well and

1499

01:13:30,640 --> 01:13:32,000

you're very familiar with

1500

01:13:32,000 --> 01:13:35,280

it you're worth a lot of money

1501

01:13:35,280 --> 01:13:38,880

way more than python

1502

01:13:39,920 --> 01:13:44,080

anyway so let's have a look at the video

1503

01:13:44,080 --> 01:13:47,360

that group six has identified for

1504

01:13:47,360 --> 01:13:52,400

us in terms of operational risk

1505

01:13:55,840 --> 01:13:58,239

and used to buy luxury real estate

1506

01:13:58,239 --> 01:14:00,080

expensive works of art

1507

01:14:00,080 --> 01:14:03,040

and even to scandal is one of the

1508

01:14:03,040 --> 01:14:03,600

greatest

1509

01:14:03,600 --> 01:14:06,719

financial frauds in history four and a

1510

01:14:06,719 --> 01:14:07,120

half

1511

01:14:07,120 --> 01:14:08,719

billion dollars was allegedly

1512

01:14:08,719 --> 01:14:10,960

misappropriated from the malaysian state

1513

01:14:10,960 --> 01:14:12,159

investment fund

1514

01:14:12,159 --> 01:14:14,560

and used to buy luxury real estate

1515

01:14:14,560 --> 01:14:16,239

expensive works of art

1516

01:14:16,239 --> 01:14:18,640

and even to produce a hollywood movie

1517

01:14:18,640 --> 01:14:19,360

about

1518

01:14:19,360 --> 01:14:22,640

of all things financial fraud but how

1519

01:14:22,640 --> 01:14:24,239

did they do it

1520

01:14:24,239 --> 01:14:25,920

according to the us department of

1521

01:14:25,920 --> 01:14:27,840

justice one strategy

1522

01:14:27,840 --> 01:14:29,920

involved setting up bank accounts under

1523

01:14:29,920 --> 01:14:31,199

fake company names

1524

01:14:31,199 --> 01:14:34,000

that resembled real firms blackrock

1525

01:14:34,000 --> 01:14:35,840

commodities global limited

1526

01:14:35,840 --> 01:14:37,840

sounds a lot like the global investment

1527

01:14:37,840 --> 01:14:40,239

manager while affinity equity

1528

01:14:40,239 --> 01:14:42,320

international partners limited

1529

01:14:42,320 --> 01:14:44,320

could easily be mistaken for the private

1530

01:14:44,320 --> 01:14:45,920

security firm

1531

01:14:45,920 --> 01:14:48,239

there's no law against this but it could

1532

01:14:48,239 --> 01:14:51,360

help put investigators off the send

1533

01:14:51,360 --> 01:14:53,440

another scheme saw money transferred to

1534

01:14:53,440 --> 01:14:56,280

trust accounts at u.s law firms client

1535

01:14:56,280 --> 01:14:58,640

confidentiality rules in the us

1536

01:14:58,640 --> 01:15:01,280

mean these accounts are barely regulated

1537

01:15:01,280 --> 01:15:03,280

making suspicious transactions difficult

1538

01:15:03,280 --> 01:15:04,480

to find

1539

01:15:04,480 --> 01:15:07,280

the doj alleges that firms like sherman

1540

01:15:07,280 --> 01:15:08,000

and sterling

1541

01:15:08,000 --> 01:15:10,880

and dla piper were unwittingly used to

1542

01:15:10,880 --> 01:15:13,600

sneak a billion dollars from 1mdb

1543

01:15:13,600 --> 01:15:17,120

into the us the third strategy

1544

01:15:17,120 --> 01:15:19,840

allegedly employed is what the doj calls

1545

01:15:19,840 --> 01:15:20,800

layering

1546

01:15:20,800 --> 01:15:23,120

moving funds from bank account to bank

1547

01:15:23,120 --> 01:15:25,520

account adding layers of complexity

1548

01:15:25,520 --> 01:15:27,520

until the original source of the funds

1549

01:15:27,520 --> 01:15:29,440

is camouflaged

1550

01:15:29,440 --> 01:15:31,520

let's follow the money allegedly used to

1551

01:15:31,520 --> 01:15:34,000

buy this pink diamond necklace for rosma

1552

01:15:34,000 --> 01:15:34,960

mansour

1553

01:15:34,960 --> 01:15:36,719

the wife of former malaysian prime

1554

01:15:36,719 --> 01:15:39,040

minister and founder of one mtb

1555

01:15:39,040 --> 01:15:42,880

najibrizak it all starts with a three

1556

01:15:42,880 --> 01:15:44,239

billion dollar bond

1557

01:15:44,239 --> 01:15:48,080

arranged by goldman sachs in 2013.

