STRATEGIC ISSUES FACING BANKS

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Office Hours: Upon request. E-mail for an appointment. Preferred means of communication is via email. Students can expect a response within 12 to 24 hours. Students are welcome to email the professor at any time.

COURSE DESCRIPTION

The course is designed to help a student interested in understanding the strategic issues facing the financial services and banking industries, which is undergoing rapid change (e.g., a student interested in management consulting or professional services who wants a framework to analyze a changing industry); a student working in or interested in working in financial services (e.g. a student who wants a broader understanding of the various divisions and departments of a bank and why and how they interrelate); or a student interested in learning more about the financial system (e.g. a student who sees the importance of understanding a bank because he/she is interested in the strategic and financial aspects of a corporation that may have to interact with or rely on a bank for services).

Each class session focuses on one critical strategic issue facing a global bank. In general, the teacher or a guest speaker will lead case discussions. The class topics/strategic issues often vary depending on the students’ interests and current events.

Each year the students have different and a wide-range of experiences. The class is taught at a common denominator to accommodate the most students possible, especially at the beginning.

The professor has worked in various departments and geographies for banks, was a senior advisor to a management consulting firm and invests in fin-tech and financial services companies.

COURSE OBJECTIVES

Students will learn how to design and implement a coherent strategy to address a critical strategic issue facing a bank through lectures, discussions, current events and case analyses. You will learn to state 1. the strategic issue, 2. the reasons and facts to support why the strategic issue exists and is important, 3. your recommendation, 4. the facts to support your recommendation and 5. the potential resources required and consequences.

Students will learn how to more effectively contribute to their firms and understand complex challenges facing senior management. There is an emphasis on asking and answering questions, as well as synthesizing information and recommendations in a format that busy senior executives would prefer.
REQUIRED COURSE MATERIALS

1. Reading Packet of Cases / On Canvas
2. Recent and relevant articles (to be sent by Professor or available on Canvas)

REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

The learning in this course will utilize, build on, and extend concepts covered in the following core courses:

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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<tbody>
<tr>
<td>CORPORATE FINANCE</td>
<td>1. Risk&lt;br&gt;2. Firm Valuation Model</td>
</tr>
<tr>
<td>DECISION MODELS</td>
<td>1. Fundamental Concepts of Decision Making</td>
</tr>
<tr>
<td>FINANCIAL ACCOUNTING</td>
<td>1. Financial Statements of Banks</td>
</tr>
<tr>
<td>GLOBAL ECONOMIC ENVIRONMENT</td>
<td>1. Role of Financial Markets in the Economy</td>
</tr>
<tr>
<td>LEADERSHIP DEVELOPMENT</td>
<td>1. Ethics, Decision-Making, Persuasion, and Teams</td>
</tr>
<tr>
<td>STRATEGY FORMULATION</td>
<td>1. Trade-Offs, Value-Added, Competing Firms, Strategic Analysis, Diversification, and Cross-Selling</td>
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Sample Topics

An Overview of Investment Banks. The first few classes typically go through the organization and structure of a universal and investment bank. Typically, we use the real life example of JP Morgan. Typically, we cover why banks are organized the way they are.

Different Banks’ Strategies, Leadership/Crisis and Cross-Selling.

Corporate Culture. What is it? Why is it important? What is organizational drift? What pressures an organization’s decisions and culture?

The Financial Crisis. Typically, we read cases about the financial crisis. Why did it happen? The importance of confidence.

Income Statements and Balance Sheets. We will review Income Statements / press releases of various banks. What is the biggest cost? What about legal costs? Costs to comply with regulations? Technology costs? DVA.

Valuation. How do you value banks? What does this mean for strategy? Shareholder Activism.

Compensation and Promotion. We will read a case study about a banker up for promotion. We will review the Proxy Statements of various banks to examine what executives make and why, as well as what does it tell us about the culture of the firms.

Risk Management. VAR, Stress Tests

Legal/Regulatory. Glass Steagall, Sarbanes Oxley, Gramm Leach Biley, Dodd Frank, and Volker Rule.

