

INTERNATIONAL FINANCE AND REGULATION

Spring 2023

2 credits

Law 693 (001): Wednesday 1:50 - 3:50pm

Professor Paolo Saguato

psaguato@gmu.edu

Office Hours: by appointment

Class format

This course meets in person. However, if needed, we might have to convene some classes remotely on Zoom during the semester. You can find the zoom link on the Blackboard page of the course.

Course Introduction and Learning Outcomes.

More than 10 years have passed since one of the most severe systemic crises of modern history. In the fall of 2008, the engines of the financial system halted, and the global economies collapsed. Policymakers, facing the growing cross-border dimension of national financial systems and the risk of cross-border externalities, responded by building a new international architecture for financial markets and institutions. Today, policymakers worldwide are facing new forms of cross-border risks. This seminar offers an overview of financial market and financial regulation, and focuses on the international regulatory approaches to cross-border financial phenomena.

Effective financial and business lawyers must possess the skills to navigate the complexity of the post-2008 financial crisis international financial regime. This seminar will provide the toolkit to critically understand the legal, regulatory and policy debate around global financial markets.

This seminar has three aims:

1. to analyze the principles and rationales for (international) financial regulation;
2. to survey the primary players and instruments of the modern international financial regulation;
3. to discuss some areas of the financial system that present cross-border financial stability issues.

The focus of the course is the international financial regulatory framework set in place by international organizations. In some instances we will look comparatively at how three main reference jurisdictions, the United States, the European Union, and the United Kingdom, approach cross-border risk and phenomena.

Mandatory Pre-course Assignment

Please fill out the "Bio Sheet" by Monday, January 16th, 2023. The form is a way for me to learn a bit more about you before we meet in person.

Here is the link: <https://forms.gle/3ESBob94hxE58dU99>.

You'll also find the link in the Blackboard page of the course under the tab "Bio Sheet"

Course Requirements & Attendance

You are expected to attend classes, be prepared, and actively participate in class discussion. I will call on several students randomly during each class. If for any reasons, you know you will not be able to be prepared, please email me at least one hour before class at psaguato@gmu.edu. Your email should simply have in the subject line "IntFinReg Pass" and the date of the class.

[Academic regulation](#) requires you to attend at least 80% of classes in order to be eligible for credit in the course, put it differently you cannot miss more than 2 class sessions. **I will take attendance during each class.**

Please do not attend class if you have any cold or flu-like symptoms. Given current circumstances, we want to keep our community as healthy as possible and limit the spread of any illnesses. the event I have to cancel a class I will either record the class on Blackboard or we might have a make-up class.

Grading Policy

The final grade for the course will be broken down as follows:

- 50% upon the quality of your final paper
- 20% upon the quality of your class participation
- 20% upon the quality of short reaction papers and discussion questions
- 10% upon the quality of your voluntary presentation of your paper the last day of class

Final paper

The law school's [Academic Regulations](#) require a "substantial writing assignment" (AR 4-2) as the basis of a grade in a course that does not have a final exam. It must be a "major paper" in order to satisfy a portion of your writing requirement (AR 3-3.3). The paper can be between 25-30 typewritten pages, footnotes included, but no more than 10000 words in total.

On the Blackboard page of the course, in the "Additional Material" folder, you can find a list of topics for possible papers. You can decide to write an (i) original contribution to the current financial regulation academic literature and policy debate; (2) a critical taking on the current academic literature or policy debate; (3) a systematic literature review on a specific issue. We will discuss in class how to pick a topic and how to write an academic paper.

Here is a timeline for the writing of the paper.

