INSEAD Executive Master in Finance
Degree Construct and Curriculum Summaries

The INSEAD Executive Master in Finance degree is a part-time, post-graduate programme undertaken through 6 modules (totalling 12 weeks) spread over approximately eighteen months. Successful candidates will graduate from INSEAD, the international business school based in France, Singapore and Abu Dhabi with an Executive Master in Finance.

The degree covers study in 6 curriculum modules whose courses equate to 15 study units. All units of study are compulsory. Listed below are the modules and the courses that currently comprise each module, and their individual unit value:

Module 1: Core courses (3 Units)

Specific Courses:

- Finance I - Financial Markets and Corporate Finance (2.0 unit)
- Accounting: Financial Accounting and Managerial Accounting (1.0 unit)

Module 2: Core courses (2.5 Units)

Specific Courses:

- Finance II - Capital Markets and Corporate Finance (2.0 unit)
- Introduction to Modelling (0.5 unit)

Module 3: Financial Markets (2 Units)

Specific Courses:

- Equity Investment (0.5 unit)
- Credit Markets (0.5 unit)
- Options and Derivatives (0.5 unit)
- Asset and Liability Management in Banking (0.5 unit)

Module 4: Electives (0.5 Units)

Possible Courses * Subject to Change:

- Bank Management
- Behavioural Finance
- Negotiations
- Management Decision Making
- Advanced Accounting (Mandatory)

Module 5: Corporate Finance (2 Units)

Specific Courses:

- Advanced Corporate Finance (0.5 unit)
- International Corporate Finance (0.5 unit)
- Project Finance (0.5 unit)
- Private Equity & Venture Finance (0.5 unit)

Module 6: Capstone and Major Degree Project (5 units)

Specific Courses:	
• Global Financial Services and Asset Management	(0.5 unit)
• Leadership in Finance	(0.5 unit)
• ALCO Simulation	(0.5 unit)
• Fair Process and Board Management	(0.5 unit)
Major Degree Project	(3 units)
TOTAL:	**15 units**

MODULE 1: Core courses Units: 3

1. ACCOUNTING (1 unit)

Course Description
Financial accounting and reporting is concerned with the financial information that is disclosed and disseminated by a firm to persons that are *external* to the company. The objective of this course is to provide a strong foundational understanding of basic financial accounting concepts, methods, and uses, with an emphasis on analysing, interpreting, and evaluating corporate financial statements and related disclosures.

Session 1: Introduction to Corporate Financial Reporting
The beginning of the first session will be dedicated to surveying the syllabus, the course structure and its objectives. The remainder of the session will be used to introduce financial accounting and its institutional setting, as well as the basic financial statements.

Key topics and learning objectives include:
- Understand the need for, and users and usage of, financial information;
- Understand the four principal activities of business firms;
- Understand the purpose and content of the three principal financial statements;
- Identify and become familiar with the sources of accounting information and their role in the analysis of the firm;
- Review of institutional details; and
- A brief introduction to the mechanics of financial accounting.

Session 2: Balance Sheet and Income Statement Concepts
This session introduces the income statement and balance sheet. We identify their components, and examine the criteria for their recognition and measurement.

Key topics and learning objectives:
- Understand the concepts of assets, liabilities, and shareholders' equity:
  - Asset and liability recognition, valuation and classification;
  - Historical cost and fair value; and
  - Contributed capital and retained earnings.
- Introduction to balance sheet analysis;
- Understand the accrual basis of accounting:
  - Cash basis vs. accrual basis accounting;
  - Revenue and expense recognition; and
  - The matching principle.
- Introduction to income statement analysis;
- Relationship between balance sheet and income statement; and
- Interpreting and analyzing the income statement.

Session 3: Statement of Cash Flows
This session explains the purpose of the statement of cash flows within the financial reporting package, and explores the types of transactions found in each of the operating, investing, and financing sections of the statement. We distinguish between the direct and indirect methods, and place emphasis on developing an ability to analyze the statements of cash flows:
- prepared under different methods;
- by firms in different stages of their life cycles; and
- with a view to understanding the relations between different components of the statement of cash flows and their economic interpretations.

Session 4: Ratio Analysis
This session provides an introduction to integrated financial statement analysis using ratios.

The key learning objectives are to:
- Understand how to calculate and interpret ROA as a summary measure of operating performance that is independent of the firm's financing decisions;
- Understand how to calculate and interpret ROE as a measure of profitability that incorporates the firm's financing choices;
- Gain insights into the disaggregation of ROA and ROE into measures of profitability performance, asset turnover, and financial leverage (i.e., DuPont analysis);

- Calculate return on invested capital (i.e., ROIC)
- Assess short-term liquidity and long-term solvency risks; and
- Undertake an integrated analysis of time-series and peer-relative performance and risk assessments using an array of financial ratios.

Sessions 5 & 6: Revenue and Expense Recognition and Quality of Earnings Concepts
This session covers the quality of earnings. We survey the characteristics of financial reporting and, while recognizing its merits, also demonstrate its weaknesses and common pitfalls. The notion of accrual accounting is reinforced; the structure and use of the income statement are illustrated and contrasted with non-GAAP earnings measures. In connection with revenue recognition and accounts receivable, we will introduce the allowance for doubtful accounts as a representative example of general accrual reserve accounting.

The primary topics and learning objectives include:
- Key drivers of the quality of financial reporting;
- Accrual accounting and revenue recognition;
- Incentives for earnings management;
- Common earnings management practices;
- The income statement structure;
- Non-GAAP and other earnings measures; and
- Accounts receivable and the allowance method.

