# 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 14.5 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)
- Sustainable Finance (0.5 unit)
- Fixed Income & New Investment Strategies (0.5 unit)
- Asset and Liability Management in Banking (0.5 unit)

**Module 4: Electives (Pass/Fail)** **Held in Fontainebleau**

Possible Courses * Subject to Change:
- Bank Management
- Behavioural Finance
- Negotiations
- Management Decision Making

**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:

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|---|---|
| • Global Financial Services | (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:** | **14.5 units** |

# MODULE 1: Core courses Units: 3

## 1. ACCOUNTING (1 unit)

**Course Description**
Corporations publish financial statements so that interested parties (e.g., investors, suppliers, regulators, etc.) can understand the nature of their business activities, their performance in carrying out those activities, their financial condition and their future prospects in terms of returns and risk. These financial statements are the product of the financial accounting process and a prominent feature of the financial reporting environment in which corporations operate.

This course aims to develop your financial accounting literacy skills to help you extract information from financial statements for your decision-making. To achieve its objective, the course focuses on fundamental accounting concepts and principles. You will learn how the economic transactions of an enterprise are reported in the financial statements and related disclosures. You can use this knowledge in many ways: as an investor, financial advisor, management consultant, competitor, or employee of the firm.

**The structure**
Session 1: Setting the stage: Introduction to Financial Statements
Session 2: Introduction to Financial Statements(continued), Common-Size Analysis
Session 3: Statement of Cash Flow Analysis, Financial Statement Analysis
Session 4: Financial Statement Analysis (continued), Revenue Recognition
Session 5: Revenue Recognition (continued), Accounts Receivable, Inventories
Session 6: Long-lived Assets, Long-term Debt/Bonds
Session 7: Pensions, Leasing, Provisions & Contingencies
Session 8: Investments
Session 9: Shareholders’ Equity, Review

**Materials**
Recommended Textbooks:
- Young, S. David; Cohen, J.; Bens, Daniel A (2019) *Corporate Financial Reporting and Analysis: A Global Perspective* (4th Edition).John Wiley & Sons Ltd.
- Weil, R.L., Schipper, K. and Francis, J. (2014). *Financial Accounting: An Introduction to Concepts, Methods, and Uses* (14th Edition). South Western Cengage Learning
- Dyckman, T.R.,Magee R.P., and Pfeiffer G.M. 2014). *Financial Accounting (4th Edition).* Cambridge Business 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: 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 2: Yield Curves**
The lecture focuses on the different types of yield curves, zero-coupon yield curves, par-curves, forward curves. The concept of "yield" is meaningless by itself given the numerous different yield types (zero-coupon, par, forward, current,...). The goal of the session is to clarify their meaning and explain how to move from one to the other. The concept of "bootstrap" is introduced and illustrated. The concept of arbitrage is introduced as well to explain how to calculate forward yields from spot yields.

**Session 3: Interest Rate Risk**
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.

**Session 4: 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 5: 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 6: 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.

## *CORPORATE FINANCE I*

**<u>Course Description</u>**
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:
- Bodie, Kane Marcus (2011). *Investments, 9*th edition (Global Edition), McGraw-Hill.
- 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.
- Koller, Goedhart and Wessels (2005). *Valuation* (4th edition). John Wiley & Sons

Optional Textbooks:
- Simon Benninga (2000). *Financial Modeling*. MIT Press.
  (This book provides an excellent Excel training on financial modeling. )
- Bruce Tuckman (2002). *Fixed Income Securities*. 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. <u>FINANCE II – CM/CF</u> (2 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. The case focuses on the ill-fated relationship between the LIA, Libya's new sovereign wealth fund, and Goldman Sachs, notably the ultimately disastrous $1.2 billion derivatives (elephant) trades that the LIA entered into in early 2008 on the advice of Goldman Sachs.

**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. We return to the LIA and Goldman Sachs to value their derivatives trades using binomial pricing.

**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.

**Sessions 8 & 9: Corporate Securities (Warrants, Rights & Convertible Debt)**
This session focuses on securities with embedded options that are issued by corporations: warrants, rights and convertible bonds. These securities can, at the holder's option, be converted into new shares of the company. We discuss the main rationales for issuing such securities and study how they should be priced to correctly account for the fact that their exercise triggers the issuance of new shares and hence results in dilution of the share price.

