

PAD 436/536 and ACC536: Technology in Financial Market Regulation Spring 2015, Wednesday 4:15-7:05 Business Building (BB) 205

[Syllabus Dated January 21, 2015]

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Course Description. The development, operation, and regulation of technological systems shape modern financial markets. These systems are developed and overseen by market centers, clearing organizations, and other market infrastructure organizations, as well as sell-side financial firms, institutional investors and other buy-side participants, corporations, technology providers, and public and private regulators. Market controls, technological development, and regulation shape this system individually and interactively. This course examines the central features of technology in financial markets and how market and regulatory controls and social and behavioral conditions produce and interact with them. Prerequisite(s): prior coursework in study of regulation and/or finance highly recommended.

Office Hours: I would be pleased to set up meetings with you most days of the week depending jointly on our schedules, including on the uptown campus. I have a standing meeting 2-4 on Wednesdays this semester so cannot meet prior to the class. I have a class on the uptown campus 10:15-11:35 on Tuesdays and Thursdays and so can schedule meetings with you prior to or after that class if it would be helpful. I also can be contacted on email continuously.

Books and Other Materials Assigned. I ordered the following books at the University Bookstore. All books also are available on Amazon, probably on discount. The books are available in paperback, and you must have the paperback editions of Fool’s Gold and A Demon of Our Own Design because they are updated from the hardcover editions.

- Richard Bookstaber, A Demon of Our Own Design: Markets, Hedge Funds, and the Perils of Financial Innovation (John Wiley & Sons; you need the paperback edition which was published in 2008).
- Diana Hacker and Nancy Sommers, Rules for Writers (7th Edition, Bedford/St. Martin’s, 2011).
- Peter Kovac, Flash Boys: Not So Fast: An Insider’s Perspective on High-Frequency Trading (Directissima Press, 2014)
- Gillian Tett, Fool’s Gold: How the Bold Dream of a Small Tribe at J.P. Morgan Was Corrupted by Wall Street Greed and Unleashed a Catastrophe (Simon & Schuster; you need the paperback edition which was published in 2008).

Other required materials noted in the syllabus are posted or linked on Blackboard.
**Grading System**

The course grade will be based on two examinations (both 20% of the grade), two six-page papers (both 20% of the grade), and active and effective participation in the course (20%).

**Examinations**

The examinations are scheduled for the class periods of March 4 and April 15. The examinations will consist of short answers to questions, taking up to 60 minutes of the class. The March 4 examination will focus on material covered prior to March 4. The April 15 examination will focus on material covered March 4-April 8, but may refer to earlier material as well.

**Course Papers**

You will write two six-page papers for the course, responding to the questions below. These are due by March 25 and May 10. The papers should be double-spaced (minimum 11-point font), with one-inch margins. You can go a bit beyond six pages to avoid cutting an argument short, but definitely do not go beyond seven pages. Pages for references do not count against the page limits. You should not use a cover page on these papers; your name and the date are the only items required prior to the text. You should state your arguments clearly and concisely. Writing a paper beyond the page limits will violate the rules for the assignment rather than make the paper more effective. You should submit these papers through the submission process on Blackboard in Microsoft Word (do not use other software; I will not accept papers that I cannot open) by the due date and time.

The papers should address the following questions:

**Paper Due March 25**

Identify a significant current issue involving the regulation of financial instruments or the regulation of market execution systems. Demonstrate, using material drawn primarily from 2014 and 2015, including descriptive statistical information, why this issue is important today. What is the status of regulatory responses to this issue?

**Paper Due May 10**

Identify a significant current issue involving the regulation of financial instruments or the regulation of market systems that differs from the issue you discussed in your paper due March 25. Drawing on material primarily from 2014 and 2015, including descriptive statistical information, state the strongest arguments that analysts can make on two conflicting points of view on this issue.

When submitting your assignments, use the following format in naming the file: Your Name_Date Due (e.g., David McCaffrey_March 25). Do NOT send in the paper with a title like “Paper 1”—the file title should be your name and the date the paper is due because otherwise I will need to rename the file. 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.

