



# ACST734

## Financial Institutions Management and Regulation

S1 Evening 2015

*Dept of Applied Finance and Actuarial Studies*

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## General Information

Unit convenor and teaching staff

Unit Convenor

Shauna Ferris

[shauna.ferris@mq.edu.au](mailto:shauna.ferris@mq.edu.au)

Contact via [shauna.ferris@mq.edu.au](mailto:shauna.ferris@mq.edu.au)

e4a 617

Wednesday 3 pm to 6 pm

Credit points

4

Prerequisites

Admission to MRes

Corequisites

Co-badged status

ACST834

Unit description

This unit will focus on special topics on 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).

This unit provides students with essential understanding on insolvencies that develop the concepts and skills necessary for advanced research in finance and actuarial studies.

## 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

Apply research skills to assess differences in regulatory methods

## General Assessment Information

Grades for assessment tasks will be posted on iLearn. We will send an Announcement when the grades have been posted. Students will be able to see their grades on the iLearn Gradebook. It is the responsibility of students to view their marks for each within-session assessment on iLearn within 20 days of posting. If there are any discrepancies, students must contact the unit convenor immediately. Failure to do so will mean that queries received after the release of final results regarding assessment tasks (not including the final exam mark) will not be addressed.

## Assessment Tasks

Name	Weighting	Due
<a href="#"><u>1. Reports</u></a>	30%	March 30, April 27, June 1 27
<a href="#"><u>2. Essays</u></a>	15%	May 12
<a href="#"><u>3. Research Project</u></a>	15%	June 10
<a href="#"><u>4. Final Examination</u></a>	40%	Examination period

### 1. Reports

Due: **March 30, April 27, June 1 27**

Weighting: **30%**

Submission

Each week, the lecturer will provide some 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, how the authorities discovered the fraud, and how authorities might be able to prevent future Ponzi schemes.

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 30 (week 6) Two more must be handed in by 5 pm Monday April 27. The last one must be handed in before 5 pm Monday June 1.

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
- 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
- Apply research skills to assess differences in regulatory methods

## 2. Essays

Due: **May 12**

Weighting: **15%**

Submission Students will be asked to write an analysis (case study) of a failed (or troubled) financial institution. 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)
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### 3. Research Project

Due: **June 10**

Weighting: **15%**

Students in the Master of Research program will be able to do a research project which is related to their proposed second year thesis topic. The topic for this project will be chosen after consultation between the lecturer and each student. Students will be required to submit an essay on the chosen topic.

On successful completion you will be able to:

- Understanding of the regulatory framework for financial institutions, including both market conduct and prudential regulation
- Understanding the objectives of regulators and the causes of regulatory failure
- Apply research skills to assess differences in regulatory methods

### 4. Final Examination

Due: **Examination period**

Weighting: **40%**

The final exam will be held during the University exam period between June 9 and June 26. The examination timetable will be posted on the University website later in the term.

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

## Delivery and Resources

### Classes

- Lectures are held on Wednesday evenings between 6 and 9 pm (3 hours) in e4B308
- The timetable for classes can be found on the University web site at: <http://www.timetable.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. For example we might look at some of the case studies on the eRISK website <http://www.erisk.com/Learning/Casestudies.asp>.

#### Technology Used and Required

NIL. Students will find it useful to look up material using the electronic databases available via the University library page (e.g. Factiva).

#### 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.

## 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: General Introduction to Regulation. Investment Scams (Madoff Case Study) and the role of ASIC
2	Regulation of Financial Intermediaries (Storm & Trio Case Studies) - The Future of Financial Advice
3	"The best way to rob a bank is to own one". The Prudential Framework for Banks and Insurers. (Case Studies Frankel, Kaupthing, and USNB)
4	Why do banks go bankrupt? Common Problems in Credit Risk (Case Study: Penn Square Bank)
5	Regulatory Failure for Depository Institutions (Case Study: US Savings and Loans Crisis from the 1980s)
6	The impact of securitisation: Australian version (Homefund)
7	How to destabilise the financial system: Global version (the Subprime debt crisis)
8	Lending to the Poor: Does Microfinance really work? (Grameen Bank & Fiery Dragons ) [Visiting speakers]
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, GSL, and HIH)

## 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](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](http://mq.edu.au/policy/docs/grievance_management/policy.html)

Disruption to Studies Policy [http://www.mq.edu.au/policy/docs/disruption\\_studies/policy.html](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/](https://students.mq.edu.au/support/student_conduct/)

## Results

Results shown in *iLearn*, or released directly by your Unit Convenor, are not confirmed as they are subject to final approval by the University. Once approved, final results will be sent to your student email address and will be made available in [eStudent](#). For more information visit [ask.mq.edu.au](http://ask.mq.edu.au).

Supplementary Examinations Policy -

Further information regarding supplementary exams, including dates, is available here:

[http://www.businessandeconomics.mq.edu.au/current\\_students/undergraduate/how\\_do\\_i/special\\_consideration](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](http://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](http://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
- 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
- Apply research skills to assess differences in regulatory methods

### Assessment tasks

- 1. Reports

- 2. Essays
- 3. Research Project
- 4. 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
- Apply research skills to assess differences in regulatory methods

### Assessment tasks

- 1. Reports
- 2. Essays
- 3. Research Project
- 4. 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
- 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)
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## Assessment tasks

- 1. Reports
- 2. Essays
- 3. Research Project
- 4. Final Examination

## Research and Practice

This unit will

- (a) provide students with an opportunity to do their own research, with flexibility to focus on 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

## Changes since First Published

Date	Description
26/02/2015	Change to learning outcomes to include research-based skills