Strategy. Would you rather run a technology driven, process driven, talent driven, industry/product driven, or global bank? How would you differentiate?
ASSIGNMENTS

Students are expected to read the cases and materials and be prepared to discuss key themes. Typically, one or two cases and one or two short recent articles are discussed each class.

ALL ASSIGNMENTS SHOULD BE EMAILED TO ME. I DON’T ACCEPT PHYSICAL COPIES. TYPICALLY, I GIVE FEEDBACK WITHIN A FEW DAYS. PLEASE HAVE PAGE NUMBERS AND YOUR NAME ON EVERY PAGE.

Students are grouped together in teams to represent “their bank” which could be, for example, Goldman Sachs (last name starts with A-C), Morgan Stanley (D-F), Citigroup (G-I), JP Morgan (J-L), Wells Fargo (M-O), Bank of America (P-R), Lazard (S-U), Evercore (V-X), and PJT (Y-Z). If teams have 2 or less students, you can join another team.

GS BOOK MEMO (5%): After reading the GS Book, students will be asked to write about one idea or section about the book and provide their perspective. This should be 1-2 pages.

STRATEGIC ISSUE MEMO (25%): One or two weeks before the midterm, students will be asked to turn in a two-to-three page memo to a fictional CEO about a strategic topic. A successful memo typically answers the following questions in these categories: 1. What is the strategic issue/challenge and background (what are the regulatory, organizational, competitive, or technological issues causing the problem/issue? – clearly state this); the reasons and facts to support why it is an important issue; why should the CEO care/why is the topic important?; 2. what is your recommended course of action?; what facts or data support your recommendation?; costs to implement your recommendation?; resources required?; timing? (and potential consequences?); what is the return on investment? 3. how will you judge success?/what metrics to track progress (how does it impact ROE or profitability)?

The paper should provide ideas from readings and discussions as well as data/evidence to support one’s answer/opinion. If you can’t find data, figure out how you could ballpark the data, and then use it. Since most busy executives prefer memos to be short and to the point, the short memo forces the student to focus on the question, the answer and the reasons why the student has the answer/opinion.

Do not be too ambitious with the strategic concept. Typically, the more narrow the strategic issue, the easier it is to address. Concepts / words that are typically included in a paper: regulatory, technological, organizational and/or competitive; cost; return on investment; cost / benefit; profitability; return on equity.

This is Type B Assignment. You can discuss the memos and receive outside help, but you must submit your own work and conclusions and the grade is individual.

MIDTERM QUESTIONS / MIDTERM EXAM (25%): Students will be required to generate a total of 10 questions and answers about the course content covered up to the mid-point in the course, based on their readings and notes. A good balance would be at least two questions per each class’ materials. At least 5 questions must be from readings. These questions are questions the student feels could/would be appropriate for a midterm exam. The question itself should highlight the understanding of a key concept of the class and should be essentially leading to a very obvious answer. The answers should be very obvious and short, one or two words. For example, the questions should not be “Define XYZ?” A very thoughtful definition that includes the context of why the concept/word is important and was raised or discussed in class should be in the question, and then the answer should be the word/two-three word concept. There should not be any true or false or multiple-choice questions. Questions (and their answers) will be submitted to the professor in a MS Word document with a header of the student’s name and the use of page numbers. The questions should list where the question came from (what reading and page number, which class discussion, which speaker). These questions will be used as part of the Midterm Group Exam described below.
The questions require the student to think of the 10 things he/she found interesting/most important in the class from readings and discussions that are highly relevant. In order to succeed, the student must draw out what is important and balance them from the various learning methods including readings and discussion. This allows the professor to see what is resonating with students and is it matching the learning objectives. Once again, True/False or multiple-choice questions are NOT acceptable. Typically the questions are a few sentences.

Some sample questions and how I evaluate them:

1. Q. What is the foundation of the entire financial system? (Class 1 discussion, Video on History of Banking)
   A. Confidence.
   My evaluation: This is good. 85/100. We discussed this in class. It is an important concept. One word answer that is obvious.

