ACST834
Financial Institutions Management and Regulation

Semester 1, 2012

Department of Applied Finance and Actuarial Studies
Students in this unit should read this unit guide carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please consult one of the teaching staff in the unit.

**ABOUT THIS UNIT**

Financial Institutions are managed by very smart, well-educated people (like you!). But each year some of the financial institutions fall into financial difficulties, and may even become insolvent, causing major losses for their customers.

In this course we will look at a number of case studies of financial institutions such as banks and other savings institutions, life insurers, general insurers, pension funds, investment funds, and health funds. We will be looking at examples from several countries (Australia, the UK, the USA, Canada, Japan, and some Asian countries). We will look at cases from the distant past (more than 200 years ago) and from the recent past – unfortunately the same problem keep recurring. We will look at both small companies and large companies.

This course is recommended for anyone who is likely to be in a senior management position in a financial institution; for professionals such as auditors and actuaries; and for regulators who might be responsible for supervision of financial institutions. It may be helpful for students who intend to study Actuarial Control Cycle units or Enterprise Risk Management in the future.

**TEACHING STAFF**

- **Convenor**
  Shauna Ferris
  Email: shauna.ferris@mq.edu.au
  Room: E4A 617

- After the mid semester break, guest lecturers (Bruce Edwards and Peter Carroll) will also be sharing their experiences with us. Further information will be provided via the iLearn system.
CONTACTING STAFF

Shauna Ferris may be consulted on Tuesday afternoons between 2 pm and 4 pm.

Shauna is most easily contacted by email at shauna.ferris@mq.edu.au

You are encouraged to seek help staff members during their regular consultation hours. In special circumstances, an appointment may be made outside regular consultation hours (send an email to arrange a mutually convenient time). You may phone staff during their consultation hours.

Students experiencing significant difficulties with any topic in the unit must seek assistance immediately.

CLASSES

- Lectures are held on Monday evenings between 6 and 9 pm (3 hours)

- The timetable for classes can be found on the University web site at: http://www.timetables.mq.edu.au/

- Note the ROOM CHANGE – since we had higher-than-expected enrolments in this unit, we have switched to E5A 140.

REQUIRED AND RECOMMENDED TEXTS AND/OR MATERIALS

- 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.

- The following books are not required reading but may be of interest to students in this unit. They are available from 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 Japanese 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

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.

LEARNING OUTCOMES

The learning outcomes of this unit are:

1. Understanding of the regulatory framework for financial institutions
2. Understanding of common causes of banking failures; how systemic risks can destabilise financial systems; management of credit risks
3. Understanding of common causes of insurance company failures
4. The uses and abuses of accounting standards (including the problems caused by financial reinsurance)
5. Understanding of the most common causes of regulatory failure
6. Understanding of the pros and cons of different sorts guarantee funds

GRADUATE CAPABILITIES

In addition to the discipline-based learning objectives, all academic programs at Macquarie seek to develop the capabilities the University’s graduates will need to develop to address the challenges, and to be effective, engaged participants in their world.

This unit contributes to this by developing the following graduate capabilities:

1. Critical, Analytical and Integrative Thinking
2. Problem Solving and Research Capability
3. Effective Communication
4. Engaged and Ethical Local and Global citizens
5. Capable of Professional and Personal Judgement and Initiative

Discipline Specific Knowledge will include improved understanding of

a. Control Fraud
b. Credit Risk
c. Liquidity Risk
d. Mis-selling Risk
e. Operational Risk
f. Asset-Liability Mismatch Risk
g. Corporate Governance Best Practice

**LEARNING AND TEACHING ACTIVITIES**

- Each week we have a 3-hour lecture on Monday 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 (usually AFTER the class discussion). Students are expected to participate in class discussions and read the required readings.

- For each topic, we will provide a set or report questions which will allow students to extend their knowledge by reading and summarising additional readings. Students are expected to hand in 7 reports over the term. Students will have a choice of topic.

- Students will also be expected to research one in-depth case study, and prepare an essay and a class presentation to present the results of their research. The class presentation should be recorded and some will be shown in class (if the class size if large, then it will not be possible to do all the class presentations during the lecture time slot).

