THE VALUATION SCHOOL

Notes

What is

INVESTMENT BANKING?



Notes

Investment Banking

Investment banking is a special segment of **banking operations** that helps individuals or organizations raise capital and provide financial consultancy services to them.

They act as **intermediaries** between security issuers and investors and help new firms to go public (IPO).



What Investment Banks Do?

Here are five important functions of investment banks:

1) Underwriting Securities:

Investment banks help **companies** raise **capital** by underwriting new issues of stocks and bonds, setting prices, and selling them to investors. And often bear all the associated risks.

2) Mergers and Acquisitions:

They provide **expert advice** and support for mergers, acquisitions, and divestitures and help clients navigate complex negotiations and deal structures.

3) Sales and Trading:

Investment banks facilitate the trading of securities on **behalf** of **clients**, enhancing market liquidity and providing investment opportunities through trading strategies.

4) Market Making:

As market makers, investment banks quote buy and sell prices for securities in the secondary market and hold an inventory of these securities to facilitate trading which helps to maintain an orderly market with **consistent liquidity.**

5) Advisory Services:

Investment banks offer **strategic advice** on a range of financial transactions, including equity and debt financing, asset sales, and corporate restructuring.

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How Investment Bank Works?

Investment banks are structured into various divisions, often categorized as **front**, **middle**, and **back offices**. Each office serves distinct roles and functions within the bank, contributing to its overall operations and services.

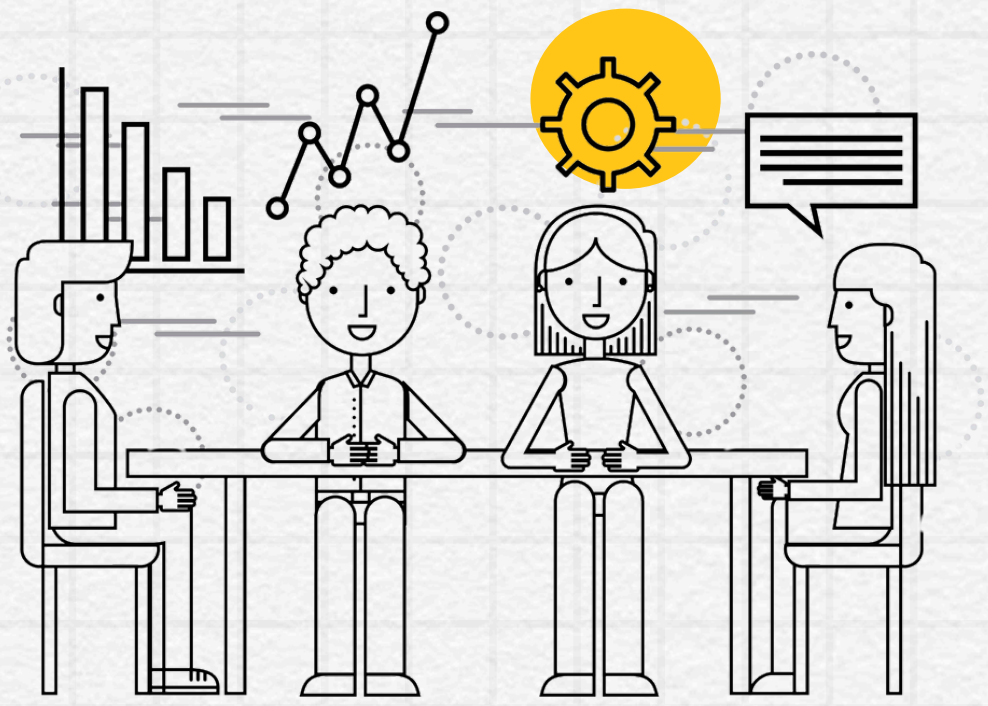


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- The **front office** drives revenue generation and includes divisions such as corporate finance, sales and trading, and research.

- The **middle office** supports processes that are related to revenue generation, such as risk management and treasury.

- The **back office** includes roles that exist regardless of revenue generated, such as compliance, accounting, information technology (IT), and HR.



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How do they Differ from Commercial Banks?

	Investment Bank	Commercial Bank
Primary Services	Advising on and financing large and complex financial transactions like M&A, and IPOs.	Offering deposit accounts, loans, mortgages, and other personal banking services.
Clients	Corporations, governments, and other institutional clients.	Individuals, small businesses, and corporations.
Revenue Source	Fees from advisory services, trading, and underwriting securities.	Interest from loans and fees for various banking services.
Risk Profile	High risk from trading and investments.	Lower risk, focused on loans and credit facilities with collateral and assessments.
Regulatory Environment	Generally subject to securities regulation (eg. SEBI)	Highly regulated with a focus on protecting depositors
Function in Economy	Facilitate capital formation and help in the efficient allocation of resources.	Provide a safe place for deposits and facilitate payments and economic activities.

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Types of Investmtent Banks

Investment banks are commonly divided into two categories:

Sell-side

Sell-side firms focus on **selling shares** of newly issued IPOs, providing market-making services, facilitating the placement of new bond issues, and helping clients with various transactions.

Buy-side

The buy-side deals with the **trading of securities** like bonds and stocks, aiming to maximize returns. This sector collaborates closely with entities such as mutual funds, pension funds, and hedge funds.

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Top Investment Banks in the World

J.P.Morgan

citibank

Bank of America

HSBC

Morgan Stanley

BNP PARIBAS

Goldman Sachs

UBS

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