1558

01:15:48,080 --> 01:15:49,920

that was issued by a wholly owned

1559

01:15:49,920 --> 01:15:52,000

subsidiary of 1mdb

1560

01:15:52,000 --> 01:15:53,840

incorporated in the british virgin

1561

01:15:53,840 --> 01:15:56,159

islands and the proceeds were earmarked

1562

01:15:56,159 --> 01:15:58,239

for a joint venture with a firm in abu

1563

01:15:58,239 --> 01:15:59,679

dhabi

1564

01:15:59,679 --> 01:16:01,120

but instead of heading to the middle

1565

01:16:01,120 --> 01:16:03,520

east most of the money was transferred

1566

01:16:03,520 --> 01:16:05,840

into an account at swiss private bank

1567

01:16:05,840 --> 01:16:08,239

bsi in lugano

1568

01:16:08,239 --> 01:16:11,120

from there the doj claims it was shifted

1569

01:16:11,120 --> 01:16:14,400

to investment funds in offshore centers

1570

01:16:14,400 --> 01:16:16,320

the money was wired by a correspondent

1571

01:16:16,320 --> 01:16:18,480

bank account at jpmorgan chase

1572

01:16:18,480 --> 01:16:20,640

in the us to two accounts of the

1573

01:16:20,640 --> 01:16:22,880

singapore branch of swiss private bank

1574

01:16:22,880 --> 01:16:24,800

falcon bank

1575

01:16:24,800 --> 01:16:26,880

funds went back and forth between these

1576

01:16:26,880 --> 01:16:29,120

accounts adding layer upon layer of

1577

01:16:29,120 --> 01:16:30,159

complication

1578

01:16:30,159 --> 01:16:32,880

gradually obscuring the origin

1579

01:16:32,880 --> 01:16:36,640

eventually 681 million dollars

1580

01:16:36,640 --> 01:16:38,640

were transferred from tanmore into a

1581

01:16:38,640 --> 01:16:40,719

malaysian bank account held by najib

1582

01:16:40,719 --> 01:16:41,679

razak

1583

01:16:41,679 --> 01:16:44,159

a sum he insists was a political

1584

01:16:44,159 --> 01:16:47,920

donation from the saudi royal family

1585

01:16:47,920 --> 01:16:49,120

five months later

1586

01:16:49,120 --> 01:16:51,600

most of it was returned the money

1587

01:16:51,600 --> 01:16:52,400

bounced around

1588

01:16:52,400 --> 01:16:54,640

accounts at falcon and dbs bank in

1589

01:16:54,640 --> 01:16:55,520

singapore

1590

01:16:55,520 --> 01:16:59,199

before a sum of 27.3 million dollars

1591

01:16:59,199 --> 01:17:01,920

was according to the doj wired to

1592

01:17:01,920 --> 01:17:02,560

jeweler

1593

01:17:02,560 --> 01:17:05,920

marine schwartz to buy the necklace

1594

01:17:05,920 --> 01:17:07,679

the complexity of these cross-border

1595

01:17:07,679 --> 01:17:09,440

flows has made getting to the bottom of

1596

01:17:09,440 --> 01:17:10,719

the one in db fraud

1597

01:17:10,719 --> 01:17:13,280

painstaking and difficult but with

1598

01:17:13,280 --> 01:17:14,480

malaysia's government

1599

01:17:14,480 --> 01:17:16,400

keen to burnish its craft fighting

1600

01:17:16,400 --> 01:17:18,560

credentials and claw back the money

1601

01:17:18,560 --> 01:17:19,360

stolen

1602

01:17:19,360 --> 01:17:21,520

the investigation shows no signs of

1603

01:17:21,520 --> 01:17:24,159

slowing down

1604

01:17:27,920 --> 01:17:31,360

that was an amazing story

1605

01:17:31,360 --> 01:17:33,520

of course you've seen that prominent

1606

01:17:33,520 --> 01:17:34,640

banks

1607

01:17:34,640 --> 01:17:38,400

got caught into that and goldman sachs

1608

01:17:38,400 --> 01:17:39,840

have actually been

1609

01:17:39,840 --> 01:17:42,960

fined very heavily and had to pay back a

1610

01:17:42,960 --> 01:17:44,960

lot of money

1611

01:17:44,960 --> 01:17:48,400

