

FIN 377 – FIN397 – LAW 379M
SECURITY MARKET POLICY
FALL 2020
W 1:00-4:00 pm – Live UTC 1.118 / Virtual

Professor	Scott W. Bauguess, PhD
Virtual Office Hours	Th 3:00 – 4:00 pm Graduate Th 4:00 – 5:00 pm Undergraduate
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Course Web Page	via Canvas

Course Objectives

This course provides a general framework – both theoretical and practical – to analyze and understand the underlying motivations for financial market regulation and the tradeoffs regulators face when making policy choices. You will develop the tools to identify how market failures and inefficiencies can be both the cause and consequence of regulation, particularly as it relates to capital raising, investor welfare, securities trading, and financial stability.

At the end of the course you should understand how the legal and economic boundaries between investors, companies, and financial intermediaries create incentives for (1) financial innovation, (2) market abuse, (3) systemic risk, and (4) the need for continuous regulatory calibration to promote and maintain orderly and efficient markets.

General topic areas are fixed, but the learning exercises and assignments will be guided by current market developments and practices among asset managers, securities dealers, banks, public corporations, and investment companies. Students are expected to carry a significant reading and writing load throughout the semester.

Topic areas covered

- A brief history of financial markets
 - Evolution of banking, from Medici to Morgan; development of public securities markets; panics, crises, and the rise of capital market regulators
- Policy and politics -- the making of new rules
 - Congress, regulatory agencies, and the courts; identifying market failures; understanding the policy tradeoffs
- Securities fraud and misconduct
 - Insider trading, offering fraud, and financial misreporting; defining abusive market practices; detection methods and market surveillance
- Financial market stability
 - Causes and consequences of systemic risk; private market finance and shadow banking; international regulatory cooperation
- Technology disruptions and financial innovation

- Approving new financial products; algorithmic trading and machine learning risks; FinTech and democratizing finance
- Social responsibility in securities regulation
 - Disclosure of ESG factors; pursuit of human rights; promoting diversity and inclusion

Materials

Required reading: There is no text book for the course, but expect plenty of assigned reading from a variety of sources, including the following

- The Wall Street Journal – see market blog assignment.
- One non-fiction book on financial crises – see book review assignment.
- Other articles, white papers, academic papers, government documents, and potential other materials will be assigned according to the topics, and posted on Canvas in advance of each class.

Recommended reading: There is no substitute for knowledge obtained from habitually reading periodicals that cover financial markets. I highly recommend the Economist, Financial Times, and New York Times. They offer additional market coverage and a more comprehensive perspective than the WSJ alone. All are available at a discount to students.

Guest speakers: Throughout the semester you may be introduced to government and industry speakers by way of a guest lecture. You are responsible for understanding the information they present. We will debrief the lectures to help synthesize the aspects relevant to the course curriculum.

Format of class

The class will be a combination of discussion and lectures. It is essential that you come to class *prepared to actively participate*, which includes reading the assigned material and being up-to-date on current market events. I will record the classes for later viewing, but there is no substitute for being actively engaged in the deliberations.

Each class will begin with a student-led discussion of current market events. You will be called upon to identify the issues and offer your views. Together we will map them into a policy discussion. Over time, a pattern should emerge in how we break down issues into their core elements, and analyze the various potential treatments from a regulatory perspective. It is likely that normative views will emerge – both liberal and conservative, particularly as they relate to fairness versus efficiency. At all times, whether you agree or not, it is important to be respectful of your fellow students by listening and recognizing their contributions.

Lectures will focus on the above-mentioned topics. They will offer an historical perspective to help frame how markets have developed over both the short- and long-run. Again, patterns should emerge that reveal how many core market participants behaviors have remained relatively unchanged over the decades and even centuries. We will also focus on what is novel to recent times – financial and regulatory innovation rooted in technology developments (a.k.a. FinTech and RegTech).

Finally, I plan to invite several guest lectures from industry and government to join our discussions. How they integrate into the fabric of the course will depend both on the topic and their background. Busy

speaker schedules and curriculums don't always align, so some appearances may not perfectly match when we cover a topic.

Course Requirements and Grading

This is a limited-size seminar class offered simultaneously to undergraduate and graduate students, and McCombs, LBJ, and UT Law students. This structure is designed to maximize the diversity of views across discipline and experience to enrich discussions. The scope of assignments may differ across cohort groups to reflect student interests and their stage of professional development. I apply a different assessment standard to graduate student work.

Course assignments and relative weights are as follows:

Book review (I)	15%	(due Nov 4)
Current events blog (I)	25%	(due Nov 18)
Critical thinking exercises (I/G)	40%	
Regulatory impact analysis (G)	20%	(due Nov 25)

Each assignment will receive a grade on a scale of A to F with pluses and minuses smoothing the transitions from one letter grade to the next. I=individual assignment. G=group assignment. Your final course grade will be weighted according to the percentages above by using numeric grade point values found here: <https://onestop.utexas.edu/student-records/grades/>.

I treat each student submission as if it were an official document or memo written to me in a professional setting. The readability of a document determines whether a message is heard. Grammar and style matter. So does concision and clarity. Poorly written documents are marked down. So, take the time to turn in a professional document.

A final note on grading – I sometimes find that my grade calibration drifts as I read student submissions. To eliminate potential biases, I grade all assignments by reading them in a random order, and when I reach the end I start again and continue until my original assessments do not change. This increases my confidence that there is a consistent relative treatment across all students. As such, markups may reflect changes in my original assessment if I grade your assignment twice. This is more likely to happen if you are one of the first assignments graded.

