Credit Suisse First Boston

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Short Description
Credit Suisse First Boston

Description

Credit Suisse First Boston CAST STUDY solution

Read the following paragraphs and answer the questions given at the end.

Strategies to Gain New Business at Wall Street Investment Banking Firms: Ethical or Unethical ? A Salomon Smith Barney (a subsidiary of Citigroup), Credit Suisse First Boston (CSFB) and Goldman Sachs (three of the world's most prominent investment banking companies), part of the strategy for securing the investment banking business of large corporate clients (to handle the sale of new stock issues or new bond issues or advise on mergers and acquisitions) involved (1) hyping the stocks of companies that were actual or prospective customers of their investment banking services, and (2) allocating hard-to-get shares of hot new Initial Public Offerings (IPOs) to select Executives and Directors of existing and potential client companies, who then made millions of dollars in profits when the stocks went up once public trading began. Former WorldCom CEO Bernie Ebbers reportedly made more than $11 million in trading profits over a four-year period on shares of IPOs received from Salomon Smith Barney; Salomon served as WorldCom's investment banker on a variety of deals during this period. Jack Grubman, Salomon's top-paid research analyst at the time, enthusiastically touted WorldCom stock and was regarded as the company's biggest cheerleader on Wall Street. To help draw in business from new or existing corporate clients, CSFB established brokerage accounts for corporate executives who steered their company's investment banking business to CSFB. Apparently, CSFB's strategy for acquiring more business involved promising the CEO and/ or CFO of companies about to go public for the first time or needing to issue new longterm bonds that if CSFB was chosen to handle their company's new initial public offering of common stock or a new bond issue, then CSFB would ensure they would be allocated shares at the initial offering price of all subsequent IPOs in which CSFB was a participant. During 1999-2000, it was common for the stock of a hot new IPO to rise 100 to 500 percent above the initial of offering price in the first few days or weeks of public trading; the shares allocated to these executives were then sold for a tidy profit over the initial offering price. According to investigative sources, CSFB increased the number of companies whose executives were allowed to participate in its IPO offerings from 26 companies in January 1999 to 160 companies in early 2000; executives received anywhere from 200 to 1,000 shares each of every IPO in which CSFB was a participant in 2000. CSFB's accounts for these executives reportedly generated profits of about $80 million for the participants. Apparently, it was CSFB's practice to curtail access to IPOs for some executives if their companies didn't come through with additional securities business for CSFB or if CSFB concluded that other securities offerings by these companies would be unlikely. Goldman Sachs also used an IPO-allocation scheme to attract investment banking business, giving shares to executives at 21 companiesamong the participants were the CEOs of eBay, Yahoo and Ford Motor Company. EBay's CEO was a participant in over 100 IPOs managed by Goldman during the 1996-2000 period and was on Goldman's board of directors part of this time; eBay paid Goldman Sachs $8 million in fees for services during the 1996-2001 period.

Questions :

(a) If you were a top executive at Salomon Smith Barney CSFB, or Goldman Sachs, how would you justify your company's actions ?

(b) Would you want to step forward and take credit for having been a part of the group who designed or approved of the strategy for gaining new business at any of these three firms viz, eBay, Yahoo and Ford Motor Company ?

Details
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2. pdf/word in 24-48 hrs

3. Fully Solved with answers