- On or before **February 12** – Submit 3 ideas you are considering for your paper. We shall meet and discuss them.
- On or before **March 8** – Provide a 500-750 words summary and outline of the paper you are contemplating, as well as a proposed initial bibliography consisting of at least 10 sources.
- On or before **April 2** – Submit (to me) an 8-10 pages draft of the paper, including no less than 7 additional sources (since October 3). Your thesis and table of contents must also be included.
- If you volunteer to present your paper during our last class on April 19, **on or before April 9** you must post your paper on the Blackboard forum page.
 - To upload your paper, access the Blackboard page of the course, then click on "Discussion Board", and then click on "Create Thread" to upload your essay in the appropriate class forum.
- On or before **May 11** – Final paper due at 11:59 pm – email the paper to me at psaguato@gmu.edu.

[Academic Regulations](#) impose grade reductions for late submission of the final paper (AR 4-4.1(b)(iii)).

Class participation

To borrow a line from Prof. Ross Davies, "Let's be clear about this up front: The evaluation of participation is subjective, which means that if you do not like your participation grade there will be no basis for challenging it. Having said that, you are unlikely to get a bad participation grade if you ... come to class prepared to make useful contributions and do in fact make them from time to time, and respectfully listen to and comment on the contributions of others."

Short reaction papers and discussion questions

Short Papers. In addition to the final paper, you are required to write four (4) short reaction papers, no more than 500 words. These reaction paper must critically analyze,

assess, question, comment, or respond to an issue that is presented in the readings. **They must not be a summary of the readings.** These short essays must be posted on the Discussion Board of this class on Blackboard no later than 12 pm of the day of the relevant class.

- To upload your paper, access the Blackboard page of the course, then click on "Discussion Board", and then click on "Create Thread" to upload your essay in the appropriate class forum.

Discussion Questions. For any four (4) classes for which you are not preparing a reaction paper, you must submit 3 discussion questions based on the assigned readings. All discussion questions must be posted on the Discussion Board of this class on Blackboard no later than 12 pm of the day of the relevant class.

- To upload your paper, access the Blackboard page of the course, then click on "Discussion Board", and then click on "Create Thread" to upload your essay in the appropriate class forum.

Voluntary presentation of your paper

You can decide to present your paper in front of your classmates and me and received feedback and questions. You can decide to present with or without the support of a Power Point presentation, and the presentation will be 10 minutes maximum.

Office hours

During the semester, I will hold office hours by appointment. I'm always happy to discuss the class, law school more generally, legal practice, career opportunities, etc. I'd love to get to know you!

Feedback

If you have feedback or comments about the course, please do share them with me. Feel free to email me, or if you prefer want to send anonymous comments, you can use this [link](#). This is routed via Google and I have no way of identifying your identity. Naturally, I will not be able to respond directly. You can also find to tabs on Blackboard to submit anonymous feedback.

Students resources

All students must comply with the Law School's [Honor Code](#) and [Academic Regulations](#). This is the challenging time for everyone, if there is anything I can do, please free to reach out to me. University Life (<https://ularlington.gmu.edu/>) provides support for students:

- Counseling and Psychological Services: <https://caps.gmu.edu/>
- Disability Services: <https://ds.gmu.edu/>
- Patriot Pantry: <https://ssac.gmu.edu/patriot-pantry/>
- Student Health Services: <https://shs.gmu.edu/>
- Student Support and Advocacy Center: <https://ssac.gmu.edu/>

Course Material and Structure

You do not have to purchase any books for this course. All readings will be available online and on the Blackboard page of the course.

Assignments might change during the semester. I might add or remove some material depending on the class interests and on current hot policy and market topics. The policy debate on international financial regulation is vivid and ongoing; and the market news might provide us with very interesting case studies.

Assigned readings might be subject to change, as the course progresses. I expect you to complete all assigned readings before each class and to be prepared for a *lively* class discussion. Some readings might be technical and might use finance jargon, a good resource that can help you, especially if you do not have a background and basic knowledge of finance is [Investopedia](https://www.investopedia.com/).

