

# Course Outline

<b>Course Code</b>	<b>RSM 328H1-S</b>
<b>Course Name</b>	Financial Distress and Insolvency
<b>Term, Year</b>	Winter 2024
<b>Course Meets</b>	Tues 1 pm to 3 pm / WO
<b>Web page URL</b>	<a href="http://q.utoronto.ca">http://q.utoronto.ca</a>

## Instructor Details

Name	Email	Phone	Office Hours	Virtual Office Link
Dushyant Vyas	Dushyant.vyas@rotman.utoronto.ca	416-946-3226	Tues 10 am to 12 pm; or by appointment	<a href="https://utoronto.zoom.us/j/9188909486">https://utoronto.zoom.us/j/9188909486</a>

## Course Scope, Mission and Learning Outcomes

Traditional business courses often deal with financially healthy firms. However, failure is an inevitable reality for many businesses. The problems currently being witnessed by many businesses due to changes in the macroeconomic environment are a case in point. 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.

# Course Materials

## Required Readings

The primary reference material in this course will comprise handouts, lecture notes and slides that will be posted on Quercus prior to each week's class. Students are responsible for monitoring Quercus 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, restructuring, and bankruptcy: analyze leveraged finance, distressed debt, and bankruptcy.* Edward I. Altman, Edith Hotchkiss, and Wei Wang. 4th ed. Hoboken, N.J.: Wiley, c2019.

## Evaluation and Grades

Grades are a measure of the knowledge and skills developed by a student within individual courses. Each student will receive a grade on the basis of how well they have command of the course materials, skills and learning objectives of the course.

Work	Percentage of grade	Due Date (all in 2024)
Class Participation/Attendance	5%	Self-reporting Feb 13 & Apr 2
Assignments (x3)	15%	Regular ongoing
Mid-Term Test	20%	Feb 13 (during class)
Group Project - Written Report	10%	Apr 2 (before class)
Group Project - Presentation	10%	Apr 2 (in class)
Final assessment	40%	During Faculty of Arts & Science Final assessment period

## Course Format and Expectations

### Assignments (x3)

Three written assignments are due at various points in time during the course. Assignments will test class concepts using cases or media articles that are either real business examples or mimic real business occurrences. One of the assignments will be conducted as an in-class group exercise, while the other two have to be individually written as homework. The in-class group exercise requires students to work in teams of 4 to 6 students each. The three assignments will be equally weighted and will be evaluated using the guidelines described below.

The assignments are intended to help you develop your communication skills. How well you communicate your ideas, in writing or orally, will be considered in the evaluation of the assignment. In your written assignments, you should aim for clarity, strong organization, concision, professionalism, and correct grammar. Your presentations should reflect strong planning and organization, clarity of speech, and an engaging demeanour. Sources, whether in written or presentation assignments, should always be correctly attributed.

Support is available through the RC Centre for Professional Skills (CPS) for students who would like help or feedback on their writing or speaking (presentations). CPS offers both individual and group appointments with trained writing instructors and presentation coaches who are familiar with the RC program and common types of business assignments. You can also access your college Writing Centres for help with written assignments.

You can book an appointment with a writing or presentation coach through the RC Centre for Professional Skills Writing Centre. For more information about writing centres, student supports, and study resources, see the [Writing and Presentation Coaching academic support page](#).

### *Group Project*

The group project students to work in teams of 4 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 and presentations described in the preceding section will apply to the written component of the group project as well.***

Learning to work together in teams is a crucial transferrable skill you will use not only in your coursework, but also in your future careers. Support is available if you encounter common teamwork challenges such as:

- Team members feeling left out of the team.
- Team members not responding in a timely manner to communication.
- Division or quality of work among team members being unequal or unfair.

Consult the [Centre for Professional Skills Teamwork Resources page](#) for tips, strategies, and best practices. You can also [book an appointment with a teamwork mentor](#) through the RC Centre for Professional Skills Writing Centre. Teamwork mentors can help you resolve or mitigate conflict, strategize on planning, or improve team communication.

If you are a student registered with Accessibility Services, and extensions are one of your academic accommodations, consult with your Accessibility Advisor about the teamwork in this course.

### *Class Participation*

Students are expected to prepare thoroughly and make every effort to attend every class. As class participation is a graded component of the course, students will be evaluated on the following:

- Thoughtful responses
- Understanding and analysis of topic
- Idea generation
- Promoting further discussion
- Respectful active listening
- Attentiveness

While attendance is necessary for students to participate in class discussions, attendance on its own will not result in a high participation grade. Students must actively contribute and participate by exhibiting the components listed above.

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 Test*

A closed-book written quiz will be held during regular class hours on Feb 13, 2024. The duration of the quiz will be 60 minutes. Students are permitted the use of a basic calculator. All other aids will be provided by the instructor as necessary.

### *Final Assessment*

A comprehensive closed-book final assessment will be held as specified by the Faculty of Arts & Science during the assessment period. The assessment'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.

### *Missed Tests and Assignments*

Students who miss a test or assignment for reasons entirely beyond their control (e.g. illness) may request special consideration **within 2 business days** of the missed midterm/test/assignment due date.

In such cases, students must:

1. Complete the Request for Special Consideration form: <https://uoft.me/RSMConsideration>
2. Provide documentation to support the request, eg. Absence Declaration from [ACORN](#), medical note etc.

