**Chapter 4: International Commercial Banking**

Structures of the Overseas Operation

1) Correspondent Banking

2) Representative Office

3) Branch Office

4) Agency

5) Subsidiary

6) Consortium Banks

Functions of Global Commercial Banks

1) Credit Services

2) Syndicated Loan Facilities

3) Project Finance

4) Trade Finance

Credit Analysis in International Lending

1) Collateral

2) Cash flow projections

3) Covenants

4) Character

Noncredit Services

1)Global Custody

2)Cash Management

**Chapter 5: International Investment Banking**

What is investment banking?

What is underwriting?

Four Functions of investment banking activities

1) Underwriting and selling of shares

2) Making markets

3) Advisory services

4) Supplementary business streams

Functions of Investment Banks:

1) Underwriting

2) Winning the Mandate

Primary market making, seasoned security

3) Preparing the Issue

Establishment of a shelf, private placement, due diligence

4) Commitment or Best Efforts

The IPO

1) Due diligence

2) Pricing

3) Deciding the effective date

4) Delivery of a final prospectus

5) Sale of the securities

6) Dealing with a sticky issue

7) Customer settlement

8) Disbursing proceeds

Gross spread, management fee, underwriting fee, selling concession

Secondary Market Making

Arbitrage

Advisory Services

1)Takeovers

2) Leveraged Buyouts

Other Investment Banking Services

1) Merchant Banking

2) Merchant Capital

Major trends in investment banks

**Chapter 6: International Retail and Private Banking**

What is international retail banking?

International branchless banking?

Advantages and disadvantages

International Private Banking

1) What is it?

2) Deposit-related activities, credit extension and personal lending, corporate lending, investment management

Serving the private client.

What is important for the customers?

1) Secrecy

2) Safety

3) Quest for yield and performance

4) Top-flight service

Trends

Private banking clients are evolving in nature

Until recently clients were mainly concerned with avoiding taxes. Content to park the money

New-money type who demands better investment performance and more sophisticated financial services than the old-money families

Earned rather than inherited wealth. More active approach to wealth management.

**Chapter 7: Offshore Financial Centers**

What is an Off shore financial center?

Examples: Bermuda, Cyprus, Bahrain Hong Kong, Singapore, Switzerland, Monaco, Luxembourg, Barbados

Key Elements

1) Low or no taxes

2) Services are provided for nonresidents clients

3) There are no or few foreign exchange controls

4) Geographic proximity to a major economy

5) Bank secrecy

6) Political stability

7) Can help a helpful economic activity with few natural resources

8) Limited in population and natural resources

Advantages

Right to financial privacy

Unnecessary and excessive financial disclosure requirements may hurt the companies

Disadvantages

Individuals and companies can evade the payment of taxes

A reduced ability to pay for public services

Attraction of unsavory business elements involved in international criminal activities

**Chapter 8: Banking on the Foreign Exchange Market**

Purchasing Power Parity

How the mechanics of fx trading work?

American versus European quotations:

American: $ 1.55 = Pound 1

Pound 0.645 = $1

1) Spot deal is a trade for current prices

2) A forward rate is when the two sides agree today to buy/sell the foreign exchange at some future date at a price that is agreed on today

3) Forward currencies trade at a premium or discount relative to their spot rate

4) A swap involves both a spot and forward contract or two forwards.

5) Spot 1.5370 SF/$

1 Month Forward 1.5320 SF/$

Swiss franc is trading at a forward premium against the dollar and the pound is at a forward discount against the dollar.

Calculate the annual premium/discount rate

Arbitrage: profiting from differences in price when the same security, currency or commodity is traded on two or more markets

Look at the Covered interest arbitrage example on page 210. Pick spot and forward exchange rates and

Interest rates from the internet and try to see if there is a covered interest arbitrage

Currency swap: is a foreign exchange agreement between two parties to exchange a given amount of one currency for another and, after a period of time, to give back the original amounts swapped.

Provide an example of a currency swap through a swap dealer

**Chapter 9: Bank Crashes**

Bank crash: failure of a financial institution. It is a collapse of the price of an asset or sudden fright without cause. It occurs when fear that payments will not be available at any price precipitates a desperate action on the part of the public to obtain cash.

What is contagion effect?

What is run on a bank?

What causes crashes?

1) Low capital-to assets ratios

2) Low cash-to- assets ratios

3) High demand debt and short-term debt to total debt

4) Long period of calm conditions marked by fierce competition between financial institutions

5) Long credit cycles in which banks have been able to continue lending for a long period to increasingly more indebted borrowers and after a period of financial innovation

6) Financial fraud

7) Panic which is initiated by an abrupt shift in the perceived riskiness of a bank or a financial market

8) Macroeconomic volatility

9) Lending booms

10) Increasing bank liabilities with large maturity or currency mismatches

11) Inadequate preparation for financial liberalization

12) Heavy government involvement and weak controls on connected lending

Weaknesses in accounting

Distorted incentives for owners, managers, depositors and supervisors

Exchange rate regimes that are open to considerable volatility

Regulatory forbearance

Too big to fail doctrine

Big banks would receive de facto 100% deposit insurance. The bank may be one of the largest banks in the financial system and its failure could have considerable repercussions on the rest of the economy.

Reduction in the money supply

Increase the cost of credit intermediation

A large bank can cause a financial black hole

Advantages:

Disadvantages: moral hazard

**Chapter 12: Money Laundering**

Money laundering is the act of transforming profits earned from criminal activity into legal profits.

Examples: arms smuggling, trafficking in stolen art, body parts, nuclear weapons, money used by terrorist groups, kidnapping for ransom,

3 phases of money laundering:

1) Placement:

2) Layering:

3) Integration:

Laws around the world

Anti-money laundering laws

The Burden on Bankers

1) Willful negligence

2) Suspicious transactions

3) Know your customer

4) Adequate record keeping systems of transactions