In addition, I encourage you to read the business sections of the [New York Times](https://www.nytimes.com/), the [Wall Street Journal](https://www.wsj.com/) or the [Financial Times](https://www.ft.com/) regularly (you can access them for free with your GMU credentials). Two good sources of business news are the daily newsletters of the [NYT DealBook](https://www.nytimes.com/nytimes/dealbook/) and the [Bloomberg View Money Stuff](https://www.bloomberg.com/view/stories/) by Matt Levine. Keeping up-to-date with business news can help you with job interviews, but, most importantly, shows you how the concepts, principles, and rules we study in class operate in the real world.

The reference books for the course is

Principles of Financial Regulation [PFR], Armour et al.,
<https://academic.oup.com/book/35860>

(you **do not need** to buy this book; all chapters are available online with GMU credential and a printed copy is available for consultation at the Law Library circulation desk)

Useful free resources:

1. Investopedia: <https://www.investopedia.com/> (very good source to finance related topics)
2. CoinCenter: <https://coincenter.org/> (think tank on cryptocurrencies)

Optional preparatory readings:

- The Economist, [A History of Finance in Five Crises](https://www.economist.com/finance-and-economics/2014/04/12/a-history-of-finance-in-five-crises) (April 12, 2014)
- WSJ, [10 Years After The Crisis](https://www.wsj.com/articles/10-years-after-the-crisis-2018-03-27) (March 27, 2018)
- Gary Gorton & Andrew Metrick, [Getting up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide](https://www.nber.org/papers/w18842)
- Gary Gorton, [Questions and Answers about the Financial Crisis](https://www.nber.org/papers/w16282) (2010)
- Chapter [1 PFR](#)

Date	Required readings
PART I: THE FINANCIAL SYSTEM AND FINANCIAL REGULATION	
Class 1 Jan. 18	<p>What is financial system: financial institutions and financial markets</p> <p><i>Required readings:</i></p> <ol style="list-style-type: none"> 1. Chapter 2 PFR 2. Gary Gorton, Questions and Answers about the Financial Crisis (2010) 3. Luigi Zingales, Does Finance Benefit Society? (2015) American Finance Association Presidential Address 2015, published in (2015) 70 <i>Journal of Finance</i> 1327, pp. 1340-1343 <p><i>Suggested readings:</i></p> <ol style="list-style-type: none"> 1. The Financial Crisis Inquiry Report and the Dissenting Statement to the Official Report (USA focused) 2. Ben Bernanke, Causes of the Recent Financial and Economic Crisis, https://www.federalreserve.gov/newsevents/testimony/bernanke20100902a.htm. 3. Barry Eichengreen, The Next Financial Crisis (on Blackboard) 4. Gary Gorton & Andrew Metrick, Getting up to Speed on the Financial Crisis: A One-Weekend-Reader's Guide 5. Chris Alessi and James McBride, <i>The Eurozone in Crisis</i>, https://www.cfr.org/backgroundunder/eurozone-crisis
Class 2 Jan. 25	<p>Goals and challenges of financial regulation</p> <p><i>Required readings:</i></p> <ol style="list-style-type: none"> 1. Chapters 3 PFR, 4 PFR, 24 PFR (24.2; 24.4) <p><i>Suggested readings:</i></p> <ol style="list-style-type: none"> 1. Robert Merton, A Functional Perspective of Financial Intermediation (1995) 24 <i>Financial Management</i> 23 2. Luigi Zingales and Raghuram G. Rajan, Banks and Markets: The Changing Character of European Finance (2003) 3. Eric Posner and EG Weyl, The Case for Cost-Benefit Analysis of Financial Regulations, (2013) <i>Regulation</i> 30-34 4. JC Coates IV, Cost-Benefit Analysis of Financial Regulation: Case Studies and Implications (2015) 124 <i>Yale Law Journal</i> 882, pp. 885-926; 997-1011

- | | |
|--|---|
| | <ol style="list-style-type: none">5. John C. Coffee, <i>The Political Economy of Dodd-Frank: Why Financial Reform Tends to be Frustrated and Systemic Risk Perpetuated</i>, 97 Cornell Law Review 1019 (2012) (introduction and Part I only).6. Chapter 25 PFR (The Political Economy of Financial Regulation) |
|--|---|

