



**Legal Issues in Finance and Banking**  
**BL 407**  
**Winter 2020**

Section 001: Monday/Wednesday, 10:00-11:30 a.m.  
Section 002: Monday/Wednesday, 11:30 a.m.-1:00 p.m.

**Professor:** Jeremy Kress  
**Classroom:** R2310  
**Office:** R5454  
**E-mail:** kressj@umich.edu  
**Office Hours:** Monday/Wednesday, 2:00-3:00 (or by appointment)

**Course Overview**

Leaders in finance and banking operate in a highly regulated environment. Financial companies are subject to strict supervision and the target of frequent litigation. Moreover, the 2008 financial crisis and passage of the Dodd-Frank Act increased scrutiny of the financial sector and created new types of legal risks. Heavy regulation, however, also creates opportunities for financial companies to use the law strategically to their advantage. For financial sector leaders, therefore, the ability to develop, assess, and implement legal strategies is indispensable.

This capstone course will challenge you to integrate concepts from across the BBA curriculum to manage legal risks and capitalize on strategic opportunities in finance and banking. Through in-class activities, case studies, and a semester-long capstone project, you will synthesize principles from finance, strategy, business economics, management, and ethics to develop strategies for maximizing value in the financial sector in light of legal constraints. You will leave this class with (1) relevant knowledge about the laws and regulations governing financial companies, (2) an understanding of how financial firms achieve competitive advantage by reducing legal risk and using the law to create economic value, and (3) well-reasoned opinions about financial regulation to contribute to future policy debates. The concepts we explore in this class will form a critical foundation for your future career in investment banking, financial services, private equity, consulting, accounting, or law.

**Course Format**

The course is divided into six modules:

- Introduction to the Law of Finance;
- Commercial Banking;
- Investment Banking and Securities;
- Systemically Important Financial Institutions;
- Shadow Banking and Derivatives; and
- Corporate Governance, Supervision, and Enforcement.

Each module begins with class sessions in which you will learn pertinent legal principles through assigned readings, lectures, and in-class discussions. Each module includes one or more case studies drawn from real-world lawsuits or enforcement actions. Case studies will challenge you to apply your knowledge and to create strategies for reducing legal risk and maximizing firm performance.

### **Course Materials**

The reading assignments for this course are available in a course pack from the Kresge Library and Study.net. Many of the reading assignments are excerpts from *Financial Regulation: Law and Policy*, by Michael Barr, Howell Jackson, and Margaret Tahyar (2d ed., 2018 Foundation Press). I will post additional reading assignments to Canvas.

You are expected to have assigned readings with you in class to participate fully in class discussions. In light of the course policy on the use of electronics in class (see below), you are required to either (1) purchase the printed TEXTPAK for this course, or (2) print each of the assigned readings in the course pack.

### **Course Grade**

Your grade in this class will be determined based on the following components:

Class Participation	20%
Case Write-Up	10%
Problem Set	15%
Team Project	30%
Final Exam	25%

### **Class Participation**

***Expectations:*** High quality class participation involves stating your position clearly and concisely, supporting your views by applying the legal principles we are studying, and being open to alternative viewpoints. This means more than simply attending class sessions and speaking in class. Instead, it assesses your contribution to the learning experience of your peers. High quality class participation may, for example, link concepts from throughout the BBA curriculum to the legal principles we are studying and/or identify opportunities for financial firms to use legal strategies to achieve competitive advantage. In general, answering questions on the material assigned for the day will result in more participation credit than asking them. You will be judged by the quality, rather than the quantity, of your participation.

***Attendance Policy:*** This is a capstone course that draws heavily on in-class activities and discussions to synthesize concepts you have learned throughout your time at Ross. As a result, a significant part of your learning in this course will take place in the classroom. Attending all class sessions, therefore, is critical to your success. On the first day of class, I will circulate a seating chart. You are expected to sit in your assigned seat for the duration of the semester. I will track attendance at every class using a sign-in sheet. Arriving late for class or departing early may count as an absence at my discretion.

