



STUDY PROGRAMME

ECO

ACADEMIC YEAR

2023 - 2024

SEMESTER

2nd

COURSE TITLE

The Economics of European Financial Regulation & Supervision

COURSE PROFESSOR

Jean Pierre CASEY and David NADRY

COURSE ASSISTANT

Colm LAVELLE

NATURE OF COURSE (COMPULSORY, OPTIONAL)

Optional

LANGUAGE OF INSTRUCTION

English

ECTS CREDITS

4.5

1. **COURSE OBJECTIVE**

In the first part of the course, the student will understand the economic rationale for regulatory interventions in financial markets, the objectives of financial regulation, and how to assess the quality of regulatory regimes from an economic perspective. A number of case studies will bring these concepts to life, with a specific focus on understanding how financial intermediation works in Europe, and how it is evolving due to innovation, competitive pressures and regulation.

In the second part of the course, students will gain an understanding of financial supervision in the EU, the main EU supervisory bodies and their objectives, the main supervisory models / approaches and the supervisory cycle. Through case studies in groups, students will also analyse and discuss challenges and issues of relevance to the topic under consideration.

2. **LEARNING OUTCOMES**

At the end of this course, the student will be able to:

- Explain the role and functioning of financial markets, and their linkages to the real economy;
- Identify different financial instruments, how they are valued and what purpose they serve;
- Understand current financial regulatory issues.
- Explain the concepts of financial regulation, supervision and enforcement;
- Distinguish the regulators in the EU who are responsible for supervising financial market participants based on their roles and mandates;
- Explain the different phases of the supervisory cycle and compare supervisory models;
- Develop and present an approach to a supervisory problem through group case studies.

The learning outcomes for this course tie in with the following learning outcomes for the European Economic Studies programme:



- Use economic theory to assess current problems and policies;
- Work together in groups to solve problems, share tasks, prepare assignments, go through case studies and make presentations;
- Recognise, analyse, explain and critique economic developments and economic policies in Europe.
- Think innovatively and provide constructive analytical commentary on how the evolution of EU rules and policies may impact on future market development.

The learning outcomes for this course tie in with the following learning outcomes for the Transatlantic Affairs programme:

- The graduate masters the most important theoretical approaches and concepts of, depending on his or her disciplinary focus, Economics, International Relations and Diplomacy Studies, Legal Studies and/or Political Science relevant for the analysis of transatlantic affairs.
- The graduate has good knowledge of, depending on his or her disciplinary focus, the political and/or legal systems, the decision-making processes, the economic structures and the main internal and external policies of the European Union and the United States.
- The graduate is able to incorporate knowledge and understanding of various fields of transatlantic affairs and of different related disciplines (such as Economics, International Relations, Legal Studies, Political Science)
- The graduate can approach the field of transatlantic affairs in a broad sense analytically by assessing the challenges in this domain with an open mind for diversity and for complex situations.
- The graduate can independently transform complex transatlantic issues into a research question within the broader field of transatlantic affairs and, depending on his or her disciplinary focus, find, select and critically assess relevant sources, answer the question using appropriate concepts and methods and present the research results in line with the ethical rules of the chosen discipline.

3. COURSE CONTENTS

Part I: EU Financial Market Regulation (J.P. Casey)

Module 1: Understanding the financial market ecosystem & recent trends

- Explaining the financial ecosystem : What are the various kinds of financial market products, market structures, and market participants and how do they interact
- Understanding the importance of financial markets in the real economy
- What opportunities and challenges do recent trends present for different types of financial market actors, and the challenges they present for regulators

Module 2: An Economic theory of financial regulation - Why regulate financial intermediaries and products?

- Conceptual introduction to the economic theory of financial regulation
 - What are the main objectives of financial regulation?
 - How do to assess them, quantitatively and qualitatively?
 - Are there market failures in financial markets, how do you assess them, the risks they present, and how to resolve them?
 - What are the benefits and costs of financial regulation?
- Assessing the impact financial regulation has on consumers, financial intermediaries,



market structures, and investment products

Module 3: Regulating financial innovation : case studies

- Securitisation
- Securities lending / rehypothecation
- Exchange-traded products and passive investing
- Cryptocurrencies & CBDCs
- ESG investing – opportunities and challenges

Module 4: European Financial Market Infrastructures

- Towards integrated European capital markets and a single market for financial services (SEA, FSAP, FSAP II)
- From the ISD to MiFID to MiFID 2: Challenges faced by banks, exchanges/trading platforms and other intermediaries
- How trading works: stock exchanges, market-making, liquidity provision, and the plumbing of the financial architecture & how it is regulated
- Introduction to elements of market microstructure theory
- Challenges posed by High Frequency Trading, flash crashes and regulatory responses

Module 5: Asset Management & Benchmark Regulation

- Explain the importance of asset management, its various actors and functioning
- Main EU regulations governing the asset management industry
- What are hedge funds? How do they operate? How are they regulated?
- Mutations of the UCITS Directive over time alongside the changing nature of the asset management industry globally
- Case study on Libor scandal

Module 6: The financial crisis of 2008 and the new financial world order

- Causes and consequences of the world financial crisis
- Increasing economic regulation of financial markets and institutions and the new regulatory agenda : the old vs. the new world
- Shadow banking : what future?

Part II: EU Financial Supervision (D.Nadry)

Module 7: Architecture of Financial Supervision in the EU

- Pre-Global Financial Crisis landscape
- The establishment of the European System of Financial Supervision as a consequence of the Global Financial Crisis
- The European Supervisory Authorities: who are they? Their mission, objectives, responsibilities and governance
- The European Systemic Risk Board
- Banking Union: the Single Supervisory Mechanism and the Single Resolution Mechanism
- Cross-sectoral topics: the example of the supervisory puzzle for securitisation
- Overview of architecture in the US



Module 8: Overview of Supervision and Enforcement

- Supervision:
 - “At the gate”: registration / authorisation and perimeter monitoring
 - Risk identification and assessment
 - Strategy-setting
 - Ongoing monitoring
 - Investigations / Onsite inspections
- Enforcement process and enforcement measures
- Case study on concerns about a supervised entity

Module 9: Common Supervisory and Enforcement Models

- What is compliance-based, risk-based, data-driven, outcome-focused supervision?
- Proactive, preventative, reactive, corrective
- Harmful vs. Illegal
- The compliance / enforcement pyramid
- Case study on risk-based supervision

Module 10: Current and Future Supervisory Challenges

- Brexit, COVID-19, Russia’s invasion of Ukraine
- Independence
- Supervisory convergence
- Financial and technological innovation: a market moving fast(er)
- Data
- Climate change / sustainable finance: how can supervision help towards a greener economy?
- Case study on Wirecard

4. TEACHING METHOD(S)

Number of teaching hours: 30 (Part I: 15, Part II: 15)

Part I: Interactive lectures

Part II: Interactive lectures with practical case studies in groups

The two parts of the course will be taught in English; however, students are welcome to participate in French if they prefer to do so (e.g. asking or answering questions)

5. COURSE MATERIAL

Readings may be added during the course and, if so, will be referenced on the course website / intranet page.

6. EVALUATION

First session: Written exam without documents (100%)

Second session: Written exam without documents (100%)

The College of Europe reserves the right to change the delivery and assessment of the course in case of restrictions related to the Covid-19 pandemic. Any communication from the Department in this regard takes precedence over the information provided in this ECTS card.

