The failure of the regulatory framework to prevent the catastrophic fall of many financial institutions, contributing to the financial crisis that started in 2007, has spurred a great deal of analysis and a global effort to redesign financial regulation. One aspect of the past three years is how finance and legal practitioners, regulators and academics have all had to work together, due to the numerous complex interlinked issues at hand. One thing is clear: that the industry landscape has changed drastically and that an understanding of the nature and state of financial regulation will be important for anyone participating in the financial sector.

The objective of this course is to provide a solid introduction to financial regulatory systems and frameworks globally, with an in-depth view of how regulatory concerns drive decision-making, transaction structure, and risk-based pricing. The course is mainly designed for students interested in joining multi-national financial institutions in the United States and Europe, and their various advisors such as law firms and consulting firms, where they will benefit from a rich understanding of the different impact of regulatory supervision in various countries, and how these regulatory frameworks shape risk management policies as well as cross-border transactions and strategies. The course will also emphasize issues relating to current events in the international financial sphere, as financial institutions prepare to comply with ongoing financial reforms.

**Topics Covered**
1. Key terminology and concepts used in financial regulation
2. Critical regulatory and risk management issues for supervisors, risk managers, portfolio managers, and legal compliance departments
3. Regulatory reforms and trends in the US and European financial systems, and the major issues facing regulators and banks since the financial crisis
4. Interaction of regulatory frameworks and economic actors operating in the financial markets
5. Calculation of bank capital (both regulatory and economic), and its role in shaping decision-making in different financial institutions around the world.

**Prerequisites**
This is an mid-to-advanced course that assumes familiarity with the basic concepts of corporate finance. Further knowledge about capital markets and the banking industry would be helpful for students.

**Format and Teaching Methods**
The classes will include lectures, case study discussions on financial institutions such as AIG and Barclays, and 4-5 guest speakers. Since class discussion based on the assigned readings is central to the instructional method, it is essential that each student be thoroughly familiar with the readings and be ready to participate in the discussion. A significant part of the grade will be based on contributions to discussion and responses to questions. Each student is required to submit a project paper on one of the discussion topics at the end of the term.

**Assignments and Assessment**
The final grade will be made up as follows:
Class discussion and project 50%
In-class presentation 20%
Take-home Final 30%

**Binder and Books**
This outline contains a list of the items that are included in the binder. Any remaining handouts, exercises, cases, or material will be distributed in class, put on the Blackboard, or both.

The following books are recommended for the course:

**Course Plan**

<table>
<thead>
<tr>
<th>Session</th>
<th>Topic and Readings</th>
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| Week 1 (Jan 20) | **Introduction to Global Financial Regulation**  
  • Main objectives of regulation, and the kinds of legislative and regulatory actions (both micro-prudential and macro-prudential) generally considered to achieve these objectives  
  • Ongoing policy responses and changes to banking regulation and supervisory approaches, and impact of these changes on transactions and strategies  
  IMF, Shaping the New Financial System (2010) |
| Week 2 (Jan 24) | **Cross-Country Comparison of Financial Regulatory Structures**  
  • Compare regulatory and supervisory structures in the US and Europe, understand the differences in supervisory environments and proposed changes  
  • Understand concept of regulatory capture and how it influences the behavior, performance and internal policies of financial institutions  
  Committee on Capital Markets Regulation, Recommendations For Reorganizing the U.S. Financial Regulatory Structure (2009)  
  European Commission, Reforming The European Financial Supervision System - Legislative Proposals (2009)  
| Week 3 (Jan 31) | **Cross-Border Supervision of Financial Institutions**  

• Understand how multi-national financial institutions are supervised in different jurisdictions and how these impact risk management policies
• Discuss issues regarding cross-border supervision of financial institutions using case studies of AIG (OTS supervision and the EU equivalency designation) and RBS Citizens & Santander Sovereign (interplay of EU-US supervision and how the M&As involving regulators in the UK and Spain changed risk management policies, models, responsibilities and transactions)