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

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

Textbook:

- Bodie, Kane, Marcus (2009). *Investments* (10th edition). McGraw-Hill. (earlier editions are fine)

## 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.

**Structure**

**Session 1: Understanding Uncertainty.**
Interpreting data. Cognitive processes in judgment. Understanding Randomness. Introduction to Sampling.

**Session 2: Modelling uncertainty.**
Probability distributions. Sampling and Accuracy of Samples. Statistical Decisions.

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

**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

*** 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. Do read through each course's grading scheme for detailed assessment scheme.

## 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 risk decomposition; risk is not additive. How is it possible for an asset manager to identify risk concentrations in a portfolio? Concepts such as marginal risk, risk contributions and hot spots are introduced. The second topic deals with diversification and discusses its benefits and limitations. A critical issue is to make sure that a portfolio is well diversified. This requires proper measures of diversification. New measures have been suggested recently. The most popular asset allocation schemes (mean-variance, naïve, risk-minimization....) are then introduced. The relatively new concept of "smart beta" is discussed. Next, the concept of factor investing is introduced. Should investors diversify across asset classes or across factors? What are factors in the first place? 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, using hedge funds as an example. Their usefulness in asset allocation schemes is discussed.

**The structure**
Session 1: Risk decomposition
Session 2: Diversification issues, popular asset allocation schemes and smart betas
Session 3: Factors and Factor Investing
Session 4: New measures of risk
Session 5: Asset allocation schemes with alternative investments

Textbook:
- Ilmanen, A (2011). *Expected Return: An Investor's Guide to Harvesting Market Rewards.* Wiley.

## 2. FIXED INCOME & NEW INVESTMENT STRATEGIES (0.5 unit)

**Course Objectives (Fixed Income)**
The goal of the three sessions is to explore further fixed-income markets. The course (Session 1) starts with a brief recap of the issues discussed in CM1 regarding the simple measures of interest rate risk, i.e., duration and convexity. These simple measures rest on the unrealistic assumption of parallel shifts in the yield curve. Alternative risk measures are proposed as alternatives (key rate durations, factor-based risk measures....). The second session (Session 2) focuses on the timing risk displayed by many bonds (corporates, MBS...) caused by optionality (bonds are callable, puttable, convertible...) When the timing of a bond's cash-flows is uncertain, the simple measures of return (yield) and risk (duration, convexity) cannot be used any longer. Alternatives (adjusted yield, adjusted duration) are suggested. The third session focuses on hedging interest rate risk. The most popular hedging instruments are swaps and futures to hedge linear risk and swaptions to hedge the non-linear risk. The session will discuss the use of interest-rate derivatives as opposed to their pricing. Finally, time permitting, the course will conclude with a lecture on the impact of the GFC (Great Financial Crisis) on money market rates.

**Course Objectives (New Investment Strategies)**

This course focuses on new trading strategies based on the link between fundamental analysis and behavioural finance. We first provide insights on how to ameliorate traditional strategies (e.g., momentum) based on behavioural intuition and then we focus on valuation around corporate events, such as M&As, IPOs, SEOs, share buybacks and dividends. Then, we will focus on new insights on fundamentals-based asset valuation. We start by considering the complexities and potential pitfalls of traditional fundamentals-based valuation frameworks. We discuss the challenges posed by earnings manipulation, cash flow smoothing, and further biases and manipulation in analyst recommendations and forecasts. Examples include cash management, multiple listing, shareholder policies, supply and demand links, network centrality and family affiliation. We then focus on the role of sentiment (the "mood" of the market, leading to potential over-or undervaluation). We look at new providers of data (such as news analytics) and study how to distinguish sentiment-based effects from those driven by fundamentals. Finally, we will consider how recent models of international valuation and momentum-based approaches can be applied. The goal is threefold: to understand strategies employed by asset managers, such as hedge funds, that aim to exploit the valuation impact of such events and to understand how to select assets companies involved in these events.

## 3. SUSTAINABLE FINANCE (0.5 unit)

Subject updated, information pending

## 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 Final Basel 3 *(Basel 4)*.

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. This is followed by a discussion of Asset & Liability Management (ALM), the set of modern financial techniques needed to create long-term value and control risks in a bank. Throughout the course, we draw strategic implications from the global financial crisis, the covid-19 great recession and the major structural changes occurring in international banking markets, such as digital disruption from *FinTechs*.

The course is addressed to participants with an interest in *value creation, risk management and strategic planning* in banks. It is also of interest for investors in bank stocks or bonds and clients of banks who wish to understand their mode of functioning.

