

¹ RBC Japan– Teaching Note

Conor Vibert developed this teaching note to guide the use of the multimedia case entitled Gaspereau Press for instructional purposes. It is not the purpose of this material to serve as an illustration of how to effectively or ineffectively address a managerial situation.

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SUMMARY

Masafumi Noguchi Director of Fixed Income for RBC Capital Markets (Japan) Ltd has an opportunity in front of him. He must devise a strategy to maximize profit from a clients need to monetize a large financially risky portfolio. Advice is being sought as to how to proceed in resolving this real life issue. Students are offered access to a set of transcribed video clips that outline the issue and its cause along with providing context for the issue. In order to arrive at alternative solutions and justify their choice of a solution, students are expected to use sources of information not found in the case to gather needed evidence.

KEYWORDS

- Liquidity, Risk, Profitability, Portfolio

CASENET VIDEOS

Each video in this multimedia case features a segment of an interview with one of the organization's key decision makers. The videos describe:

1. the *Issue* facing the individual or organization
2. the *Cause* of the issue
3. *Background* information for the individual, organization and industry
4. *Alternatives* for addressing the issue
5. A suggested *Solution* and justification

Transcriptions for each video are also available. Students may not access the *Alternatives* and *Solution* videos or transcripts.

OBJECTIVES FOR TEACHING

There are a number of instructional objectives for this case.

- To enhance the decision making skills of students by having them address a real life issue faced by managers of Canadian or international companies.
- To introduce the student to the idea of bidding strategy
- To emphasize the importance to students of a team in financial trading

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POSSIBLE TEACHING STRATEGY

This case is ideal for in-class case analysis or as an assignment. Assuming an 80 minute class, here is an approximate class schedule:

Time (minutes)	Task
5	Introduce case and divide students into groups.
15	Students view <i>Background</i> case videos and make notes.
5	Instructor plays the <i>Issue</i> and <i>Cause</i> clip(s).
25	Students identify alternatives, a solution and rationale.
20	Instructor guides a discussion around alternatives, solution and rationale.
10	Instructor plays the <i>Alternatives</i> and <i>Solution</i> clips.

If the case is used as an assignment, the instructor may want to focus assessment on:

- 1) **Decision-making process.** The instructor would evaluate writing style, appropriateness of information sources, alternatives, solution and rationale. This approach recognizes that the alternatives and solutions offered in the case are not necessarily optimal, and other choices may be equally effective. Students can be rewarded for their selection of decision making approaches, analytical frameworks and cited reference material.
- 2) **Outcomes.** The instructor would evaluate how closely student responses match those offered in the *Alternatives* and *Solution* video clips. Or, the instructor could use the insight of an existing research paper or analytical framework as the basis for judging outcomes.
- 3) **A combination of process and outcome.** The instructor may apportion the grade between process and outcomes.

POSSIBLE QUESTIONS FOR ASSIGNMENTS

For the issue outlined in the case, students can be asked to identify a set of alternatives available to organization or interviewee, suggest a solution and then explain why they chose that solution and not others. Other questions that will help students prepare for their case analysis include:

- How can RBC monetize the transactions reduce the risks from taking on large deals?
- How can the transaction be made more efficient?

CASE ANALYSIS

Issue: The Issue and Cause video clips outline the problem or challenge of the case.

The issue that I am facing is as follows. Let us say that there is a Bank A and Bank A has been buying huge amount of securitized products over the years. They have a huge portfolio of that product. Let us now image that we are at the point in time of the Global Financial Crisis (GFC). Now the client has to liquidate the portfolio. As you receive information about the client’s intention to liquidate the portfolio, you notice bits and pieces of bonds being sold by the client every day, for the last two weeks. But it is a very small portion of the portfolio because the overall liquidity of the market is limited. Now you are in competition with at least two or three

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other dealers. You submit your price. They submit their price. If your price is best, they sell it to you. If not, they go to another deal. The situation is that if you can monetize this business or if you can change the efficiency of this business, the revenues from this client will significantly increase. So what do you want to do? You have to imagine that you are not in New York where you would be working during normal market hours. You have to imagine yourself working in an offshore site such as Japan, Hong Kong or Bombay. Second, the market's liquidity is very limited. You can only sell bits and pieces if you do not have any prior information or if you do not have connections with other clients who are willing to buy that product. The third limitation is that because you are not working in New York, your relationships with people working in New York are very limited. But on the other hand you have support from your office colleagues and senior management in Tokyo.

Analysis:

To start their analysis of the case, students should view the Background video clips. These clips should help students grasp the following points or case facts.