and the reputation of a number of people

1612

01:17:48,400 --> 01:17:51,679

has been very severely damaged

1613

01:17:51,679 --> 01:17:54,159

and this is the corresponding article

1614

01:17:54,159 --> 01:17:55,360

the fine

1615

01:17:55,360 --> 01:17:58,400

this is a this is hong kong

1616

01:17:58,400 --> 01:18:01,920

that is putting a fine uh related to

1617

01:18:01,920 --> 01:18:02,960

1mdb

1618

01:18:02,960 --> 01:18:07,679

but the us of course has been um

1619

01:18:07,679 --> 01:18:10,880

slapping them even more fines

1620

01:18:10,880 --> 01:18:14,080

in the u.s all right

1621

01:18:14,080 --> 01:18:17,760

so thank you very much to uh group

1622

01:18:17,760 --> 01:18:21,040

six for this video

1623

01:18:21,040 --> 01:18:24,159

and now we will proceed to talk about

1624

01:18:24,159 --> 01:18:25,199

the last

1625

01:18:25,199 --> 01:18:28,239

aspect of risk which

1626

01:18:28,239 --> 01:18:32,400

is legal and reputational risks

1627

01:18:32,400 --> 01:18:36,400

so again this is not an exhaustive list

1628

01:18:36,400 --> 01:18:39,600

but there are many many problems that

1629

01:18:39,600 --> 01:18:40,800

can arise

1630

01:18:40,800 --> 01:18:44,159

related to regulatory risks so that is

1631

01:18:44,159 --> 01:18:46,400

the risk that you take if you're not

1632

01:18:46,400 --> 01:18:49,679

in compliance with regulations

1633

01:18:49,679 --> 01:18:53,280

in the countries where you are operating

1634

01:18:53,280 --> 01:18:55,840

money laundering can anybody tell me

1635

01:18:55,840 --> 01:18:59,120

what is money laundering

1636

01:19:04,800 --> 01:19:08,080

okay visit shai tell me oh

1637

01:19:08,080 --> 01:19:09,840

it's kind of like in in the name like

1638

01:19:09,840 --> 01:19:11,600

you're cleaning the money so you get

1639

01:19:11,600 --> 01:19:13,760

money from like a bad source and then

1640

01:19:13,760 --> 01:19:16,880

you make it look like it's like um legal

1641

01:19:16,880 --> 01:19:17,760

and completely

1642

01:19:17,760 --> 01:19:21,120

clean that's right absolutely right so

1643

01:19:21,120 --> 01:19:22,800

you're cleaning the money because it's

1644

01:19:22,800 --> 01:19:24,960

dirty and it's dirty because it comes

1645

01:19:24,960 --> 01:19:25,840

from

1646

01:19:25,840 --> 01:19:29,600

uh illegal sources so money laundering

1647

01:19:29,600 --> 01:19:31,440

is a huge risk

1648

01:19:31,440 --> 01:19:34,880

for the banks and the reason for that

1649

01:19:34,880 --> 01:19:38,880

is that initially

1650

01:19:38,880 --> 01:19:42,719

the uh us authorities

1651

01:19:42,719 --> 01:19:46,560

tried to get wow lots of stuff into my

1652

01:19:46,560 --> 01:19:48,400

checkbox here

1653

01:19:48,400 --> 01:19:52,000

that's right so it all started

1654

01:19:52,000 --> 01:19:55,679

with drug money okay so it started

1655

01:19:55,679 --> 01:19:59,920

with the fight against drugs in the u.s

1656

01:19:59,920 --> 01:20:03,440

and the u.s agencies and regulators

1657

01:20:03,440 --> 01:20:07,840

trying to fight the drug cartels

1658

01:20:07,840 --> 01:20:10,920

by going after their money so

1659

01:20:10,920 --> 01:20:12,320

identifying

1660

01:20:12,320 --> 01:20:15,760

the proceeds of crime and in particular

1661

01:20:15,760 --> 01:20:20,320

drug traffic through the conduits

1662

01:20:20,320 --> 01:20:24,000

in the financial system so what they did

1663

01:20:24,000 --> 01:20:27,840

is they made the banks responsible

1664

01:20:27,840 --> 01:20:31,440