   Another way to write the question:

   Q. What is the foundation of the entire financial system that GS also tried to address when it took money from Buffet and also when Paulson tried to address the crisis with his Bazooka and one of the reasons why Goldman Sachs and Morgan Stanley became banks? Since its beginnings in 1913, the Fed’s main mission has always been to establish and maintain the public’s BLANK in the monetary and banking system of the United States. The Fed monitors banks, bank holding companies and U.S. operations of foreign banks to ensure their safety and soundness so that the public’s BLANK remains high. It is important because without it, depositors could pull their money out and there is an inherent mismatch of daily liquidity and investing the deposits. (Class 1 discussion, GS Oracle case study)
   A. Confidence
   This is excellent. 95/100. Brought in some other concepts/ideas raised in class and readings to demonstrate understanding. It explains why it is important.

2. Q. What kind of trading was the prime target of the Volker Rule? (Class #X discussion on Regulatory)
   A. Proprietary trading.
   My evaluation: This is good. 85/100. We discussed this in class. It is an important concept. One word answer that is obvious.

   Another way to write the question:

   Q. It was believed that a functioning commercial banking system is essential to the stability of the financial system and it was unsafe for banks to engage in high-risk speculation which created unacceptable levels of systemic risk. Therefore, this Rule, which is a part of Dodd Frank, specifically prohibits a bank or institution that owns a bank from engaging in proprietary trading (except treasuries and municipal bonds), and from owning or investing in a hedge fund or private equity fund above 3% of Tier One Capital. This rule which has been compared and contrasted to Glass Steagall is also a difficult Rule to interpret because what is proprietary or not is subject to some level of subjectivity and some have argued is a reason why some top proprietary traders from large banks left? (Class #X discussion on Regulatory and Cases X and Y)
   A. Volker Rule
   My evaluation: This is excellent. 95/100. It shows an excellent understanding of the Volker Rule, why it was created and consequences and why important.

**Midterm Group Exam:** Students will be broken into small groups (1. Goldman and Morgan Stanley, 2. JP Morgan and Citi, 3. Wells and Bank of America, and 4. Lazard, Evercore and PJT). Each group will elect a captain to take their collective 10 questions each and synthesize the group questions into a group list of the top 10 questions in a word document. The list should include the best questions the group has posed in the aggregate and remove any duplicates concepts covered. At least 5 should be from readings. The group list should have a header with every team members’ name and the group name/number on the top of every page. The group questions should list the name of the person contributing the question after or before the question, as well as the answer and where the question came from (class discussion, case study and page number, etc.)
The Captain should email the professors the questions and answers for approval at least 48 hours before the midterm exam. Once approved, the captain must bring at least 10 copies of the questions only (not with the answers) to class. The other teams will work together for 15 minutes to write in the answers as a group, open book mid-term test. Competing teams will have 15 minutes to answer and write-in the questions in class. Groups should sit near each other.

After the 15 minutes are up, the Captains will grade the tests of the other groups. Then we will discuss the questions and answers overall. And identify what are the most important key concepts we learned.

This is a Type A assignment. Make sure each question for the group really highlights a key important concept and shows an understanding of the concept / idea beyond something basic and has an easily identifiable one word answer. Teams that have correct answers and participate can earn extra points to the scoring of their individual memos.

Some sample bad questions and how I evaluate them:

1. Q. What is the stock price of Morgan Stanley?
   
   My evaluation: How is that an important concept learned in the class?

2. What does an average Managing Director make at a bank?
   
   My evaluation: I’m glad you found that interesting. But it’s not really an important concept for the class.

The purpose of the class is to learn. Learning collectively and in a fun, engaging, competitive, and collaborative way ensures that all students are exposed to key concepts through questions and answers within the content area that match the course’s learning objectives. The purpose of this assignment is to ensure everyone is learning the most important material before moving on to the second half of the class.