There are no “excused” absences except in the very unusual case of someone with a lengthy, serious illness, etc. Three absences over the course of the semester will not affect your participation grade. Three absences should be sufficient to cover random illnesses, conflicts with another obligation, etc. As a general guideline, if you miss more than 5 class sessions or otherwise have serious participation issues, you cannot earn more than half of the available participation points. If you miss more than 7 class sessions, your participation score is likely to be 0.

***Electronics Policy:*** To avoid distracting yourself and the students around you, all forms of electronics must be turned off during the class period. Using electronics during class is disrespectful to the person speaking and is often obvious to everyone in the classroom, including the instructor. If courtesy to others is not enough of a reason, it is simply unwise to use electronics during class because there is no easier way to convey to me that you have chosen to disengage from the class.

### **Case Write-Up**

I have posted a series of questions in the relevant Canvas module for each of the assigned cases. You are responsible for submitting written answers to the questions for one case during the semester. Your case write-up must be no more than 5 pages (single-spaced). I will circulate a sign-up sheet for case-write ups on the first day of class. Your case write-up must be submitted via Canvas no later than 11:59 p.m. on the day before it is to be discussed in class. Late assignments will incur a 10% penalty. Assignments submitted after 10:00 a.m. on the day the case is discussed in class will incur an additional 10% penalty per day.

### **Problem Set**

The problem set, consisting of short-answer and multiple choice questions, will be posted to Canvas on February 21 at 9:00 a.m. Students must complete the problem set individually. Your answers to the problem set must be uploaded to Canvas by 9:00 p.m. on February 26.

### **Team Project**

Teams of 4 or 5 students will complete a semester-long project designed to (1) deepen your understanding of the legal concepts discussed in class, (2) challenge you to identify relevant legal constraints governing the firm your team has selected, and (3) develop strategies for maximizing value in light of those constraints. Your team project will demonstrate your ability to integrate concepts from across the BBA curriculum with the legal principles we study in this course. I will post team assignments on Canvas after the capstone course drop/add deadline.

By the end of the semester, each team must submit a 15-page written paper (excluding exhibits and references) and deliver a 12-minute presentation to the class. Teams will deliver their final presentations in class on **April 13 and 15**. I will assign your team to present on one of the two days. All teams must submit their written papers by Wednesday, April 8 at 9:00 p.m. and their presentation slide decks by Sunday, April 12 at 9:00 p.m. Both submissions must be made via Canvas.

Teams may select one of two project topics:

**Project Topic 1:** Imagine that Congress has repealed the Dodd-Frank Wall Street Reform and Consumer Protection Act in its entirety. You are analysts on a consulting team that has been

hired by a publicly traded financial company to provide advice on how to respond to changes in the law. (For purposes of this project, you may choose which publicly-traded financial company you wish to advise. Examples may include a bank holding company, insurance company, credit rating agency, or derivatives clearinghouse.) Analyze how the repeal of Dodd-Frank creates (1) opportunities for the company to achieve competitive advantage, and/or (2) new legal risks. Recommend a detailed business plan for the company that would, to the extent possible, maximize strategic, financial, and ethical outcomes. Where applicable, identify trade-offs between these outcomes.

In developing your recommendations, take into account the following considerations:

- The company's business model and strategy;
- The provisions of Dodd-Frank that applied to the company;
- How the company complied with those provisions;
- Other laws or regulations that remain in effect; and
- Ethical considerations.

**Project Topic 2:** Choose a publicly traded technology company (e.g., Amazon, Facebook, Alphabet/Google, etc.). You work in the firm's Special Projects Group. The CEO has asked your team to evaluate whether the company should establish an insured depository institution (IDI) subsidiary. Prepare a report analyzing arguments for and against an IDI subsidiary. Recommend a detailed business plan for the company that would maximize strategic, financial, and ethical outcomes if it were to enter commercial banking. Make a final recommendation to the CEO as to whether the company should pursue an IDI subsidiary.