Session 7: Inventories
This session covers accounting for inventories, a major asset and expense category for many firms in the merchandising and manufacturing sectors, with an emphasis on learning to analyze inventory related accounting performance in a manner that is sensitive to internationally divergent GAAP rules, management's accounting policy choices, management estimates, and potential earnings management games. The major accounting issues in inventory accounting include:
- The costs included in the acquisition cost of inventories;
- The treatment of changes in market value subsequent to acquisition; and
- The cost flow assumption for tracing costs into and out of inventories.

Key learning objectives in this chapter are:
- To understand that there are choices available for inventory accounting within GAAP, and that these accounting choices can make two otherwise economically identical companies appear to be different;
- To gain an understanding of important differences between IFRS and US GAAP;
- To understand the concept of LIFO layers and its role in earnings management;
- To learn to perform a LIFO-to-FIFO conversion; and
- To review the previously-introduced analytical tools for evaluating inventory-related performance in light of our enhanced understanding of inventory accounting issues.

Session 8: Long-Lived Assets
This session covers the accounting issues related to long-lived tangible and intangible assets, including the following topics:
- Capitalization versus expensing;
- Depreciation and amortization concepts;
- Gains and losses on asset sales and retirements;
- Impairments and revaluations; and
- Accounting treatment of R&D.

Session 9: Long-Term Liabilities
This session covers financial reporting and analysis for non-current liabilities, including bonds and loss contingencies, and also introduces the concept of off-balance sheet liabilities.
Topics examined include:
- Bonds:
    - Issuance at par, discount, premium;
    - Effective interest method;
    - Extinguishment of debt; and
- Managerial Incentives.
- Off balance sheet liabilities;
- Loss contingencies;
- Restructuring reserves; and
- Debt covenants.

Materials
Textbook: *Financial Accounting: An Introduction to Concepts, Methods, and Uses*, 13th edition, by Stickney, Weil, Schipper and Francis, South-Western publishers.

The Grading Scheme
Your grade will be determined in the following way:
- 70% - Written Exam (3 hours-closed book exam)
- 20% - Course work
- 10% - Class participation

2. FINANCE I – CM/CF (2 units)

CAPITAL MARKETS I

Objectives
This course discusses the principals and practices of the modern capital markets. The topics include, though are not restrict to, time value of money, portfolio theory, asset pricing models, fixed income securities, as well as the application of these theories in the real world.

Session 1: Introduction
The lecture portraits the image of capital market from the following dimensions: its participants, its various types financial assets. We will then introduce the common financial operations (long and short), with a special focus on the modern short selling market.

Session 2: Time Value of Money
The lecture focuses on the concept of time value of money and its applications. A distinction is drawn between various quoting conventions like the stated and the effective interest rate. The present value formula for constant and growing annuities and perpetuities is derived and applied. The formulas may capture even relatively complicated cash flow structures as illustrated by the case of the ENSEAD retirement plan.

Session 3: Portfolio Theory
The lecture focuses on the principles of portfolio theory and, in particular, the concept of diversification. Mean-variance analysis is introduced as a tool to explore portfolio characteristics. The case illustrates the challenges of deriving the efficient frontier, in particular the pitfalls of portfolio weights based on historical return data.

Session 4: The Capital Asset Pricing Model
The lecture focuses on the relationship between expected return and risk. In financial markets, expected returns on assets are determined by their risks, with higher risk being rewarded through a higher expected rate of return. This raises the issue about what risk is. From portfolio theory, risk can be decomposed into “specific risk” and “systematic risk”. The former can be diversified away in portfolios. The latter cannot be diversified away and must be rewarded by a “risk premium”. The Capital Asset Pricing Model relates expected return and systematic risk.

Session 5: Asset Pricing Models and Factor Models
The lecture focuses on the distinction between asset pricing models that are statements about expected returns and statistical models that describe returns. The failures of the CAPM are first discussed and other asset pricing models are suggested as alternatives. The usefulness of statistical models is introduced next and the relationships between asset pricing models and statistical models are then derived.

Session 6: The Pricing of Bonds
The lecture focuses on the pricing of fixed-income instruments and covers the concepts of yield measures and risk measures. There are many sources of risk in fixed-income markets. The main focus is **interest rate risk**. The goal is to explain the expected return and risk trade-off faced by investors in the fixed-income markets and more specifically the market for Treasury bonds.

CORPORATE FINANCE I

Course Description
The goal of this course is to focus on firm valuation. The goal is to go in details in issues of valuation and firm value assessment. We will consider the implications of the optimal capital structure for cost of capital and we will see how to increase firm value by choosing the investment, financing and pay-out policies.

The approach is rigorous but also very applied. Students will be exposed to a series of quantitative techniques that will improve their ability to value a company. For each day of the course, students will be presented with exercises and cases to solve. Students will work in groups so as to develop interpersonal skills.

Each exercise/case has been designed so as to make the students apply what they learn. Students will gradually evolve from simple excel analysis (first days) to a more sophisticated financial planning (second week) that involves all the different aspects of the evaluation process (pure valuation as well as financing and risk handling).

Sessions 1 & 2: Valuation Principles

The purpose of this session is to refresh valuation principles and the discounted cash flow (DCF) technique in particular. Two main issues are addressed. The first issue deals with the main "building blocks of valuation": financial statements, liquidity analysis, net working capital, financial ratios, relevant cash flows, the so-called "free cash-flows analysis" (cash flows calculation, terminal value calculation, cost of capital, tax issues). The second issue relates them to measures of firm profitability (i.e., ROIC, RONIC), growth, multiple valuation and WACC. The focus is to provide a meaningful assessment of firm value and to link to the previous CFA training. This session gives an overview and comparison of the various methods used by companies to evaluate investment projects: NPV, IRR, payback, profitability index. Special attention will be paid to identify the relevant cash flows to be discounted in NPV calculations.