One of the main purposes of this course is to practice locating and using material in analyzing regulatory issues. Thus, the questions will ask that you analyze current regulatory issues using material beyond the course as well as material that we have covered. In analyzing the current regulatory issues you must identify outside sources primarily from 2014 and 2015. The appropriate number of sources will vary depending on what they are; for example, a publicly
available data set will enable more analysis than an online article from Bloomberg. Frequently
we will discuss the writing of these papers in class, and you should always feel free to review
with me your ideas for them. You should be prepared to meet with me to explain the process
and reasoning you used in writing the papers, and so you should retain the material and notes
you have used in writing them.

Fifty percent of the grades for these papers will be based on the quality of presentation and
writing and 50 percent will be based on the substantive material in the paper. You will receive
separate grades for each component combined into a total grade. Experienced professionals
emphasize to us that the ability to analyze information and write subsequent reports effectively
is an essential and increasingly rare skill among applicants for positions in their organizations.
A main goal of this course is to practice careful analysis and writing relating to regulatory issues
so that you develop those skills.

This means that you must pay close attention to your writing. I will mark down papers that
contain editing errors, inconsistent formatting, and other mistakes that should have been
corrected in advance. I will not be editing your draft papers. It is your responsibility to make
sure that the writing, editing, and formatting of the paper are as clean as possible. One of the
books assigned for the course is Diana Hacker and Nancy Sommers, Rules for Writers (7th
edition, 2012). We will be discussing writing issues throughout the semester, referring to this
source, and you should use the book as a reference as you are writing and formatting your
papers. You should exercise the same level of care in writing these papers as you would
exercise in entering numbers on a spreadsheet, in a mathematical calculation, or in conducting
a scientific experiment. Errors in spreadsheets, math, or experiments diminish grades in such
assignments. Similarly, editing and other writing errors will diminish grades in these papers.

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, or slight changing in
wording from a published source to avoid quotation, is a serious offense. The papers will be
processed through SafeAssign plagiarism detection software integrated with Blackboard. If a
paper or any other submission connected with the course shows signs of plagiarism the
University policy will be enforced strongly. As noted above, you should be prepared to meet
with me to explain the process and reasoning you used in writing the papers, and so you should
retain the material and notes you used in writing them.

Active and Effective Participation in the Course (20%)

Twenty percent of the grade is based on the extent to which you ask and respond to questions
in ways informed by close attention to the readings. Students have told me that they often are
not comfortable speaking in class. This is something that we will need to overcome this
semester.

Active and effective participation in the course means participation, informed by knowledge of
the readings and other materials, in class discussions. It requires more than simply coming to
class and it does not mean an effort to dominate class discussion. If you find yourself saying
something every 5 minutes that is going over the edge of effective class participation, and
hardly ever responding to questions during class discussions falls short of effective class
participation.

You should abide by basic norms of appropriate social conduct in classes, just as you would in
other types of professional meetings. A minimum requirement for any credit in the class
participation component is that you are there and focused on the class. I will mark you as
absent for the class if you miss the class or leave the class early. You should not use electronic
devices like laptops, smartphones or tablets except for those used to take notes or, if the format permits, the examinations. If I believe that you are sending or checking messages, browsing the web, reading unrelated materials, sleeping, talking with others beyond the point of brief exchanges, or otherwise conveying that it is not worth your time to be in class, I will mark you as absent for that session. Four absences during the semester will mean that you receive little if any credit for the class participation component.

**Meaning of Grades.** A grade of A for the assignments, class engagement, and overall course 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 (PAD/ACC536) 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.

**Reading Assignments**


**January 28:** Tett, pp. 72-142.

**February 4:** Tett, pp. 143-213.

**February 11:** Tett, pp. 214-262. Reading to be added.

**February 18:** Patterson, *Dark Pools*, pp. 1-83.

**February 25:** Patterson, pp. 84-169.

**March 4:** Patterson, pp. 170-245. **Examination on March 4.**

**March 11:** Patterson, pp. 246-335; Thomas Peterffy, Remarks Before the 2010 General Assembly of the World Federation of Exchanges, October 11, 2010.

**March 18:** University class suspension.


**April 8:** Kovac, chapters 3 and 4.

**April 15:** Kovac, Chapter 5 through “Summing It Up.” **Examination on April 15.**

**April 22:** Richard Bookstaber, *A Demon of Our Own Design*, Preface through Chapter 4 (pp. ix-76).

**April 29:** Bookstaber, chapters 5-8 (pp. 77-164).

**May 6:** Bookstaber, Chapter 9 through Conclusion (pp. 165-260). **Second course paper is due May 10.**