Key phrases and concepts could include: Risk Management, VAR, Regulatory vs. legal line, trust, confidence, leverage, cross selling, organizational drift, technological pressure, organizational pressure, regulatory pressure, competitive pressure, Glass-Steagall, Sarbanes Oxley, Volker Rule, DVA, profitability, compensation ratio, ROE, valuation, price per book, productive dissonance, talent business, process-oriented business, scale, culture, etc.

**FINAL STRATEGIC MEMO (25%)**: Typically, the final is a strategic memo, similar to the one earlier in the class. Typically, student chose a different topic. If the topic / memo is the same as earlier, then the bar is much higher because the student would have had the professor’s feedback.

**PARTICIPATION (20%)**: Students will be required to attend class, contribute to class discussion, participate in the group activities and answer short preparation questions for class. Contributing to class discussions means enhancing the quality of the class experience for yourself and others. It involves making relevant, useful comments, or posing pertinent questions, in clear and succinct language.

To make sure we have interesting class discussion, often students will be required to answer questions and send them to the professor in advance of class. Some sample questions are at the end of the document with the classes. The responses can be bullet points.

If I don’t ask for answers to be sent to me, you can voluntarily turn in the answers to the questions showing you have prepared for class. I encourage you to send it to me BY EMAIL to show your extra work. I count it toward your class participation grade. The way I come up with your class participation grade is -- after every class, I go home and review the face book roster and put checks next to people’s names that contributed. If you voluntarily have sent me something, then I also put a check next to your name.

If you think of other
questions, topics etc – please do the same. Class participation to me includes engagement.

I have had students send me slides to use in the future, suggested articles or videos, etc.

**Attendance**

You will submit your attendance at the end of class in a self evaluation used for scoring class participation. Any missed class, even if told in advance, is deducted. There are ways to make it up the lost points with leadership on team projects, asking questions to speakers, etc.

**CLASSROOM NORMS AND EXPECTATIONS**

Please do not give me hard copies of anything!! You do not need to upload anything to Canvas. Just email to me. I take informal things - it doesn't have to be perfect. Please make sure it is in Word and your name is on it.

I am particularly sensitive to promptness and attendance when we have guest speakers.

You can eat and drink in class, as long as it is discrete and does not disrupt the class or your neighbors. *So please be polite, thoughtful, and respectful.* Ask the people around you if you are disturbing them or not.

Laptops and checking devices for messages are permitted as long as it is discrete and does not disrupt the class or your neighbors. *So please be polite, thoughtful, and respectful.* If I have to speak to you about abusing this privilege, then it will hurt your participation grade.

Please respect the contributions and time of others in the class.

Please bring your name card and place it front of you.
METHOD OF EVALUATION

The focuses are on learning and learning practical information and tools to help a student’s career.

There is no curve per se. However, I have been told by the administration that the most combined H’s and H-’s I can give is 50%. The calculation is quantitative (even the participation), with a curve set that no more than 50% can be H or H-. It typically is around that percentage.

https://www8.gsb.columbia.edu/mba-students/academic-essentials/policies/academic-standards

Often, class participation can be a key determining factor between an H- and HP+.

The weightings are below.

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<tbody>
<tr>
<td>Participation</td>
<td>20%</td>
</tr>
<tr>
<td>Questions/Mid-Term</td>
<td>25%</td>
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<tr>
<td>Strategic Issue Memo</td>
<td>25%</td>
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<tr>
<td>Final</td>
<td>25%</td>
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<tr>
<td>GS Memo</td>
<td>5%</td>
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For the strategic issues memo and the individual mid-term and finals questions and answers, I usually respond with the following evaluations: 1. excellent = 95/100 = H; 2. very good = 90/100 = between an H- and HP+ (I can’t decide); 3. good = 85/100 = between an HP+ or HP (I can’t decide); or 4. you should see me and redo it. If I write excellent/very good, then it would be an H-. If I write very good/good, then it would be an HP+.

I can’t give more than 50% of the class H or H-. (I don’t make the rules.) Therefore, sometimes, I have to curve after the class final grades, and it is possible to have received 90/100 and H- on most assignments and yet receive a HP+ because you classmates scored higher and there is a cap.

