Banking Regulation

Professor: Xavier Freixas
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Office hours: by appointment

Course Description

The module will enable students to analyze banking regulation its objectives and its impact on the resource allocation process. Particular attention is given to the theories of financial intermediation and market frictions (informational asymmetries) as well as to issues concerned with bank performance and risk-taking. This module will cover not only microprudential banking regulation but also macroprudential banking regulation. It will consider a theoretical perspective, an institutional perspective and some empirical background. A number of examples of inadequate regulation will be discussed.

Methodology

There will be ten one and half-hour lectures where we will discuss market failures and the actual banking regulation that intends to correct them. Class slides will be available on Global Campus, although the lectures may not follow the slides literally. Student participation is especially encouraged.

Students are expected to present cases where banking regulation was inadequate and discuss a paper of their choice on banking regulation.

Evaluation criteria

To pass the course, you must earn at least 50 points out of 100, according to the following distribution:

- Class participation: 10 points.
- Exam: 30 points (a minimum of 25 is required to pass the course).
- Individual presentation: 30 points.
- Group presentation: 30 points.

Students are required to attend 80% of classes. Failing to do so without justified reason will imply a Zero grade in the participation/attendance evaluation item and may lead to suspension from the program.

As with all courses taught at the UPF BSM, students who fail the course during regular evaluation will be allowed ONE re-take of the examination/evaluation. Students that pass any Retake exam should get a 5 by default as a final grade for the course. If the course is again failed after the retake, students will have to register again for the course the following year.

In case of a justified no-show to an exam, the student must inform the corresponding faculty member and the director(s) of the program so that they study the possibility of rescheduling the exam (one possibility being during the “Retake” period). In the meantime, the student will

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get an “incomplete”, which will be replaced by the actual grade after the final exam is taken. The “incomplete” will not be reflected on the student’s Academic Transcript.

Plagiarism is to use another’s work and to present it as one’s own without acknowledging the sources in the correct way. All essays, reports or projects handed in by a student must be original work completed by the student. By enrolling at any UPF BSM Master of Science and signing the “Honor Code,” students acknowledge that they understand the schools’ policy on plagiarism and certify that all course assignments will be their own work, except where indicated by correct referencing. Failing to do so may result in automatic expulsion from the program.”

### Calendar and Contents

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<td>Banking regulation and the safety net: an introduction</td>
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| 2 | Deposit insurance.  
   Northern Rock, Iceland and Cyprus cases. | 1 session and 1 presentation |
| 3 | Capital regulation: theory | 3 sessions + 3 presentation |
| 4 | Capital regulation in practice: Basel I, II and III |
| 5 | Shadow banking  
   Pitfalls in banking regulation: securitization, OTC operations, TLAC |
| 6 | Banking supervision and market discipline  
   CAMEL rating in the US | 1 session |
| 7 | Basel III liquidity and leverage ratios;  
   International regulatory competition; the Volker rule. | 1 session |
| 8 | Macroprudential regulation | 1 sessions |
| 9 | Individual Paper presentations | 2 sessions |
MSc in Finance and Banking

Reading Materials

1. “Systemic Risk, Crises, and Macroprudential Regulation” (2015) with Luc Laeven and José Luis Peydro, MIT press


5. Core Principles of banking supervision

Bio of Professor

Xavier Freixas, (Ph D. Toulouse 1978) is Professor of Financial Economics at Universitat Pompeu Fabra in Barcelona (Spain) and Director at Financial Intermediation Research Society (FIRS).

He has been president of the European Finance Association and chairman of the Risk Based Regulation program of the Global Association of Risk Professionals (GARP). He has also been Deutsche Bank Professor of European Financial Integration at Oxford University; Houblon Norman Senior Fellow of the Bank of England, Bertil Danielsson invited scholar at the Stockholm School of Economics, Joint Executive Director Fundación de Estudios de Economía Aplicada FEDEA) and Professor at Montpellier and Toulouse Universities. As an expert in the area of banking he has been a consultant for the European Investment Bank, the New York Fed, the European Central Bank, the World Bank, the IMF, the Interamerican Development Bank, the MEFF and the European Investment Bank.

His main research contributions concern the analysis of banking in an asymmetric information framework, and more specifically the issues of relationship banking, systemic risk, contagion and the lender of last resort. He is well known for his MIT press book, jointly with Jean-Charles Rochet, Microeconomics of Banking.

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