Statement of Michael E. Finn (OTS) regarding AIG before the Congressional Oversight Panel (2010)
Background material pack on RBS Citizens and Santander Sovereign to be provided by guest speaker

Week 4 (Feb 7)
International Implementation of the Basel Regulatory Framework (I)
• Review the Basel Accord, its evolution and its super-national goals with regard to national implementation in the US
• Overview of Basel III and actual implementation issues

Basel Committee on Banking Supervision, Enhancements to the Basel II framework (2009)
Selected Basel III Compilation (2010)

Week 5 (Feb 14)
Week 6 (Feb 22)
International Implementation of the Basel Regulatory Framework (II)
• Compare US, Canada and UK implementation of Basel principles and the impact of different implementation on banks' risk management and capital positions
• Exercise to calculate regulatory capital as well as economic capital, showing sensitivity to implementation practices affecting parameters and assumptions (using CreditMetrics model)
• Discuss how U.S. bank supervision has changed or remained the same in the face of Basel and the continued use of CAMELS ratings

Selected Minutes of Meetings of the UK Financial Services Authority (Capital and Group Standing Group), 2009-10
OSFI, Plan and Priorities for 2010-2013 (2010)
OSFI, Implementation Note: Approval of Regulatory Capital Models for Deposit-Taking Institutions (2009)
Extracts about CAMELS ratings from Material Loss Reviews

**Week 7 (Feb 28)**
**Week 8 (Mar 8)**

**International Implementation of the Basel Regulatory Framework (III)**

- Discuss the supervisory review aspects of Basel in terms of changes to risk management models and practices, capital levels, lending behavior, and disclosure practices, especially around Pillar II (Supervisory Review & Evaluation Process (SREP) and the Internal Capital Adequacy Assessment Program (ICAAP)), and Pillar III (Market Discipline)
- Apply principles based on case studies of banks in different countries (case study analysis undertaken with a guest speaker)

OSFI, Internal Capital Adequacy Assessment Process (ICAAP) for Deposit-Taking Institutions
Austrian Central Bank, ICAAP Implementation in Austria's Major Banks (2008)
Ozdemir & Miu, Pillar 2, Challenges and Procyclicality, in Basel II Implementation, McGraw-Hill 2009 (Ch 4)

*Spring Recess*

**Week 9 (Mar 21)**

**Interplay of Regulatory Arbitrage and Risk Management Failures with Global Capital Regulation**

- Discuss opportunities for regulatory arbitrage under the capital regulatory framework and the competitive effects on financial institutions
- Case study on regulatory arbitrage in the Barclays-Protium case
- Discuss the interplay of risk management failures and the global capital regulatory framework

Background material pack on Barclays-Protium case to be provided by guest speaker

Week 10 (Mar 28)  **Stress-Testing by Country Regulators**  
- Discuss the historical and conceptual context of stress-testing exercises  
- Evaluate methodology, scenarios and results used in the stress-testing exercises conducted by US and European regulators  
- Assess the risks which the Basel II framework is said to have missed

FRB, The Supervisory Capital Assessment Program: Overview of Results (2009)  
GAO, Troubled Asset Relief Program: Bank Stress Test Offers Lessons as Regulators Take Further Actions to Strengthen Supervisory Oversight (2010)  
Basel Committee on Banking Supervision, International framework for liquidity risk measurement, standards and monitoring (2009)  
Extracts on new capital requirements from Basel III, Dodd-Frank and EU Directives

Week 11 (Apr 4)  **Regulatory Enforcement Case Study (TBD)**

Week 12 (Apr 11)  **Regulatory Lapse Case Study (TBD)**

Week 13 (Apr 18)  **Stress-Testing Exercise (TBD)**

Week 14 (Apr 25)  **Group Presentations**

Week 15 (May 2)  **Group Presentations & Review (and possible guest speaker discussing future regulatory trends)**

**Academic calendar:** The first day of class is Thursday, January 21 and the final class is Monday, May 2 (one week before the last day in the Stern academic calendar). There is no class on President's Day, February 21, and "legislative Monday" is on February 22. Spring break is the same for both schools (March 14-18).