



ACST834

Financial Institutions Management and Regulation

S1 Evening 2014

Applied Finance and Actuarial Studies

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General Information

Unit convenor and teaching staff

Unit Convenor

Shauna Ferris

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e4a 617

Wednesday 3 pm to 6 pm

Credit points

4

Prerequisites

4cp in ACCG or ACST or BUS or ECON or MKTG units at 600 level

Corequisites

Co-badged status

Unit description

In this unit we will look at financial institutions which fail. We will look at empirical studies of insolvencies from different countries and for different types of financial institutions (including life and general insurers, health funds, banks, superannuation funds, hedge funds, and other investment management and risk management organisations). We will consider factors such as product design, pricing, reserving, investment, asset-liability management, liquidity management, reinsurance, accounting issues, regulatory arbitrage, and corporate governance. We will also be looking at the effectiveness of regulation, both in preventing failures and dealing with the consequences of failures (eg, using guarantee schemes).

Important Academic Dates

Information about important academic dates including deadlines for withdrawing from units are available at <https://www.mq.edu.au/study/calendar-of-dates>

Learning Outcomes

On successful completion of this unit, you will be able to:

Understanding of the regulatory framework for financial institutions, including both market conduct and prudential regulation

Understanding of common causes of banking failures; how systemic risks can destabilise financial systems; management of credit risks

Understanding of common causes of insurance company losses

The role of auditor, actuaries, accounting standards and actuarial standards in managing solvency (including case studies on financial reinsurance)

Understanding the objectives of regulators and the causes of regulatory failure

Understanding of the pros and cons of different sorts guarantee funds

Assessment Tasks

Name	Weighting	Due
<u>1. Reports</u>	30%	March 31, April 29, May 27
<u>2. Essays</u>	30%	May 12 & June 10
<u>3. Final Examination</u>	40%	Examination period

1. Reports

Due: **March 31, April 29, May 27**

Weighting: **30%**

Submission

Each week, the lecturer will provide two or three research questions which relate to the material covered in that week's lecture and readings. Students will be asked to choose one of these questions and write a 2-page report answering that question. As an example, in week 1 we cover Ponzi schemes. Students may choose to do a case study describing a Ponzi scheme from their own country, explaining how it was operated and how the authorities discovered the fraud.

Students must hand in five reports during the term, each worth 6% (total 30%). The reports are handed in electronically via the iLearn drop box. Two reports must be handed in by 5 pm Monday March 31. Two more must be handed in by 5 pm Monday April 29. The last one must be handed in before 5 pm Monday May 27.

Extension No extensions will be granted. Late tasks will be accepted up to five days late, but one mark will be deducted from the total awarded mark for each 24 hour period or part thereof (for example if the report is handed in 25 hours late, 2 marks will be deducted). The penalty does not apply for cases in which an application for special consideration has been made and approved.

On successful completion you will be able to:

- Understanding of the regulatory framework for financial institutions, including both market conduct and prudential regulation
- Understanding of common causes of banking failures; how systemic risks can destabilise financial systems; management of credit risks

- Understanding of common causes of insurance company losses
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- Understanding the objectives of regulators and the causes of regulatory failure
- Understanding of the pros and cons of different sorts guarantee funds

2. Essays

Due: **May 12 & June 10**

Weighting: **30%**

Submission Students will be asked to write an analysis of two case studies of failed (or troubled) financial institutions. The case study will include a description of the events; the causes of the failure (including any weaknesses in risk management); and evaluate the regulatory response to the failure (identifying any weaknesses in the legislation / prudential regulations and or the quality of supervision). Each essay is worth 15%. The maximum word length is 1500 words.

Essays must be submitted via the iLearn Dropbox.

Extension No extensions will be granted. Late tasks will be accepted up to one week late, but 10% will be deducted from the total mark for each 24 hour period or part thereof (for example, if submitted 25 hours late, a penalty of 20% will be applied). This penalty does not apply for cases in which an application for special consideration is made and approved.