Sessions 3 & 4: Capital Structure and Cost of Capital

This session will discuss how tax considerations, expected costs of financial distress, agency costs and asymmetric information determine a company's optimal capital structure and its financing dynamics. We will focus on the costs and benefits from debt financing relative to equity financing, how hybrid securities such as convertibles can sometimes mitigate agency costs of debt and the relevance of a company's strategic decisions for its capital structure. Then, we will deal with advanced issues in valuations that focus on the multi-business dimension of the firm. The purpose of this session is to make a transition from the valuation of a single-project to the valuation of a multi-business firm. We will provide a coherent framework to evaluate multi-divisional businesses, foreign subsidiaries, privately-held firms. We will consider business unit and their relation to the HQ, how to value the individual business units using BU-specific cash-flows, tax rates and capital structures, the value of HQ, how to analyze value creation at the consolidated level.

Session 5 & 6: Payout Policy and Capital Structure

In this session we will finish the part on capital structure focusing on distress, bankruptcy costs and benefits of leverage. Next, we will study how value is created by optimizing the payout policy. We will study different companies and look at how their value is related to the payout policy and cash holding. In particular, we will focus on the choice whether to hold cash or invest, the choice to distribute and the choice between different alternative distributions – dividends, share repurchases. The goal is to study how to value firms that have very specific levels of cash holdings and payout policies. Spin-offs we will be briefly analyzed. We will focus on why dividend policy matters, why firms tend to follow stable dividend policies, the impact of taxation on dividend policy and stock price behaviour, how a firm should make a choice between dividends and share buybacks

Session 7: The goal of this session is to briefly recap the main points covered in this module.

<u>Materials</u>

Textbooks:

- *Investments, 9*th edition (Global Edition), by Bodie, Kane, Marcus, McGraw-Hill, 2011.
- Ross, Stephen, Randolph W. Westerfield and Jeffrey Jaffe, 2005, "Modern Financial Management" (8th edition of "Corporate Finance"), McGraw-Hill: Boston.
- Grinblatt, Mark, and Sheridan Titman, 2002, "Financial Markets and Corporate Strategy" (2nd edition), McGraw-Hill: New York.

Optional Textbooks:

- Simon Benninga, Financial Modeling, 2000, the MIT Press. This book provides an excellent Excel training on financial modeling.
- Bruce Tuckman, Fixed Income Securities, 2002, John Wiley & Sons, Inc. This book is very useful for those who are interested in fixed income securities.

The Grading Scheme: **Exam covers both Capital Markets & Corporate Finance**

- 60% - Written Exam (3 hours-closed book exam)
- 30% - Course work
- 10% - Class participation

MODULE 2: Core courses Units: 2.5

1. FINANCE II – CM/CF (2.0 units)

CORPORATE FINANCE II

Corporate Finance II will focus on the main corporate finance activities. We will focus on specific corporate events that track the life of the company from the beginning to the end. We will consider: Initial Public Offerings, Seasoned Equity Offerings, Merger & Acquisition (both Valuation and Takeover defences), Leveraged Buyouts, Distressed Restructurings. We will also focus on the role of Executive Compensation.

Session 1 & 2: Initial Public Offerings (IPO) and Advanced Valuation
This session will focus on raising equity capital from the public markets for the first time. The key learnings concern the benefits of being publicly traded and the costs of being publicly traded. We will examine both the ideal candidate for an initial public offering as well as the ideal timing for an IPO. We will also highlight the roles played by alternative players including the issuer, the investment banker/advisor, institutional investors, and other equity investors such as the venture capitalists.

Session 3: Seasoned Equity Offerings (SEO)
In this session we will cover the main issues involved in raising equity capital and being publicly traded. These issues include the impact on voting and control over the company, the costs of raising equity from the public markets, and the use of rights offerings. The key learnings focus on the incentives facing different parties in equity financing (investors, management, advisors, members of the board) and the importance and impact on corporate governance from alternative equity raising and voting allocation decisions. The case deals with a rights issue, one of the ways Australian firms use to raise money.

Sessions 4 & 5: Mergers & Acquisitions (M&A)
We will discuss what creates value in an M&A transaction. How does the market perceive the benefits and costs? What are determinants of success and failure of M&A? We will see that the only way to decide whether a specific transaction creates value is by analysing the target as part of the bidder in a DCF analysis. And then we will try to see how to reach a negotiated agreement.

Session 6: Takeover Defenses
We will discuss possible obstacles in completing an M&A transaction such as free rider problems and takeover defences. From the target's point of view we want to understand how a target can defend itself and whether such takeover defences are good for the company in the first place. From the bidder's point of view, we want to find smart solutions to these obstacles.

Session 7: Leveraged Buyouts and Private Equity (LBO)
In a leveraged buyout a public company is taken over by private equity investors who lever up the company in the process. This type of transaction has become more frequent in recent years in Europe and has created some controversy. We will discuss the benefits and costs of these type of transactions. Why do companies do LBO's? What are the consequences for the various stakeholders (i.e. public shareholders, private equity investors, debt holders, workers etc)?

Session 8: Distressed Restructuring
The goal is to introduce the incentive problems that investors face when reorganizing debt in a distressed company. The lecture provides an overview of the cost of financial distress, the role of the bankruptcy laws, a discussion on what metrics there are to predict bankruptcy (rating and financial ratios) and a description of successful restructurings.

Session 9: Value Based Management and Executive Compensation
This session provides the basics to determine and assess executive compensation schemes. We will investigate the pros and cons of a private equity management compensation contract and link it to the observed compensation contracts for top management.

