

Special Topics in Regulation

194101200

Regulation, Europe and Innovation Module
Master European Studies and Public Administration

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Content and Goal

This year's course will focus on how banking union has developed as a specific topic of financial market regulation in the EU. The goal is for students as a group to collectively and individually demonstrate knowledge of the various components of the banking union project, how they fit together, how the agreed outcome within the EU varies from various proposals by international experts. Students will also be expected to provide an analysis, based on the progress of events so far, how likely banking union is to develop further at the European level, and why.

- Banking regulation issues: general
- Recapitalisation, State Aid and the European Stability Mechanism
- The Capital Requirements Directive
- The Single Supervisor Mechanism
- The Restructuring and Resolution Directive
- The European Deposit Guarantee System
- Oversight: Theories of Integration and Banking Union

Work methods

This is a seminar, and therefore requires regular preparation (reading of assigned materials before class) and participation (critical analysis in the group of the readings and other related materials). Readings are not exclusive, but form a core. Additional sources will be noted in class, depending on the needs of the individual and of the group.

Students will also be preparing a research paper on a topic directly related to the course, with the approval of the instructor. Part of the weekly sessions will be reserved for unpacking and discussing these issues.

More than 2 unexcused absences will result in failure of the course.

Evaluation

Class participation: 25% (including presentation in week 8)

Research paper (6000 words): 75%

The research paper will be due Thursday 30 January at 9:00. I advise you to

concentrate on a particular part of banking union, rather than the entire project as a whole.

The paper may be combined with the paper for European Economic Policies (also 6000 words, for a total of 12 000 words) if you wish. In that case it must be an individual paper. It is possible for groups of two or more students to submit a joint paper, provided that the contribution of each student is readily visible. In this case, the joint assignment applies to this course only (no combined papers for this course and Economic Policies within a project with multiple authors).

Papers are to be submitted via Blackboard, in the dropbox provided. Copies of the paper should be submitted by each co-author if you are submitting a joint paper. Each copy must list all of the co-authors.

The deadline is the same for all papers in all courses this quarter. Extensions are granted only with a certificate of medical inability to work, or with a decision by the Study Supervisor (Martin Evertzen) that you are unable to work for other reasons.

Sessions:

Session 1: Banking Regulation Challenges from the 2008 Crisis

- outlines the practice of securitisation, the role it played in the financial crisis, and the role it played in supporting western economies after 2001

Paul Langley Sub-prime mortgage lending: a cultural economy. *Economy and Society*, Vol. 37, no. 4, pp. 469 – 494.

Lawrence White (2009) The credit-rating agencies and the sub-prime debacle,' *Critical Review*, 21 (2-3), 389-99.

Further Reading:

Rochet, Jean-Charles. *Why are There So Many Banking Crises?* Princeton UP. IMF, Working Paper 08/224

Questions for Study:

1. Describe the nature of structured finance instruments / asset backed securities / collateralised debt obligations (known also as derivatives).
2. What functions do these financial instruments play in the financial sector? What effect did it have on lending / money creation? How did this happen?
3. What weaknesses did the use of derivatives have?

Session 2: Introduction to Banking Union

- outlines the practice of securitisation, the role it played in the financial crisis, and the role it played in supporting western economies after 2001

Shawn Donnelly (2013) *Power Politics and the Undersupply of Financial Stability in Europe*, *Review of International Political Economy*.

Aneta Spenzharova (2013) 'Banking Union under Construction: The Impact of Foreign Ownership and Domestic Bank Internationalization on European Union Member States' Regulatory Preferences in Banking Supervision', *Review of International Political Economy*.

Session 3: International Context of Banking Union

Goyal et al, (2012) *A Banking Union for the Euro Area*. International Monetary Fund SDN 13/01.

Further Reading:

Basel Committee (2013) *Report to G20 Leaders on monitoring implementation of Basel III regulatory reforms*.

Financial Stability Forum (2008) *Ongoing and Recent Work Relevant to Sound Financial Systems*.

-- (2008) *Report of the Financial Stability Forum on Enhancing Market and Institutional Resilience Update on Implementation*.

Joint Forum (2009) *Report on Special Purpose Entities*, (IOSCO, BCBS and IAIS)

Session 4: Fiscal Union, the ESM and Bailouts

Rodrigo Olivares-Caminal (2011) *The EU Architecture to Avert a Sovereign Debt Crisis*. *OECD Financial Market Trends*. Vol. 2011, Issue 2.

Study the governance and activity of the European Stability Mechanism.

<http://www.esm.europa.eu/>

Further Reading:

Ana Petrovic & Ralf Tutsch *National Rescue Measures in Response to the Current Financial Crisis*. ECB Working Paper No. 8 (July 2009)

Session 5: Single Supervisor Mechanism

Huber and Pfoestl (2013) *The Single Supervisor Mechanism within Banking Union*. Financial Stability Report 25 (June), Oesterreichische Nationalbank, Vienna.

Stijn Verhelst (2013) *The Single Supervisory Mechanism: Passing the Point of No Return for Europe's Banking Union*. Egmont Paper 58.

Session 6: Single Resolution Mechanism

Zdenek Kudrna (2012) 'Cross-border Resolution of Failed Banks in the European Union after the Crisis: Business as Usual', *Journal of Common Market Studies* 50, 2: 283-99.

Andre Sapir and Gurnthram Wolf (2013) *The Neglected Side of Banking Union: Reshaping Europe's Financial System*. Bruegel Presentation to ECOFIN, 14 September, Vilnius.

Further Reading:

Council SRM Proposal Oct. 2013.

Session 7: Deposit Guarantee Systems

Donnelly (2013) *Deposit Guarantees, Bank Resolution and the Undersupply of Financial Stability in Europe*. Presented at the Annual Meeting of the American Political Science Association Chicago, 28 August – 1 September.

Schich (2009) Extended Government Guarantees for Bank Liabilities: Selected Issues. OECD Financial Markets Trends 2009/1.

Further Reading;

Feyen and Vittas (2009) 'Blanket Guarantees', In *Crisis Response*, World Bank.

Session 8: Presentation of Draft Papers and Discussion