In developing your recommendations, take into account the following considerations:

- The company's firm-wide business model and strategy;
- The company's current financial services strategy, if any;
- Competition from existing financial services firms and potential new entrants;
- Legal constraints that would apply to the company and its IDI subsidiary;
- Available IDI charter options; and
- Strategies to achieve regulatory approval of the IDI charter application.

To avoid duplication, when your team has decided on a project topic and firm, please email me the firm your team has chosen. Your team will meet with me at least twice during the semester to discuss your progress (on February 10 and March 18). Sign-ups for team meetings will be available on Canvas.

After your project is completed, team members will rate one another's contributions. Evaluations will be anonymous. While I expect that most members of a particular team will receive the same overall scores for their project, I will adjust a team member's score for extraordinary or subpar contributions to the team assignment.

## **Final Exam**

The final exam will test your knowledge of the legal principles we have studied and your ability to apply those principles. The exam will be comprised of both short-answer and multiple choice

questions. The exam will be closed book and closed notes, except that you are permitted to bring in one 8.5" x 11" piece of paper, which may contain content on both sides.

The exam will be held on **April 24, 2020 from 4:00–6:00 p.m.** If you have a conflict with the exam date, you **MUST** notify me by January 31, 2020. The deadline is firm; requests for an alternate exam date will not be accepted after the deadline. Neither employment nor personal travel are permissible excuses for an alternative exam date.

### **Office Hours**

I encourage you to come to office hours to talk about course material, the team project, career plans, law school applications, or anything else you would like to discuss. My regular office hours are Monday and Wednesday from 2:00-3:00 p.m. If you are unable to attend my regular office hours, please email me and we will set up an alternative time to meet.

### **Policy Related to the Use of Class Materials**

All materials generated for this course, including slides, handouts, and exams (and answers to these materials), any written review materials, or any other materials prepared by you or me for this course are intended for use only by current students in this class. You are not permitted to use materials related to this class that I or any other professor generated in previous versions of this course or related courses, such as materials collected in unauthorized files, test banks, or online. A violation of this policy may be a violation of the Ross Community Values Code. It is also a violation of this policy to participate in the collection, distribution, online posting, or other sharing of class materials that may result in use of those materials by people who are not currently students in this course. Finally, any electronic recording of this course, including images, is prohibited except with my prior written permission.

### **Accommodations for Students with Disabilities**

The University of Michigan is committed to providing equal opportunity for participation in all programs, services and activities. Students wishing to receive testing accommodations must register with the UM SSD ([Services for Students with Disabilities](#)) as soon as possible. Students must then submit their Verified Individualized Services and Accommodations (VISA) form via online web form as early as possible, but no later than two weeks prior to the first test or quiz for which accommodations are requested. Accommodations arrangements are not guaranteed for students who submit their VISA form with less than two weeks' notice.

Requests must be sent using the [Ross Accommodations Request Form](#) and must include a scanned or photographed copy of the VISA form. This form only needs to be submitted once during your academic career with Ross unless your accommodations expire. Questions can be directed to the Accommodations Coordinator at [RossAccommodationsCoordinator@umich.edu](mailto:RossAccommodationsCoordinator@umich.edu).

In rare cases, the need for an accommodation arises after the two-week deadline has passed (for example, a broken wrist). In these cases, the student should still contact SSD and the Ross Accommodations Coordinator at [RossAccommodationsCoordinator@umich.edu](mailto:RossAccommodationsCoordinator@umich.edu), however, due to logistical constraints we cannot guarantee that an accommodation can be made after the two-week deadline has passed.

## **Academic Honor Code Compliance**

Personal integrity and professionalism are fundamental values of the Ross School community. You have a duty to be familiar with the Ross Community Values Code and related procedures, which can be found at the following website: <http://www2.bus.umich.edu/MyiMpact/academics/ross-community-values>. The site also contains comprehensive information on how to be sure that you have not plagiarized the work of others. Ignorance of the Code and related information appearing on the site will be viewed as irrelevant should a violation take place. Non-Ross School students are subject to the Code while in this course and should familiarize themselves with its contents.