<p>Class 3 Feb. 1</p>	<p>The international and domestic institutional architecture</p> <p><i>Required readings:</i></p> <ol style="list-style-type: none"> 1. Chapters 28 PFR 2. Michael Barr, <i>Who's in charge of global finance?</i> (2014) <p><i>Suggested readings:</i></p> <ol style="list-style-type: none"> 1. Chapters 24 PFR (24.3) (for an overview of regulatory architecture); 27 PFR (27.2, 27.3) 2. Michal Barr & Geoffrey Miller, <i>Global Administrative Law: The View from Basel</i> (2006) 3. Pierre-Hugues Verdier, <i>The Political Economy of International Financial Regulation</i> (1405-1409; 1437-1459)
<p>PART II: THE INTERNATIONAL FINANCIAL SYSTEM: INSTITUTIONS AND MARKETS</p>	
<p>Class 4 Feb. 8</p>	<p>Banks and Basel: how to achieve safety and soundness</p> <p><i>Required readings:</i></p> <ol style="list-style-type: none"> 1. Chapter 13 PFR, 14 PFR (14.1, 14.2, 14.3)(suggested to skim 14.4, 14.5, 14.6, 14.7), 15 PFR (15.1, 15.2) (suggested to skim 15.3, 15.4, 15.5, 15.6) 2. BCBS, <i>Basel III: A global regulatory framework for more resilient banks and banking systems</i> (2011) (only introduction pp. 1-11) <p><i>Suggested readings:</i></p> <ol style="list-style-type: none"> 1. Andrew Haldane, <i>The dog and the frisbee</i> 2. Robert McCauley, Patrick McGuire, and Philip Wooldridge, <i>Seven decades of international banking</i>, https://www.bis.org/publ/qtrpdf/r_qt2109e.pdf. 3. The Economist, <i>The Good Bank Report</i> (2013) <p>If you are interested in bank law and regulation here some further suggested readings:</p> <ol style="list-style-type: none"> a. Chapter 16 PFR, 17 PFR b. Franklin Allen et al., <i>Deposit Insurance and Risk Taking</i> (2011) c. Anat Admati et al., <i>Fallacies, Irrelevant Facts, and Myths in the Discussion of Capital Regulation: Why Bank Equity is Not Socially Expensive</i> (2016) d. Ines Drumond, <i>Bank Capital Requirements, Business Cycle Fluctuations and the Basel Accords: A Synthesis</i> (2009)

	<ul style="list-style-type: none"> e. John Coffee, Systemic Risk After Dodd-Frank: Contingent Capital and the Need for Regulatory Strategies Beyond Oversight (2011) f. Daniel Tarullo, The Evolution of Capital Regulation (2011) g. Daniel Tarullo, Developing Tools for Dynamic Capital Supervision (2012) h. Sten Ingves, Basel III: Are we done now? (2018) i. Xavier Vives, Seven principles for better banking regulation (2012) j. Michael McLeay, Amar Radia and Ryland Thomas, Money Creation in the Modern Economy (2014) <p>International regulation:</p> <ul style="list-style-type: none"> a. BCBS, IADI Core Principles for Effective Deposit Insurance Systems (2014) b. BCBS, Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools (2014) c. BCBS, Basel III: the net stable funding ratio (2014) d. BCBC, Basel III leverage ratio framework and disclosure requirements (2014) e. BCBS, Global systemically important banks - revised assessment framework - consultative document (2017) f. Basel III in 10 minutes, https://www.youtube.com/watch?v=KpWBf3s4NpI g. Finalising Basel III: in brief https://www.bis.org/bcbs/publ/d424_inbrief.pdf
<p>Class 5 Feb. 15</p>	<p>Capital markets: the role of financial intermediaries</p> <p><u>Required readings:</u></p> <ol style="list-style-type: none"> 1. Chapter 5 PFR, 7 PFR, 8 PFR (8.1-8.4) 2. Alan Morrison & William Wilhelm, <i>Investment Banking: Institutions, Politics, and Law</i> (2007), Chapter 1 (available on Blackboard) <p><u>Suggested readings:</u></p> <ol style="list-style-type: none"> 1. Gilson & Kraakman, The Mechanisms of Market Efficiency (1984) 2. Gilson & Kraakman, Market Efficiency After the Financial Crisis: It's Still a Matter of Information Costs (2014) 3. Chapter 6 PFR, 9 PFR
<p>Class 6 Feb. 22</p>	<p>Shadow banking</p> <p><u>Required readings</u></p>