CAPITAL MARKETS II

Session 1: Forwards and Futures Contracts
This session focuses on the simplest derivative contracts, i.e., forwards and futures. The session starts with a brief description of the most important features of forward contracts. This is followed by a discussion of the profit and loss functions of long and short positions. Arbitrage arguments are introduced next for the derivation of the forward price. The session concludes with the differences between forward and futures contracts, in particular the marking-to-market process. The concepts covered in the lecture are illustrated by a case on hedging and whether corporations should hedge the risks they are exposed to, and if yes, how. More specifically, the case deals with the gold price risk faced by a gold mine and the different instruments used by the company as hedging devices.

Session 2: Swap Contracts
This session focuses on the most popular derivative contract, i.e., swaps and particularly, interest rate swaps. The session starts with a brief description of the most important features of swaps contracts. This is followed by a discussion of the profit and loss functions faced by fixed-rate payers and fixed-rate receivers. Arbitrage arguments are introduced next for the derivation of swap pricing and the determination of the swap rate. The concepts covered in the lecture are illustrated by a case on interest rate swaps that deals with the rationale for interest rate swaps.

Session 3: Option Contracts: Basic Concepts
This session introduces option contracts and lays the ground for the subsequent sessions. It starts with a description of call and put options. The terminology pertaining to options and their price quotation are discussed. The structure of their payoff is explained and illustrated using “payoff diagrams”. Then popular trading strategies involving options are considered. Finally, a relation that ties the prices of call and put options (known as “put-call parity”) is derived. A case describes the collapse of a company that traded options on oil. It allows to assess critically a corporation’s option trading strategy and illustrates the dynamics of profit and losses that may occur.

Session 4: Option Valuation I: The Binomial Model
This session focuses on the valuation of options. It starts with a discussion of the various factors that determine their value. Then it develops a binomial model of stock prices. The model can be used to price options by replicating them and applying, once again, a simple arbitrage argument. A one-period model is first developed, which is then extended to a multi-period setup. Finally, the concept of “risk-neutral” pricing is introduced. The implementation and usefulness of the binomial pricing technique is illustrated with a case that describes a innovative security with several embedded options.

Session 5 & 6: Option Valuation II: The Back-Scholes Model
These sessions introduce an explicit formula for pricing options, the famous Black-Scholes formula. It starts with a discussion of the assumptions that underlie the formula. Then the formula is interpreted in various ways: 1) in terms of a replicating portfolio, 2) by appealing to the principle of “risk-neutral” pricing and 3) as a special case of the binomial model. An example follows that shows how to implement the formula. In particular, an estimate of the stock’s volatility is needed. The case discusses the use of the Black-Scholes model for valuing a “real option”, namely the option to develop an oil field provided that oil prices are high enough.

Session 7: Options and Capital Structure
This session studies how option pricing theory can be applied to capital structure. We start by illustrating how the debt and equity of a company can be interpreted in terms of options where the underlying is the market value of the firm’s assets (the so-called Merton Model). We then focus on how we can use this approach to price corporate securities, in particular the company’s debt. We illustrate the practical application of this approach by looking at the very popular Moody’s KMV EDF (Expected Default Frequency) measure which provides an expected default probability for a company based on share price data and information about the company’s liabilities.

Session 8: Warrants and Rights
This session focuses on warrants and rights; they are options issued by corporations that can, at the holder’s option, be converted into new shares of the company. They are similar to exchange-traded call options. We discuss the main reasons why firms issue warrants and study how they should be priced to correctly account for the fact that their exercise triggers a new share issue and hence results in dilution of the share price. The case considers a firm’s issuing of a package of bonds and warrants. We will assess the rationale for this package and discuss its pricing.

Session 9: Convertible debt
This session focuses on convertible bonds; they are bonds issued by corporations, which bondholders can convert into newly issued shares. Hence, like warrants and rights, they lead to the dilution of the existing shares. We discuss first why firms issue convertible debt, and why they often embed an additional call option allowing them to redeem the security early. Then, we show how convertibles can be valued.

The Grading Scheme: **Exam covers both Capital Markets & Corporate Finance**

- 60% - Written Exam (3 hours-closed book exam)
- 30% - Course work
- 10% - Class participation

2. INTRODUCTION TO MODELLING (0.5 unit)

Course Objectives

Regardless of the setting, management decisions are necessarily made under conditions of uncertainty. This course introduces a framework for thinking about problems involving uncertainty and, building on this framework, develops some tools for interpreting data. While some technical analysis is essential, the course material is developed and presented from a practical, managerial perspective. The goal is to provide an appropriate foundation in probability and statistics for subsequent courses at INSEAD and for your managerial career.

Prerequisites

The course requires some basic *familiarity with descriptive statistics*, including frequency distributions, histograms, measures of central tendency (e.g. mean, median) and variability. This material is considered to be background knowledge and will not be covered in class. Supporting material for these topics can be found in the prerequisites section of the course packet. In addition, an online tool is available to help you revise and practice this material in advance. Details (website address, log on, etc.) about the online tool will be communicated to you separately by email.

Exercises & Readings

It is recommended that you read the assigned material for each session before coming to class. However, the material for this course cannot be effectively mastered by only reading and listening in class. These are necessary but not sufficient activities. The course packet includes exercises for the four sessions. Participants are strongly encouraged to attempt the exercises assigned for a session prior to that session. Solutions to these exercises will be provided at the end of each session.

Topics covered

Session 1: Understanding Uncertainty.
Interpreting data. Cognitive processes in judgment.

Session 2: Modelling uncertainty.
Probability distributions.

Session 3: Making Estimations and Decisions Based on a Sample.
Sampling accuracy. Point and interval estimates. Statistical decisions.

Session 4: Understanding Relationships from Data.
Correlation. Regression Analysis.

Session 5: Making Predictions Based on Data.
Building and interpreting regression models. Forecasting. Applications.