**Please note:** As of September 2023, students may use the Absence Declaration on ACORN **\*one time per term\*** to report an absence and request consideration. **Any subsequent absence will require a [Verification of Illness form](#) or other similar relevant documentation.**

Students who do not submit their requests and documentation within 2 days may receive a grade of 0 (zero) on the missed course deliverable.

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 assessment will be reweighted to 60%.

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 by the instructor. 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).

## Statement on Equity, Diversity and Inclusion

The University of Toronto is committed to equity, human rights and respect for diversity. All members of the learning environment in this course should strive to create an atmosphere of mutual respect where all members of our community can express themselves, engage with each other, and respect one another's differences. U of T does not condone discrimination or harassment against any persons or communities.

## Commitment to Accessibility

The University is committed to inclusivity and accessibility, and strives to provide support for, and facilitate the accommodation of, individuals with disabilities so that all may share the same level of access to opportunities and activities offered at the University.

If you require accommodations for a temporary or ongoing disability or health concern, or have any accessibility concerns about the course, the classroom or course materials, please [email Accessibility Services](#) or visit the [Accessibility Services website](#) for more information as soon as possible. Obtaining your accommodation letter may take up to several weeks, so get in touch with them as soon as possible. If you have general questions or concerns about the accessibility of this course, you are encouraged to reach out to your instructor, course coordinator, or Accessibility Services.

## Generative AI / ChatGPT

The use of generative artificial intelligence tools or apps for assignments in this course, including tools like ChatGPT and other AI writing or coding assistants, is prohibited.

This course policy is designed to promote your learning and intellectual development and to help you reach course learning outcomes.

## Academic Integrity

Academic Integrity is a fundamental value essential to the pursuit of learning and scholarship at the University of Toronto. Participating honestly, respectfully, responsibly, and fairly in this academic community ensures that the U of T 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](#) 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 procedures outlined in the [Code of Behaviour on Academic Matters](#). If you have any questions 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 U of T or RC resources such as the RC Centre for Professional Skills, the 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 U of T 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 ACORN. For more information visit the [Information Commons Help Desk](#).

Forwarding your utoronto.ca email to a Gmail or other type of email account is not advisable. In some cases, messages from utoronto.ca addresses sent to Gmail 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.

### 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. Students who have been previously granted permission to record lectures as an accommodation for a disability are excepted. This includes tape recording, filming, photographing PowerPoint slides, Quercus materials, etc.

If permission for recording 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 any way. It is forbidden for a student to publish an instructor's notes to a website or sell them in any other form without formal permission.

Reference material for these topics will primarily be class notes and/or handouts from AHW. 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.

<b>Class</b>	<b>Date</b>	<b>Topic</b>
1	Jan 9	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 16	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>○ Borrower's perspective: Recognition and disclosure of impairments and business risks</li> <li>○ Auditor's perspective: going concern opinions</li> <li>○ Creditor's perspective: Covenants; Recognition of, and accounting for, problem loans</li> </ul>
3	Jan 23	
4	Jan 30	
5	Feb 6	<ul style="list-style-type: none"> <li>● Out of court restructuring</li> <li>● Bankruptcy costs</li> <li>● Planning and filing</li> <li>● Reorganizations</li> <li>● Liquidations</li> <li>● Canada – US comparison</li> <li>● Decision making during insolvency</li> </ul>
6	Feb 13	
7	Feb 27	
8	Mar 5	
9	Mar 12	<ul style="list-style-type: none"> <li>● Emergence from insolvency</li> <li>● Financial reporting issues</li> <li>● Corporate governance issues in distressed firms</li> <li>● Distressed debt investing</li> </ul>
11	Mar 19	Distressed debt investing (continued.)
12	Mar 26	Catch-up / guest lecture
13	Apr 2	Group project presentations

**Please note that the last day you can drop this course without academic penalty is March 11, 2024.**

## Other Useful Links

- [Become a volunteer note taker](#)
- [Accessibility Services Note Taking Support](#)
- [Credit / No-Credit in RSM courses](#)
- [Rotman Commerce Academic Support](#)

## URL links for print

- ACORN: <http://www.acorn.utoronto.ca/>
- Email Accessibility Services: [accessibility.services@utoronto.ca](mailto:accessibility.services@utoronto.ca)
- Accessibility Services website: <http://studentlife.utoronto.ca/as>
- University's Plagiarism Detection Tool FAQ: <https://uoft.me/pdt-faq>
- The University of Toronto's Code of Behaviour on Academic Matters: <http://www.governingcouncil.utoronto.ca/policies/behaveac.htm>
- Information Commons Help Desk: <http://help.ic.utoronto.ca/category/3/utmail.html>
- Become a volunteer note taker: <https://studentlife.utoronto.ca/program/volunteer-note-taking/>
- Accessibility Services Note Taking Support: <https://studentlife.utoronto.ca/service/note-taking-support/>
- Credit / No-Credit in RSM courses: <https://rotmancommerce.utoronto.ca/current-students/degree-requirements/credit-no-credit-option/>
- Rotman Commerce Academic Support: <https://rotmancommerce.utoronto.ca/current-students/academic-support/>
- Book an appointment with a writing or presentation coach: <http://uoft.me/writingcentres>
- Writing and Presentation Coaching academic support page: <https://rotmancommerce.utoronto.ca/current-students/academic-support/writing-and-presentation-coaching/>
- Centre for Professional Skills Teamwork Resources page: <https://rotmancommerce.utoronto.ca/teamwork-resources>
- Book an appointment with a Teamwork Mentor: <http://uoft.me/writingcentres>