

Course Form for PKU Summer School International 2019

Course Title	Understanding International Finance: Its Importance, Its Dangers & Implications for China
	国际金融市场和金融监管概览
Teacher	Professor Jan H Dalhuisen, King's College London
First day of classes	July 1, 2019
Last day of classes	July 12, 2019
Course Credit	2 credits
Course Description	
Objective:	
<p>To make the students familiar with the world of international finance. The emphasis will be on the following issues:</p> <ol style="list-style-type: none"> 1. Introduction to Financial Markets: Why are banks so unstable and what can be done to stabilise them? This means a discussion of <ol style="list-style-type: none"> a) the risks banks take, b) how they manage these risks and the types of hedging instruments they use, especially financial derivatives, c) how swaps, credit derivatives and central counterparties, work, and d) what securitization is. The possible impact of the blockchain. 2. Introduction to Financial Regulation: <ol style="list-style-type: none"> a) What do regulators contribute and how? b) What are the objectives of financial regulation? c) How is it structured? d) What do lenders of last resort do and how does a bank-resolution system work? 3. The operation of the payment system, the role and importance of banks, clearing, central banks, and the operation of bitcoins. Discussion: the practice in China 4. The functioning of the capital markets, the functions and different risk structure of investment banks: underwriting, trading, brokerage, and asset management. The role of regulation. Discussion: the development in Chinese markets 5. The shadow banking system, its dangers and problems. Can shadow banks be regulated and how? Discussion: Lessons learnt from other markets and the implications for China 6. International finance, cross-border activities and challenges. Role of G-20, Basel Committee. Discussion: the opportunities and challenges faced by Chinese entities entering into international markets. 	

The course is designed for students at introduction level and certain topics (questions listed below) are optional

Pre-requisites /Target audience

There is NO need for prior knowledge and NO need for law background. The class is foundational and aimed at undergraduate and graduate students who want to continue in finance or wish to understand it better and want to be able to follow the discussions in the informed press.

Proceeding of the Course

This course is given in seminar style and is based on questions and answers. For each class a topic is set and questions are given (see below) which form the basis of the class discussion. The topics are related and each one builds on the previous ones. Attendance is mandatory.

Assignments (essay or other forms)

Students are expected to prepare for class on the basis of the questions and materials set for each class. They are encouraged to read through the reading material, should retain the main points, but do not need to memorialise it.

Evaluation Details

Class participation 40%, written exam 60%

Text Books and Reading Materials

For each class reading will be set from the relevant part of Dalhuisen on Transnational and Comparative, Commercial Financial and Trade Law, Volume 3 (6th ed. 2016). [Pre-reading materials will be provided to students who sign up for the course]

Academic Integrity (If necessary)

Participation in this class commits the students and teacher to mutual respect, equality of treatment, academic integrity, and the protection of each student's and the teacher's contributions.

CLASS SCHEDULE

(Subject to adjustment)

Session 1: *Introduction to Financial Markets and Its Functions*

Date:

【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)

【Questions】

- a)basics of banking system and capital markets. what is the difference between recycling money through the banking system or through the capital markets
- b)what do commercial banks do? principle tasks and risks?
- c)what do investment banks do? what are their tasks and risks?

- d) what are deposits; what are investments?
- e) what is custody? what is the difference between a deposit of money and the custody of securities?
- do brokers take deposits?
- f) the issue of client assets and segregation. why is it so important?
- g) what are financial markets? what do they do?
- h) what is the difference between capital markets and markets in financial services?
- i) what are the banking risks? credit and market risk. what are the tools of risk management for each risk?
- j) what do we mean by systemic risk and financial stability?
- k) what are the internal and external reasons of financial instability? how can we better manage them?
- l) what is cash-flow insolvency, what is balance sheet insolvency, what is the difference? and what is more dangerous for banks?
- m) how can we control liquidity risk?
- n) what are the modern objectives and tools of financial regulation? what are they meant to achieve?
- o) are they different for commercial and investment banks?
- p) what do lenders of last resort do?
- q) what is moral hazard?
- r) what is the role of depositor guarantee and investor protection schemes?
- T) what is a bank resolution regime

【Readings, Websites or Video Clips】

Dalhuisen 3, 465-488

【Assignments for this session (if any)】

See readings

Session 2: *Introduction to Financial Regulation: Regulatory*

Date:

Objectives, How it works and The International Dimension

【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)

【Questions】

- a) who needs financial regulation and for what? What are the major objectives?
- b) how is a rule based system of financial regulation structured?
- c) how effective is it?
- d) regulation of financial flows or of participants?
- e) regulation of markets or participants? Who are they?
- f) regulation of official and un-official markets?