- Market liquidity is uncertain
- There is a risk and reward trade off. Moving a large portfolio of securitized associated is associated with higher risk and higher rewards. Selling small portions of debt is far less risky but also far less profitable.
- Large deals require the approval of senior management

Researching information sources other than the content of the cases should enable students to garner the following insights:

A good You Tube video on the credit crisis is:

- https://www.youtube.com/watch?v=bx_LWm6_6tA

With this information in hand students can be challenged to identify an analytic framework that will help them organize their thoughts.

Instructors might consider using Miles and Snow (1978) Strategy Typology in this instance as a means to characterize how Noguchi might seek to guide RBC's response to this opportunity. These authors conceived of companies as behaving in a predictable manner with a natural grouping of strategy, structure and processes. Facing with dynamic and growing environments, Prospectors are risk takers, innovative and seek out new market opportunities. Prospector organizations are characterized as flexible, decentralized, innovative and creative. Defenders are suited to stable operating environments and they focus on holding current markets through retrenchment and protection of turf. Defenders are organized in a centralized fashion, to maximize production efficiency and control and minimize overhead costs. Analyzers innovate moderately and focus on maintaining current market status in the face of moderately changing market environments. Analyzers are tightly controlled organizations with a focus on efficient production but organized for flexibility. Finally Reactors can be found in any operating environment, reacting to certain conditions with no apparent strategy. Reactor organizations have no set organizational structure. Their structure responds to the needs that they face.

Another approach is to consider guiding students through a risk and return trade-off exercise from the point of view of both RBC and its potential client. Doing so would involve a simple graph where the Y axis

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denotes risk and the X axis denote return. For each students can be asked to think about the situation involving the highest return and the lowest return. For the client the highest return would most likely be selling small blocks of securitized assets until all are sold. But this would also involve the highest level of risk as it remains doubtful if the entire portfolio could be sold this way. The lowest return would be selling the entire portion to RBC or a competitor in one transaction. However, this is the least risky alternative as its problem is removed with one transaction. For RBC, these scenarios are reversed. The lowest payoff would result from buying the assets in a series of small transactions but the risks would also be small. The highest payoff would be buying the entire portfolio but in the turn the risk would be high as there would no guarantee that it could in turn sell the entire block on the market. For both parties the equilibrium situation is for RBC (or a competitor) to buy a small set of mid-size block of assets.

Alternatives:

Effort focused on research coupled with analysis should enable students to present a series of options. These can be compared to the options offered by the interviewee which are also summarized below and found in the Alternatives video clip.

- Bid on small portions of the portfolio and if successful liquidate them quickly
- Bid on a moderate portion of the portfolio
- Bid on and secure the entire portfolio

The Solutions video clip offers the interviewees' solution to the issue along with a rationale. Highlighted below, this can be compared to the student response and explanation.

- The solution, I think depends on your philosophy but my solution was option two because working in this industry you try to maximize a profit and this certain risk you have to be willing to take in order to gain big. My choice was easier because when we were handling the small pieces the senior manager at that point had a discussion with me about trying to the liquidation of the whole entire portfolio and it was a very easy process to get the authorization. All we had to do was sell it to the client and that was the way that they should do it. I think that difference in what kind of philosophy you have I think some firms would use choice one and some choice two or three but at that time we chose choice two. I guess the difficulty of that is basically you have to have a very deep communication internally and externally. The risk that the people in New York have to handle is huge so you have to consistently speak with traders directly during New York hours regarding the market condition, regarding the situation with the clients. We have to report and speak with management level because they are willing to take enormous risk but on the other hand it would take up a lot of a firm's resource so that you have to consistently communicate with them so that they are willing to use the resources they have at their disposal. Externally it was a very difficult negotiation with the client because if you try to liquidate a huge portfolio then they have to pay the liquidity in order to liquidate that and with them they had a choice by selling piece by piece which is in competition they have higher price but they do not know how the market will shift and they do not know if they can liquidate the whole thing before the liquidity runs out. So they had to make a decision to sell a huge portion or continue to do so and I think in their mind they decided to wait was riskier than not to do it so at the end we were able to negotiate and get the deal done.

SUGGESTED COURSES

We suggest that this case would be suitable for a number of courses. These courses include:

- Management
- Finance
- Business Strategy

ADDITIONAL RESEARCH

The case offers students opportunities to undertake interesting additional research.

Students may want to delve deeper into how managers make decisions. Classic approaches to decision making include works by Cyert and March (1963) and Tversky and Kahnemann (1974).

Students interested in learning more about industries in general might make use of numerous online information sources some of which are noted below.

High Beam Business, <http://business.highbeam.com/industry-reports>, Industry Overviews

Plunkett Research, <http://www.plunkettresearch.com/>, Industry Overview

Value Line, <http://www.valueline.com/Stocks/Industries.aspx>, Industry Overviews

Other important sources include:

Students interested in learning more about the industry in general might consider exploring the sources such as the Asian Development Bank Working Paper Series, Investopedia and Credit Suisse Asset Management.

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