



# Rotman Commerce UNIVERSITY OF TORONTO

## Course Outline

### RSM 328H1-S

Financial Distress and Insolvency

Winter 2019

Course Meets: Tues 1 pm to 3 pm /RT 142

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### Course Scope and Mission

Traditional business courses often deal with financially healthy firms. However, failure is an inevitable reality for many businesses. The problems currently being witnessed by the retail sector are a case in point. According to official Canadian government statistics, 3609 businesses (with approx. \$6.5 billion in liabilities) made bankruptcy or proposal filings in 2017 alone, with approximately a quarter of these businesses being from Ontario. This course aims to study the reasons why some firms find themselves in financial distress, alternative courses of action (including legal options) in response to financial distress, and the role of various stakeholders in the process.

In particular, the course intends to

- help students understand how to diagnose corporate financial distress and analyze internal and external warning signals. Students will be exposed to the use of simple financial statements and market-based models to estimate default risk
- help students understand the contractual tools used by creditors to monitor borrower performance, their accounting and reporting for problem loans, and likely actions upon violation of covenants
- help students understand the salient reporting issues that often precede an insolvency filing, such as impairments and going concern opinions
- help students understand the options available to companies in financial distress, including out-of-court restructuring
- familiarize students with legal process for liquidations and reorganizations, and understand the accounting, governance, and financial decision-making issues that arise during and after emergence from bankruptcy
- expose students to the potentially lucrative area of distressed debt investing

### Course Prerequisites

RSM 219H1, RSM222H1

## Required Readings

The primary reference material in this course will comprise handouts, lecture notes and slides that will be posted on the portal prior to each week's class. Students are responsible for monitoring the portal and for printing the material (if required). Many of the handouts will be sourced from the following textbook that is available as a downloadable e-book from the library (for University of Toronto students). Other sources will be duly noted on class notes on an ongoing basis.

*E-textbook: Corporate financial distress and bankruptcy: predict and avoid bankruptcy, analyze and invest in distressed debt.* Edward I. Altman, Edith Hotchkiss. 3rd ed. Hoboken, N.J.: Wiley, c2006. (hereafter, "A&H")

## Evaluation and Grades

Grades are a measure of the performance of a student in individual courses. Each student shall be judged on the basis of how well he or she has command of the course materials.

<u>Work</u>		<u>Due Date</u>
Class Participation/Attendance	5%	Self-reporting Feb 26 & April 2
Individual Assignments (x4)	20%	Jan 22, Feb 12, March 12, March 26
Mid-Term Quiz	20%	Feb 26 (during class)
Group Project - Written Report	10%	April 2 (before class)
Group Project - Presentation	10%	April 2 (in class)
Final Exam	35%	During Faculty of Arts & Science Final Examination period

## COURSE FORMAT AND EXPECTATIONS

### Participation:

The course covers complex and often inter-related topics from accounting, finance, and law. The instructor will endeavor to illustrate the concepts using cases or media articles that are either real business examples or mimic real business occurrences, and will call upon class participants to express their views. Students are expected to maintain a log of their in-class participation (template to be provided by the instructor) and hand in an interim report prior to the midterm, and a final report at the end of the course.

### Midterm quiz:

A closed-book written quiz will be held during regular class hours on Feb 26, 2019. The duration of the quiz will be 50 minutes. Students are permitted the use of a basic calculator. All other aids will be provided by the instructor as necessary.

### Final exam:

A comprehensive closed-book final exam will be held as specified by the Faculty of Arts & Science during the examination period. The exam's objective is to assess students' ability to comprehensively assess business problems using the concepts discussed in class. Student are permitted the use of a basic calculator. All other aids will be provided by the instructor as necessary.

### Individual Assignments (x4):

Four individually written assignments are due at various points in time during the course (see specific dates above). These assignments will test class concepts using cases or media articles that are either real business examples or mimic real business occurrences. The four assignments will be equally weighted and will be evaluated using the guidelines described below.

Please note that clear, concise, and correct writing will be considered in the evaluation of the individual and group assignments. That is, you may lose points for writing that impedes communication: poor organization, weak paragraph development, excessive wordiness, hard-to-follow sentence structure, spelling mistakes and grammatical errors. Students who require additional support and/or tutoring with respect to their writing skills are encouraged to visit the Academic Success Centre (<http://www.studentlife.utoronto.ca/asc>) or one of the College Writing Centres ([www.writing.utoronto.ca/writing-centres](http://www.writing.utoronto.ca/writing-centres)). These centres are teaching facilities – not editing services, where trained staff can assist students in developing their academic writing skills. There is no charge for the instruction and support.

***Please note that the students are responsible for ensuring the originality of their submissions as the instructor/TA may check the submissions for plagiarism.***

### **Group project:**

The group project requires students to work in teams of 5 to 6 students each. Project groups specific questions will be provided by the instructor in advance. Half of the group project grade will be evaluated based on the content of the written project reports, while the other half will be based on power-point presentations made by the groups.

