



Course Instructor: Narasimha (Naresh) Vadrevu
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Course Description

Business Finance 7290, *ERM 1*, extends the skills students developed in pre-requisite classes to the role of risk management within the firm. Taking risks *and* mitigating risks is an integral part of what Senior Executives and Board of Directors do to create shareholder value. Yet, the global financial crisis and corporate meltdowns suggest that many companies do not fully understand the risks that they face or how to balance these risks to create value. The current business environment also is changing. Companies around the world are investing in enterprise risk management (ERM) functions and risk-aware employees. Risk management has become one of the top priorities of boards, investors, regulators, and rating agencies.

This course is designed to train students in evaluating and managing risks using an enterprise-wide approach. The course starts with an analysis of how risk management contributes to firm value and discusses a general framework for how to use risk management to create value.

The main emphasis of the course is on creating value with risk management rather than on the technical details of statistical measurement and pricing of derivatives. The material is necessarily analytical and quantitative, but the course does not require knowledge of mathematics and statistics beyond what is required for the prerequisites. We will examine risk management problems for financial intermediaries as well as for firms outside the financial sector.

Course Prerequisites: BUSFIN 7210 (Corporate Financial Management 1), BUSFIN 7220 (Investment Management 1) and BUSFIN 7230 (Derivatives)

Course Resources

1. *Course notes* are posted on the course website. Please bring your notes to class each day to participate in the class discussion.
2. *HBS Course packet*
 - a. <https://hbsp.harvard.edu/import/689310>
 - b. <https://hbsp.harvard.edu/import/702658>

¹Mr. Vadrevu can change the course schedule, topics, and assignments if necessary with the exception of the exam. Any changes made will be announced in class with sufficient advance notice and a revised syllabus will be posted on the course website.

3. *Required readings* are posted on the class website. Students are expected to have completed the assigned reading before class. To encourage preparation and facilitate class discussion, the professors will call on students in class to share their insights.
4. Suggested readings related to current events will be posted periodically on the class website.
5. *Additional Resources:* Below are some national and international news resources that are relevant to the course and excellent sources of information for any serious business student.
 - The *Wall Street Journal* (WSJ) provides national and international news as well as detailed information on financial markets and institutions.
 - The *Financial Times* is a daily newspaper out of London with a US edition. The *Financial Times* offers a much more extensive coverage of economic and business activity outside of the United States, compared to mostly domestic news sources such as the WSJ.
 - The *Economist* is a weekly British newsmagazine that analyzes the week's events and surveys financial market developments. Its target audience includes senior executives as well as high-ranking government officials.
 - *Bloomberg.com*: Bloomberg.com offers news, data, and videos on a broad group of markets, asset classes and the economy.
 - *Risk Management Trade Associations*
 - Global Association of Risk Professionals (GARP): A professional association for risk managers, whose mission is to “advance the risk profession through education, training, and the promotion of best practices globally.” (www.GARP.org)
 - The Risk Management Association (RMA): A not-for-profit, member-driven professional association whose “sole purpose is to advance the use of sound risk management principles in the financial services industry.” (www.rmahq.org)
 - Risk Management Society (RIMS): A non-profit organization “dedicated to educating, engaging and advocating for the global risk community.” (www.RIMS.org)

Course Requirements and Grading

The course requirements include the following components:

Component	Points
Assignments	
Assignment 1 – To be announced	40
Assignment 2 – To be announced	50
Assignment 3 – To be announced	50
Final Exam	100
Participation	60
TOTAL	300

*Course requirements: Students will be responsible for three assignments and a final examination. The assignments can be prepared in groups of no more than **four** students. You should form groups on your own. If you have a difficulty doing so, you should contact Mr. Vadrevu. You should inform Mr. Vadrevu (vadrevu.1@osu.edu) of the group composition through email by Monday Jan. 13. No late assignments will ever be accepted.*

*Class Attendance and Participation: Students are expected to **attend class** and to **arrive on time**. To a significant extent, the value you get from the course depends on your presence in class, and your classmates' opportunities to learn from your insights depend on your presence in class.*

As noted above, students are expected to have completed the assigned reading and assignments posted on the course content page by the deadline specified for each assignment. To encourage preparation and facilitate class discussion, the Professor(s) will call on students in class to share their insights. As is the case with real world work environments, students are evaluated not by what they know but by what they **contribute**. Students are never penalized for making comments, which do not appear to be the "right answer." It is only through consideration of many diverse opinions and viewpoints that we will move toward a greater shared understanding of the multi-dimensional material that this course entails. **If you never make any comments, expect to receive a low participation score.**

Exam Policy:

Everyone will take the exam on Monday, FEB 24. **There is no make-up exam.**

Extra Credit/Grade Change Policy:

Extra credit will not be offered unless it is available to the entire class. For example, if a student wishes to improve his or her grade at the end of the course, extra credit will not be available for this purpose, as it unfairly penalizes students who have consistently worked hard throughout the course. *This policy is strictly enforced.*

Office hours:

Unless announced otherwise, the Professor(s) are available to meet with students on an individual basis by appointment. Please email to make an appointment for an office visit.

