



Rotman Commerce UNIVERSITY OF TORONTO

RSM 328H1F 2015 Financial Distress and Insolvency
Course meets Tuesdays 10 – 12 / WW 126

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Office hours: **By appointment only**: Tuesdays 12 – 2, Wednesdays 10 - 11am,
Thursdays 12 - 2

Course Goals:

The course goals are as follows:

- To introduce students to the bankruptcy process and to acquaint students with some of the reasons bankruptcies occur
- To help students identify potential bankruptcies in both short and long time horizons preceding bankruptcies
- To expose students to options if they are involved in bankruptcy as creditors, debtors, lenders or directors

Course Prerequisites

RSM 219H1, RSM222H1

Course Description:

This course is designed to introduce students to the area of corporate insolvency and bankruptcy. Students will be exposed to the language of insolvency, the nature of bankruptcy including the underlying regulatory acts, accounting tools useful in anticipating bankruptcy of a supplier and those useful in aiding managers to identify and avoid potential liquidity problems in their own firms. Students will be introduced to the manner in which insolvent organizations can negotiate with their creditors and will learn about simple models and formulas created to predict insolvency in both the short and long term. Students will also learn about restructuring techniques used in practice to try and turnaround a company experiencing financial difficulties.

Most other courses within the business domain approach corporations as financially viable entities; regrettably, bankruptcy was a reality for about 7,000 businesses in Canada last year of which a third were firms in Ontario. This course will help students understand some of the options available to them to protect their own companies against bankruptcy or for understanding what their rights are with respect to recovery of assets in the case of bankruptcy of a supplier.

The course is designed to use the basic accounting and business skills primarily acquired by all business students in their initial year of study. It is designed as a general interest course for students wishing to broaden their understanding of the business environment.

Optional source material for those interested in further reading:

Note: The primary source of information will be lecture slides, handouts and lectures.

The structure of bankruptcy and insolvency in Canada and the United States

- (i) *Bankruptcy and Insolvency Act,* which can be found on the web at <http://laws.justice.gc.ca/en/B-3> * and,
- (ii) *Companies and Creditors Arrangement Act)* which can be found on the web at <http://laws.justice.gc.ca/en/C-36> *
- (iii) *Elements of Bankruptcy (4th edition),* Douglas G. Baird, c. 2006 Foundation Press, NY, NY
*Both B-3 and C-36 Have been amended on September 19, 2009 by C-12

Financial statement analysis and valuation

- (iv) *Business Analysis & Valuation: Using Financial Statements to Value Any Business,* Krishna Palepu, et al, c. 1999 , Southwestern Press
- (v) *Financial Statement Analysis & Valuation,* Peter Easten, et al ,c. 2010 Cambridge Business Publishers
- (vi) *Creative Cash Flow Reporting: Uncovering Sustainable Financial Performance,* C. Mulford and E. Comiskey c. 2005, John Wiley & Sons, Inc.

Detection of fraud and financial chicanery

- (vii) *Financial Shenanigans: How to Detect Accounting Gimmicks & Fraud in Financial Reports,* (2 nd Edition) Howard Schilit c. 2002 McGraw – Hill
- (viii) *What's Behind the Numbers: A Guide to Exposing Financial Chicanery and Avoiding Huge Losses in Your Portfolio,* John Del Vecchio and Tom Jacobs c. 2013 , McGraw – Hill Companies
- (ix) *Unaccountable: How the Accounting Profession Forfeited a Public Trust,* Mike Brewster, c. 2003, John Wiley & Sons

Prediction of failure

- (x) *The Signal and the Noise: why so many predictions fail – but some don't,* Nate Silver, c. 2012, Penguin Press
- (xi) *The Theory that would not Die: How Bayes Rule Cracked the Enigma Code, Hunted down Russian Submarines & Emerged Triumphant from Two Centuries of Controversy,* Sharon Bertsch McGrayne c.2011, Yale University Press

Negotiation and Leading Change

- (xii) *Essentials of Negotiation,* Roy Lewicki, et al, c. 2011 McGraw-Hill Ryerson
- (xiii) *Influencer: The New Science of Leading Change ,* Joseph Grenny , Et al.c. 2013 *VitalSMarts, LLC*
- (xiv) *Guerilla Negotiating: Unconventional Tactics to Get What You Want,* Jay Conrad Levinson, et al, c. 1999 John Wiley & Sons

Corporate distress and insolvency strategies

- (xv) *Corporate Bankruptcy: Tools, Strategies, and Alternatives*, Grant W. Newton c.2003, John Wiley & Sons, New Jersey
- (xvi) *Corporate Financial Distress and Bankruptcy: Predict and Avoid Bankruptcy, Analyze and Invest in Distressed Debt (3rd Edition)*, Edward Altman and Edith Hotchkiss, c. 2006, John Wiley & Sons
- (xvii) *Distressed Debt Analysis: Strategies for Speculative Investors* Stephen Moyer c. 2005, J. Ross Publishing

Evaluation:

Group Case - presentation	25%
- write up	10%
Individual assignments (2 @ 20%)	40%
Final test (Monday December 7- Wednesday, December 9)	25%
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Total	100%
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Attendance policy

Students are expected to make every effort to attend every class. Frequent and/or unapproved absences may result in an FZ (failing grade) or the need to withdraw from the course.