The Grading Scheme

Grades will be based on a group assignment (20%) and an individual test (80%). The test will be in-class open book/open notes. No computer is allowed, but a small (very basic) calculator will be necessary. Examples of past tests will be provided in class.

MODULE 3: Financial Markets Units: 2

1. EQUITY INVESTMENT (0.5 unit)

Course Objectives
The primary objective of the course is i) the analysis of the different asset classes (traditional, alternatives…) available to investors and ii) how investors' wealth should be allocated between the different asset classes. The course focuses on the optimal design of asset allocation schemes for **private** and institutional investors alike. The course will cover various theoretical concepts but is fundamentally designed to address **concrete** and **practical** issues faced by investors today.

More specifically, the course starts with the concept of diversification and discusses its benefits and limitations. The most popular asset allocation schemes (mean-variance, naïve, risk-minimization….) are then introduced. The role of traditional asset classes, such as equity and bonds in asset allocation schemes are then covered. This is followed by an in-depth discussion of what risk is; alternative measures of risk (tail risk, downside risk…) are then suggested. To what extent is the most popular measure of risk such as the standard deviation, or VaR, useful for investors today? Is not the risk of both traditional and alternative asset classes mis-estimated with the standard risk measures? The course continues with a detailed discussion of alternative asset classes, such as hedge funds and real assets (timber, shipping, infrastructure….) and their usefulness in asset allocation schemes. The course concludes with a discussion of the impact of inflation on asset classes and how investors' wealth can be preserved in an inflationary environment.

The structure
1) Traditional and Non-Traditional Asset Allocation Schemes
2) Investment Strategies: Theory and Practice
3) Standard and Advanced Risk Measures
4) Alternative Investments
5) Investments and Macro Risks

2. OPTIONS AND DERIVATIVES (0.5 unit)

Course Objectives
The past three decades have seen risks – unpredictable changes in exchange rates, interest rates or commodity prices– increase considerably, creating both challenges and opportunities for investors. Derivatives markets have grown exponentially over that time period to offer cost-effective tools to respond to these risks. This course provides a thorough understanding of derivatives, how they work, how they can be used to reduce risk (hedging) or take on risk (speculating), how to design and structure them and how to manage their own risks.

The instruments covered include forwards, futures, swaps, standard and exotic options, and structured products. They will spread across a wide array of asset classes including currency, equity, commodity, fixed income and non-traded assets such as dividends and volatility.

Learning Outcomes:
A participant completing this course will be able to:
- Understand and manage the risks of a portfolio of derivatives
- Identify mispricing and arbitrage opportunities involving derivatives
- Set up derivatives strategies to invest in various asset classes, from traditional assets such as commodities and currencies, to non-traded assets such as dividends and volatility
- Quantify the risks and rewards associated with derivatives strategies
- Construct derivatives strategies to bet on specific corporate events such as the success of a takeover
- Design and manage structured products for retail and corporate customers

3. CREDIT MARKETS (0.5 unit)

Course Objectives
In the last decade, credit markets – the markets for corporate bonds and loans and other debt securities exposed to default risk, as well as derivatives and other products based on these securities – have constantly been in the headlines: the explosive growth of credit derivatives, the spectacular rise and fall of collateralised debt obligations, the emergence of sovereign credit risk in western economies, the recent popularity of corporate credit as an asset class.

Topics covered
1) **Debt securities** exposed to default risk (corporate bonds and loans, sovereign debt)
Traditional measures of credit risk, current credit market trends, understanding credit spreads, modeling credit risk in capital markets.

2) **Credit derivatives**, in particular credit default swaps (CDS) that are used to hedge and trade credit risk synthetically
How CDS work, current issues with the contracts (bank bail-ins, sovereign restructurings), hedging uses, trading strategies

3) **Securitisation**: the creation of new debt securities backed by cashflows from a pool of assets (often debt instruments themselves), with a specific focus on collateralised debt obligations (CDOs) that repackage the credit risk of a portfolio of corporate bonds and loans
How securitisations/CDOs work, motivations and mechanics, understanding tranche ratings, the role of CDOs in the credit crisis, the future of securitisation.

4. ASSET AND LIABILITY MANAGEMENT IN BANKING (0.5 unit)

Course Objectives
As the banking world is shifting from an overriding concern for growth to a preoccupation with long-term value creation and risk control, knowledge of Asset & Liability Management (ALM) is becoming a necessity for all bankers accountable for the results of a profit center. ALM is a tool that ensures that decision making, risk-taking and performance measurement are consistent with the corporate objectives set by senior management and the board, and the regulatory constraints imposed by central banks, such as Basel 2 or Basel 3.

The valuation and management of banks require specific techniques, not discussed in standard corporate finance courses. The first purpose of the course is to discuss bank valuation and Asset & Liability Management, the set of modern financial techniques needed to create long-term value and control risks in a bank. A second objective is to analyse and draw strategic implications from the banking crisis and the major structural changes occurring in international banking markets.

Learning Outcomes
A participant completing this course will be able to:
- Value a bank
- To construct key-performance indicators in banking.
- To price loans and evaluate provisions for credit risk.
- To evaluate liquidity and market risks in the banking book.
- To evaluate market risks in the trading book.
- To evaluate the benefits of business diversification.

The Grading Scheme
For each course undertaken, the performance of each participant is assessed on the basis of written reports, exams, tests, class participation and group work, at the discretion of the faculty member teaching the course.
The contribution is evaluated on its own and grades are allocated between 0 and 4.

MODULE 4: Electives Units: 0.5

The programme offers a portfolio of electives that evolve with the changing priorities and needs of the financial industry and wider business world. This module is shared with participants of INSEAD's Global Executive MBA programme to give you the opportunity to network and learn with a broader group of professionals from diverse industries and backgrounds. EMFin students are required to take an Advanced Accounting credit course (0.5 units), and choose three additional electives which are pass/fail.

