

George Priboi 2029732

by George Priboi

Submission date: 29-Jun-2023 06:44AM (UTC+0100)

Submission ID: 209596850

File name: 29941_George_Priboi_George_Priboi_2029732_504416_1629508936.docx (178.52K)

Word count: 1793

Character count: 11178



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

International Financial Management
LCBB6002
Assessment 1

Student name: George Valentin Priboi
Student ID number: 2029732
Module Leader: Khaza Ahmed

Table of Contents

Introduction	3
Discussion.....	3
Analysis.....	6
Conclusion	7
Reference list.....	8

Introduction

The rise of the 2008 global financial crisis was initiated by the occurrence of providing cheap credit along with low-tax lending which successfully fuelled the creation of a housing bubble in real estate. However, banks and other financial institutions were left possessing investments of trillions of dollars of worthless subprime mortgage investments with the bursting of this housing bubble. It created the occurrence of the Great Recession in 2008 which eventually impacted jobs, homes and savings globally. The study focuses on providing a detailed discussion of key events associated with the financial crisis of 2008 impacting the business performance of different multinational corporations. The impact of the crisis on "Lehman and Lehman Brothers" and Toll Brothers has been illustrated in the study. Drawbacks of the corporate governance occurring in financial institution have also been demonstrated that assists in the contribution towards the failures of the 2008 global financial crisis is present in the study.

Discussion

Events of the financial crisis around the world in 2008 affecting Multinational Corporations

The seeds that led to the occurrence of the financial crisis globally in 2008 were planted during the years when the interest rates were at rock bottom along with the rise of loose standards of lending. It contributed significantly to the fuelling of the housing price bubble in different multinational corporations (MNCs) globally. Some of the key events of the 2008 financial crisis contributed to affecting businesses like **Lehman and Lehman Brothers and Toll Brothers**. Different significant events such as the **bubble of dot-com bursting, the lowering of the fund rates in the Federal Reserve from 6.5% in 2000 to 1% in 2003, along with the occurrence of a series of corporate accounting scandals** contributed immensely towards the 2008 global financial crisis (Amadeo, 2022). The aim for lowering the rates of federal funds was to experience a strong boost to the economy along with making cash available to both consumers and businesses at desired bargain rates. However, it resulted in the development of a strong upward spiral in home prices since the borrowers utilised the available low mortgage rates.

The bankruptcy of Lehman and Lehman Brothers led to its collapse in September 2008. It provided a strong climax of the crisis in the subprime mortgage crisis in the global financial breakdown in 2008. It was observed post the notification given to the businesses in financial services of occurrence in a pending downgrade in credit that occurred due to its strong

position occurring in the desired subprime mortgages (Skeel, 2018). However, Lehman and Lehman Brothers continued deepening their investment in the mortgages and housing market along with including a massive investment in the marketplace of real estate. It consists of nearly 2007 receipt of securities that were mortgage-backed along with assets worth more than US \$100 billion (Corporate Finance Institution, 2023).

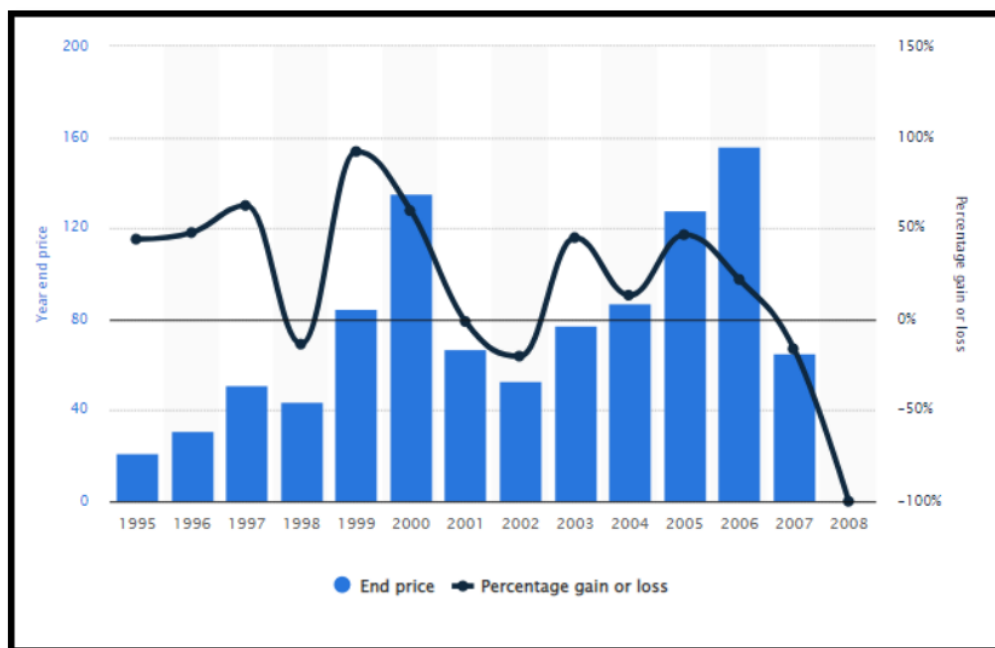


Figure 1: Percentage gain or loss and a year-end stock price of Lehman and Lehman brothers