- The topics covered in class are somewhat flexible, depending on current events (e.g. if an interesting case appears in the news during term, we may discuss this in class). Topics which may be covered include:

<table>
<thead>
<tr>
<th>Week 1</th>
<th>Audio Visual</th>
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<tbody>
<tr>
<td>1</td>
<td>Ponzi schemes (How did Bernie Madoff get away with it?)</td>
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<tr>
<td>2</td>
<td>The Best Way to Rob a Bank is to Own One (Control Fraud); (BCCI, West Middlesex, Martin Frankel, Bishopsgate) The framework of Prudential Regulation</td>
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<tr>
<td>3</td>
<td>How to Lose $500,000,000,000 (the Savings and Loan Crisis in the 1980s)</td>
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<td>4</td>
<td>How to Destabilise the Financial System (Penn Square Bank and Indymac)</td>
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<td>5</td>
<td>The OTHER Subprime Debt Crisis (Homefund)</td>
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<tr>
<td>6</td>
<td>Very Expensive Mistakes (Operational Risk) / Rogue Traders</td>
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<tr>
<td>7</td>
<td>Life Insurance Risks (NM, Equitable)</td>
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<tr>
<td>8</td>
<td>Dealing with Insolvent Financial Institutions (Regal &amp;</td>
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Occidental) – Visiting Lecturer Bruce Edwards

<table>
<thead>
<tr>
<th>No.</th>
<th>Topic</th>
<th>Lecturer/Executive</th>
<th>Case Study/Task</th>
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</thead>
<tbody>
<tr>
<td>9</td>
<td>Someone Else’s Problem (First Executive, GSL)</td>
<td></td>
<td>The Billion Dollar Bubble</td>
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<td></td>
<td>Cooking the Books / Financial Reinsurance</td>
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<tr>
<td>10</td>
<td>Unconventional Lending / Microfinance Pros and Cons</td>
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<tr>
<td>11</td>
<td>Booms and Busts</td>
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<td>12</td>
<td>General Insurance Risk Management &amp; Early Warning systems</td>
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<tr>
<td>13</td>
<td>Health Fund Risk Management (Visiting Lecturer Peter Carroll)</td>
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The timing of guest lectures may be flexible based on the visiting lecturers other commitments. Any changes to the program will be announced on ILearn.

**RESEARCH AND PRACTICE (DELETE THOSE NOT APPLICABLE)**

- This unit uses research by Macquarie University researchers and many other researchers – details will be given in weekly course notes.
- This unit gives you practice in doing your own research for assignments.

**RELATIONSHIP BETWEEN ASSESSMENT AND LEARNING OUTCOMES**

<table>
<thead>
<tr>
<th>Assessment Task 1</th>
<th>Assessment Task 2</th>
<th>Assessment Task 3</th>
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</thead>
<tbody>
<tr>
<td>Title/Name</td>
<td>6 Reports</td>
<td>Essay</td>
</tr>
<tr>
<td>Description</td>
<td>Short reports of 2 or 3 pages. Students will be expected to read and summarise the key information in various articles and reports</td>
<td>Essay maximum 2500 words – case study of a failed financial institution.</td>
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<tr>
<td>Due date</td>
<td>Various – see below</td>
<td>Week 11 5 pm May 25</td>
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<tr>
<td>% Weighting</td>
<td>6% each = 42%</td>
<td>18%</td>
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<tr>
<td>Grading method</td>
<td>This will be assessed on (a) your understanding of the issues (b) ability to communicate clearly. All essays must have references in accordance with</td>
<td>This will be assessed on (a) demonstrated research skills and (b) your understanding of the issues and (c) ability to communicate clearly. All essays must have references</td>
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<tr>
<td>- marking criteria/standards</td>
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<td>- expectations in relation to presentation</td>
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<tr>
<td>Assessment Task 1</td>
<td>Assessment Task 2</td>
<td>Assessment Task 3</td>
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<tr>
<td>- referencing requirements</td>
<td>University standards.</td>
<td>in accordance with University standards.</td>
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<tr>
<td>Submission method</td>
<td>Via iLearn</td>
<td>Via iLearn</td>
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<tr>
<td>Feedback (type, method, date)</td>
<td>Grade and Marker’s comments</td>
<td>Grade and Marker’s comments</td>
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<tr>
<td>Estimated student workload (hours)</td>
<td>3 hours each</td>
<td>15-20 hours</td>
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<tr>
<td>Learning outcomes assessed (max 6)</td>
<td>Understanding of the regulatory framework for financial institutions</td>
<td>Understanding of the regulatory framework for financial institutions</td>
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<td>2</td>
<td>Understanding of common causes of banking failures; how systemic risks can destabilise financial systems; management of credit risks</td>
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<td>Understanding of common causes of insurance company failures</td>
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<tr>
<td>5</td>
<td>Understanding of the most common causes of regulatory failure</td>
<td>Understanding of the most common causes of regulatory failure</td>
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<tr>
<td>6</td>
<td>Understanding of the</td>
<td>Understanding of the</td>
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<td>Assessment Task 1</td>
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<tr>
<th>Graduate capabilities assessed (max 4)</th>
<th>Effective Communication</th>
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<tr>
<td>2</td>
<td>Critical, Analytical and Integrative Thinking</td>
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<td>3</td>
<td>Problem Solving and Research Capability</td>
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<td>Capable of Professional and Personal Judgement and Initiative</td>
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Reports – students are expected to do short reports on a variety of topics during the term. Students will be given a choice of topics. Each week a list of optional report topics will be released. Students can submit their reports at any time during term, subject to the following rules:

- At least 2 reports must be submitted before 5 pm March 30
- At least 2 more reports must be submitted before 5 pm April 27
- At least 3 more reports must be submitted before the end of term 5 pm June 8
- Extension requests: if you suffer unavoidable disruption (e.g. illness, death of a relative etc) then you can ask for an extension. Please send an email to Shauna Ferris to request an extension (to shauna.ferris@mq.edu.au), outlining the reasons for the request and the amount of extra time you would like.
- Late submissions: Work which is submitted late, without a good reason, will be penalised. You will lose ½ mark for each day late.
- Attendance: Attendance is not compulsory but I strongly advise you to attend the lectures. We will be watching DVDs during the lecture, and then discussing the cases, and it might be difficult for you to catch up if you miss the lecture.

Examinations
A final examination is included as an assessment task for this unit to provide assurance that:

i) the product belongs to the student and
ii) the student has attained the knowledge and skills tested in the exam.

A 3 hour final examination for this unit will be held during the University Examination period.

The University Examination period in First Half Year 2012 is from June 12 to June 29.

You are expected to present yourself for examination at the time and place designated in the University Examination Timetable. The timetable will be available in Draft form approximately eight weeks before the commencement of the examinations and in Final form approximately four weeks before the commencement of the examinations.

http://exams.mq.edu.au/

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. The University’s policy on special consideration process is available at http://www.mq.edu.au/policy/docs/special_consideration/policy.html

If a Supplementary Examination is granted as a result of the Special Consideration process the examination will be scheduled after the conclusion of the official examination period. (Individual Faculties may wish to signal when the Faculties’ Supplementary Exams are normally scheduled.)

The Macquarie university examination policy details the principles and conduct of examinations at the University. The policy is available at: http://www.mq.edu.au/policy/docs/examination/policy.htm

**Academic Honesty**

The nature of scholarly endeavour, dependent as it is on the work of others, binds all members of the University community to abide by the principles of academic honesty. Its fundamental principle is that all staff and students act with integrity in the creation, development, application and use of ideas and information. This means that:

- all academic work claimed as original is the work of the author making the claim
- all academic collaborations are acknowledged
- academic work is not falsified in any way
- when the ideas of others are used, these ideas are acknowledged appropriately.
Further information on the academic honesty can be found in the Macquarie University Academic Honesty Policy at http://www.mq.edu.au/policy/docs/academic_honesty/policy.html

**GRADES**

Macquarie University uses the following grades in coursework units of study:

HD - High Distinction  
D - Distinction  
CR - Credit  
P - Pass  
F - Fail

Grade descriptors and other information concerning grading are contained in the Macquarie University Grading Policy which is available at: http://www.mq.edu.au/policy/docs/grading/policy.html

**GRADING APPEALS AND FINAL EXAMINATION SCRIPT VIEWING**

If, at the conclusion of the unit, you have performed below expectations, and are considering lodging an appeal of grade and/or viewing your final exam script please refer to the following website which provides information about these processes and the cut off dates in the first instance. Please read the instructions provided concerning what constitutes a valid grounds for appeal before appealing your grade.

http://www.businessandeconomics.mq.edu.au/new_and_current_students/undergraduate_current_students/how_do_i/grade_appeals

**SPECIAL CONSIDERATION**

The University is committed to equity and fairness in all aspects of its learning and teaching. In stating this commitment, the University recognises that there may be circumstances where a student is prevented by unavoidable disruption from performing in accordance with their ability. A special consideration policy exists to support students who experience serious and unavoidable disruption such that they do not reach their usual demonstrated performance level. The policy is available at: http://www.mq.edu.au/policy/docs/special_consideration/policy.html

**STUDENT SUPPORT SERVICES**

Macquarie University provides a range of Academic Support Services. Details of these and other services for students can be accessed at http://www.student.mq.edu.au.

**IT CONDITIONS OF USE**
Access to all student computing facilities within the Faculty of Business and Economics is restricted to authorised coursework for approved units. Student ID cards must be displayed in the locations provided at all times.

Students are expected to act responsibly when using University IT facilities. The following regulations apply to the use of computing facilities and online services:
- Accessing inappropriate web sites or downloading inappropriate material is not permitted. Material that is not related to coursework for approved units is deemed inappropriate.
- Downloading copyright material without permission from the copyright owner is illegal, and strictly prohibited. Students detected undertaking such activities will face disciplinary action, which may result in criminal proceedings.

Non-compliance with these conditions may result in disciplinary action without further notice.

Students must use their Macquarie University email addresses to communicate with staff as it is University policy that the University issued email account is used for official University communication.