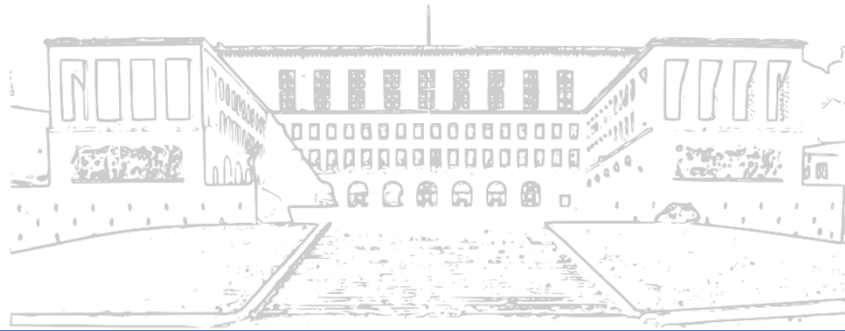


FINANCIAL MARKETS AND INSTITUTIONS

THE SECURITIES' INDUSTRY AND OTHER INTERMEDIARIES

A.Y. 2017/2018
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AGENDA

- Investment banks
- Brokers and dealers
- Private equity and venture capital
- Mutuality in banking and finance
- companies

INVESTMENT BANKS

- Instead of deposits/loans: **fundraising** and **advice on related issues**
- Income mainly **fee-based** (plus, if present, **trading**)



- Main intervention areas:
 - **design and underwriting** (primary mkt), **servicing** (secondary mkt), **private placement, due diligence, brokering** for HNWI
 - **due diligence, inquiries, advice, value calculation** in M&A and buyouts
 - **trading, asset management, merchant banking**
 - **market research**
- Several **conflicts of interest** and **excessive risk-taking**

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BROKERS AND DEALERS

Brokers:

- Servicing **investors** by matching buyers and sellers:
fee-based income
- Offer the usual orders (market, max/min) plus stop-loss and short-selling operations
- Some provide margin credit and accounts with settlement services
- Also market research and continuous advice (full-service)
VS execution only (discount brokers)



Dealers (and market makers):

- **own inventory** of securities
- **add liquidity** to otherwise illiquid assets (f.i. small volumes or entities)
- **continuously offer bid/ask** (buy/sell) opportunities for investors
- compensated by **spreads**



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PRIVATE EQUITY AND VENTURE CAPITAL

- **Limited partnerships** of HNWI buying **equity**: long term, high risk/return
- Provide **expertise, network, monitoring**
- **Exit strategy** through IPOs and M&As
- **Venture capital**:
 - Supply funds to start-ups with high growth potential but limited access to credit/markets
 - Specialised in different stages (seed, early-stage, later-stage investing)
- **Private equity**:
 - buy troubled public companies to go private
 - regulatory burden relieved, new management, return to profitability
 - each operation absorbs more funds than VC, but with more collateral



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MUTUALITY AND BANKS

- Issue: limited supply for funding of **large numbers of small operations**, especially in rural areas
- Different “spontaneous” models:
 - Originally: urban (Schulze-Delitzsch, Luzzatti) and rural (Raiffeisen, Wollemborg) **credit unions**
 - Today: **cooperative banks**
- Similarities with Islamic banking and “microfinance”
- **Undistributable profits, maximum share ownership** and **headcount voting**: agency issues, lower efficiency, smaller scale
- Some conflicts of interest with politics and “relaxed” regulation (f.i. 1980’s S&L US)
- Today close to traditional entities (products, supervision, ...), yet tax advantages
- Not only banking: MGCI offer **guarantees** to access bank loans



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FINANCE COMPANIES

- **Specialised** in customers (f.i. consumers) or products (f.i. leasing), often **captives**
- Funds often acquired from **money markets** (no deposit risks) and used with **higher credit risk**, with **fewer regulatory constraints**
- Main institutions:

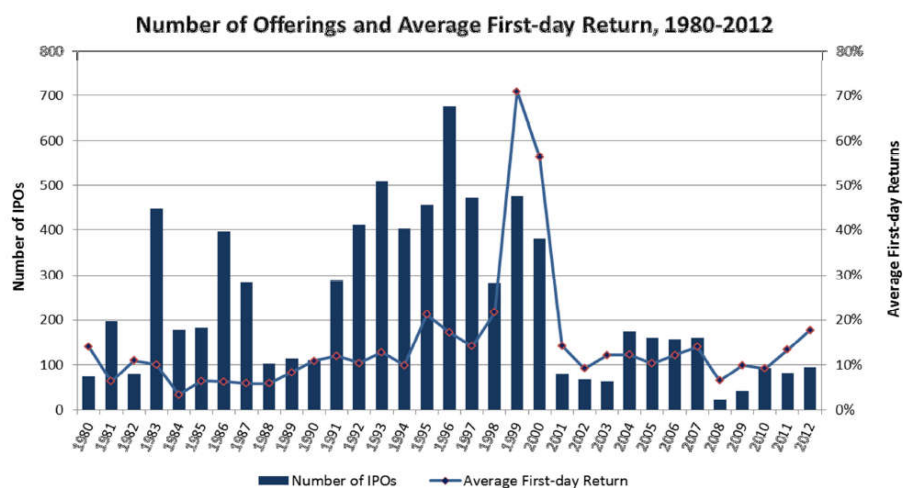


- **factoring**: discounting receivables to secure the loan, with or without recourse, additional services (scrutiny of debtors, collection, ...)
- **leasing**: equipment/real estate is bought and leased providing collateral, with tax advantages for lessees
- (revolving) **floor plan loans**: credit is granted on inventories of assets with titles, securing the loan through individual liens
- **consumer finance** companies:
 - for specific goods (furniture, TVs, ...), home re-structuring/financing
 - consumers benefit from a one-stop-shop
 - some target troubled borrowers (poor credit history, ...)