Course website:

A course website is on Carmen (using the University's new Canvas system). The URL is <https://carmen.osu.edu>. The website will be used to post course slides, readings, materials for guest speakers, assignments and for group work; for review sessions, discussion boards, and online quizzes and surveys. Please check the website on a daily basis.

Communication:

The quickest way to contact Mr. Vadrevu is by email at vadrevu.1@osu.edu. **Please email outside of Carmen so that we can reply more quickly to your email.** Emails sent through Carmen can only be answered from within Carmen. Given his schedule, he is not always on Carmen. Mr. Vadrevu usually replies to emails within 24 hours.

ACADEMIC INTEGRITY & MISCONDUCT

Academic integrity is essential to maintaining an environment that fosters excellence in teaching, research, and other educational and scholarly activities. Thus, The Ohio State University and the Committee on Academic Misconduct (COAM) expect that all students have read and understand the University's *Code of Student Conduct*, and that all students will complete all academic and scholarly assignments with fairness and honesty. Students must recognize that failure to follow the rules and guidelines established in the University's *Code of Student Conduct* and this syllabus may constitute "Academic Misconduct."

The Ohio State University's *Code of Student Conduct* (Section 3335-23-04) defines academic misconduct as: "Any activity that tends to compromise the academic integrity of the University, or subvert the educational process." Examples of academic misconduct include (but are not limited to) plagiarism, collusion (unauthorized collaboration), copying the work of another student, and possession of unauthorized materials during an examination. Ignorance of the University's *Code of Student Conduct* is never considered an "excuse" for academic misconduct, so Mr. Vadrevu recommends that students review the *Code of Student Conduct* and, specifically, the sections dealing with academic misconduct. (Students can find the full Code at http://studentlife.osu.edu/pdfs/csc_12-31-07.pdf.)

Cheating is grounds for failing this course and additional sanctions. In accordance with faculty rule 3335-5-487, all instances of alleged academic misconduct will be reported to the university Committee on Academic Misconduct. If the committee concludes that a violation has occurred, it recommends appropriate sanctions to the Office of Academic Affairs. As stated in the university's Code of Student Conduct (<http://studentaffairs.osu.edu/resources/>), students have an obligation to report academic misconduct. Such misconduct can be reported to the appropriate faculty member or program dean; confidentiality is protected.

Permitted collaboration for this course is as follows:

- Participation & Final Exam – *No collaboration*
- **Assignments – Collaboration with teammates only. Sources outside the information included in the assignments & cases, such as case solutions or briefs available for purchase or free on the web or case briefs submitted by other students at OSU or elsewhere in the past or during this semester are STRICTLY PROHIBITED. Students caught violating this guideline will be reported to the Committee on Academic Misconduct.**

Turnitin

Students at The Ohio State University are accountable for the integrity of the work they submit. Therefore, you should be familiar with the guidelines provided by the [Committee on Academic Misconduct \(COAM\)](#) and [Section A of OSU's Code of Student Conduct](#) in order to meet the academic expectations concerning appropriate documentation of sources. In addition, OSU has made Turnitin, a learning tool and plagiarism prevention system, available to instructors. For this class, you will submit your papers to Turnitin from Carmen. When grading your work, I will interpret the originality report, following [Section A of OSU's Code of Student Conduct](#) as appropriate. For more information about Turnitin, please see [the vendor's guide for students](#). See also the information for students in the Turnitin Feedback Studio (https://guides.turnitin.com/01_Manuals_and_Guides/Student_Guides/Feedback_Studio). Note that submitted final papers become part of the OSU database.

[Section A of OSU's Code of Student Conduct](#) defines plagiarism as '...the representation of another's work or ideas as one's own; it includes the unacknowledged word-for-word use and/or paraphrasing of another person's work, and/or the inappropriate unacknowledged use of another person's ideas.'

DISABILITY SERVICES

The Student Life Disability Services (SLDS) (www.ods.ohio-state.edu) verifies students with specific disabilities and develops strategies to meet their needs. Students requiring accommodations based on identified disabilities should contact the instructor at the beginning of the term to discuss their particular needs. Students with a specific disability are encouraged to contact SLDS to explore potential accommodations available to them.

