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# The University of Hong Kong

# Faculty of Business and Economics

**ACCT 3115 Financial Reporting and Analysis of Financial Institutions**

1. **COURSE INFORMATION**

**Course Name:** Financial Reporting and Analysis of Financial Institutions

**Course Code:**

**Prerequisite:** Introduction to Financial Accounting,

**Instructor:** Dr. Jing Li

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**Consultation Time:**

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**Textbook:** Stephen Ryan, *Financial Instruments and Institutions: Accounting and Disclosure Rules*, Second Edition, Hoboken, NJ: John Wiley and Sons, 2007, ISBN: 978-0-470-04037-9.

**Recommended Supplementary Textbook:**

Saunders, Anthony, and Marcia Cornett: *Financial Institutions Management: A Risk Management Approach*, New York, NY: McGraw-Hill Irwin, 2010, ISBN: 978-0073530758.

Hull, John C. *Risk Management and Financial Institutions*, Upper Saddle River, NJ: Pearson Prentice Hall, 2007, ISBN: 0-13-239790-0.

# COURSE DESCRIPTION

This course focuses on (1) financial reporting and disclosure rules for financial institutions and financial instruments they hold (interest rate risk disclosures, loan loss disclosures, fair value accounting for financial instruments, securitization accounting, derivatives and hedge accounting, and market risk disclosures); and (2) the financial statement analysis of banks and bank‑like financial institutions (thrifts, mortgage banks, and commercial banks). Analyzing these two aspects of a modern bank reveals much about the strategies followed by the bank given the various regulations under which it operates.

The financial statements of financial institutions are increasingly based on fair value accounting and their financial reports include increasingly extensive risk and estimation sensitivity disclosures. Both fair value accounting and risk and estimation sensitivity disclosures are necessary ingredients for financial reports to convey financial institutions’ risk and performance in today’s world of complex, structured, value and risk‑partitioning financial instruments and transactions. While financial institutions often report imperfect (or worse) fair value measurements and risk and estimation sensitivity disclosures, careful joint analysis of the information they do provide invariably yields important clues about their risks and performance.

While this course is most relevant to students interested in financial institutions, much of the accounting material also pertains to varying extent to other types of firms. For example, many firms securitize their accounts receivable or hedge their commodity, interest rate, or foreign exchange risk using derivatives.

# COURSE OBJECTIVES

The main goal of this course is to provide students with an in-depth understanding of how financial reports provide unusually specific and detailed (but not perfect) information about certain risks and performance of these financial institutions.

# ASSESSMENT TASKS/ACTIVITIES (ATs)

Individual Homework Assignments 20%

Mid-term test 30%

Group project and presentations 50%

Total 100%

*Homework Assignment (20%)*

Short Individual Homework Assignments (IHA) are given and collected. The homework helps individual understand lecture materials better and practice the methods and technologies learned in class.

*Mid-term test* (30%)

One final test will be held during the term as part of the continuous assessment of the course. The test is designed to reinforce your basic understanding of the principles and concepts of financial statement analysis and valuation. All students must take the exam on the same date. No make-up exam is allowed with exceptions for legitimate reasons such as documented medical issues.

*Group Project (Report and Presentations) (50%)* A major part of the course evaluation is a group project based on real-life companies. You are required to deliver a project that involves financial analysis and valuation using tools developed in the course. The project is done in a group up to five students. Each group chooses one company you wish to cover to analyze. Some guidelines on choosing companies will be emailed later. A final presentation about your company is given at the end of the semester.

Each group is required to turn in a written briefing book on a financial institution. The briefing is limited to 10 pages. Additional pages are allowed for an appendix for supplementary information. Each written briefing should be self-contained and include

* an one-page executive summary
* a short section on the background of the bank
* a section on main analysis

The case report is graded on rigor, creativity, demonstration of depth of knowledge, and clarity in communication. Group presentations are graded as part of the overall grading of the cases. More detail instructions about the group project and presentation will be distributed in class shortly.