Any violation of the Ross School Honor Code such as plagiarism, otherwise passing off anyone else's work as your own, unauthorized collaboration, use of materials generated for use during past offerings of this course, or any form of cheating will be referred to the Community Values Committee. Possible penalties include course failure with a permanent notation of an honor policy violation on your transcript and even expulsion.

## **Mental Health and Wellbeing**

As a student, you may experience a range of issues that can cause barriers to learning, such as strained relationships, increased anxiety, alcohol/drug problems, feeling down, difficulty concentrating and/or lack of motivation. These mental health concerns or stressful events may lead to diminished academic performance or reduce a student's ability to participate in daily activities. University of Michigan is committed to advancing the mental health and wellbeing of its students. If you or someone you know is feeling overwhelmed, depressed, and/or in need of support, services are available. You can learn more about the broad range of confidential mental health services available on campus via [www.umich.edu/~mhealth/](http://www.umich.edu/~mhealth/).

The Ross School of Business has a CAPS Embedded Counselor available to its students. Embedded Counselors are located in school/college buildings and services are tailored to the school's climate. For more information, please visit [caps.umich.edu/caps-embedded-model](http://caps.umich.edu/caps-embedded-model). To schedule, please email Julie Kaplan, LMSW at [jrkaplan@umich.edu](mailto:jrkaplan@umich.edu).

## **Provision of Legal Advice**

You will see during this course that understanding legal issues is an integral part of business decision making. As a faculty member, however, I cannot represent students as clients and therefore cannot provide legal advice regarding specific, actual situations. If you have such a situation, please do not rely on information from this course in lieu of obtaining a professional legal opinion from an attorney. On-campus sources of legal advice include Student Legal Services, <https://studentlegalservices.umich.edu/>, and the Entrepreneurship Clinic at the Law School, <http://www.entrepreneurship.law.umich.edu/>.

## Course Schedule and Reading Assignments

<b>Module I: Introduction to the Law of Finance</b>	
<b>January 13</b>	<b>Course Overview</b> Canvas: Syllabus and selected news articles
<b>January 15</b>	<b>Finance Today</b> Course Pack: <i>Financial Regulation</i> , Chapter 1.1 (pp. 3-6, 11-20, 24-26 (stop before Securitization)) Canvas: Watch Hour One of “Money, Power and Wall Street Part 1” (watch until 58:00 minute mark)
<b>January 20</b>	<b>No Class: Martin Luther King, Jr. Day</b>
<b>January 22</b>	<b>Financial Institution Business Models</b> Course Pack: <i>Financial Regulation</i> , Chapter 1.5 (pp. 137-146 (skim), 146-158 (read))

<b>Module II: Commercial Banking</b>	
<b>January 27</b>	<b>Commercial Banking Law</b> Course Pack: <i>Financial Regulation</i> , Chapter 2.4 (pp. 243-247 (stop before Reserve Requirements)) and Chapter 2.3 (pp. 219-224)
<b>January 29</b>	<b>Capital and Liquidity Requirements, Part I</b> Course Pack: <i>Financial Regulation</i> , Chapter 2.5 (pp. 265-268, 278-283 (stop before Monitoring Market Valuations))
<b>February 3</b>	<b>Capital and Liquidity Requirements, Part II</b> Course Pack: <i>Financial Regulation</i> , Chapter 2.7 (pp. 321 (start at Basel III)–329) Canvas: “What Are the Fed’s Stress Tests?”
<b>February 5</b>	<b>Case Study: The Bank of Walmart</b> Canvas: Memorandum on Walmart Industrial Loan Company News articles on Walmart’s financial service partnerships
<b>February 10</b>	<b>Team Meetings with Professor</b>