<p>Week 1 MON, JAN 6</p>	<p align="center">What is Risk? Risk Management? ERM? People and Behaviors, Governance, Culture and Risk Taking</p> <p><i>Readings:</i></p> <ul style="list-style-type: none"> • Risk Management - A Corporate Governance Manual - Aswath Damodaran – Chapters 1 through 3 • Kaplan and Mikes, 2012, Managing Risks, A New Framework, <i>Harvard Business Review</i> • RIMS, 2012, Exploring Risk Appetite and Tolerance. • Wittenberg, Pellerum, and Smith-Bingham, 2012, Defining your Risk Appetite: The Importance of Taking a Quantitative and Qualitative Approach <p><i>Additional Reading:</i></p> <ul style="list-style-type: none"> • Lam, Next Frontier: Performance-based Continuous ERM
<p>Week 2 MON, JAN 13</p>	<p align="center">Risk Assessment and Measurement</p> <p><i>Readings:</i></p> <ul style="list-style-type: none"> • Risk Management - A Corporate Governance Manual - Aswath Damodaran – Chapter 4 • Curtis and Carey, 2012, Risk Assessment in Practice, <i>Thought Leadership in ERM.</i> • Victor Ricciardi, 2008, The Psychology of Risk: The Behavioral Finance Perspective • Doherty, Why Risk is Costly for Firms (Chapter 7) <p><i>Assignment:</i> <i>Assignment 1 – Firms' views on Risk Management and Risk Assessment – Due: Jan 27, 2020 6 PM</i></p>
<p>Week 3 MON, JAN 20</p>	<p align="center">Martin Luther King Holiday – No Class</p>
<p>Week 4 MON, JAN 27</p>	<p align="center">Quantitative Risk Assessment and Methods</p> <p><i>Reading:</i></p> <ul style="list-style-type: none"> • Risk Management - A Corporate Governance Manual - Aswath Damodaran – Chapters 5 through 7 • Lynch, 1997, <i>Value-at-Risk (excluding exercise) – HBS Course Packet</i> • Nocera, Jan. 2, 2009, <i>Risk Management, NY Times Magazine.</i> <p><i>Additional Reading:</i></p> <ul style="list-style-type: none"> • Van Liebergen, <i>Machine Learning: A Revolution in Risk Management and Compliance?</i> <p><i>Assignment:</i> <i>Assignment 2 - Risk Management, Firm Value, and VaR – Due: Feb 10, 2020 6 PM</i></p>

<p>Week 5 MON, FEB 3</p>	<p style="text-align: center;">ERM Strategies</p> <p><i>Readings:</i></p> <ul style="list-style-type: none"> • Risk Management - A Corporate Governance Manual - Aswath Damodaran – Chapters 8 through 9 • Stulz, 2013, How Companies Can Use Hedging to Create Shareholder Value, <i>Journal of Applied Corporate Finance</i>. • HBS Note on Forward Contract and Swaps; Introduction to Derivatives • HBS Case: Hedging Currency Risk at AIFS – HBS Course Packet <p><i>Additional Readings:</i></p> <ul style="list-style-type: none"> • Woolward, 2017, Risk-Based Approaches to Cybersecurity, <i>RIMS.org</i>
<p>Week 6 MON, FEB 10</p>	<p style="text-align: center;">ERM Strategies</p> <p><i>Readings:</i></p> <ul style="list-style-type: none"> • Risk Management - A Corporate Governance Manual - Aswath Damodaran – Chapters 10 through 12 • Kaplan and Mikes, 2012, Managing Risks, A New Framework, <i>Harvard Business Review</i> • JPMorgan Chase 2018 10K Excerpt on Risk Management • Stultz, August 2016, Risk Management, Governance, Culture, and Risk Taking in Banks, FRBNY Economic Policy Review <p><i>Assignments:</i></p> <p>Assignment 3 – Due: Feb 24, 2020 6 PM</p>
<p>Week 7 MON, FEB 17</p>	<p style="text-align: center;">ERM and Strategy Current State of ERM</p> <p><i>Reading</i></p> <ul style="list-style-type: none"> • Risk Management - A Corporate Governance Manual - Aswath Damodaran – Chapters 12 through 13 • EY, 2014 Expecting More from Risk Management. • 2017 Annual Risk Institute Annual Risk Survey • Meulbroek, 2002, A Senior Manager’s Guide to Integrated Risk Management, <i>Journal of Applied Corporate Finance</i>
<p>Final Exams Session</p>	
<p>MON, FEB 24</p>	<p>FINAL EXAM</p>