This course examines the rationales and main features of regulatory law in financial markets, focusing on securities markets but also touching on banking and other financial markets. It discusses approaches to regulating investor and customer protection, financial institutions, and market structure. It examines relationships among change in financial markets such as financial innovations and regulatory structure and practice. The course discusses the roles of federal and state regulation, self-regulatory organizations and private associations, and firms within the regulatory system.

**EVALUATION**

**Written Responses to Questions on Readings (85%)**

The course has seven sections, or modules. Each module has one or more reading assignments. By the last day of the module you should submit to me an approximately six-page double-spaced paper *in Microsoft Word (do not use other software; I will not accept papers that I cannot open)* that responds to a question or questions regarding the readings that I will ask. The papers must be submitted through the Blackboard system by the final day of the module. I will not be accepting late papers, so be sure to prepare the paper in time to allow for any problems in submissions. You should assume that you are going to encounter computer or other problems of one kind or another and allow for those contingencies by having back-up files and computers and allowing yourself time to deal with unexpected difficulties of any type. You must submit all of the papers assigned for the course.

You should analyze the readings and other materials actively and creatively in working on these questions. I will be posting supplementary materials on Blackboard and ideally you would draw on these as well.

*Papers will be graded on presentation as well as their content so write and edit the papers carefully.* A main goal of this course is to practice careful analysis and writing relating to financial market regulation. Two members of the Advisory Council of the UAlbany/Albany Law School Institute for Financial Market Regulation, responding to a question about the importance of developing communication skills in classes, wrote in February 2013:

- “One additional suggestion would be to add executive summaries to the mix. All too often, the major point of a memo is buried somewhere in the 3rd paragraph, if not on the 3rd page. Learning how to write effectively is critical, as is learning how to summarize and convey major points.”
- “I will share with you my personal beef. I find that students write using the theory that if they get the material on the page, it is good. Professors appear to be happy to see that their students know the correct information and can recite it. There is not much effort to make the material easily understandable. In my world, there is great competition to have our memos read and understood by the intended reader. The readers do not read memos that are hard to follow, unclear, not to the point, etc. Readers have too little time to struggle to
I understand a memo. They have too many other memos to read. Even if all the information is on the page, the reader will not read it unless it is easy."

I will mark down papers that contain editing errors, inconsistent formatting, and other mistakes that should have been corrected in advance. You should state in the front of the paper the main ideas you want to convey. How clearly, cleanly, and effectively you write these papers will influence your grade substantially.

Please review the University definitions and policies regarding plagiarism in the current Undergraduate and Graduate Bulletins. Plagiarism, in both its subtle and flagrant forms, including long summaries without appropriate citation of the work of others, is a serious offense. The papers will be processed through SafeAssign plagiarism detection software integrated with Blackboard. If a paper, comment in the Blackboard discussion forum, or any other submission connected with the course shows signs of plagiarism the University policy will be enforced strongly.

**Active and Effective Engagement in the Class (15%)**

I encourage you to use the Group Discussion feature on Blackboard to post your interim thoughts on the material and to respond to the comments of others. Participating effectively in discussions on the materials through the Group Discussion feature helps indicate your creative work and level of engagement in the course. Additionally, you can demonstrate active participation in the class through your ability to consistently draw on material thoughtfully and creatively in writing the responses to questions on the readings. The pattern of work you show throughout the course on the written answers and other activities transcends the individual grades on the papers. Fifteen percent of the course grade will be based on the various indicators of the level and quality of engagement through the duration of PAD435/535.

**Meaning of Grades**

A grade of A reflects highly successful effort to think creatively about the course material and to present assignments effectively. A grade of B reflects good, comprehensive work with the assigned material. A grade of C reflects knowledge of much of the material, but weak preparation of a substantial share of it. A grade of less than C reflects major gaps in knowledge or persistent lack of performance in the various aspects of the course. The grade scale used is 3.8-4 (A), 3.6-3.7 (A-), 3.3-3.5 (B+), 3.0-3.2 (B), 2.7-2.9 (B-), 2.3-2.6 (C+), 2.0-2.2 (C); 1.7-1.9 (C-); 1.3-1.6 (D+); 1.0-1.2 (D); .7-.9 (D-). Less than .7 is an E. Students enrolled in the graduate section of the class (PAD536) need to earn C or better for the class to earn academic credit. Although the same grade scale is used for those enrolled as undergraduate and graduate students, the grading standards for graduate work are higher as appropriate for graduate-level work and credit.

