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B.Com Honours

Semester V

Calicut University

FUNDAMENTALS OF INVESTMENT BANKING

Course Code: COM5EJ315 • Module 3 Notes

Module III: Business of Investment Bankers & AML/KYC

Covers investment banking business models, equity/debt fund raising, credit rating agencies (CRAs), rating methodologies, SEBI CRA Regulations 1999, PMLA 2002, and the 3 stages of money laundering.

Unit 14: Business Models of Investment Bankers

Full-Service Investment Banks: Integrated global firms providing underwriting, M&A, trading, research, & wealth management (Goldman Sachs, Morgan Stanley, Morgan Stanley India).
Boutique Investment Banks: Specialized niche firms focusing exclusively on specific sectors or advisory services (e.g. M&A boutique firms).

Unit 15: Capital Raising & Securities Trading Business

Fund Raising Operations: Domestic IPO/FPO, Rights Issues, Private Placement (QIP), International Depository Receipts (ADR/GDR), & Foreign Currency Convertible Bonds (FCCB). Secondary market trading & market making.

Unit 16: Credit Rating Agencies (CRAs) & SEBI Framework

Credit Rating: Independent assessment of creditworthiness & default risk of debt instruments (AAA to D ratings). Leading Indian CRAs: CRISIL, ICRA, CARE, India Ratings. SEBI (Credit Rating Agencies) Regulations 1999: Monitoring code of conduct, rating symbols, & conflict of interest disclosures.

Unit 17: AML & KYC Framework (PMLA 2002)

Prevention of Money Laundering Act (PMLA) 2002: Statutory framework preventing illicit funds entering financial system.
3 Stages of Money Laundering:
1. *Placement:* Injecting illegal cash into financial system.
2. *Layering:* Complex wire transfers across shell accounts to obscure audit trail.
3. *Integration:* Re-investing cleansed money into legitimate assets/real estate.
KYC Compliance: Customer Identification Procedure (CIP) & Beneficial Ownership (BO) verification.

Practical Case Framework 1 (Credit Rating Symbols & Default Risk Matrix): Detail investment grade vs speculative rating symbols, risk level, and investor safety.

Credit Rating Agency Rating Scales Table:

Rating Classification	Standard Rating Symbol	Default Risk & Safety Profile
Highest Safety (Investment Grade)	AAA	Lowest credit risk; exceptionally strong solvency
High Safety (Investment Grade)	AA+, AA, AA-	High credit risk safety; robust financial capacity
Moderate Risk (Investment Grade)	BBB+, BBB, BBB-	Moderate credit risk; vulnerable to adverse macro shifts
Default Grade (Junk Bonds)	D	In default or expected to default on debt obligations

Practical Case Framework 2 (3 Stages of Money Laundering Execution Matrix): Map money laundering stage, operational execution technique, and AML detection controls.

Three Stages of Money Laundering Execution Table:

Money Laundering Stage	Operational Execution Technique	AML Compliance Detection Control
1. Placement Stage	Smurfing / Structuring small cash deposits	Cash Transaction Reports (CTR) for >₹10 Lakhs
2. Layering Stage	Multiple offshore transfers & shell companies	Suspicious Transaction Reports (STR) monitoring
3. Integration Stage	Buying luxury real estate & corporate equity	Ultimate Beneficial Ownership (UBO) verification