AGN:
Caroline Bradley **SPRING SEMESTER 2013**

INTERNATIONAL FINANCE

ANSWER 2 OF THE FOLLOWING 5 QUESTIONS.

Your answers should be no longer than 6 pages (per question) (at approximately 250 words per page).

EACH QUESTION COUNTS FOR 50% OF THE EXAM GRADE.

The course materials should provide sufficient material for your answers. Please provide brief citations to the course materials for your examples (e.g. International Finance 2, p. 10).

Note that there is some potential for overlap in answers to these questions. Avoid substantial overlap in your answers, because, as a general rule, you will only get credit once for each piece of information you give me. If you incorporate information in one answer into the other answer, for example by writing "see above", or "see answer to Question x" in your second answer, your grade for the second answer may suffer.

1. This semester we have seen that states tend to rely on financial institutions and financial institutions tend to rely on states (e.g. the European sovereign debt crisis, states' reliance on financial institutions to implement asset freezes and control money laundering). Does this relationship of mutual reliance mean that states are inevitably going to fail in regulating financial institutions?

2. Is transnational financial regulation transparent? Should it be?

3. "After many years of regulatory experience, I have learned that it may not be fruitful to try to convert one another to our own particular regulatory philosophies. Instead, we should continue to expend our energy on a search for compatible, rather than identical, approaches to cross-border issues.

This means ensuring that our different regulatory regimes do not produce the gaps, overlaps or conflicts that could disrupt the global derivatives market and lead to regulatory arbitrage. Focusing on "compatible" rather than "identical" regulation brings us close to a system that achieves our collective goals of mitigating systemic risk, improving transparency, and protecting against market abuse, while also recognizing the legitimate and important differences between our regulatory regimes and markets. " Elisse Walter, Regulation of Cross-Border OTC Derivatives Activities: Finding the Middle Ground (Apr. 6, 2013).

Discuss this statement, either with respect to the regulation of OTC derivatives or more generally .

4. "Doubts about the accuracy and integrity of indices may undermine market confidence, cause significant losses to consumers and investors and distort the real economy. It is therefore essential that steps are taken to ensure the integrity of benchmarks and the benchmark setting process.... Sanctioning does not remove the risks of manipulation arising from the inherent conflicts of interest linked to the production and governance of benchmarks in their current form."
EU Commission, Consultation on the Regulation of Indices, September 2012 in International Finance: Libor at p. 26.

Discuss.

5. "Is risk-weighting of bank assets worth the costs? Are bank's internal risk models more regulatory trouble than they are worth? Does complexity unduly advantage large incumbents over small new entrants? Are armies of supervisors and compliance officers a sign of success or failure? These questions should form the new regulatory battleground."

Andrew Haldane, Turning the Red Tape Tide, April 2013.

Discuss.