for tracking the source of the money

1665

01:20:31,440 --> 01:20:34,320

that the banks were transferring so the

1666

01:20:34,320 --> 01:20:36,159

banks have a duty

1667

01:20:36,159 --> 01:20:40,080

to identify the source of the money

1668

01:20:40,080 --> 01:20:43,040

okay because then you can identify

1669

01:20:43,040 --> 01:20:44,239

whether it comes from

1670

01:20:44,239 --> 01:20:47,360

a legitimate business source or

1671

01:20:47,360 --> 01:20:51,440

a dubious source

1672

01:20:51,440 --> 01:20:54,239

and then money laundering principles

1673

01:20:54,239 --> 01:20:54,639

were

1674

01:20:54,639 --> 01:20:58,639

expanded after 9 11

1675

01:20:58,639 --> 01:21:01,760

to terrorism financing so it started

1676

01:21:01,760 --> 01:21:02,800

with

1677

01:21:02,800 --> 01:21:06,480

mafia crime drug cartels and then

1678

01:21:06,480 --> 01:21:09,920

expanded to cover terrorism

1679

01:21:09,920 --> 01:21:14,239

okay so money laundering is a huge thing

1680

01:21:14,239 --> 01:21:17,679

and anti-money laundering

1681

01:21:17,679 --> 01:21:20,880

rules are things that banks have

1682

01:21:20,880 --> 01:21:26,080

to implement very very carefully

1683

01:21:26,320 --> 01:21:28,960

in hong kong in particular i should say

1684

01:21:28,960 --> 01:21:33,040

the anti-anti-money laundering rules are

1685

01:21:33,040 --> 01:21:36,639

very very strict

1686

01:21:36,639 --> 01:21:39,280

you should know hong kong people you

1687

01:21:39,280 --> 01:21:40,000

should know

1688

01:21:40,000 --> 01:21:43,120

that if you suspect

1689

01:21:43,120 --> 01:21:45,920

you don't even need to make sure if you

1690

01:21:45,920 --> 01:21:47,600

suspect

1691

01:21:47,600 --> 01:21:50,000

that some money laundering is going on

1692

01:21:50,000 --> 01:21:53,040

and you do not report it

1693

01:21:53,040 --> 01:21:56,880

you can go to jail

1694

01:21:56,880 --> 01:22:00,480

so you have an obligation a legal

1695

01:22:00,480 --> 01:22:05,280

obligation to report any suspicion

1696

01:22:05,280 --> 01:22:09,520

of money laundering because if you don't

1697

01:22:09,520 --> 01:22:12,560

then you can end up in jail

1698

01:22:12,560 --> 01:22:17,440

okay so

1699

01:22:17,679 --> 01:22:20,159

very tough so you have many countries

1700

01:22:20,159 --> 01:22:22,840

that have very very tough

1701

01:22:22,840 --> 01:22:26,560

anti-money laundering rules

1702

01:22:26,560 --> 01:22:31,199

even with tough rules it still happens

1703

01:22:31,199 --> 01:22:33,199

now other things we talked about

1704

01:22:33,199 --> 01:22:35,520

conflicts of interest so conflicts of

1705

01:22:35,520 --> 01:22:38,639

interest can create

1706

01:22:38,639 --> 01:22:41,520

lots of legal and reputational risks for

1707

01:22:41,520 --> 01:22:43,760

the people involved but also

1708

01:22:43,760 --> 01:22:47,840

for the banks involved

1709

01:22:48,600 --> 01:22:50,960

non-enforceability of contracts so this

1710

01:22:50,960 --> 01:22:52,080

is a risk that

1711

01:22:52,080 --> 01:22:54,960

you often take when you're operating in

1712

01:22:54,960 --> 01:22:56,639

countries

1713

01:22:56,639 --> 01:22:59,920

where the rule of law is not as

1714

01:22:59,920 --> 01:23:00,639

prominent

1715

01:23:00,639 --> 01:23:03,600

as it is in places like hong kong or the

1716

01:23:03,600 --> 01:23:04,239

us

1717

01:23:04,239 --> 01:23:07,440

or developed countries

1718

01:23:07,440 --> 01:23:10,080

so you have to be very careful because

1719