(Source: Statista, 2023)

It enabled the Federal Reserve to organise a summoned to different several banks for negotiating key financing required for its recognition. However, the efforts of the Federal Reserves went in vain as Lehman and Lehman Brothers filed a petition for Chapter 11, Title 11, US Code which is still considered the largest filing for bankruptcy in the history of the US. The filing of bankruptcy by Lehman and Lehman Brothers involved assets worth nearly US \$600 billion. The bankruptcy filing by the company triggered a drop of almost 4.5% Dow Jones Industrial Average. It was considered to be the largest fall since 2001 September 11 (Farrell, 2018).

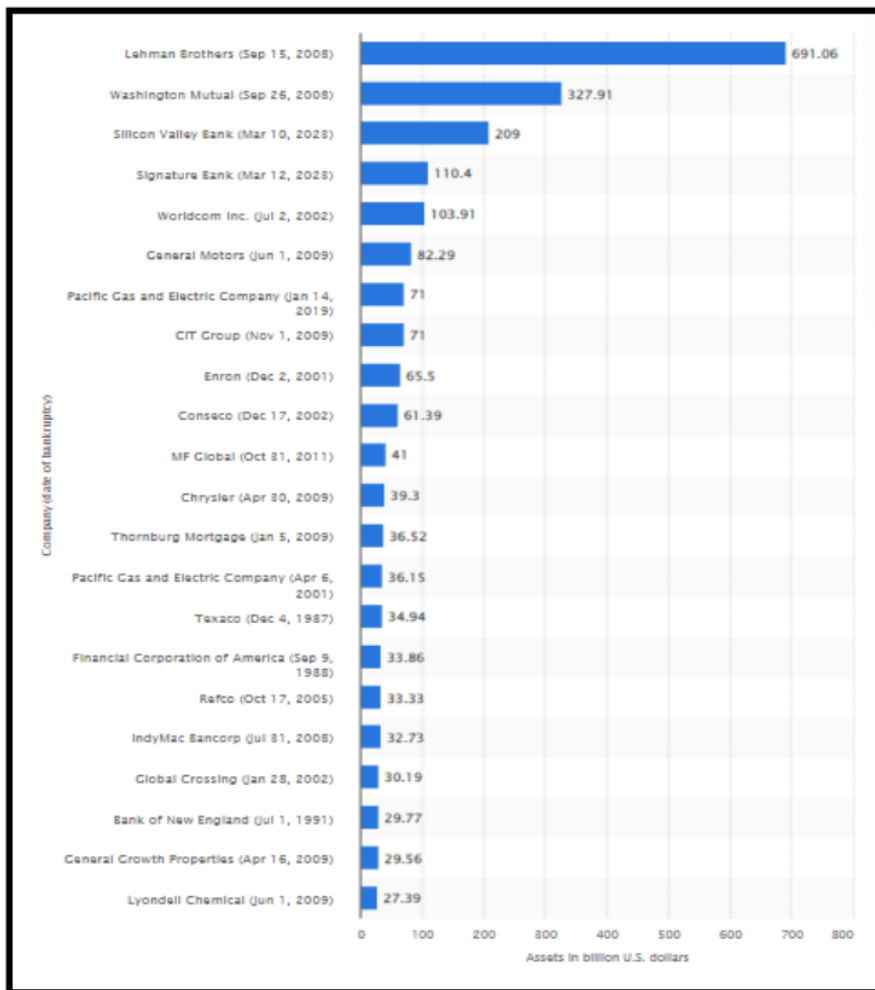


Figure 2: List of Largest Bankruptcy in the US

(Source: Statista, 2023)

On the other hand, Toll Brothers had successfully reported a net income of nearly US \$806.1 million in the year 2005. However, the strong fast forward in the strong depth of global financial breakdown in 2008 contributed to the significant fall in the total revenue from nearly US \$6 billion to almost US \$2 billion (Hoffelder, 2013). Toll Brothers then reported a total net loss of nearly US \$297.8 million for its desired fiscal year which ended in October 2008. Toll Brothers have seen a prolonged impact of the housing collapse due to the financial crisis in 2008. It led to a significant increase rate of cancellations that resulted in the falling traffic observed by the Toll Brothers due to the worsening effects of the financial crisis of 2008 (CNBC, 2008).