Laptop and cell phone policy

It is expected that students will use technology responsibly, with consideration for their fellow students and other members of the University community. With the permission of the instructor, students are encouraged to use laptops for note taking, in class communication, in class activities (ie. spreadsheet modeling) and web access. Laptops are not to be used for email, instant messaging, web browsing, and any other activity that is disruptive to other students, the instructor or in general, the classroom environment.

No cell phones are permitted in class. If you have a cell phone, please turn it off and put it away during class.

Group presentation and write ups**Presentation: (25%)**

Students should form groups of about 4 -5 students per group during the first class and provide the instructor with the names of the students in each group at the end of the first class. If students are not present in the first class, they are responsible for finding their own group. Each group will select a Canadian bankruptcy or instance of financial distress which relates to an interesting aspect of bankruptcy, insolvency or restructuring which occurred within the last 9 months. Please select your company within the first two weeks of class. Selections have to be approved by the instructor as only one

presentation of a specific case will be permitted. No presentations of bankruptcies which have been presented in prior years will be acceptable. If groups request the same company, the requests will be done on a "first come, first served" basis. No presentation companies can be "reserved". If students wish to present the story of a company that went bankrupt in a foreign jurisdiction, please discuss this first with the instructor. Generally, this will not be permitted unless the project is of sufficient interest to students studying Canadian corporate bankruptcy.

Case presentations will be 15 to 25 minutes with an additional 5 -10 minutes for answering questions, time permitting depending on class size and the number of presentations... Students are encouraged to use PowerPoint slides and are encouraged to consult with the instructor when preparing for the presentation. Case presentations will begin in week 6.

Each presenting group is required to hand in a copy of their presentation slide printout in handout format to the instructor in class and to email the PowerPoint slide file to the instructor immediately after the presentation for the purposes of posting on the class website. The first slide should clearly list the names of all group members.

Presentations will be evaluated on a basis consistent with the case selected. Below is an example of some of the criteria used in the evaluation and their approximate weights:

Professionalism/presentation clarity	20%
Industry background	10%
Company specific analysis including presence In industry and reasons for insolvency (Both quantitative and qualitative)	45%
Identification of specific aspect of interest in case	15%
Impact on future insolvencies	10%

Each group member is expected to contribute to the group discussion and the preparation of case summary and presentation. Should there be any concern about free-riders in group work, group leaders should inform the instructor as soon as possible.

Learning to work together in teams is an important aspect of your education and preparation for your future careers. That said, project-based teamwork is often new to students; to work well in teams, it helps to follow a set of core expectations to best succeed at your team projects.

1. Read the document entitled, "Working in Teams: Guidelines for Rotman Commerce Students" which is available on the RC portal under the Academic Services tab.

2. When working in a team, Rotman Commerce students are expected to:

- Treat other members with courtesy and respect;
- Honour the ground rules established by the team;
- Contribute substantially and proportionally to the final project;

- Ensure enough familiarity with the entire contents of the group project/assignment so as to be able to sign off on it as original work;
- Meet the project timeline as established by the team.

3. Resolving conflicts:

Conflicts are part of the team's process of learning how to work together. When handled well, it can generate creativity and bring-multiple perspectives to the solution.

Student teams are expected to work through their misunderstandings as soon as they arise (and prior to submission of the final project). When teams are unable to arrive at a solution that works for all members, the team must meet with the Rotman Commerce Team Coach** as soon as possible. The Coach will listen to the team and help develop options for improving the team process. All members of the project team must commit to, and, utilize their action plans.

** For an appointment with a Rotman Commerce Team Coach, please contact Elaine Zapotoczny at elaine@nikoletaandassociates.com. Elaine is highly skilled at facilitating team dynamics and collaboration. Note that the Team Coach's role is to provide guidance, support and advice on team matters – not to formally evaluate or assess teamwork for academic purposes.

Written report: (10%)

There should be a typed report of the presentation material submitted during the week of the presentation. The report should be properly foot noted with all sources used given credit. A copy of this report may be made available to students in future classes so permission to use this presentation (either with the authors' names or anonymously if the group prefers) as a future pedagogical tool will be sought from all groups. The report can be expanded to include additional material removed from the presentation for time management purposes.

Individual assignments: (2 @ 20%)

The two individual assignments will be used to allow students to practice using some of the tools useful in preparing submissions to Court, for negotiating with the creditors and for assessing impending bankruptcy.

Each assignment will be given out when the topics relating to it has been covered in class and the due date will be announced at that time. All assignments should be prepared electronically and electronically handed in. Comments will be made and the assignments will be returned the same way. Assignments submitted late must be accompanied by the appropriate medical note given to the Commerce programs Office. Generally, no extensions to assignments are permitted as the assignments are marked in "real time" once they are handed in and therefore the solution is visible. Please discuss this with the instructor. The value of missed assignments for appropriate medical reasons will be added on to the value of the test grade.