**Learning Outcomes**
A participant completing this course will be able to:

- Value a bank
- To construct key-performance indicators in banking.
- Price loans and evaluate loan-loss provisions.
- Evaluate liquidity and market risks
- Evaluate the threat and opportunities of digital disruption and Fintechs
- Understand regulatory proposals to build a more resilient banking system
- Understand governance issues related to sustainable green banking

Recommended Textbook:

- J. Dermine (2015). *Bank Valuation and Value-based Management* (2nd Edition). McGraw-Hill, NY.

# MODULE 4: Electives
# Pass/Fail

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.

SAMPLE ELECTIVES *Subject to change:

- Bank Management
- Behavioural Finance
- Negotiations
- Management Decision Making

*The list of proposed electives subjects (and their course outline) will be made available in February.

**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 elective subjects are graded on a pass/fail basis.

## MODULE 5: Corporate Finance Units: 2

*** 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. Do read through each course's grading scheme for detailed assessment scheme.

### 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**
A share buyback s a nexus of corporate finance: it is at the same time a payout decision, a capital structure decision and an investment decision. 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 and Tactical Issues**
Acquisition finance is somewhat 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 or earn-outs can eliminate these concerns. At the same time we will integrate these concerns with the other traditional factors that should drive the capital structure decisions of the acquiring firm: taxes, costs of financial distress and agency costs. Other tactical issues such as overcoming free rider problems with toe-holds will also be addressed.

**Session 4: Financial Restructuring: Divestitures, Spinoffs & equity carve-outs**
Conglomerates may feel that the market undervalues their assets and think about innovative solutions to eliminate these market efficiencies. We will discuss various solutions such as divestitures, equity carve-outs, spin-offs and tracking stock. A comparison will be made between these solutions by looking at their impact on taxes, governance and wealth transfers to other stakeholders.

**Session 5: Financial Innovation, Death spirals and Cocobonds**
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 illustrate these principles with innovative convertibles such as floating priced convertibles (also called death spirals) and Cocobonds, a new security designed to finance banks so that bailouts of subordinated debt are avoided (so far banks have issued more than $ 100 billion worth of Cocos). We will show the costs and benefits of various design features and propose solutions to some of the design issues. In particular if conversion is triggered by stock prices how can the issuer avoid death spirals initiated

by short-sellers or market panic? We will propose a design, the COERC, that comes close to an idea debt instrument: it has the advantages of a normal bond (tax deduction of interest payments) in good times but avoids costs of financial distress in bad times.

Recommended Textbooks:

- Weston,Mitchell and Mulherin (2003). *Takeovers, Restructuring and Corporate Governance, Fourth edition*. Prentice Hall
- Eckbo, E. B. (2010). *Corporate Takeovers: Volumes 1 & 2* (1st ed.). Academic Press.

## 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 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 elective will cover 3 topics:

1. What is project finance and what the differences between project finance and corporate finance are?
2. Financing issues in project finance, such as how projects are financed and what the implications are.
3. Valuation issues in project finance, why the WACC cannot be used and which alternatives can be used instead,

Each topic is illustrated by a case or mini-cases/exercise (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

**<u>The structure</u>**

Session 1: What is Project Finance?
Session 2: Financing Issues in project Finance (Macro Perspective)
Session 3: Financing Issues in Project Finance (Micro Perspective)
Session 4: Valuation Issues in Project Finance (Part 1)
Session 5: Valuation Issues in Project Finance (Part 2)

Note that there is no proper book on the topic of project finance.
Optional Materials:

- Sawant, R (2010). *Infrastructure Investing*. Wiley Finance.

## 4. <u>PRIVATE EQUITY & VENTURE FINANCE</u> (0.5 Unit)

**<u>The main focus</u>**

This applied course provides balanced overview over the private equity landscape and covers the entire spectrum from early to late stage investing, i.e., from venture capital to leveraged buy-outs, with a global focus on recent developments and industry specific discussions. Using mainly the case method and a short investment committee simulation, it addresses the principles of private equity deal making that are common across the various private equity types and highlights the most important differences.

The course promotes holistic thinking about businesses and fosters a synthesis of the various functional courses taken at INSEAD, e.g., in finance, strategy, marketing and OB. Especially the advanced finance courses offered in the Program are a useful complement to this elective.