### Module III: Investment Banking and Securities

**February 12 Investment Banking**

Course Pack: *Financial Regulation*, Chapter 4.3 (pp. 507-513 (stop before Section I.B), 525-528)

Canvas: “New Wall Street Conflict”

**February 17 Case Study: Barclays and the Sale of Del Monte**

Course Pack: “Barclays Capital and the Sale of Del Monte Foods,” HBS Case

**February 19 Case Study: Goldman Sachs and the Abacus Deal**

Course Pack: “The Investment Bank Job: The U.S. Securities and Exchange Commission v. Goldman Sachs,” by Andrew Schrieber, The Kenan Institute for Ethics

**February 24 High-Frequency Trading**

Canvas: “The Wolf Hunters of Wall Street” (excerpt from *Flash Boys* by Michael Lewis)

Notes on High-Frequency Trading

### Hot Topics in Financial Regulation: Consumer Protection

**February 26 Consumer Protection**

Canvas: Readings to be posted

Guest Speaker: Nicholas Smyth, Senior Deputy Attorney General, Pennsylvania Office of Attorney General, Bureau of Consumer Protection

Problem Set Due on February 26 at 9:00 p.m.

**March 2-4 No Class: Winter Break**

### Module IV: Systemically Important Financial Institutions

**March 9 Regulation of SIFIs**

Course Pack: *Financial Regulation*, Chapter 6.2 (pp. 691-695), Chapter 6.3 (pp. 756-760 (skim), 760-764 (read), 745-749 (read and stop before excerpt))

**March 11 Case Study: MetLife**

Course Pack: *Financial Regulation*, Chapter 3.1 (pp. 336-339, 356-358) (Ch. 3.1 is OPTIONAL)

Canvas: Readings to be posted

**March 16 Case Study: Lehman Brothers and Resolution of Failed SIFIs**

Course Pack: “Lehman Brothers: Too Big to Fail?” Columbia Business School

Canvas: “A Primer on Dodd-Frank’s Orderly Liquidation Authority”

**March 18 Team Meetings with Professor**

### Module V: Shadow Banking and Derivatives

- March 23**     **Hedge Funds and The Volcker Rule**  
Canvas: “The History of Hedge Fund Regulation in the United States”  
Course Pack: *Financial Regulation*, Chapter 6.1 (pp. 704-707)
- March 25**     **Securitization**  
Course Pack: *Financial Regulation*, Chapter 12.1 (pp. 1237-1241, 1244, 1246-1248  
(credit rating agencies), 1257-1259, 1261-1262, 1263-1266)
- March 30**     **Derivatives**  
Course Pack: *Financial Regulation*, Chapter 11.2 (pp. 1181-1195)
- April 1**        **Case Study: LIBOR Manipulation**  
Course Pack: “Barclays and the LIBOR Scandal,” HBS Case

### Module VI: Corporate Governance, Supervision, and Enforcement

- April 6**        **Corporate Governance**  
Canvas: “Corporate Governance and Prudential Regulation” and Wells Fargo  
Letter  
Course Pack: *Financial Regulation*, Chapter 8.1 (pp. 887-894)
- April 8**        **Case Study: JPMorgan and the London Whale**  
Canvas: Excerpts from U.S. Senate Report, “JPMorgan Chase Whale Trades”  
Course Pack: “JPMorgan Chase London Whale D: Risk Management Practices,” by  
Arwin G. Zeissler & Andrew Metrick, Yale Program on Financial  
Stability
- Team Project Papers Due on April 8 at 9:00 p.m.
- Team Project Slides Due on April 12 at 9:00 p.m.

### Final Presentations, Course Wrap-Up, and Exam

- April 13**     **Final Presentations (Teams to Be Announced)**
- April 15**     **Final Presentations (Teams to Be Announced)**
- April 20**     **Course Wrap-Up**
- April 24**     **FINAL EXAM**  
**4:00–6:00 p.m.**  
**R2220 and R2230**