**READINGS ASSIGNED**

See reading assignments for designated weeks. You need to order the following books; they are on discount and in paper or electronic format at amazon.com:


Reading Schedule and Assignments


*Question for Paper for Module 1:* The readings for Module 1 discuss the rules and procedures governing disclosure and the reasons for those rules. They also describe how the rules are tailored to fit different circumstances. In recent years, in particular, the rules have been changed to address concerns about the costs of disclosure, trying to preserve the benefits of disclosure for public policy while reducing its costs and otherwise adjusting it where possible. The readings suggest that the rules governing how firms offer securities to investors vary substantially depending on the circumstances. What are the key circumstances that the rules take into consideration? Why do the rules allow for these circumstances? Be as specific as you can within the space constraints, briefly noting the reasoning behind each example you provide.

When submitting your assignment for this and all subsequent assignments, use the following format in naming the file: **Your Name_Module 1**(or 2, 3, etc.)


*Question for Paper for Module 2:* The articles for this module highlight current issues regarding regulation of securities issuance and disclosure. While these issues precede the financial crisis and the ensuing economic downturn beginning in 2008, the financial crisis made the issues especially salient. One issue is the effectiveness of the disclosure system itself in producing investor protection. A second issue is the cost and benefits of regulatory controls, particularly as they apply to emerging, smaller companies. A third issue is whether technological, economic, and political changes should lead us to fundamentally rethink how we should regulate corporate disclosure. Drawing on the assigned readings, summarize the key points of these current challenges to the system of disclosure. When submitting your assignment for this and all subsequent assignments, use the following format in naming the file: **Your Name_Module 2**(or 3, 4, etc.).

Questions for Paper for Module 3: Tradeoffs among competing considerations figure prominently in debates over how to regulate corporate takeovers, mergers, and shareholder influence over corporations. Corporate management needs room to exercise judgment in running corporations and so we should be willing to give managers reasonable benefit of the doubt and discretion when assessing their actions. However, managers may end up acting more in their own interests, or unreasonably or ineffectively, and so shareholders and other stakeholders ought to be able to hold them accountable. Ways to pressure existing management include, among other methods, aggressive efforts by outsiders to take over corporations or to force mergers, to influence or take control of corporate boards of directors by favoring board candidates challenging existing managers, and shareholder votes objecting to current managerial policies or demanding new policies. The system of corporate governance and corporate control constantly debates where to strike the balance between giving managers enough discretion to operate effectively versus enabling other stakeholders, like shareholders or outsiders who think they can do better than existing management, to force changes in managerial decisions or even to replace senior managers. The readings for Module 3 discuss how the system of securities law, at both the federal and state level, oversees this process, changes over time in how the system operates, and current disagreements over how the system should operate. Discuss what you see as particularly important trends and issues in this area based on the assigned readings. You can complement the assigned readings with the supplementary materials provided as you write your essay.


Questions for Paper for Module 4: The readings for Module 4 survey the variety of common violations of securities rules and laws and also the sanctions for those violations. The SEC and other enforcement agencies consider numerous factors in deciding whether or not behavior rises to the level of a rule or legal violation. Also, the legal system combines public and private sanctions of rules and laws. Discuss the broad categories of violations, the types of issues the SEC and other agencies consider in deciding whether to bring enforcement actions, and the types of public and private sanctions in the system. You should identify and articulate the central themes and patterns across the assigned chapters from Securities Regulation in a Nutshell.

Questions for Paper for Module 5: These readings discuss regulation and control of broker-dealers, investment companies, and investment advisers. What are the main types of regulatory and private controls applying to conduct in these three areas? What are some main common purposes of regulatory and private controls in these three areas? What are some main differences in regulation and controls overseeing broker-dealers, investment companies, and investment advisers?

Module 6 (April 24-April 30): Regulation of Banking. Anat Admati and Richard Hellwig, The Banker’s New Clothes, preface through Chapter 7 (to page 114).

Question for Paper for Module 6: The assigned chapters from The Banker’s New Clothes maintain that the banking institutions benefiting most from implicit government support construct a narrative justifying their current methods of finance and operation. Admati and Hellwig call this narrative false and misleading. In your own words, to demonstrate that you understand what Admati and Hellwig are saying, what are the authors’ main arguments? You should point to the specific sections of the readings—without relying on extensive quotations from those sections—that support your analysis. You should demonstrate your command of the material by thoughtfully identifying and articulating, within the approximate six-page limit, the authors’ main arguments.

Module 7 (May 1-May 8): Regulation of Banking (continued). The Banker’s New Clothes, Chapters 8 through 13 (pp. 115-228).

Questions for Paper for Module 7: Admati and Hellwig maintain that the current level of banks’ borrowing to finance their activities is economically indefensible and exposes the banking system to high levels of risk without any compensating benefits. What accounts for the persistence of this situation before and even after the financial crisis beginning in 2008? What do they see as necessary steps to address the problem? In their view, what must financial regulators do to induce and maintain these changes?