

## Securities Companies Analysis

A two-day intensive based workshop offering a structured approach to the credit analysis of brokers and broker dealers (including investment banks, specialists and smaller private brokers). The workshop is case-study based and tailored to the market where it is run.

### TARGET AUDIENCE

An intermediate credit workshop designed for experienced commercial, investment banking and fixed income professionals responsible for credit risk management, origination, or fixed income investment, sales and trading. The workshop can be attended as part of the five day Non Bank Financial Institutions workshop.

Participants with less experience in the analysis of financial statements may wish to attend the two-day Introduction to Bank Financial Statements workshop. This Securities Companies Analysis workshop serves as preparation for the advanced level workshops: Early Warning Signals in Banks or Advanced Bank Analysis.

### COURSE OBJECTIVES

The overall goal of this workshop is to give participants a structured approach to the credit analysis of securities firm.

Specifically, participants will be equipped to:

- Distinguish the key business and financial risks for different types of securities firm (broker dealers, brokers, specialists etc)
- Identify strong and weak performers using benchmarks for the key performance, liquidity, capital and asset quality measures
- Apply lessons learned from the recent crisis to detect early signals of changing credit quality
- Evaluate financial statements to uncover key credit issues and the impact of differing accounting policies
- Understand the key competitive and regulatory changes that are shaping the securities industry.

### CONTENT

#### ANALYTIC OVERVIEW

- Perspective on securities companies: regulators, rating agencies, debt and equity investors
- Purpose payback model; key issues in debt and counterparty exposures to securities companies.

#### OPERATING ENVIRONMENT

- Understanding the risks in the different securities markets: foreign exchange, equities, fixed income, futures and other derivatives, commodities, etcetera
- Risk profile of securities company products and businesses: broking, proprietary trading, underwriting, asset management, clearing and services
- Key competitive issues by sub-sector: investment banks, wholesale brokers, specialists, prime brokers, retail brokers etcetera
- Changing competitive landscape: role of electronic broking, exchanges and clearing houses
- Regulation and supervision: focal points of capital adequacy, liquidity and business practices regulation, impact on strategy and credit standing.

### MANAGEMENT, FRANCHISE AND OWNERSHIP

- Critical management issues for securities companies: strategy, risk management (VaR and other models), corporate governance and key man issues (for smaller companies)
- Shareholders; quality of financial and business support
- Double leverage; financial holding companies and other group or conglomerate risks
- Franchise; maintaining advantage in a competitive market.

### FINANCIAL FUNDAMENTALS

- Statement logic
- Impact of business model on financial statements
- Key accounting policies; asset valuation and earnings recognition
- Window dressing challenges
- Business risk
- Earnings volatility and cost control
- Market risk / asset quality: securities and potential haircuts, off balance sheet exposures etcetera
- VaR models: key assumptions and shortcomings, stress testing and back testing, managing illiquid assets
- Counterparty risk; derivatives and other exposures
- Financial risk
- Managing funding stability and liquidity risk; dependence on repo and other unstable funding
- Cash capital management and other key measures of liquidity; cash flow movements in differing business models
- Managing client balances; re-hypothecation and other risks
- Capital adequacy; regulatory and analytic tools to assess the strength of capital and the risks of leverage
- Early warning signals; lessons learned from a failed securities company.

### STRUCTURE

- Exposure types: secured versus unsecured exposures, repo and derivatives lines, warehouse and borrowing base facilities, backstop lines
- Safeguards; typical covenants and other clauses to protect and monitor exposures
- Documentation; ISDA and CSA documentation requirements.

### Learning Paths