On successful completion you will be able to:

- Understanding of the regulatory framework for financial institutions, including both market conduct and prudential regulation
- Understanding of common causes of banking failures; how systemic risks can destabilise financial systems; management of credit risks
- Understanding of common causes of insurance company losses
- The role of auditor, actuaries, accounting standards and actuarial standards in managing solvency (including case studies on financial reinsurance)
- Understanding the objectives of regulators and the causes of regulatory failure
- Understanding of the pros and cons of different sorts guarantee funds

3. Final Examination

Due: **Examination period**

Weighting: **40%**

The final exam will be held during the University exam period between 16 June and 4 July. The examination timetable will be posted on the University website later in the t

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Delivery and Resources

Classes

- Lectures are held on Wednesday evenings between 6 and 9 pm (3 hours) in W6B 350
- The timetable for classes can be found on the University web site at: [http://www.timetables.mq.edu](http://www.timetables.mq.edu.au)
[u.au](http://www.timetables.mq.edu.au)

Required and Recommended Texts and/or Materials

Required texts

There are no compulsory textbooks for this unit. We will be reading case studies from a variety of sources. Readings will be placed online (via the iLearn system) where possible. Some books will also be placed in Special Reserve in the Library.

- **Bold Riders**, by Trevor Sykes. The chapters on the State Bank of Victoria/Tricontinental, the State Bank of South Australia, and the Farrow Group (Pyramid Building Society) will be discussed in class. The author is a journalist who has been writing columns for the Australian Financial Review for about 40 years.
- **Devil Take the Hindmost: A History of Financial speculation** by Edward Chancellor. This book has a brief description of some financial booms and busts (starting from the South Sea Bubble and ending with the Japanes bubble in the 1980s) viewed from a historian's perspective.
- We will also be referring to some case studies which are available on the ERISK website <http://www.erisk.com/Learning/CaseStudies.asp>.

Technology Used and Required

NIL

Unit Web Page

- Course material is available on the learning management system (iLearn)
- We will be distributing lecture notes, readings, and assignments via iLearn.
- Students will need Internet access in order to obtain some of the readings which are available online and /or via the Library's electronic databases. Internet access is available at the University library.

Teaching and Learning Activities

Each week we have a 3-hour lecture on Wednesday evening. We will look at one or more case studies each week. In some weeks we will also be watching DVDs about certain events. This will be followed by a class discussion of the issues. A set of course notes and/or readings will be provided for each topic. Students are expected to participate in class discussions and read the required readings.

For each topic, we will provide a set of questions which will allow students to extend their knowledge by reading and summarising additional readings. Students are expected to hand in 5 reports over the term. Students will have a choice of topics.

Students will also be expected to research two case studies, and prepare an essay on each one.

Students may be asked to do a short (5 minute) presentation of one of the topics covered in their report (if the class size is large, then it will not be possible for every student to do a presentation, but we will try to give this opportunity to as many students as possible).

Changes in 2014

This year we have updated the course material to reflect new developments in the financial services industry. We have reduced the number of short reports and replaced them with an essay. The timing of due dates for assessment tasks has been changed to help students spread their work more evenly over the term.

Unit Schedule

The following unit schedule is subject to change, because (a) the schedule might be revised to fit in with the other commitments of our visiting lecturers and (b) if there are any interesting financial events during term we might be diverted into discussing them in class.

Week	Topic
1	Introduction: Ponzi Schemes and Investment Scams (Madoff Case Study)
2	Financial Advisors and the Future of Financial Advice (Storm & Trio Case Studies) - ASIC's role
3	"The best way to rob a bank is to own one" - (Case Studies Frankel & USNB & Iceland) - Prudential Standards Framework for Banks and Insurers
4	Why do banks go bankrupt? Credit Risks & Systemic Risk (Case Study: Penn Square Bank)
5	How poor regulation makes it worse (Case Study: US Savings and Loans Crisis)
6	Lending to the poor: Australian version (Securitisation & Homefund)
7	How to destabilise the financial system: Global version (the Subprime debt crisis)
8	Lending to the Poor: Does Microfinance work? (Grameen Bank & Fiery Dragons)
9	Operational Risks in Banking : Rogue traders around the world (Barings to NAB)
10	Why do insurance companies become insolvent?
11	Booms and Busts and Banking (From the Great Depression to the GFC)
12	Cooking the books: Basic and Advanced Concepts in "Creative Accounting" for financial institutions (case Study Lehman Brothers and HIH)
13	Guarantee Schemes

Policies and Procedures

Macquarie University policies and procedures are accessible from [Policy Central](#). Students should be aware of the following policies in particular with regard to Learning and Teaching:

Academic Honesty Policy http://mq.edu.au/policy/docs/academic_honesty/policy.html