10

Weakness of Corporate Governance impacting on the Failures of the 2008 global financial crisis

Inadequacies in corporate governance contributed significantly to the failings that precipitated the global financial crisis of 2008. Several significant flaws can be identified: Many corporate boards of financial institutions lacked the independence required from management. This lack of independence hindered the board's ability to supervise and challenge risky management decisions. It enabled management to pursue short-term gains without considering long-term risks adequately.

Inadequate risk management practises were prevalent at a large number of financial institutions. Risk management functions were frequently compartmentalised, with insufficient integration between business divisions. This hampered the capacity to evaluate and manage the interconnected risks that ultimately contributed to the crisis. In addition to being flawed, risk management systems and models failed to accurately represent the complex and interdependent nature of financial instruments and transactions.

Misaligned incentives Compensation structures within financial institutions frequently encouraged excessive risk-taking. Numerous employees, especially those in high-risk fields such as trading and investment banking, were compensated on the basis of short-term profits and individual performance metrics, without adequate consideration of the long-term consequences and risks involved. This fostered a risk-taking culture and led to conflicts of interest.

Lack of transparency and accountability Financial institutions utilised complex financial instruments and off-balance-sheet vehicles, which obscured the true nature and scope of their risks. This lack of transparency made it difficult for investors, regulators, and even senior management to comprehend the risks involved. Inadequate disclosure requirements and accounting practises also permitted financial institutions to manipulate their reported financial results, which further obscured the true risks.

The regulatory agencies failed to effectively supervise and regulate the financial institutions. Regulatory structures were frequently fragmented, with inadequate coordination between regulatory agencies. In addition, many regulatory bodies lacked the knowledge and means to completely comprehend and evaluate the complex financial products and activities. This allowed hazardous practises to continue unchecked, thereby contributing to the accumulation of systemic risks.

Lack of risk culture and oversight: The culture of numerous financial institutions prioritised short-term profits over long-term stability. Lacking an effective risk culture, insufficient emphasis was placed on risk management, internal controls, and ethical conduct. The failure of boards of directors and senior management to provide adequate supervision and to challenge risky practises.

Collectively, these flaws fostered excessive risk-taking, ineffective risk management, and a lack of accountability. They permitted the accumulation of systemic risks within the financial system, resulting in pervasive failures and the 2008 global financial crisis.

Analysis

It is analysed that there has been a gradual development of the global financial crisis in 2007-2008. It started as early as 2006 as the prices of homes started falling. In addition, the large-scale filing of bankruptcy of different subprime lenders in early 2007 contributed immensely to the overall collapse of different financial institutions around the globe. Additionally, the failure and collapse of two significant hedge funds of Bear Stearns also added to this crisis situation. The redemption of its two hedge funds resulted in successfully prompting the seizure of Merrill Lynch assets amounting to nearly US \$800 million (Bajaj and Creswell, 2007). In addition, the collapse of Lehman and Lehman Brothers with a filing of largest bankruptcy of US \$600 billion led contributed towards the rise of the financial crisis in 2008 (Farrell, 2018).

Conclusion

It can be concluded from the report that there has been a strong influence of different key events such as the bursting of the desired dot-com bubble, the lowering of the fund rates in the Federal Reserve from 6.5% in 2000 to 1% in 2003, along with the occurrence of a series of corporate accounting scandals which significantly contributed towards financial crisis around the globe in 2008. The failure of Lehman and Lehman Brothers and its declaration of bankruptcy worth US \$600 billion in 2008 September resulted in the total collapse of the financial system in the US. Additionally, another key event involved in the financial crisis around the globe in 2008 is the loss in mortgages faced by Toll Brothers in the US. The failure in giving response to the low rates in federal funds and generating a system in which subprime borrowers took effective advantage resulting in the collapse of housing prices is also a major factor involved in the financial crisis of 2008. On the other hand, the weakness

of governance in the corporate financial firms resulted in the inadequate payout of executives and establishing a strong independent control of its board also contributed towards the rise of the financial crisis of 2008.

6

Reference list

Amadeo, K. 2022. *Fed Funds Rate History: Its Highs, Lows, and Charts*. [online] The Balance. Available at: <<https://www.thebalancemoney.com/fed-funds-rate-history-highs-lows-3306135>> [Accessed 20 Jun. 2023].