***However, the focus is on private equity firms and their organizational and managerial challenges, as well as on their investment and value creation strategies, not on finance theory. The institutional investor angle is part of the discussion in the course.***

**<u>Learning Outcomes</u>**

In this module, you should expect to:

- Get a broad overview over the different types of PE strategies in developed and emerging markets:
    i. Venture Capital (VC)
    ii. Growth Capital;
    iii. Buyouts (LBOs)
- Understand how PE firms create value in their target companies through pre-deal due diligence, deal execution and structuring
- Gain exposure to PE transaction in developed and emerging markets and understand the different drivers of success

- Have a clear understanding of the trends shaping the industry right now

**<u>The structure</u>**

Session 1: Private Equity & Venture Capital – An Introduction

Session 2: LBO 101(part 1)

- o What are defining elements of LBOs? How do they (if executed well) allow buyout firms to achieve their ambitious return goals? Is it all only about the debt?
- o The goal is to help you understand core concepts of leveraged buyouts, including an appreciation of the entire buyout process and its value drivers.
- o To break up the heavy lifting, LBO in this course will be taught in two afternoon sessions. While everything is of course interconnected, the first session will concentrate on financing and structuring, while the second one on operations and overall risk-return.

Session 3: Venture Capital & Growth Equity

- o We are now changing perspective and address investment decisions from a Venture Capital & Growth Equity point of view, focusing broadly on the challenges associated with early stage & minority investments in an international setting.

Session 4: LBO 101(part 2)

- o Part 2 of LBO 101 will focus on the operational value creation side of LBO investing.

Session 5: Private Equity Exits –When the Rubber hits the Road

Mandatory Text Book:

- C. Zeisberger; M. Prahl; B. White (2017) *Mastering Private Equity –Transformation through Venture Capital, Minority Investments & Buyouts*. Wiley 2017.

# MODULE 6: Capstone and major degree project Units: 5

*** 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. Do read through each course's grading scheme for detailed assessment scheme.

## 1. GLOBAL FINANCIAL SERVICES (0.5 Unit)

**The main focus**
This course covers the major trends in financial intermediation and its global dimension. We will try to understand the recent developments in the financial industry and to position the banking activity within it. The goal is to develop a framework that helps to think critically and to lay out how to move forward and cope with these new trends, turning them into opportunities and sources of competitive advantage. The ultimate goal is to get the participants grow together towards a broader strategic view that will prepare them to be future leaders inside the organization, bridging the gap between finance and strategy.

**Learning Outcomes**
- Understand the processes of global financial intermediation and disintermediation.
- Project the impact of new and oncoming financial linkages such as fintech and their impact on global financial markets and institutions.
- Understand the failures in global financial networks and the sources of systemic risk.
- Assess the strategies of major international financial firms and niche players, including the role of foreign banks and other financial intermediaries in national markets
- Competitive performance in global banking –what key features distinguish the winners from the losers in global financial intermediation?
- Identify important drivers of the future of global banking and capital markets.

## 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.

## 3. FAIR PROCESS AND BOARD MANAGEMENT (0.5 Unit)

**The main focus**
This course explores the content and principles of governance, and aims at improving governance practice and understanding. It focuses not so much on compliance, regulations and the law (a must), but more on the behaviors that lie at the core of effective governance and the contribution that effective governance makes to leadership, organizational performance, and ultimately value creation. A major part will be taken by the topic of Fair Process Leadership, which is central to good governance and great

execution. The course very much takes a practical view, focused on principles, frameworks, and tools for effective director and executive behaviours.

The course also takes a less usual (as such courses go) personal leadership view: are you being governed effectively, what is your governance responsibility, and are you governing yourself effectively? How leadership is exercised in your organization, and is governance seen as supporting leadership or constraining it? Are you assuming your governance responsibilities? The latter is a simple question to ask, but more subtle to answer.

**Learning Outcomes**

The course pursues the following set of aims:

- explore the topic of governance so that participants understand the role governance plays in corporate leadership, performance and sustainability;
- provide language, principles and concrete governance tools (such as fair process, governance codes, high performance team work ...) so as to induce greater consistency and effectiveness in governance behaviours (as board member, senior executive, service provider to boards, or investor);
- allow an informed and critical review of the literature on the subject and become a more informed participant in governance debates (public or private);
- 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.

## 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.

## <u>Major Degree Project</u> (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 <u>problem or activity</u> in an actual/current setting and leverage theory, while the latter tends to start with <u>a topic or area of expertise</u> 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.

You will be briefed about the capstone project in Module 3.