01:23:10,080 --> 01:23:11,440

just because you have a

1720

01:23:11,440 --> 01:23:14,880

contract does not necessarily

1721

01:23:14,880 --> 01:23:19,120

mean that the contract will be enforced

1722

01:23:19,120 --> 01:23:22,159

by the courts in

1723

01:23:22,159 --> 01:23:25,280

the country where you go let me give you

1724

01:23:25,280 --> 01:23:27,360

an example

1725

01:23:27,360 --> 01:23:29,920

let's say you're a foreign bank lending

1726

01:23:29,920 --> 01:23:30,400

money

1727

01:23:30,400 --> 01:23:34,000

to a company some remote corner

1728

01:23:34,000 --> 01:23:38,239

of whatever country in asia

1729

01:23:38,239 --> 01:23:42,159

okay and that company employs

1730

01:23:42,159 --> 01:23:46,719

a lot of people in that region

1731

01:23:46,719 --> 01:23:49,840

the company defaults on payments you've

1732

01:23:49,840 --> 01:23:51,120

tried to work it out

1733

01:23:51,120 --> 01:23:55,120

it did not happen you go to the courts

1734

01:23:55,120 --> 01:23:57,440

what are the chances that the courts

1735

01:23:57,440 --> 01:23:59,280

local courts

1736

01:23:59,280 --> 01:24:03,199

will find in your favor when the company

1737

01:24:03,199 --> 01:24:06,320

is employing the vast majority of the

1738

01:24:06,320 --> 01:24:08,560

population

1739

01:24:08,560 --> 01:24:11,679

okay so this can be a

1740

01:24:11,679 --> 01:24:14,800

big problem

1741

01:24:14,840 --> 01:24:17,360

non-compliance with corporate governance

1742

01:24:17,360 --> 01:24:18,480

laws such as

1743

01:24:18,480 --> 01:24:21,679

carbon oxide can also land you in very

1744

01:24:21,679 --> 01:24:22,800

hot water

1745

01:24:22,800 --> 01:24:25,920

and have serious consequences

1746

01:24:25,920 --> 01:24:28,880

okay so there's a long long list

1747

01:24:28,880 --> 01:24:30,679

including

1748

01:24:30,679 --> 01:24:34,320

environmental social

1749

01:24:34,320 --> 01:24:37,920

governance issues so what if

1750

01:24:37,920 --> 01:24:40,800

it turns out that that happened to my

1751

01:24:40,800 --> 01:24:41,280

bank

1752

01:24:41,280 --> 01:24:42,800

the bank i was working with first

1753

01:24:42,800 --> 01:24:46,800

chicago back in the 80s

1754

01:24:47,520 --> 01:24:49,600

it turned out that one of the banks that

1755

01:24:49,600 --> 01:24:50,880

had merged with

1756

01:24:50,880 --> 01:24:56,880

first chicago had finance slavery

1757

01:24:57,360 --> 01:25:00,159

was all over the papers in chicago

1758

01:25:00,159 --> 01:25:01,600

chicago has a huge

1759

01:25:01,600 --> 01:25:04,159

um african-american population so there

1760

01:25:04,159 --> 01:25:05,840

were riots

1761

01:25:05,840 --> 01:25:08,159

there were riots all around the

1762

01:25:08,159 --> 01:25:10,320

headquarters

1763

01:25:10,320 --> 01:25:13,440

the the bank management was absolutely

1764

01:25:13,440 --> 01:25:15,040

terrified

1765

01:25:15,040 --> 01:25:17,840

okay so really huge hit on the

1766

01:25:17,840 --> 01:25:19,920

reputation to the bank

1767

01:25:19,920 --> 01:25:24,880

management and changed its entire

1768

01:25:24,880 --> 01:25:28,480

credit policies to make sure something

1769

01:25:28,480 --> 01:25:30,719

like that would never happen again

1770

01:25:30,719 --> 01:25:33,120

that the bank reputation so they

1771

01:25:33,120 --> 01:25:35,040

eliminated lending to

1772

01:25:35,040 --> 01:25:38,840

any kind of business that could have a

1773

01:25:38,840 --> 01:25:41,840

bad image or a hit

1774