	<ol style="list-style-type: none"> 1. Chapters 20 PFR, 21 PFR (21.3-24.5), Chapter 22 PFR (22.1-22.2, 22.5) 2. Edward V. Murphy, Shadow Banking: Background and Policy Issues (2013) (skim) 3. Frank Partnoy, The Looming Bank Collapse (2020) 4. FSB, Non-Bank Financial Intermediation <p><i>Suggested readings:</i></p> <ol style="list-style-type: none"> 1. Paolo Saguato, The Liquidity Dilemma and the Repo Market: A Two-Step Policy Option to Address the Regulatory Void (2017) 22 Stanford Journal of Law, Business, and Finance; pp. 87-118 (skim 118-145) 2. Darrell Duffie, The Failure Mechanics of Dealer Banks (2010) 3. Telis Demos and Akane Otani, The Repo Market: What It Is, and Why Everyone Is Talking About It Again, https://www.wsj.com/articles/the-repo-market-what-it-is-and-why-everyone-is-talking-about-it-again-11568743438 4. FSB, Shadow Banking: Scoping the Issues (2011) 5. FSB, FSB Recommendations to Strengthen Oversight and Regulation of Shadow Banking (2011) 6. FSB, Implementing OTC Derivatives Market Reforms (2010) 7. Robert Litan, The Derivatives Dealers' Club and Derivatives Markets Reform: A Guide for Policy Makers, Citizens and Other Interested Parties (2010) Brookings Initiative o. Business and Public Policy 8. Mary Schapiro, Testimony: Perspectives on Money Market Mutual Fund Reforms, https://www.sec.gov/news/testimony/2012-ts062112mlshtm
<p>Class 7 Mar. 1</p>	<p>The infrastructure of financial markets: exchanges, clearinghouses, depositories</p> <p><i>Required readings:</i></p> <ol style="list-style-type: none"> 1. G Ferrarini and P Saguato, Regulating Financial Market Infrastructures, in N Moloney, E Ferran and J Payne eds., <i>The Oxford Handbook of Financial Regulation</i> (2015) 2. Chapter 18 PFR <p><i>Suggested readings:</i></p> <ol style="list-style-type: none"> 1. IOSCO/BIS/CMPI, Principles for Financial Market Infrastructures (PFMI) (2012)
<p>PART III: DISRUPTIVE TECHNOLOGIES AND EVENTS</p>	
<p>Class 8 Mar. 8</p>	<p>FinTech: cryptocurrencies, central bank digital currencies, and payment systems</p>