On the answers to short questions for a class that impacts participation, I usually respond with 1. excellent/very good/nice job (you seem to understand and put thought into it), 2. Good/ok (you did the required work) or 3. you didn’t turn it in (not good). Don’t worry if you don’t get a response at all, it’s fine. The answers are not graded. The most important thing is that you did the work. I just note if the work was thoughtful. On your self evaluation you can count this on your participation.

The captains for each group for the midterm and final get extra consideration.

In order to avoid ambiguity that may lead to unintentional violations of the Honor Code, the description types for assignments have been standardized. They are specified in the table below
<table>
<thead>
<tr>
<th></th>
<th>Group/group</th>
<th>Permitted with designated group*</th>
<th>By the group</th>
<th>Same grade for each member of the group</th>
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<tbody>
<tr>
<td>A</td>
<td>Group/individual</td>
<td>Individual</td>
<td>Individual</td>
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<td>(No sharing of any portion of</td>
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<td>the submission)</td>
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<tr>
<td>B</td>
<td>Individual/individual</td>
<td>None of any kind</td>
<td>Individual</td>
<td>Individual</td>
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<tr>
<td>C</td>
<td>(An optional category to be</td>
<td>None of any kind</td>
<td>Individual</td>
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<td>defined in detail by the</td>
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<td>individual faculty member)</td>
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*The designated group can either be an assigned study group or a self-selected one.
Sample Self Evaluation Scoring Sheet

Name:

_Evaluating your own Participation. (include with your final memo)_

I turned in the first assignment regarding history videos

If Yes, give yourself 1 point

I was captain for my team for the midterm, and sent the team’s Q&A to professor

If Yes, give yourself 1 point

I went up to the board to put up my team’s bank’s numbers for the discussion on financials and valuation

If Yes, give yourself a point

I spoke during my team’s presentation for the technology case

If Yes, give yourself a point

I attended every class

If Yes, give yourself 10 points

For every class you missed (even if excused) deduct one point

I made a meaningful contribution in every class

This is either verbally or you turning in answers to the Q&A (when wasn’t required)

If Yes, give yourself 10 points

For every class you kind of did, give yourself a half a point per class
I turned in the legal and regulatory Q&A. If Yes, give yourself 1 point

I asked the Trian guest speaker a question during class
If Yes or you turned in the Q&A (which was only a handful of people), give yourself a point

I sent an article to the professor and/or shared one with the class
If Yes, give yourself a point

I gave the professor my team’s compensation numbers for the discussion on comp
If Yes, give yourself a point

I was captain for my team for the Future discussion, and sent the team’s group assignment to professor or spoke in the presentation
If Yes, give yourself 1 point

TOTAL

Which class did you think you contributed the most (or did a really excellent job on Q&A that was turned in.) Or something I missed above that should count.

I did something extraordinary for the class that I believe I deserve credit for

Explain

My favorite 2 classes / topics / cases this semester were

1._____

2._____
Class 1

1st class is an overview of the class and expectations.

In order to understand banks and the strategic issues they face, you need to understand their history. Please watch these videos and do the assignment before class. If you can’t do it before the first class for whatever reason, don’t worry – you have 2 weeks from the date of the first class to complete the assignment which is answer #4 below, which counts toward your class participation grade.

1. Watch this video: https://www.youtube.com/watch?v=FOBfjDdPqMD
It is 45 minutes. It is a little dated, but provides a good history.
Don’t have to watch 2:00 to 9:45 on the building of safes for banks or 29:00 to 35:30 on bank robbers.

Can you answer these questions?