SAMPLE ELECTIVES *Subject to change:

- Bank Management
- Behavioural Finance
- Negotiations
- Management Decision Making
- Advanced Accounting (Mandatory)

The Grading Scheme
For each course undertaken, the performance of each participant is assessed on the basis of written reports, exams, tests, class participation and group work, at the discretion of the faculty member teaching the course.
The contribution is evaluated on its own and grades are allocated between 0 and 4.

MODULE 5: Corporate Finance Units: 2

1. ADVANCED CORPORATE FINANCE (0.5 Unit)

The purpose of this concentration is to deepen your knowledge about share buybacks, mergers and acquisitions, financial innovation and financial restructuring.

The structure
Session 1: Share buybacks
Companies can repurchase shares using various methods such as fixed price tender offers, Dutch auction offers, private repurchases, open market buybacks, writing put options and accelerated repurchases. The purpose of this session is to discuss the benefits and costs of each of these methods, using finance theory as well as empirical evidence. One of the most common motivations for repurchases is undervaluation, which can be seen as a threat (as you are vulnerable to a takeover bid at a low premium) or an opportunity to buy back stock cheap. Empirical evidence on which firms are capable in taking advantage of misevaluation will be presented.

Session 2: Takeover defenses
Companies can defend themselves against hostile takeover bids by taking pre-emptive measures such as corporate charter amendments or by responding to hostile bids with restructuring initiatives, payout increases (dividends and buybacks) , searching for white knights or white squires, asset lock-ups, legal or political initiatives. We will discuss which measures are most effective and which ones enhance shareholder value rather than simply protecting the management from the discipline of capital markets.

Session 3: M&A financing
Acquisition finance is different from other types of finance as target shareholders may have preferences for how they are paid (cash or shares). Picking a financing method that is appreciated by target shareholders will reduce their resistance and lower the cost to the bidder. One particular concern of targets is asymmetric information: differences of opinion between bidders and targets on the value of the synergies or the value of the bidder stock. We will discuss how structuring the financing with derivative contracts can eliminate these concerns.

Session 4: Financial Innovation

Financial innovation is designing financial instruments that reduce taxes (personal as well as corporate), costs of financial distress, agency costs and costs arising from asymmetric information. We will give an overview of the most successful innovations as well of some of innovations that fail because of unintended consequences.

Session 5: LBOs and stakeholder value

Leverage buyouts involve a variety of stakeholders: existing shareholders, private equity investors, investors in subordinated debt (sometimes packaged with private equity and preferred stock), bondholders, workers and the management (current management as well as those who participate in the private equity). Who gains and who loses is an empirical question and depends on how the deals are structured. This will be illustrated by documenting large scale empirical evidence as well as a comprehensive case study that looks at the LBO from the point of view of all stakeholders.

2. INTERNATIONAL CORPORATE FINANCE (0.5 Unit)

The main focus

Companies are nowadays getting more international. What are the implications of this from a financial perspective? How do we evaluate an international project? How do we account for country and currency risk? How do we choose our shareholders when we go international? Which market should we tap into to raise new capital? Where is it better to borrow? How can we reduce our cost of capital by issuing in different countries/currencies? How do we hedge the economic and transaction exposure that arises from operating internationally? These are the types of questions we will address in this course. We will concentrate on the features that make operating abroad a unique challenge and we will see how to turn them into sources of comparative advantage.

The course is targeted to participants who are interested in an international career and want to have a sound grasping of the main financial topics involving the international dimension of a company. While quantitative, the course is mainly focused on providing the participants with a broad and integrated framework that allows them to master the complexity of the problems facing a firm that is exposed to international markets. Global perspective and integrated problem solving are stressed. The perspective will be that of a CFO/CEO.

The structure

The course is based on lectures and cases. Each concept will be directly applied in a real case situation. The course is structured in three modules. 1) International risk management, 2) Raising funds abroad, 3) International Growth. The first module studies how the company may eliminate the risk from operating internationally. We will focus on different types of risks and zoom on currency and country risk. We will evaluate alternative strategies needed to address them. We will consider how to choose to hedge in the most effective. The second module focuses on where and how to raise funds. We will consider different bond and equity possibilities and study the most effective strategies in terms of cost, flexibility, and risk. The third module addresses the issues of how to evaluate an international path of growth. We will focus on international M&As how consider how the international dimension helps to create an optimal strategy of growth.

3. PROJECT FINANCE (0.5 Unit)

The main focus

Historically project finance was used by private sector for industrial projects, such as mines, pipes, oil fields. In the early 70s, BP raised $945 million to develop the “Forties Field” in the North Sea. Investment in new infrastructure assets amounted to $369 billion per year from 2005-2010 with 63% in developing nations, e.g. Asia, Africa.
What is project finance? Project finance differs from corporate finance. Project Finance (PF) involves i) the creation of a legally independent project company, ii) financed with non-recourse debt and equity from one or more sponsoring firms, iii) for the purpose of financing an investment in a single-purpose capital asset , iv) usually with a limited life. Project finance allows firms to minimize the **net costs** associated with market imperfections such as i) incentive conflicts, ii) asymmetric information, iii) financial distress, iv) transaction costs, v) taxes and to **manage risks** more effectively and more efficiently.

The concentration will cover 4 topics: 1) What is project finance and what the differences between project finance and corporate finance are? 2) valuation issues in project finance, why the WACC cannot be used and which alternatives can be used instead, 3) financing issues in project finance, such as how projects are financed and what the implications are, and 4) the securitization of projects, infrastructure trusts and their usefulness in asset allocation

for investors. Each topic is illustrated by a case (covering different geographies: Australia, US, Europe and the Far East) involving or not governments (private projects, public projects, or a mix of the two, i.e., PPP).

