

## **Current Topics in Regulation: The Financial Crisis**

*University of Twente, Master of European Studies  
Regulation Track*

**Convenor:** Dr. Shawn Donnelly

### **Objectives**

This course looks at the financial crisis, focusing on the activity of private and public actors. The readings provided here are the foundation of the course, but students are expected to read a quality newspaper daily to keep abreast of news, as current responses to the financial crisis will be discussed. The course is designed to increase knowledge about the key problems facing us during the current financial crisis. This includes an understanding of how the financial system worked until this point, what role the problematic practices of financial derivative use played in that financial system, and what the consequences of various regulatory strategies would be.

### **Prerequisites**

The course requires students to have taken Theories of Regulation, and should be taken alongside European Economic Policies and European Regulatory Governance.

### **Working 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).

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**

Evaluation is as follows:

Class participation: 25%

Research paper (7000 words): 75%

The research paper will be due Thursday 14 January at 12:00 noon.

Topics for the research paper should fall into one of the following categories:

1. Comparative macroeconomic and regulatory responses to the crisis.
2. State-market relations.
3. Global governance responses.

**Week 1: Introduction**

- practices
- policy challenges
- banks
- credit rating agencies
- financial reporting standards
- monetary and fiscal policy responses
- discussions of regulatory responses

**Week 2: Securitisation**

- financial derivatives
- asset-backed securities, collateralised debt obligations
- ratings
- impact on liquidity
- inability to mark to market / liquidity crisis

Reading:

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

**Week 3: Banking Regulation**

- basic banking regulation
- minimum reserves
- consumer protection
- investment banking regulation
- shadow banking
- current debates in banking regulation

Readings:

Jean-Charles Rochet (2008) Why are There So Many Banking Crises? Princeton UP, chapter 1, pp. 21-34.

And scan: IMF WP/08/224

Questions for Study:

1. How has risk management changed in the banking sector with regard to loans? Describe the role played by reserve ratios, securitisation, credit rating agencies. What about the role of corporate governance?
2. What contributes to a systemic banking crisis?
3. Which macroeconomic and regulatory methods can be used to counteract / prevent a systemic banking crisis?

**Week 4: No class, excursion**

### **Week 5: Credit Rating Agencies**

- CRA function in securitisation
- rating system issues
- transparency issues
- independence and other good governance issues
- IOSCO's role in reviewing CRA regulation

#### Readings:

IOSCO, CRA Code

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

#### Questions for Study:

1. How were CRAs supposed to ensure the stability of the financial system and the recirculation of investment capital?
2. What problems with CRA ratings are now apparent?
3. What kinds of remedies are being proposed? What do you see as most promising / most desirable?

### **Week 6: American Responses**

#### Reading:

US Treasury Department (2009) *Financial Regulatory Reform: A New Foundation*  
<http://www.financialstability.gov/about/index.html>

-- (2008) *Fact Sheet: Financial Stability Plan*

### **Week 7: European Responses**

- monetary policy responses and consequences
- fiscal policy responses and consequences
- regulatory responses and issues of competitiveness
- regulatory arbitrage issues
- issues of securitisation as a source of economic liquidity vs. volatility

#### Reading:

De Larosiere Report (2009)

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

## **Week 8: Global Responses**

- Financial Stability Board (FSB)
- International Accounting Standards Board (IASB)
- International Organisation of Securities Commissions (IOSCO)
- Committee of European Securities Regulators (CESR)
- G20

### Reading:

Financial Stability Forum (2008) *Ongoing and Recent Work Relevant to Sound Financial Systems*. Basel, 15 September.

- Watch video interview with Sir David Tweedie, Chairman of the International Accounting Standards Board.
- [http://www.ft.com/cms/8a38c684-2a26-11dc-9208-000b5df10621.html?i\\_referralObject=921023516&fromSearch=n](http://www.ft.com/cms/8a38c684-2a26-11dc-9208-000b5df10621.html?i_referralObject=921023516&fromSearch=n)
- See <http://www.iosco.org/library/index.cfm?section=pubdocs>