01:25:41,840 --> 01:25:45,199

on the reputation of the bank okay

1775

01:25:45,199 --> 01:25:48,960

so you have um a few years ago morgan

1776

01:25:48,960 --> 01:25:49,760

stanley

1777

01:25:49,760 --> 01:25:52,880

helped a company in china raise money

1778

01:25:52,880 --> 01:25:55,199

in capital markets and it turned out

1779

01:25:55,199 --> 01:25:57,280

that company was using

1780

01:25:57,280 --> 01:26:00,960

forced prison labor there was huge

1781

01:26:00,960 --> 01:26:03,360

problem for morgan struggling

1782

01:26:03,360 --> 01:26:07,040

okay so you can find uh yourself

1783

01:26:07,040 --> 01:26:10,639

in very very bad situation

1784

01:26:10,639 --> 01:26:13,679

if something like that hits you

1785

01:26:13,679 --> 01:26:17,199

okay so what can you do about it well

1786

01:26:17,199 --> 01:26:19,360

same old same old you'd better have

1787

01:26:19,360 --> 01:26:21,280

policies in place

1788

01:26:21,280 --> 01:26:24,480

you have to implement your sovereign

1789

01:26:24,480 --> 01:26:25,360

oxley

1790

01:26:25,360 --> 01:26:27,920

and relevant corporate governance

1791

01:26:27,920 --> 01:26:29,199

policies

1792

01:26:29,199 --> 01:26:32,560

you have to know your

1793

01:26:32,560 --> 01:26:36,239

customer so kyc know

1794

01:26:36,239 --> 01:26:39,520

your customer is very very

1795

01:26:39,520 --> 01:26:43,760

important particularly related to

1796

01:26:43,760 --> 01:26:47,760

money laundering okay by having policies

1797

01:26:47,760 --> 01:26:49,280

in place to

1798

01:26:49,280 --> 01:26:51,520

board the customers and knowing who

1799

01:26:51,520 --> 01:26:53,199

you're dealing with

1800

01:26:53,199 --> 01:26:57,040

you can protect yourself from situations

1801

01:26:57,040 --> 01:26:57,840

hopefully

1802

01:26:57,840 --> 01:27:00,000

of money laundering or at least you're

1803

01:27:00,000 --> 01:27:02,239

doing you're demonstrating that you're

1804

01:27:02,239 --> 01:27:04,159

doing all you can

1805

01:27:04,159 --> 01:27:07,920

okay so kyc stands for know

1806

01:27:07,920 --> 01:27:11,199

your customer

1807

01:27:11,199 --> 01:27:14,560

you have to have legal

1808

01:27:14,560 --> 01:27:17,040

and compliance department which have

1809

01:27:17,040 --> 01:27:18,639

authority

1810

01:27:18,639 --> 01:27:22,560

to take action even if the people who do

1811

01:27:22,560 --> 01:27:23,840

bad stuff in the bank

1812

01:27:23,840 --> 01:27:26,880

make a lot of money for the bank so if

1813

01:27:26,880 --> 01:27:29,280

goldman sachs legal and compliance had

1814

01:27:29,280 --> 01:27:30,080

been a

1815

01:27:30,080 --> 01:27:33,120

little bit more powerful maybe they

1816

01:27:33,120 --> 01:27:34,239

wouldn't have gotten

1817

01:27:34,239 --> 01:27:38,560

involved with the trouble at 1mdb

1818

01:27:38,560 --> 01:27:40,800

and of course you need to do audits and

1819

01:27:40,800 --> 01:27:43,040

not just financial audits but

1820

01:27:43,040 --> 01:27:46,800

esg audits as well all right so

1821

01:27:46,800 --> 01:27:48,960

we'll for those of you who need to leave

1822

01:27:48,960 --> 01:27:50,080

we'll wait

1823

01:27:50,080 --> 01:27:51,920

three minutes past the time so that's

1824

01:27:51,920 --> 01:27:54,080

okay you can leave any time

1825

01:27:54,080 --> 01:28:01,840

um any questions

1826

01:28:01,840 --> 01:28:04,560

emmanuel how do they prove you didn't

1827

01:28:04,560 --> 01:28:05,120

report

1828

01:28:05,120 --> 01:28:08,400