Assessment Policy <http://mq.edu.au/policy/docs/assessment/policy.html>

Grading Policy <http://mq.edu.au/policy/docs/grading/policy.html>

Grade Appeal Policy <http://mq.edu.au/policy/docs/gradeappeal/policy.html>

Grievance Management Policy http://mq.edu.au/policy/docs/grievance_management/policy.html

[t/policy.html](#)

Disruption to Studies Policy http://www.mq.edu.au/policy/docs/disruption_studies/policy.html *The Disruption to Studies Policy is effective from March 3 2014 and replaces the Special Consideration Policy.*

In addition, a number of other policies can be found in the [Learning and Teaching Category](#) of Policy Central.

Student Code of Conduct

Macquarie University students have a responsibility to be familiar with the Student Code of Conduct: https://students.mq.edu.au/support/student_conduct/

Supplementary Examinations Policy - refer to http://www.businessandeconomics.mq.edu.au/current_students/undergraduate/how_do_i/special_consideration

Student Support

Macquarie University provides a range of support services for students. For details, visit <http://students.mq.edu.au/support/>

Learning Skills

Learning Skills (mq.edu.au/learningskills) provides academic writing resources and study strategies to improve your marks and take control of your study.

- [Workshops](#)
- [StudyWise](#)
- [Academic Integrity Module for Students](#)
- [Ask a Learning Adviser](#)

Student Services and Support

Students with a disability are encouraged to contact the [Disability Service](#) who can provide appropriate help with any issues that arise during their studies.

Student Enquiries

For all student enquiries, visit Student Connect at ask.mq.edu.au

IT Help

For help with University computer systems and technology, visit <http://informatics.mq.edu.au/help/>.

When using the University's IT, you must adhere to the [Acceptable Use Policy](#). The policy applies to all who connect to the MQ network including students.

Graduate Capabilities

PG - Discipline Knowledge and Skills

Our postgraduates will be able to demonstrate a significantly enhanced depth and breadth of knowledge, scholarly understanding, and specific subject content knowledge in their chosen fields.

This graduate capability is supported by:

Learning outcomes

- Understanding of the regulatory framework for financial institutions, including both market conduct and prudential regulation
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- The role of auditor, actuaries, accounting standards and actuarial standards in managing solvency (including case studies on financial reinsurance)
- Understanding the objectives of regulators and the causes of regulatory failure
- Understanding of the pros and cons of different sorts guarantee funds

Assessment tasks

- 1. Reports
- 2. Essays
- 3. Final Examination

PG - Critical, Analytical and Integrative Thinking

Our postgraduates will be capable of utilising and reflecting on prior knowledge and experience, of applying higher level critical thinking skills, and of integrating and synthesising learning and knowledge from a range of sources and environments. A characteristic of this form of thinking is the generation of new, professionally oriented knowledge through personal or group-based critique of practice and theory.

This graduate capability is supported by:

Learning outcomes

- Understanding of the regulatory framework for financial institutions, including both market conduct and prudential regulation
- Understanding of common causes of banking failures; how systemic risks can destabilise financial systems; management of credit risks
- Understanding of common causes of insurance company losses

- The role of auditor, actuaries, accounting standards and actuarial standards in managing solvency (including case studies on financial reinsurance)
- Understanding the objectives of regulators and the causes of regulatory failure
- Understanding of the pros and cons of different sorts guarantee funds

Assessment tasks

- 1. Reports
- 2. Essays
- 3. Final Examination

PG - Research and Problem Solving Capability

Our postgraduates will be capable of systematic enquiry; able to use research skills to create new knowledge that can be applied to real world issues, or contribute to a field of study or practice to enhance society. They will be capable of creative questioning, problem finding and problem solving.

This graduate capability is supported by:

Learning outcomes

- Understanding of the regulatory framework for financial institutions, including both market conduct and prudential regulation
- Understanding of common causes of banking failures; how systemic risks can destabilise financial systems; management of credit risks
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- The role of auditor, actuaries, accounting standards and actuarial standards in managing solvency (including case studies on financial reinsurance)
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Assessment tasks

- 1. Reports
- 2. Essays
- 3. Final Examination

Research and Practice

This unit will

- (a) provide students with an opportunity to do their own research in areas which interest them
- (b) present research papers written by Macquarie University staff
- (c) present research findings from other academic sources as well as research papers from

regulatory authorities