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EXAMPLES

1. Some interesting statistics on IPOs [US data, Ritter J.R., University of Florida]

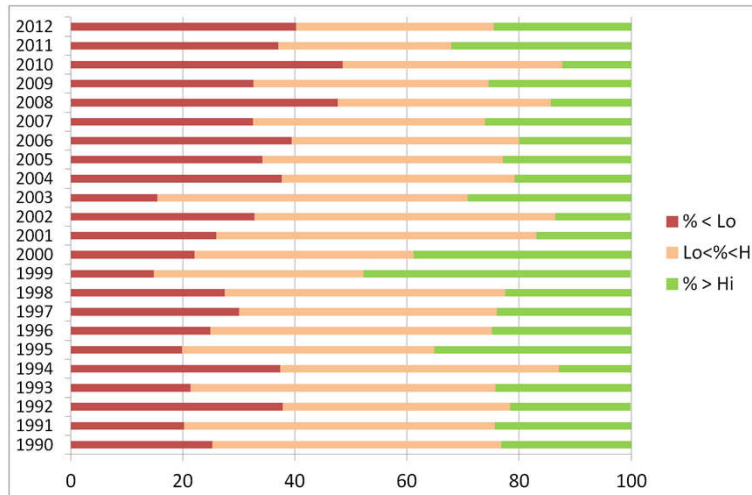


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EXAMPLES

2. Some interesting statistics on IPOs [adapted from US data, Ritter J.R., University of Florida]

Price range and 1-day returns

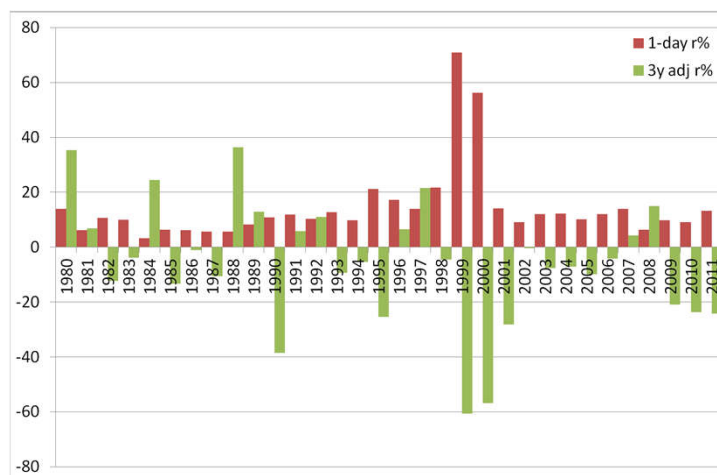


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EXAMPLES

3. Some interesting statistics on IPOs [adapted from US data, Ritter J.R., University of Florida]

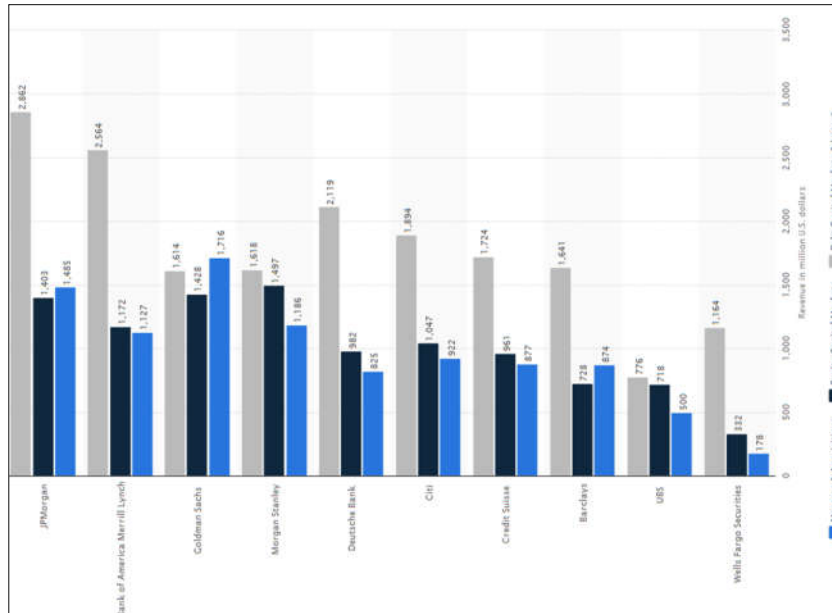
1day VS 3year performance



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EXAMPLES

5. Top 10 investment banks by M&A fees and geographical distribution of revenues [statista.com, 2014]

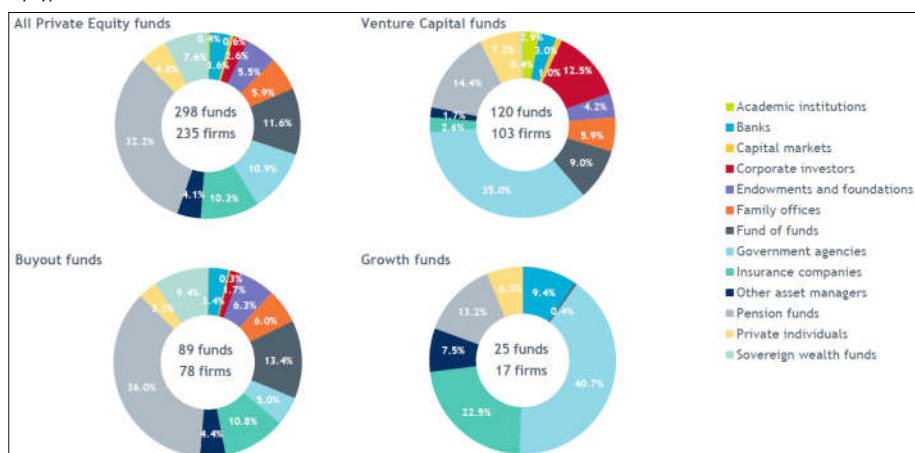


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EXAMPLES

6. European Private Equity and Venture Capital figures [EVCA.eu]

By type of investor

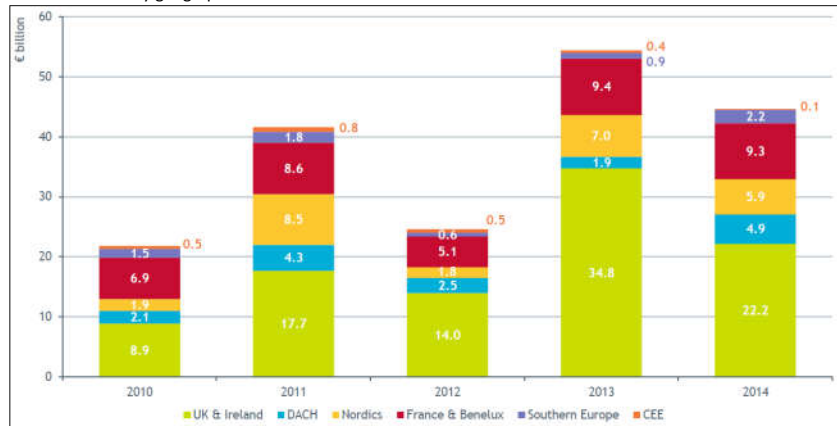


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EXAMPLES

7. European Private Equity and Venture Capital figures [EVCA.eu]

New funds raised by geographical area

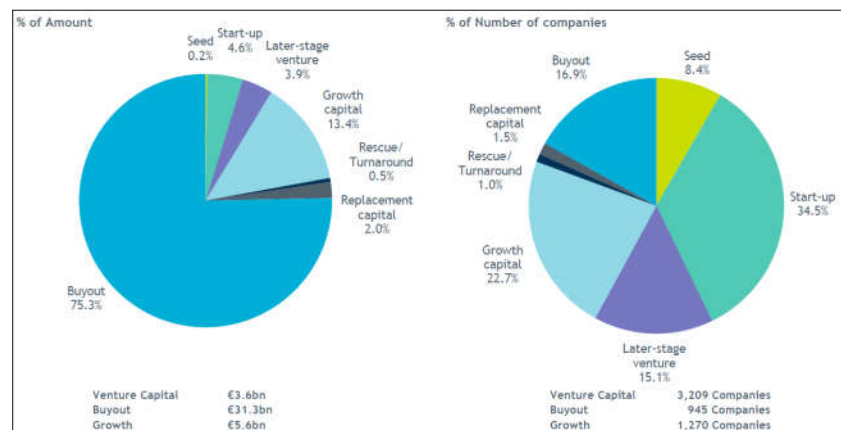


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EXAMPLES

8. European Private Equity and Venture Capital figures [EVCA.eu]

Targets



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