The **core** of the concentration is **valuation** and **financing** issues in project finance. Projects are usually valued using the IRR criterion, with the IRR of the Equity Cash Flows (ECFs) being typically calculated. The decision to accept a project, or not, depends on whether the equity IRR is above, or below, a pre-determined threshold, such as (15%). The usefulness and appropriateness of the equity IRR are discussed and alternatives based on the cost of equity are suggested. After a brief review on the cost of capital and the traditional techniques used to value projects, WACC, APV, CAPV, the discounting of ECFs using the cost of equity discussed. The challenge remains the calculation of the discount rate (the cost of equity) that changes over time as a function of the project leverage, itself a function of the equity value. The circularity argument can be solved in project finance using backward induction

The structure

1) What is Project Finance?
2) Valuation Issues in Project Finance (Part 1)
3) Valuation Issues in Project Finance (Part 2)
4) Financing Issues in project Finance
5) Project and Infrastructure Finance as an Asset Class

4. PRIVATE EQUITY & VENTURE FINANCE (0.5 Unit)

The main focus

This course studies the private equity industry, which has evolved from “alternative investments” to a well-established asset classes. We will discuss how the industry is organized, the role of private equity and venture capital in a diversified portfolio, key strategies such as buyouts and venture investing, and some recent trends. The goal of the course is to give students a comprehensive overview of the PE/VC industry. At the end of the course, students should be familiar with the structure of this asset class.

Learning Outcomes

In this module, you should expect to:

a) Get a broad overview over the different types of PE strategies in developed and emerging markets:
- Venture Capital (VC)
- Growth Capital;
- Buyouts (LBOs)

b) Understand how PE firms create value in their target companies through pre-deal due diligence, deal execution and structuring

c) Gain exposure to PE transaction in developed and emerging markets and understand the different drivers of success

d) Have a clear understanding of the trends shaping the industry right now

The structure

Session 1a: Private Equity & Venture Capital – An Introduction
Session 1b: Venture Capital & Growth Capital
Session 2a: Buy-outs – Introduction and Key Concepts
Session 2b: Private Equity – Driving operational value
Session 3a: Buyouts – Financing and Structuring
Session 3b: Private Equity – Deal Dynamics
Session 4a: Private Equity – Exits
Session 4b: An Institutional Investor’s Perspective of Private Equity
Session 5a: The Private Equity Secondaries Market
Session 5b: Closing Discussion: Future Outlook for Private Equity

The Grading Scheme

Individual exercises: 20%
Class participation: 40%
Group reports and presentations: 40%

MODULE 6: Capstone and major degree project Units: 5

1. GLOBAL FINANCIAL SERVICES AND ASSET MANAGEMENT (0.5 Unit)

The main focus
This course addresses modern global banking and financial intermediation from an industrial organization perspective. i.e., the activities of large universal and investment banks which today offer relatively consistent products and services in markets all around the world – as well as specialists in asset management, transactions services etc. It also considers multinational retail, private and consumer banking and accessing local and regional markets via foreign direct investment in acquisitions, joint ventures or green-field projects.

The basis for the course is a coherent and robust model of financial intermediation. But since the global banking industry is subject to constant change and upheaval, a fair amount of class time is spent, where appropriate, discussing current events, trends and developments as they are happening. So students are expected to be up to date on ongoing developments in the global banking field. The course is case-oriented and incorporates a high degree of class discussion and interactivity, and students are expected to participate.

The Grading Scheme
There is a single, comprehensive final exam. The exam is weighted 50% in determining the final grade. The balance of the grade will depend on in-class participation and group case presentations (50% each).

2. ALCO SIMULATION (0.5 Unit)

The main focus
The objective of this final module is to allow participants to apply their expertise in financial management. The ALCO Challenge simulation will allow participants grouped into teams to create long term value while controlling risks in managing a company, in this case a bank.

Learning Outcomes
- Develop further confidence in managing long term value while controlling risks
- Understand financial management under regulatory constraints
- Develop skills in group decision making
- Develop skills in negotiations

The structure
Each half-day will be split between a short class presentation to review finance-related management concepts and specific regulations and work in group with the ALCO Challenge simulation. Each group represents the asset & liability committee (ALCO) in charge of controlling value creation and risk. Decisions relate to on-balance sheet items and off-balance sheet derivatives.

Grading Scheme
Each group will be invited to write a short report explaining the financial strategy of their company along the dual objective of sustainable value creation and risk control.

3. FAIR PROCESS AND BOARD MANAGEMENT (0.5 Unit)

The main focus
This course will explore ways to create value and to overcome common as well as complex organizational issues at the top of the company by applying a “Fair Process” approach. The course will provide a framework to define and operationalize the process, showing how to use it to creating value and achieve alignment among board members and between the board and the CEO. This course is the very strategic and is meant to provide a final overall view of the decisional process within financial organizations.

Course Information

Leadership: This course discusses leadership from three main angles: i) personal; ii) team; iii) organization. Organizations are led by individuals and teams, and also supervised by individuals and teams. Leaders need to be governed is the other side of this equation, and ungoverned leaders have led to a lot of value destruction. The governance context is a great context to examine leadership, as often it is the scene of leadership debates, contests, and even confrontations. So that is the entry point into leadership that this course will take and explains its title.

Fair Process Leadership: The course will take a particular angle in leadership, that of Fair Process. Fair Process is an angle that has existed for a long time, but was not operationalized for a while. The instructor will present an operational definition of Fair Process that is intimately tied with sustainable leadership and performance. Participants of earlier versions of the course have welcomed this angle and found it useful for their own professional contexts.