What is at the very core of a bank’s existence? 0:50 to 1:30 *** Trust/confidence is a very important theme
Where does the word “bank” come from? 9:45 to 11:00
How and when did banking get to North America? 11:15 to 12:00
Who opened the first bank in the US? 12:15 to 12:45
Where did banks get their origins? 13:09 to 13:45
The history of banks in the western U.S. is tied to the history of what? 13:50 to 14:50
What did Wells and Fargo do that was innovative? 14:30 to 15:45
Was there a national currency in 1860? 16:00 to 17:20
After the 1906 Earth wake and fire in S.F., were the contents of the vault intact? 17:30-19:00
What did Bank of Italy innovate? 19:00 to 22:30
Why were women solicited of banks in the 1920s? 22:30 to 23:45
Why was the Federal Reserve created in 1913? 24:00 to 24:30
What is an important risk management strategy? 25:00 to 25:45
Was FDR’s response to bank crisis? 26:30 to 28:00
What is the innovation of ERMA? 36:45 to 37:45 **technology/innovation is a very important theme
What does a credit card do? 37:45 to 38:15
A credit card led to what next innovation? 38:30 to 39:30
Why do banks like ATMs? 40:15 to 40:40
Where do banks need to be worried about as competitors? 42:00 to 43:00 **competition is a very important theme
What will happen to brick and mortar banks? 43:45 to 44:20

2. Watch History of Citibank to get a history of how US banks became global.
It is 8 minutes. https://www.youtube.com/watch?v=ODqyDuoyijo

Can you answer these questions?

Who started Citibank and why did they start it? 0:30 to 1:00
After the Civil War, what did Citibank join? 1:50 to 2:15
In 1866 what was the new innovation in banking? 2:10 to 2:30
By the turn of the centuries what were foreign companies looking for? 2:45 to 3:00
The Federal Reserve Act in 1913 allowed what for US bank to expand? 3:00 to 3:30 *** global is a very important theme
How many branches did Citibank have before 1920? 3:30 to 4:10
What did Citibank do in 1928 to give consumers services reserved for more affluent? 4:45 to 5:00
Citibank made 2 acquisitions 1. International Banking Corporation (~3:30) and 2. Farmers Loan and Trust Company (~5:00). Why? What did they add? So acquisitions are a part of Citibank history and culture: ***acquisitions and impact on culture is a very important theme
Profits from China helped when other areas struggled, showing geographic diversification does what? 5:15 to 5:45
To help solve a slowdown, the bank did what in 1955? ~7:00
Which bank started Visa and which started Mastercard? ~ 7:45

3. Watch this video on the history of Wall Street. It is around 45 minutes https://www.youtube.com/watch?v=fJTNk2a7VE

4. What are your Questions from the history of Wall Street video. Email a list of at least 10 questions with answers to professor within 2 weeks of the first class. Two questions should be a technological change or pressure. Two questions should be on a regulatory change or pressure. Two
questions should be on competition pressure. Two questions should be on organizational pressure. The other 4 questions can be whatever you found interesting.

For example: Q. July 8, 1889 what was first published? What average/index was also created? ~18:10 [Technology change] A. WSJ. Dow Jones. Note: This would not be a good midterm question as structured. The idea of a technology change is and why it was important. But this assignment is to show you watched the video and are engaged.
Class 2 and possibly Class 3

Mapping Out the departments and divisions of a bank.

Investment Bank: M&A/Strategic Advice, Corporate Finance, Capital Markets (Debt and Equity), Sales and Trading (FICC: Fixed Income (Gov’t, IG, HY, Structured), Commodities, Currencies; Equities (cash, derivatives, structured); Emerging Markets; Research (Equity, Fixed Income, Economic)

Asset Management: High Net worth, PE Fund, RE Fund, Hedge Fund, Portfolio Allocation/Investment Management

Treasury Services: Transaction Services

Corporate Operations: Accounting, Treasury, IT, Risk Management, Operations, Legal

Retail Branches/Consumer and Community Banking: Mortgages, Credit Cards, Auto, Retail banking

Corporate Banking: Transaction Services, Small Business Loans

**JP Morgan 4Q Presentation**

First, map out what are the business units (what do they do) and what are the revenues of each. What is the biggest business? You may need to refer to this


Which group has highest ROE? Highest overhead ratio?

**JP Morgan Investor Day Presentation**


Page 8 – what are the businesses?

On page 1 JPM highlights 4 key ratios. What are they? What do they mean? Why are they important?

On page 3. JPM gives EPS YoY growth. What was YOY revenue growth? What caused earnings growth? Which bank has the highest ROE (Surprise!)?