Below are brief descriptions of each assignment. More detail will be provided at the start of class.

- Book review (15% of grade)

Each student will pick from a pre-approved list of popular press non-fiction books on topics related to financial crises. The purpose is to analyze a period during which there was a significant financial market disruption, and identify the causes and consequences. Your analysis will focus on the role of opacity and leverage, prevalence of misconduct, and the policy choices that attenuated or exacerbated the crisis.

- Current events blog (20% of grade)

For 10 weeks, you will each blog your way through current market events. Between the presidential election and COVID-19, there should be plenty to write about. Pick five news articles each week that describe events that are either a consequence of, or likely to affect, financial market policy. You should

succinctly summarize the main point including any key facts and observations, describe how it relates to financial market policy, and provide your own interpretation. Your final grade will include how you incorporate your blog into the class discussion. Hence, this will also serve as a class participate grade.

- Critical thinking exercises (40% of grade)

There will be up to five critical thinking exercises based on current market developments. You will be required to answer a series of questions in a narrative format that will generally require investigation of materials outside of what we discuss in class. The length of the write-ups will depend on the nature of the exercise, but brevity and succinctness will be stressed. On the day they are due, completed assignments should be uploaded to Canvas *before the class period*. Late submissions will receive a one-third letter grade-deduction per day.

- Regulatory Impact Analysis (20% of grade)

Students will be assigned to cohort groups to perform an in-depth regulatory impact analysis. I will provide a list of topics to choose from, or students may propose their own. Once a topic is selected, the project will proceed in three parts: (1) analysis proposal; (2) submission of written analysis; (3) class presentation. The analysis proposal will be our preliminary agreement on what you will deliver to make sure expectations are appropriately set. The final written product will be the primary source of your grade. The end-of-class presentation will be for the benefit of the class.

COVID-19 accommodations

Health and safety conditions permitting, I will be delivering in-person lectures in a classroom that meets the requisite density requirements. I will also be live streaming the classes on Zoom, so you can participate in all sessions remotely. No student should feel that they must participate in-person given the current health risks and related hardships. And everyone is welcome to the live classroom experience if they adhere to University mandated policies. **In-class participation requires mandatory mask wearing. Non-compliance will result in the immediate dismissal of class and reporting to University officials for disciplinary action as set forth in the university's Institutional Rules/General Conduct 11-404(a)(3).**

If you are watching classes remotely, I expect that you will participate at the same level as those attending in-person. To help promote a consistent experience for all students regardless of where they are, I will be experimenting with different delivery formats. This will include remote students enabling their camera so they have a visual virtual presence. This will also include in-person students activating a zoom session from their laptop while in class so that they too will have a visual virtual presence.

Finally, I will be recording all lectures in case remote watchers experience connectivity difficulties. However, please do not rely on recordings as a primary learning method – you will not receive the same learning experience. **Importantly, class recordings are reserved only for students in this class for educational purposes and are protected under FERPA. The recordings should not be shared outside the class in any form. Violation of this restriction by a student could lead to Student Misconduct proceedings.**

Office/Discussion Hours

I have listed two tentative times for out-of-class discussion. One time is for graduate students, and the other for undergraduates. These are drop-by virtual office hours where you are free to pop-in for any reason or no reason at all. For example, you can tune in just to see if anyone else tunes in. This is your time with me to use as you see fit. I will survey students at the beginning of class to determine whether there are more accommodating times, and if so, reserve the right to change the hours.

If you would like to discuss issues of a personal nature, email me to set a time for a one-on-one virtual discussion.

Course communication

The primary means of communication for the course will be through Canvas. New readings or additional information about the class or an assignment may be added at any time, so please check Canvas regularly for updates. In addition, please ensure that your email address on Canvas is correct so that you will receive class communications in a timely manner.

Policy on Scholastic Dishonesty

The McCombs School of Business has no tolerance for acts of scholastic dishonesty. The responsibilities of both students and faculty about scholastic dishonesty are described in detail in the BBA Program's Statement on Scholastic Dishonesty at <http://my.mcombs.utexas.edu/BBA/Code-of-Ethics>. By teaching this course, I have agreed to observe all faculty responsibilities described there. By enrolling in this class, you have agreed to observe all student responsibilities described there. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs/> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty.

Because this class requires that you conduct your own investigation and research and write about it, it is important that you understand plagiarism as sometimes individuals unintentionally plagiarize others' work. Please go to the following website which has the definition of plagiarism as well as helpful information on how to avoid unintentional plagiarism:

<http://legacy.lib.utexas.edu/services/instruction/learningmodules/plagiarism/>

Students with Disabilities

Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://diversity.utexas.edu/disability/>.

Religious Holy Days

By UT Austin policy, you must notify me of your pending absence at least fourteen days prior to the date of observance of a religious holy day. If you believe that an absence due to a religious holiday will impact

your ability to complete or turn in an assignment, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

Campus Safety

Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767, <http://www.utexas.edu/safety>:

- Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.
- Familiarize yourself with all exit doors of each classroom and building you may occupy.
- Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department,
- The University of Texas at Austin Police Department, or Fire Prevention Services office.
- Behavior Concerns Advice Line (BCAL): 512-232-5050 (or <https://operations.utexas.edu/units/csas/bcal.php>).
- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.