	<p><u>Required readings:</u></p> <ol style="list-style-type: none"> 1. Aleksander Berentsen and Fabian Schär, A Short Introduction to the World of Cryptocurrencies (2018) 2. Antonio Fatas and Beatrice Weder di Mauro, Making (some) sense of cryptocurrencies: When payments systems redefine money 3. Jon Danielson, Cryptocurrencies don't make sense 4. Campbell R. Harvey, Bitcoin Myths and Facts 5. The Economist, The Rise and Fall of Bitcoin (Jan 2018) 6. NY Fed, Central Banks and Digital Money 7. NY Fed, Why Central Bank Digital Currencies? 8. Jeanna Smialek, Fed opens debate over a U.S. central bank digital currency with long-awaited report. <p><u>Suggested readings:</u></p> <ol style="list-style-type: none"> 1. Satoshi Nakamoto, Bitcoin: A Peer-to-Peer Electronic Cash System 2. Reuben Grinberg, Bitcoin: An Innovative Alternative Digital Currency 3. David Yermack, Is bitcoin a real currency? An economic appraisal 4. Bitcoin and Cryptocurrency Technologies 5. Catalini and Gans, Some Simple Economics of the Blockchain 6. What is Bitcoin, https://www.youtube.com/watch?v=41JCpzvnn_0 7. What is Ethereum, https://www.youtube.com/watch?v=jxLkbJozKbY 8. Money and Payments: The U.S. Dollar in the Age of Digital Transformation, https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf 9. Dante Disparte, The Case against Central Bank Digital Currencies, http://www.international-economy.com/TIE_Su22_Disparte.pdf
--	--

No classes: March 13 - 17 - Spring Recess

<p>Class 9 Mar. 22</p>	<p>FinTech: blockchain technology and crypto assets</p> <p><u>Required readings:</u></p> <ol style="list-style-type: none"> 1. CPMI/BIS, Distributed ledger technology in payment, clearing and settlement (2017) 2. Financial Stability Board, Assessment of Risks to Financial Stability from Crypto-assets (1-20), https://www.fsb.org/2022/02/assessment-of-risks-to-financial-stability-from-crypto-assets/ <p><u>Suggested readings:</u></p>
-----------------------------------	--

	<ol style="list-style-type: none"> 3. Jay Clayton, Statement on Cryptocurrencies and Initial Coin Offerings (Dec. 2017) 4. Aaron Wright and Primavera De Filippi, Decentralized Blockchain Technology and the Rise of Lex Cryptographia 5. Jonathan Rohr & Aaron Wright, Blockchain-Based Token Sales, Initial Coin Offerings, and the Democratization of Public Capital Markets (2017) 6. Shaanan, Hoffman, Sklaroff, Wishnick, Coin-Operated Capitalism 7. Catalini and Gans, Some Simple Economics of the Blockchain 8. CPMI/IOSCO, CPMI and IOSCO publish final guidance on stablecoin arrangements confirming application of Principles for Financial Market Infrastructures 9. Financial Stability Oversight Council, Report on Digital Asset Financial Stability Risks and Regulation, https://home.treasury.gov/system/files/261/FSOC-Digital-Assets-Report-2022.pdf 10. MICA - Overview of the New EU Crypto-Asset Regulatory Framework, https://www.klgates.com/MiCA-Overview-of-the-new-EU-crypto-asset-regulatory-framework-Part-1-11-15-2022 11. MICA regulation overview, https://www.iflr.com/article/2a647jipe3beilngwqlmo/primer-markets-in-crypto-assets-regulation-mica 12. Prudential treatment of cryptoasset exposures, https://www.bis.org/bcbs/publ/d519.pdf 13. Basel Committee consults on prudential treatment of cryptoasset exposures https://www.bis.org/press/p210610.htm 14. Caitlin Long, Proposed Bitcoin Capital Requirement for Banks: Too Low and Would Leave Banks Vulnerable, https://www.forbes.com/sites/caitlinlong/2021/06/24/bis-proposed-capital-requirements-for-cryptoassets-vital-move-but-theyre-too-low-for-bitcoin/?sh=55cb0d7e2546
Mar. 29	No class
Class 10 Apr. 5	Climate risk as financial risk <ol style="list-style-type: none"> 1. Network for Greening the Financial System: Sustainable Finance Market Dynamics: an overview (2021) 2. Mark Carney, Resolving the climate paradox 3. FSB, Climate-related Risk
Class 11 TBD	Guest Speaker TBD
Class 12 Apr. 12	Presentations (4 hours class) Lunch will be served

12 pm - 4 pm	
Apr. 19	No Class