- g) deregulation of institutions and re-regulation of functions?
- h) regulation of issuers?
- i) regulation of investors?
- j) what is micro prudential regulation and supervision?
- k) regulatory differences between commercial banking and investment banking.
Differences for wholesale and retail?
- l) what is the shadow banking system? Is it regulated? How is it in China?
- m) regulatory alternatives: what is narrow banking?
- n) what is market based monitoring of risk?
- o) what is the role of rating agencies? Do they supervise?
- p) how is regulation handled internationally? What are the concepts of home and host regulator?

How can the tasks be divided?

- q) Chinese access to international finance and international banking framework.
- r) what is banking resolution? How does it work? Dodd Frank in the US and the Single Resolution Mechanism (SRM) in the European Union

【Readings, Websites or Video Clips】

Dalhuisen 3, 486- 540

【Assignments for this session (if any)】

See readings

Session 3: *Commercial Banks, Types, Products and Risks*

Date:

【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)

【Questions】

- a) commercial banks, investment banks, universal banks, non-banks and the shadow banking system
- b) banking assets (loan and investment book) and banking liabilities (deposits, interbank loans, bonds, capital, retained earnings, provisions)
- c) loan book: - unsecured loans (overdrafts, credit card loans, student loans, commercial loans)
 - secured loans (mortgages, floating charges)
 - finance sales: repos and finance leasing
 - syndicated loans
 - project financing
- d) investment book: government bonds, others. The issue of liquidity
- e) trading books: currency, repos, swaps, other derivatives

- f) trading in banks and proprietary trading distinguished
- g) risks in loan book, risks in investment book: credit and market risk, liquidity risk.
- h) how are these risks managed or hedged?
- i) mismatches, liquidity risk, and asset and liability management
- j) what is disintermediation?
- k) who is entitled to a bank account? What is the effect of the closure of a current account?

When Can a bank do this?

【Readings, Websites or Video Clips】

Dalhuisen 3, 584-616

【Assignments for this session (if any)】

See readings

Session 4: *Payments and Payment Systems*

Date:

【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)

【Questions】

- a) what is payment? Different ways
- b) when is it final? What is the importance of payment finality? How can it be undermined or reinforced?
- c) why is writing a check, a credit card imprint, or a bank instruction not payment?
- d) cash payments and payments through the banking system.
- e) push system or credit transfers.
- f) meaning of instructions.
- g) what is a payment system? Credit risk and liquidity risk in the system
- h) what is clearing and settlement, its importance in this connection?
- i) what happens if one of the clearing partners goes bankrupt during the clearing cycle?
- j) do we have payment clearing systems with single counterparties (CCPs)? How would that work?
- k) what is the role of regulators in payment systems? What are they concerned about?
- l) the situation in China
- m) what is Bitcoin, what do virtual payment systems do? the impact.

【Readings, Websites or Video Clips】

Dalhuisen 3, 333-353

【Assignments for this session (if any)】

See readings

Session 5: <i>Payment and Risk Management Tool</i>	Date:
【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)	
【Questions】 a) set-off as way of payment b) why has set-off become such a key risk management tool? c) what is netting and how does it relate to the set-off? d) can the set-off principle be enhanced without limit? e) various forms of netting: settlement netting in clearing and close out netting CCPs and insolvency. Novation netting in synthetic swaps f) master agreements, ISDA and Repo Master, their importance	
【Readings, Websites or Video Clips】 Dalhuisen 3, 353-380	
【Assignments for this session (if any)】 See readings	
Session 6: <i>Introduction to Derivatives and Derivatives Markets</i>	Date:
【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)	
【Questions】 a) what are the standard derivatives and how do they work? Options, futures and swaps. b) what is their most common use? c) Contracts for differences, synthetic swaps. d) what is a hedge, what is an imperfect hedge? e) give an example of some derivative plays, e.g an option straddle or synthetic future. f) how are derivative contracts transferred? g) what is the significance of derivative markets in this connection? h) how does the central counterparty (CCP) system operate in derivative markets? Product standardisation What is the role of market makers and clearing members? i) what is the meaning and significance of margin? j) what does the ISDA Master Agreement achieve?	
【Readings, Websites or Video Clips】 Dalhuisen 3 264-313	