a suspected money laundering situation

1829

01:28:08,400 --> 01:28:11,760

the honest of the proof is on you

1830

01:28:11,760 --> 01:28:14,800

if they suspect and the circumstances as

1831

01:28:14,800 --> 01:28:16,000

such that you would

1832

01:28:16,000 --> 01:28:19,840

know of suspicious activity

1833

01:28:19,840 --> 01:28:22,480

you are the ones who have to prove why

1834

01:28:22,480 --> 01:28:23,360

you didn't

1835

01:28:23,360 --> 01:28:26,960

suspect it it's very tough very very

1836

01:28:26,960 --> 01:28:29,760

tough

1837

01:28:29,760 --> 01:28:42,239

any other questions

1838

01:28:42,239 --> 01:28:44,320

well we talked about liquidity risk

1839

01:28:44,320 --> 01:28:48,080

before not just today

1840

01:28:48,320 --> 01:28:51,679

all right bye-bye roman

1841

01:28:53,760 --> 01:28:57,840

any other questions

1842

01:28:58,960 --> 01:29:01,440

does it mean regular people or bank

1843

01:29:01,440 --> 01:29:02,159

employee

1844

01:29:02,159 --> 01:29:04,480

not suspecting it means everybody

1845

01:29:04,480 --> 01:29:10,960

regular people as well shiraz

1846

01:29:10,960 --> 01:29:14,280

what does se is social

1847

01:29:14,280 --> 01:29:18,400

environmental and ethical

1848

01:29:19,920 --> 01:29:22,840

it's what we use before we started using

1849

01:29:22,840 --> 01:29:24,560

esg

1850

01:29:24,560 --> 01:29:27,679

so many acronyms

1851

01:29:29,840 --> 01:29:32,239

bye

1852

01:29:34,159 --> 01:29:39,840

any more questions

1853

01:29:40,880 --> 01:29:42,800

let me turn please check the

1854

01:29:42,800 --> 01:29:44,560

announcement benson has sent an

1855

01:29:44,560 --> 01:29:48,000

announcement about the midterm

1856

01:29:49,840 --> 01:29:53,440

is forex the most

1857

01:29:53,440 --> 01:29:57,040

liquid book so rise what's your question

1858

01:29:57,040 --> 01:29:58,639

liquidable what do you mean by

1859

01:29:58,639 --> 01:30:01,360

liquidable

1860

01:30:01,360 --> 01:30:03,920

foreign exchange means exchanging one

1861

01:30:03,920 --> 01:30:06,480

currency for another either

1862

01:30:06,480 --> 01:30:09,920

immediately or over time so i'm not

1863

01:30:09,920 --> 01:30:21,280

quite sure what you mean by liquidable

1864

01:30:21,280 --> 01:30:24,719

oh yes yes foreign exchange is

1865

01:30:24,719 --> 01:30:27,840

probably the most liquid

1866

01:30:27,840 --> 01:30:31,040

deepest biggest market of all financial

1867

01:30:31,040 --> 01:30:34,880

markets but it's not a capital market

1868

01:30:34,880 --> 01:30:36,960

a huge market we're talking trillions

1869

01:30:36,960 --> 01:30:38,400

and trillions of dollars

1870

01:30:38,400 --> 01:30:40,960

every day

1871

01:30:50,960 --> 01:30:53,199

okay why seeing if you have questions on

1872

01:30:53,199 --> 01:30:54,320

logistics

1873

01:30:54,320 --> 01:30:58,000

you can email benson okay if you can

1874

01:30:58,000 --> 01:31:03,840

worried about that please email benson

1875

01:31:07,120 --> 01:31:17,840

the rules so what's wrong with the rules

1876

01:31:23,120 --> 01:31:25,520

benson can you oh i think benson has

1877

01:31:25,520 --> 01:31:26,320

left

1878

01:31:26,320 --> 01:31:29,040

why don't you send an email to ask

1879

01:31:29,040 --> 01:31:31,040

benson about the logistics okay

1880

01:31:31,040 --> 01:31:34,400

because he's already left now

1881

01:31:34,719 --> 01:31:38,960

all right okay

1882

01:31:38,960 --> 01:31:44,159

and bye bye everybody

1883

01:31:44,159 --> 01:31:46,239

you

==end 0322==