Page 5 – what is being highlighted and why?

Page 15 – NCOs – what is it? Why important?

Page 19 – What is CCAR stress? GSIB surcharge? How does JPM get to the minimum level?

Page 20 IS JPM capital going up or down over time?

Page 21 – What is ROE? Which area has the highest ROE?

Page 24 – Why talk about rising rates?

Page 27 – How is income growing? What is driving it?
Page 33 – How does JPM finance itself? What is largest funding source?

*Goldman Sachs Presentation*


On page 5 - What % of revenues does Investment Banking Represent? What is the most important division?

On page 6 - Revenues from 2012 to 2015 are not that different than 2006. What was the ROE in 2006 and 2007? What is it now? Why is that?

On page 8 - What has happened to Equity and Gross Leverage? How about Level 3 Assets?

On page 15 - How does GS fund itself?

On page 18 - Deposits? Why the growth?

On page 21 - What has happened to risk?

*For Class 3 – Read Case Study: Why Wells Fargo Dives Deep Into Investment Banking by Amnity Research.*

*Read: Wells Fargo The Future of a Community Ban*
CLASS 4

Strategic Issues Credit Crisis Class

The 20th class we will focus on the recent financial crisis.

The cases to read are Lehman Brothers. Link Below. Goldman Sachs Going to the Oracle.

And to read parts of my book. Chapter 8.

1. Lehman Brothers


B. Lehman Brothers: Too Big to Fail? September 19, 2016 Columbia CaseWorks

C. The Collapse of Lehman Brothers Case.

D. The Lehman Brothers Epilogue Case.

Questions:

1. The CEO, Dick Fund came out of what area of the bank and was known for what? Was there any structure / process to balance him (e.g. co-CEO from banking, independent board? split of Chairman role vs. CEO role?)

2. What was the first wrong tactical decision in risk management related to subprime mortgages?

2a. What was their wrong tactical decision on commercial real estate?

3. What was Lehman Brothers' assets to real tangible common equity? How does that compare to GS and JPM in the presentation?

4. What was the experience of the Board?

5. What was Erin Callan's background (you will need to research this)?

6. How did Bear Stern's problems impact Lehman?

7. At the end of the day there was a lack of WHAT? And what were the key things internal and external that added to that?

8. What was the mismatch? (page 10)

9. What would you say the lessons learned are?

1a. supplement is the PWC presentation - but only Section 1. pages 5-8.


Supplement questions:

1. What event had the most significant impact on financial industry in 2008?

2. How many legal entities did Lehman have and in how many countries. It led to how many bankruptcy proceedings?

Page 16 of 18
3. Why was the bankruptcy intensified?

4. Clients wanted added assurance that WHAT? (page 8)

2. Going to the Oracle Goldman Sachs, September 2008

1. Describe the situation?

2. Why did GS raise capital when it did?

3. Was GS over or under capitalized in Q3 2008?

4. Who got the better deal - GS or Buffet?

5. Why did GS do it?

6. Why did GS become a bank holding company?

3, Chapter 8 of What Happened to GS pages 161 to 164, 199 to 221. Also read pages 194-196

1. Contrast GS to Lehman in terms of CEO experience, management structure, risk management

2. Has GS changed since then?

Overall?

Was it really just about subprime or too much leverage?

https://hbr.org/2013/10/culture-not-leverage-made-wall-street-riskier

https://hbr.org/2013/10/dont-blame-the-apple-and-exonerate
The discussion will be on my book - What Happened to GS (make sure to read Appendix B and H). The assignment is to write in a page or less whatever you think of the book, a particular chapter, an idea, something you agree with or you don't agree with. (i.e. do you think the IPO was responsible for the change in culture, if there was a change; what data or evidence did you find most interesting or compelling in the book; comment on Appendix H; what was most compelling about Table B-1 Analytical framework of GS on pg 267; answer one of the question in the conclusion / Lessons – Can Organizational Drift Be Constrained or Managed, any comments on lessons learned, etc.)