# LEARNING OUTCOMES AND ASSESSMENT CRITERIA

## INTENDED LEARNING OUTCOMES (ILOs)

On completion of this course, students will be able to:

*ILO1*. Construct the basic skills needed to interpret and reformulate financial statements for the purpose of valuation, and perform financial statement analysis based on reformulated statements;

*ILO2*. Comprehend knowledge on basic valuation principles; apply the accounting-based equity valuation and other valuation technologies in valuing a company with publicly available information;

*ILO3*. Prepare the pro-forma financial statements based on financial statement analysis, and value a company with full-forecasted financial information as inputs.

*ILO4*. Understand the limitation and flexibility in the application of valuation models, use professional judgment in dealing with complicated issues in evaluating a real-company.

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| --- | --- |
| **Programme ILOs** | **Course ILOs** |
| 1. Acquisition and internalization of knowledge of accounting, business and economics | ILOs 1 & 2 & 3 |
| 2. Application and integration of knowledge | ILOs 1 & 2 & 3 |
| 3. Inculcating professionalism and leadership | ILOs 4 |
| 4. Developing global outlook | ILOs 3 &4 |
| 5. Mastering communication skills | ILO 1 &3 |
| 6. Cultivating leadership | ILOs 4 |

* + 1. **TEACHING AND LEARNING ACTIVITIES (TLAs)**

*TLA1. Situation: Interactive lectures*

* Lectures: basic knowledge of financial accounting is discussed using PowerPoint slides.
* In-class mini-cases: basic concepts and techniques are illustrated using mini-cases and real company examples. In order to follow the lectures closely, students are encouraged to work along with the instructor on these exercises.
* In-class discussions: students are encouraged to raise questions, participate in discussions and share ideas with their peers. These discussions help students formulate their own opinions on controversial issues.

Major focus: ILOs 1, &2, &3.

*TLA2. Situation: Group project, presentation and outside-classroom activities*

* Group discussions and presentation: Students are required to apply the knowledge learned from this course to perform financial statement analysis of two real public companies. Group members are to meet, work on the questions together and contribute jointly to ensure that the project is completed for timely submission. Group members are to present the project in class as well.
* Instructor and tutor consultations: Consultation hours will be provided by the instructor and tutor to address students’ questions related to the course.

Major focus: ILOs 1 &2 & 3.

## GRADING CRITERIA

*AT1. Homework Assignments (20%)*

Major focus: ILOs **1, 2, 3.**

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| --- | --- | --- | --- | --- |
| A+ A A- | B+ B B- | C+ C C- | D+ D | F |
| Extremely well prepared for class discussion, active in sharing views and attended at least 90% of classes.  Submitted all assignments with more than 90% accuracy. | Partially prepared for class discussion, quite active in sharing views and attended at least 80% of classes.  Submitted at least 80% of assignments with more than 80% accuracy. | Not well prepared for class discussion, limited active in sharing views and attended at least 70% of classes.  Submitted at least 70% of assignments with more than 70% accuracy. | Not well prepared for class discussion, no sharing of views and attended at least 60% of classes.  Submitted at least 60% of assignments with more than 60% accuracy. | Poorly prepared for class discussion and no sharing of views and experience and attended less than 60% of classes.  Submitted less than 60% of assignments with less than 60% accuracy. |

*AT2. Mid-term Test (30%)*

Mid-term test mainly includes three types of questions: multiple choice questions, problem solving and essay questions.

