Regulation of International Capital Markets

Module Introduction and Overview

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1 Introduction to the Module

Welcome to the *Regulation of International Capital Markets* module! The last 10 years have been a particularly exciting time in terms of the development of financial regulation – in relation to both banks and securities trading (termed investment business in some jurisdictions). The global financial crisis, often referred to as taking place between 2007–09 but in practice with a very real economic impact that lasted considerably longer, gave rise to a large number of regulatory responses: both at international level and in individual jurisdictions, not least the United Kingdom and the United States. Nowhere have the changes to financial regulation been more wide-ranging than in the European Union, which has introduced both Directives and Regulations (for the role of Directives and Regulations in the EU legal system, see Unit 2 of the *Introduction to Law and to Finance* module). That said, there have also been very considerable initiatives taken at a global level, by such bodies as the Basel Committee for Financial Supervision and the Financial Stability Forum.

Before we get into the detail of the specific areas of financial regulation, we need to answer an important question: why should financial markets be regulated at all? Why do they need regulating? The module therefore begins by considering this in Unit 1. We then go on to look at the role of the central bank. This has changed significantly over time. At one time, it almost invariably included regulation of the banking sector and in some jurisdictions, it still does. However, in others, separate banking regulators have emerged and we therefore look at these also. We then look at issues of prudential supervision – how to reduce the risk of banks (or worse, the financial sector as a whole) collapsing before examining how capital markets work. That in turn leads us into the second part of the module, in Units 5–7, where we turn from the banking sector to look at the regulation of securities trading: the firms, protection of the markets, including the prevention of insider trading and market manipulation, and an area of increasing importance in today's financial markets: derivatives. Finally, in Unit 8, we pan out from looking at how the financial markets of individual jurisdictions are regulated to examining the development of global financial markets. A company registered in South Africa may have its securities listed and sold in Hong Kong to a buyer in Australia. As the global financial crisis demonstrated, a bank collapsing in the United States may send shockwaves around the world. This has led to a need for regulatory principles at a global level and the module therefore ends by looking at these.

One area that this module does not address, however, is the particular developments of electronic finance: Internet banking, online securities dealing, payment wallets and the recent growth in cryptocurrencies and the linked Initial Coin Offerings or ICOs. All of these are addressed in a separate module, *Law and Regulation of Electronic Finance and Internet Banking*. If you are interested in these issues, we would encourage you to take that module as one of your electives.

2 The Module Author

Dalvinder Singh is a Professor in the School of Law, University of Warwick. His area of research is in bank and financial regulation from both a policy and practical perspective in both the UK system and the US system, including European and international dimensions. Professor Singh is also a member of the Research and Guidance Committee of the International Association of Deposit Insurers, Basel Switzerland, and Managing Editor of the *Journal of Banking Regulation* and *Financial Regulation International*.

3 Study Resources

This study guide is your central learning resource as it structures your learning unit by unit. Each unit should be studied within a week. It is designed in the expectation that studying a unit and its associated readings will require 15 to 20 hours during the week, but this will vary according to your background knowledge and experience of studying.

Module readings

We also provide you with academic articles and other reports and material that are assigned as core readings in the study guide. You are expected to read them as an essential part of the module.

4 Module Overview

Unit 1 Rationale of Financial Regulation and Supervision

1.1 Introduction
1.2 Defining Financial Regulation and Supervision
1.3 Why Regulate?
1.4 Financial Markets and Services
1.5 Macro-Micro Prudential Regulation and Supervision
1.6 The Globalisation of Financial Crises
1.7 Conclusion

Unit 2 The Organisational Structure of the Official Safety Net

2.1 Introduction
2.2 The Financial and Bank Regulator and Supervisor
2.3 The Central Bank and the Finance Ministry
2.4 Regulatory Architecture in the UK and the US
2.5 The European Framework of Financial Regulation and Supervision
2.6 Conclusion

Unit 3 Methods and Instruments of Regulation and Supervision

3.1 Introduction
3.2 Risk-Based Supervision
3.3 Licensing and Authorisation

5 Learning Outcomes

When you have completed your study of this module, you will be able to:

- analyse and discuss the main reasons why governments regulate financial markets
- analyse and discuss the role of the central bank and other financial regulators
- examine and discuss the importance of capital requirements for ensuring the stability of the banking system
- examine and discuss the measures that regulators take to deal with a bank that is threatened with collapse, as well as the mechanisms in place to protect depositors when a bank actually does collapse
- analyse and discuss the key elements of the regulation of securities trading in the United Kingdom, United States and European Union
- analyse and discuss the international standards in combating abuse of the securities markets
- analyse and discuss the role of the derivatives markets and the measures taken to regulate them
- critically assess the regulatory components of the global financial system
- analyse the continuing efforts to build a stronger global financial system following the 2008–09 global financial crisis and the subsequent crises in the European Union.