Final Test (25%)

This will be a take home test that will encourage students to use the skills they have acquired in class to judge the solvency of a company and supply recommendations for action. You should plan on using as many of the skills and materials which you have studied in class to make a real life determination of the potential solvency or presence of financial distress of a real company. The test will be released electronically on Monday, December 7 at 9 am and will be due in on Wednesday December 9 at 9 am.

Accommodation Policy for Missed Assignments/Examinations

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. Provided that notification and documentation are provided in a timely manner, and that the request is subsequently approved, no academic penalty will be applied.

In such cases, students must notify Rotman Commerce on the date of the missed test (or due date in the case of course work) and submit supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Program Office within **48 hours** of the originally scheduled test or due date. Students who do not provide Rotman Commerce or the instructor with appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed test or course deliverable.

Note that the physician's report must establish that the patient was examined and diagnosed at the time of illness, not after the fact. Rotman Commerce will not accept a statement that merely confirms a report of illness made by the student and documented by the physician.

INSERT detailed instructions on how student's marks will be handled, for example, a make-up test or re-weighting of another deliverable/text/exam (note that no single essay, test, examination, etc., should have a value of more than 80% of the grade).

Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarships at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the UofT degree that you earn will continue to be valued and respected as a true signifier of a student's individual work and academic achievement. As a result, the University treats cases of academic misconduct very seriously.

The University of Toronto's Code of Behaviour on Academic Matters

<http://www.governingcouncil.utoronto.ca/policies/behaveac.htm> outlines the behaviours that constitute academic misconduct, the process for addressing academic offences, and the penalties that may be imposed. You are expected to be familiar with the contents of this document. Potential offences include, but are not limited to:

In papers and assignments:

- Using someone else's ideas or words without appropriate acknowledgement.
- Submitting your own work in more than one course without the permission of the instructor.
- Making up sources or facts.
- Obtaining or providing unauthorized assistance on any assignment (this includes collaborating with others on assignments that are supposed to be completed individually).

On test and exams:

- Using or possessing any unauthorized aid, including a cell phone.
- Looking at someone else's answers
- Misrepresenting your identity.
- Submitting an altered test for re-grading.

Misrepresentation:

- Falsifying institutional documents or grades.
- Falsifying or altering any documentation required by the University, including (but not limited to), medical notes.

All suspected cases of academic dishonesty will be investigated by the following procedures outlined in the *Code of Behaviour on Academic Matters*. If you have any question about what is or is not permitted in the course, please do not hesitate to contact the course instructor. If you have any questions about appropriate research and citation methods, you are expected to seek out additional information from the instructor or other UofT resources such as College Writing Centres or the Academic Success Centre.

Email

At times, the course instructor may decide to communicate important course information by email. As such, all UofT students are required to have a valid UTmail+ email address. You are responsible for ensuring that your UTmail+ email address is set up AND properly entered on the ROSI system. For more information please visit <http://help.ic.utoronto.ca/category/3/utmail.html>

Forwarding your utoronto.ca email to a Hotmail, Gmail, Yahoo or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Hotmail, Gmail or Yahoo accounts are filtered as junk mail, which means that important messages from your course instructor may end up in your spam or junk mail folder.

Blackboard and the Course Page

The online course page for this course is accessed through Blackboard. To access the course page, go to the UofT Portal login at <https://portal.utoronto.ca/> and log in using your UTOrid and password. Once you have logged in, look for the My Courses module where you'll find the link to all your course websites. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours. If the course does not appear, go to the Information Commons Help Desk in Robarts Library, 1st floor,

for help, or explore the Portal Information and Help at www.portalinfo.utoronto.ca/students and review the Frequently Asked Questions.

Recording Lectures

Lectures and course materials prepared by the instructor are considered by the University to be an instructor's intellectual property covered by the Canadian Copyright Act. Students wishing to record a lecture or other course material in any way are required to ask the instructor's explicit permission, and may not do so unless permission is granted (note: students who have been previously granted permission to record lectures as an accommodation for a disability are, of course, excepted). This includes tape recording, filming, photographing PowerPoint slides, Blackboard materials, etc.

If permission is granted by the instructor (or via Accessibility Services), it is intended for the individual student's own study purposes and does not include permission to "publish" them in anyway. It is absolutely forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

<i>Topic</i>	<i>Course Topics</i>
<i>1</i>	<i>An Introduction to business risk and insolvency</i>
<i>2</i>	<i>Legal options for insolvent firms</i>
<i>3</i>	<i>Negotiating with the creditors</i>
<i>4</i>	<i>Financial reporting risks and fraud</i>
<i>5</i>	<i>Decision making in the insolvent firm</i>
<i>6</i>	<i>Short term risk assessment: Ratio and financial statement analysis</i>
<i>7</i>	<i>Long term models for predicting bankruptcy</i>
<i>8.</i>	<i>Corporate governance Issues in financially troubled firms</i>
<i>9</i>	<i>Buying Distressed Debt</i>

Note that not all topics will be covered in one session. Some topics will take more time to explore, some less. All students should bring calculators/laptops to class.