Bajaj, V. and Creswell, J. 2007. Bear Stearns Staves Off Collapse of 2 Hedge Funds. *The New York Times*. [online] 21 Jun. Available at: <<https://www.nytimes.com/2007/06/21/business/21bonds.html>> [Accessed 20 Jun. 2023]

11

CFI Team 2023. *Lehman Brothers*. [online] Corporate Finance Institute. Available at: <<https://corporatefinanceinstitute.com/resources/capital-markets/lehman-brothers/>> [Accessed 20 Jun. 2023].

CNBC 2008. *Toll Brothers Says Cancellations Rose Sharply*. [online] CNBC. Available at: <<https://www.cnbc.com/2008/11/11/toll-brothers-says-cancellations-rose-sharply.html>> [Accessed 20 Jun. 2023].

2

Erkens, D.H., Hung, M. and Matos, P., 2012. Corporate governance in the 2007–2008 financial crisis: Evidence from financial institutions worldwide. *Journal of corporate finance*, 18(2), pp.389-411.

4

Farrell, S. 2018. *Lehman Brothers collapse: where are the key figures now?* [online] the Guardian. Available at: <<https://www.theguardian.com/business/2018/sep/11/lehman-brothers-collapse-where-are-the-key-figures-now>> [Accessed 20 Jun. 2023].

Hoffelder, K. 2013. *How One CFO Used Cash to Survive the Downturn*. [online] CFO. Available at: <<https://www.cfo.com/accounting-tax/2013/03/how-one-cfo-used-cash-to-survive-the-downturn/#:~:text=In%202005%20Toll%20Brothers%20reported>> [Accessed 20 Jun. 2023].

9

Kyere, M. and Ausloos, M., 2021. Corporate governance and firms financial performance in the United Kingdom. *International Journal of Finance & Economics*, 26(2), pp.1871-1885.

¹ Skeel, D. 2018. *History credits Lehman Brothers' collapse for the 2008 financial crisis. Here's why that narrative is wrong.* [online] Brookings. Available at: <<https://www.brookings.edu/research/history-credits-lehman-brothers-collapse-for-the-2008-financial-crisis-heres-why-that-narrative-is-wrong/#>> [Accessed 20 Jun. 2023].

⁸ Statista. 2023. *Global Financial Crisis: Lehman Brothers stock price 1995-2008.* [online] Available at: <<https://www.statista.com/statistics/1349730/global-financial-crisis-lehman-brothers-stock-price/>> [Accessed 20 Jun. 2023].

⁵ Statista. 2023. *Largest U.S. bankruptcies as of March 2023.* [online] Available at: <<https://www.statista.com/statistics/1096794/largest-bankruptcies-usa-by-assets/#:~:text=Largest%20bankruptcies%20in%20the%20U.S.%20as%20of%20March%202023%2C%20by%20assets&text=As%20of%20March%202023%2C%20the>> [Accessed 20 Jun. 2023].

⁷ United Nations Conference on Trade and Development. 2022. *Corporate Governance in the Wake of the Financial Crisis.* [online] Available at: <https://unctad.org/system/files/official-document/diaeed20102_en.pdf> [Accessed 20 Jun. 2023].

ORIGINALITY REPORT

22%

SIMILARITY INDEX

18%

INTERNET SOURCES

4%

PUBLICATIONS

16%

STUDENT PAPERS

PRIMARY SOURCES

1

Submitted to University College London

Student Paper

2%

2

myassignmenthelp.com

Internet Source

2%

3

Submitted to School of Oriental & African Studies

Student Paper

2%

4

Submitted to University of College Cork

Student Paper

2%

5

Submitted to Queen Mary and Westfield College

Student Paper

2%

6

Submitted to University of Glasgow

Student Paper

2%

7

Submitted to Intercollege

Student Paper

1%

8

Submitted to University of Westminster

Student Paper

1%

9

myessayassignmenthelp.com

1 %

10

Markus K Brunnermeier. "Deciphering the Liquidity and Credit Crunch 2007–2008",
Journal of Economic Perspectives, 2009

Publication

1 %

11

Submitted to University of Bolton

Student Paper

1 %

12

uwe-repository.worktribe.com

Internet Source

1 %

13

studylib.net

Internet Source

1 %

14

www.mdpi.com

Internet Source

1 %

15

lup.lub.lu.se

Internet Source

<1 %

16

www.thersa.org

Internet Source

<1 %

17

pure.bond.edu.au

Internet Source

<1 %

18

via.library.depaul.edu

Internet Source

<1 %

19

www.repository.law.indiana.edu

Internet Source

<1 %

Exclude quotes Off

Exclude matches Off

Exclude bibliography Off