Major focus: ILOs **1, 2, 3.**

Grading criteria for calculation problems and multiple choice questions:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| A+ A A- | B+ B B- | C+ C C- | D+ D | F |
| Provided accurate solutions to all problems, gave detailed and insightful responses to all essay questions and scored correctly on more than 90% of the multiple choice questions | Provided accurate solutions to most problems, gave detailed responses to most essay questions and scored correctly on more than 80% of the multiple choice questions | Provided accurate solutions to some problems, gave limited responses to some essay questions and scored correctly on more than 70% of the multiple choice questions | Provided accurate solutions to a few problems, gave unclear responses to most essay questions and scored correctly on more than 60% of the multiple choice questions | Skipped some problems or provided inaccurate solutions to most problems, gave poor responses to most essay questions and scored correctly on less than 60% of the multiple choice questions |

Grading criteria for essay questions:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| A+ A A- | B+ B B- | C+ C C- | D+ D | F |
| Idea development is insightful and sophisticated; Supporting evidence is convincing, accurate and detailed.  Well written with clear focus. | Idea development is clear and thoughtful; Supporting evidence is sufficient and accurate.  Well written. | Idea development is simplistic and lacking in relevance; Supporting evidence is insufficient but accurate.  Somewhat well written. | Idea development is superficial and ineffective; Supporting evidence is insufficient and inaccurate. Writing is unclear. | Idea development is absent; Supporting evidence is vague or missing.  Poorly written. |

*AT3. Group Project and Presentation (50%)*

Major focus: ILOs **1 & 3.**

Grading Criteria

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| --- | --- |
| Grade | **Depth and breadth of Coverage, critical elements, structure, language and conventions** |
| A+, A, A- | All aspects were addressed and researched in great depth.  Demonstrated a clear understanding of and the ability to apply the theory, concepts and issues relating to the topic.  Clearly identified the most critical aspects of the task and adopted a critical perspective.  Developed excellent argument and offered a logically consistent and well-articulated analysis and insight into the subject.  Drew widely from the academic literature and elsewhere whilst maintaining relevance.  All aspects conformed to a high academic / professional standard. |
| B+, B, B- | Most aspects were addressed and researched in depth.  Demonstrated a good understanding and some application of the theory and issues relating to the topic.  Identified critical aspects of the task and adopted a critical perspective.  Showed some evidence of analysis, supported by logical argument and insight into the subject.  Drew on relevant academic and other material.  Most aspects conformed to a high academic / professional standard. |
| C+, C, C- | Most aspects were addressed and researched adequately.  Demonstrated a good understanding of the theory, concepts and issues relating to the topic but limited application relating to the topic.  Some presented argument showed some insight but not always consistent and logical.  Drew upon an adequate range of academic and other material.  Most aspects conformed to an acceptable academic / professional standard. |
| D+, D | Basic aspects were addressed and researched adequately.  Demonstrated mainly description, showing basic understanding of the topic but no application.  Showed little evidence of analysis but no clear and logical argument relating to the subject.  Drew primarily upon course materials.  Limited aspects conformed to academic / professional standards. |
| F  Fail | Basic aspects were superficial, inadequate or absent.  Demonstrated limited understanding of the topic and drew conclusions unrelated to the topic.  The written work was not of an academic / professional standard. |

**VI. STUDY LOAD**

**Study load**

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| --- | --- | --- |
| Course Teaching and Learning Activities | Expected Contact Hour | Study Load (% of study) |
| T&L1. Interactive Lectures | 36 | 30% |
| T&L2. Group Project and Presentation | 48 | 40% |
| T&L3. Assignments and Self-study | 36 | 30% |
| Total | 120 | 100% |

**VII. ACADEMIC CONDUCT**

* Plagiarism and copying of copyright materials are serious offences and may lead to disciplinary actions. You should read the chapters on “Plagiarism” and “Copyright” in the Undergraduate/Postgraduate Handbook for details. You are strongly advised to read the booklet entitled “What is Plagiarism?” which was distributed to you upon your admission into the University, a copy of which can be found at [www.hku.hk/plagiarism.](http://www.hku.hk/plagiarism) A booklet entitled “Plagiarism and How to Avoid it” is also available from the Main Library.
* You are required to attend all the classes on time. In case you cannot attend a class you should inform the instructor beforehand.