***All of the guidelines for written assignments described in the preceding section will apply to the written component of the group project as well.***

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 Nouman Ashraf at [nouman.ashraf@rotman.utoronto.ca](mailto:nouman.ashraf@rotman.utoronto.ca) Nouman is highly skilled at facilitating team dynamics and collaboration. Note that the Team Coach’s s role is to provide guidance, support and advice on team matters – not to formally evaluate or assess teamwork for academic purposes.

## Weekly Schedule

Reference material for these topics will primarily be class notes and/or handouts from A&H. This is a broad outline of topics to be covered — sequencing and time allotted to each of these topics may change as the course progresses.

Class	Date	Topic
1	Jan 8	Introduction <ul style="list-style-type: none"> <li>○ Course objectives</li> <li>○ Basic terminology, historical perspective, economic and pedagogical importance</li> <li>○ Internal and external causes of corporate financial distress</li> </ul>
2	Jan 15	Diagnosis of financial distress <ul style="list-style-type: none"> <li>○ Short- and long-term distress prediction models</li> <li>○ Role of market participants</li> <li>○ Creditor's perspective: Covenants; Recognition of, and accounting for, problem loans</li> <li>○ Borrower's perspective: Recognition and disclosure of impairments and business risks</li> <li>○ Auditor's perspective: going concern opinions</li> </ul>
3	Jan 22	
4	Jan 29	
5	Feb 5	<ul style="list-style-type: none"> <li>● Planning and filing for bankruptcy</li> <li>● Liquidations</li> <li>● Reorganizations</li> <li>● Canada – US comparison</li> <li>● Decision making during bankruptcy</li> <li>● Bankruptcy costs</li> <li>● Emergence from bankruptcy</li> <li>● Financial reporting issues</li> <li>● Out of court restructuring</li> </ul>
6	Feb 12	
7	Feb 26	
8	Mar 5	
9	Mar 12	<ul style="list-style-type: none"> <li>● Corporate governance issues in distressed firms</li> <li>● Turnaround</li> <li>● Distressed debt investing</li> </ul>
11	Mar 19	Distressed debt investing (continued.)
12	Mar 26	Catch-up / guest lecture
13	April 2	Group project presentations

## **POLICY AND PROCEDURE**

### **Missed Tests and Assignments (including midterm examinations)**

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may submit a request for special consideration. The Request for Special Consideration Form and supporting documentation must be submitted in a timely manner in order for the request to be reviewed.

In such cases, students must notify the Rotman Commerce Program Office on the date of the course deliverable such as a missed test, or assignment missed class (in the case of participation marks), or due date. They must then complete a [Request for Special Consideration Form](#) and submit it along with supporting documentation (e.g. [Verification of Student Illness or Injury form](#)) to the Rotman Commerce Office within **2 business days** of the originally scheduled course deliverable. Students who do not provide appropriate or sufficient supporting documentation will be given a grade of 0 (zero) for the missed course deliverable.

Documentation submitted in support of petitions for missing tests and assignments must be original; no faxed or scanned copies will be accepted.

**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 later report of illness made by the student to a physician.**

Students are expected to make every attempt to turn in completed written assignments on their due dates. Late assignments will be graded as per the policy mentioned below.

Midterm quiz will be administered in class during regular hours. For cases of missed midterm that comply with Rotman Commerce policy (see above), the final exam will be reweighted to 55%.

All students are expected to be present for their group project presentations. Absentees will be marked zero for the presentation component of the project. In case of approved absences only, the entire group project grade for the student will be allocated to the written report component.

### **Late Assignments**

All assignments are due at the beginning of class on the date specified in the course outline. Students who, for reasons beyond their control, are unable to submit an assignment by its deadline must obtain approval from the instructor for an extension. Supporting documentation will be required as per the policy on missed tests and assignments.

Late submissions will normally be penalized by 20% if the assignment is not received on the specified date, at the specified time. A delay of more than a week will result in the assignment receiving a grade of 0 (zero).

### **Accessibility Needs**

The University of Toronto is committed to accessibility. If you require accommodations for a disability, or have any accessibility concerns about the course, the classroom or course materials, please contact Accessibility Services as soon as possible:

[accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca) or <http://www.studentlife.utoronto.ca/as>.

### **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.

## **Quercus and the Course Page**

The online course page for this course is accessed through Quercus. To access the course page, go to [q.utoronto.ca](http://q.utoronto.ca) and log in using your UTORid and password. Once you have logged in, you will be at the Quercus Dashboard. On this page you will see all of the courses you are presently enrolled in. If you don't see the course listed here but you are properly registered for the course in ROSI, wait 48 hours.

## **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, Quercus 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.