<p>【Assignments for this session (if any)】 See readings</p>	
<p>Session 7: <i>Introduction to Securitisations and Credit Derivatives</i></p>	<p>Date:</p>
<p>【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)</p>	
<p>【Questions】 a) what is a securitisation meant to achieve? b) what is the importance of the possibility of bulk assignments in this connection? c) are whole contracts transferred or only monetary rights? How are they to be separated? What is the effect of residual obligations on the balance sheet of the assignor? d) what are SPV's, why are they used and needed? e) what is credit enhancement? Why do we need it in SPVs and how is it done? f) what are asset backed securities and what are pass-through rights? g) what are the pitfalls in asset securitisation and why might it not be fully effective? h) what are credit linked notes (CLN's), how do they operate and what is their significance?</p>	
<p>【Readings, Websites or Video Clips】 Dalhuisen 3, 253-283</p>	
<p>【Assignments for this session (if any)】 See readings</p>	
<p>Session 8: <i>Introduction to Capital Adequacy and the Basel Agreements</i></p>	<p>Date:</p>
<p>【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)</p>	
<p>【Questions】 a) summarise the main commercial banking activities and their risks b) summarise how bank management can manage these risks c) what should the task of the regulator be? Review possible objectives d) summarise the basic regulatory tools. Which ones are the important ones for commercial banking? e) what is the role of capital in this connection? f) what can regulatory capital achieve? Who is likely to be more strict: management, regulators, or rating agencies?</p>	

- g) what is Basel I, what are risk assets, what are risk ratios, what are the common ones, how do they work? Which risk do they mean to cover?
- h) what is qualifying capital? How is it calculated?
- i) what is the effect of increasing the capital requirement?
- j) what were the problems with Basel I? The 1996 Amendments. What did Basel II try to achieve?
- k) what does self-assessment mean? In what areas is it relevant? How does it work? Where does it leave the level playing field?
- l) what is Basel III, capital adequacy, liquidity, leverage and liquidity ratios
- m) is narrow banking an alternative? What does it mean for bank customers?

【Readings, Websites or Video Clips】

Dalhuisen 3 696-731

【Assignments for this session (if any)】

See readings

Session 9: *Introduction to Investment Services: Capital Markets, Issuers, Investments, Custodial Arrangements*

Date:

【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)

【Questions】

- a) what are the most current investment services?
- b) what are capital markets? Who are the main players?
- c) what are investments in the capital markets called?
- d) how are they made transferable? Why is that important? The issue of liquidity
- e) what are negotiable instruments and what are their main legal features? How are they transferred?
- f) what are registered securities? How are they transferred?
- g) what are book-entry systems? What are book-entry entitlements? How are they transferred? How do they acquire the advantages of negotiable instruments? Which are these advantages?
- h) what happens if a broker issues more entitlements than backed up by his own entitlements?
- i) what are official and unofficial capital markets?
- j) what are primary and secondary markets? What are grey markets?
- k) what is an IPO and what is a secondary placement in the primary market?
- l) what is a prospectus meant to achieve? What is prospectus liability? Who are liable?
- m) what is underwriting and placement? How is the underwriting syndicate organised and managed? What kind of contracts?
- n) what are the two normal trading systems? What is the advantage of a market maker? What are the disadvantages? How do spreads work? How are most markets organised?
- o) what is China's access to and position in the international capital markets?

p) what is crowd funding? How does it work?

【Readings, Websites or Video Clips】

Dalhuisen 3, 423-462

【Assignments for this session (if any)】

Session 10: *Introduction to Investment Banks and The Regulations*

Date:

【Description of the Session】 (purpose, requirements, class and presentations scheduling, etc.)

【Questions】

a) investment service functions, risks and regulation

b) regulatory objectives: financial stability, investors protection, and market integrity.

What

c) what should be regulated? Brokerage, market making and underwriting? What about corporate finance or M&A activity, clearing and settlement?

d) what are the key issues in conduct of business, know your customer, suitability of the investment. How are they different per function?

e) why is asset segregation so important? Why is it different for banks in respect of bank deposits?

【Readings, Websites or Video Clips】

Dalhuisen 3 616-658

【Assignments for this session (if any)】

See readings