Board and Governance Context: Corporate and business governance has been in the limelight over the last years, amplifying a trend that started a decade ago with major corporate scandals (Enron, Parmalat, Tyco, Madoff, now Volkswagen …). The financial crisis can be viewed as the result of cumulative governance failures of financial companies, public market actors, regulatory agencies, and governments. The Euro crisis is largely a governance crisis. Since, the subject of governance has received a lot of attention from business leaders, managers, government officials, academics as well as the general public. Though the word has entered the public and business vocabularies, better board and governance practice remains elusive and too specific to particular companies, boards or their chairmen.

Scope: This module explores the content of leadership (and also of governance), aiming at improving leadership (and governance) practice and understanding. It takes a practical view, focused on frameworks, tools and behaviors. It also takes an original personal view: are you being governed and are you governing yourself effectively? On the governance side, we will discuss the board's impact on the organization, the conditions for mutually satisfactory relations between board members, executives, shareholders and other stakeholders, and more generally try to identify the factors key for governance (and hence business leadership) effectiveness.
The course takes a broad organizational view, examining start-up as well not-for-profit organizations (where proper governance is on average more difficult), as well as dealing with governance and leadership inside the corporation. The principles of leadership (and also governance) in today's world are in our view less specific to a particular sector or to sectorial characteristics than one may think.
There has been plenty of academic and professional attention and discussion on the leadership and corporate governance front. The course is very short. So we will need to be selective in the topics we cover.

Learning Outcomes
The course pursues the following set of aims: 1) explore the topic of leadership and governance so that participants understand the role leadership and governance play in corporate performance and sustainability; ii) provide language, principles and concrete tools (such as fair process, high performance team work …) so as to induce greater consistency and effectiveness in leadership and governance behaviours (as board member, senior executive, service provider to boards, or investor); iii) allow a more informed and critical review of the literature on the subject and a more informed participant in business and leadership governance debates (public or private); iv) help participants understand the importance of proper governance in their own professional careers, whether they will set up new ventures, work in larger corporate or not-for-profit structures, or consulting and providing services to these structures.

Grading Scheme
1. Class Participation (50%)
2. Individual learning summary (50%)

4. LEADERSHIP IN FINANCE (0.5 Unit)

The main focus
Leadership approaches, management skills and communication styles are critical areas of performance and development for client-based businesses such as financial services. This course examines fundamental areas of leading, managing and relating to people as well as achieving team high-performance.

The structure
The course learning approach encompasses class lectures, readings, cases, and experiential exercises, covering the following areas:

- Understanding and contrasting the range of qualities and characteristics that contribute to effective leadership in the setting of financial services and in global business; as well as styles of leadership approach that influence the way we lead ourselves, lead others and lead strategically in an organisation.
- Awareness – of self and others, as well as emotional intelligence and personal characteristics – to better understand personal leadership strengths and weaknesses – with awareness leading to focus areas for personal leadership development.
- The leadership imperative to recognise situation and context in developing, adjusting and adapting leadership styles and approaches to fit the circumstances of need and motivation for different leadership stakeholders at different points of time. In essence, to understand the "leadership brand".
- Building, developing and sustaining high-performance teams. The principle of high-performance (Goals, Roles, Processes, Interpersonal Relationships, Passion with Purpose) as well as the behaviours of teams and organisations to sustain high performance (including debriefing; alignment/congruence; pulse check; and fair process).
- Understanding and leveraging diversity including cross-cultural interactions.
- Developing relationships and networks based on mutual interests and accountabilities, effective interpersonal engagement, feedback and reflection.
- Becoming a trusted adviser with key stakeholders – especially business clients and partners.

Grading Scheme
For this course a direct grade between 1 and 4 will be allocated. 60% of the assessment marks are allocated to the group work during the five sessions including the project presentation undertaken in the final session.
40% of the assessment marks are allocated to individual participation in class activities and discussions.

Major Degree Project (3 units)

We expect the EMFin projects to have real business impact – to lead to actionable insights and recommendations that either participants, or those near participants (managers, sponsors, clients), could implement.
There are many different topics and themes for the project. This is quite open; the main constraint is time. The idea is to choose something that is doable in the timeframe allotted, which amounts to, approximately, 4-5 months of part-time work during the closing stages of the programme. That is, participants will be busy. The participant needs to find something that is challenging but not over-ambitious. Of course, projects, once completed, should have an afterlife. They are meant to be useful to the participant in the coming years and will, normally, require continued development.

Project types could be of two main types: **Problem-centered** or **Issue-centered**. Note that the boundary between these two types is blurry, but in general the former tends to start with a specific problem or activity in an actual/current setting and leverage theory, while the latter tends to start with a topic or area of expertise but offer practical insights. The challenge of the Problem-centered projects is to adequately leverage theory to structure and understand the problem. The challenge of the Issue-centered projects is to adequately display real-life relevance and impact; these projects take a more academic approach and tend to focus on a survey of the "state-of-knowledge" today, but they should not be exclusively academic and seek some form of practical insight or application (i.e., "the general implications for firm practice are…").

Problem-Centered Project:
"There is a problem in a specific setting which requires analysis and comprehension, leveraging theory (theories) to do the *analysis* and come up with *concrete recommendations*."
Example: In encountered the issue of managing risk in an international setting within my export-oriented company.

Issue-Centered Project (sample):
"There is a general issue in the business/management world which I want to understand better, broadening my competence through wider reading and research and then developing new insights through the project. That is, I want to take a further step towards building my expertise in this area of knowledge."
Example: I would like to know more about financing by issuing equity.

Beyond these general categories, we will not offer more specific guidance. Rather, the EMFin project process works best if we respond to participants' ideas. This is why we require a short, 1-page proposal from the participant and his/her partner. This is the best way, we have found, to give guidance and make sure the projects are doable and appropriate.