LGST 243-001

Other People’s Money: The Law, Politics, and History of Financial Institutions

Professors Amy Friend and Aaron Klein
E-mail: frienda@wharton.upenn.edu
Office hours:  Friend: Thursday 1:30-3 PM; by zoom Tuesday 3-4 PM
Klein:  By appointment

Course description:

Financial services are central to our lives, from how we pay for things today, borrow for a better tomorrow, and save for retirement. Access to credit can be the gateway to opportunity or a pathway to severe difficulty. Money, particularly other people’s money, is deeply intertwined with the government which both regulates the provision of financial services and deals with the inherent tensions that arise between borrowers and lenders. Where money and government intersect, there’s inevitably politics.

This course explores multiple forms of financial institutions that provide these services and how they are structured, regulated, and integrated into our economic and political institutions. The course delves into the evolution of financial institutions and the delivery of financial services from the role of payment systems, banks and securities firms in the US to the rise of fintechs, blockchain, cryptocurrency, and the use of artificial intelligence. We will discuss financial crises and the art of financial legislation and regulation. Trust in the institutions that manage our money is a cornerstone of the financial system. We will consider what happens when trust erodes. Time will be spent analyzing the impact of unequal access to financial products and services, as well as the significance of diversity and climate change to the financial system. The class will conclude with a consideration of the future of finance.

At the end of the course students should have an enhanced understanding of the financial institutions, products and services that are central to our economy and the role the government plays in ensuring the extent to which these products are available, transparent, fair and reliable.

While a background or interest in finance may be helpful, no such background is required and we encourage students who are curious about the topic to enroll.
Grading:

Your grade is divided into four parts: 20% class participation, 25% short, 200-300 word responses to assigned reading, 5% for submitting and being prepared to discuss topical news articles, and 50% for the final writing project.

Class participation. You will receive a grade of 0 to 5 for class participation for the semester. Punctuality, attendance, professionalism and the quality of your comments (meaning, how engaged with the reading, how responsive to and respectful of other students, how focused on the discussion, and frequency of your comments) determine that grade. We will take attendance and note lateness and unexcused absences for grading purposes. For class participation we encourage volunteer comments on the reading materials and class discussion, but will also cold call.

Response papers. You should write six response papers to the readings, 200-300 words. These will be uploaded to Canvas and receive a 0 to 5. You must submit them 48 hours prior to the relevant class session in order to receive credit.

In the News. For six classes, you should select a topical news article and submit a link to the Canvas site in the Assignments tab. We will choose a few news items per class to discuss from those submitted and call on the students who posted them to start the discussion. We may have group breakout sessions to discuss and present news items.

Final project. The final project will be to choose a specific financial institution or type of financial service or product and provide an assessment that takes into account two or more of the following considerations: legal, economic, political, historical. Examples might be a regulatory structure or an emerging topic such as cryptocurrency. The assessment should be 2000 words multiplied by the number of students participating (no more than three per group; solo projects are appropriate). Depending on the number of students in the class, we may have groups present their projects.

Readings. Specific reading assignments are posted to the course’s Canvas website in the Assignments tab. Any changes to the assigned materials will be made at least two weeks ahead of the relevant class period. You can access most of the reading materials through Course Materials @ Penn Libraries on the Canvas website. The remaining materials will be available at study.net on the Canvas website.
Course Thumbnail (readings are illustrative and subject to revision):

Session 1: Jan 13, 2021 (Friend and Klein)
A general introduction to the class and discussion of money- what it is and how it moves; the role of payment systems in finance, policy, and the economy.

- Financial Regulation: Law and Policy, Third Edition, Michael Barr, Howell Jackson, Margaret Tahyar, Chapter 1.1, pp. 12-34

Optional:
- Aaron Klein Real-Time Payments Can Help Combat Inequality

Session 2: Jan 20, 2021: (Friend)
Banking in the US – its function, history and regulation. What is a bank charter and who provides it? Are banks special? Do they have heightened responsibilities because of their access to the federal safety net? (Guest speaker John Dugan, Chairman of Citigroup and former Comptroller of the Currency)

- Wells Fargo reading:
  - Harvard Law School Forum on Corporate Governance, The Wells Fargo Cross-Selling Scandal, February 6, 2019
  - Slate podcast: Unforgiven, Wells Fargo, November 2020
  - American Banker, OCC drops hammer on Stumpf, January 23, 2020
  - Why the Wells Scandal Matters so Much, Aaron Klein, Brookings, September 21, 2016

Optional:
- Hamilton Musical song “Cabinet Battle #1”

Session 3: Jan 27, 2021 (Friend)
(Guest speaker, Kara Stein, board member of the US Public Company Accounting Oversight Board, former SEC Commissioner)

- Investment Banking materials - Goldman Sachs study:
  - NYT, Permanent Select Committee on Investigation Memorandum: Wall Street and the Financial Crisis: The Role of Investment Banks, April 26, 2010, pp. 19 - 31
  - Financial Crisis Inquiry Commission, Testimony of Lloyd Blankfein, Chairman of Goldman Sachs, January 13, 2010,
- Broker Dealer materials - Robinhood/Gamestop study:
  - Bloomberg, The GameStop Game Never Stops, January 25, 2021
  - Bloomberg, The SEC Is Baffled by Game Stop Too, October 19, 2021
  - NYT, Reader’s Guide: Everything You Need to Know About the GameStop Frenzy, updated October 18, 2021
    (Select one of the articles from this NYT piece and write about it for your response paper if you choose to respond to this week’s readings.)
- Money Market Mutual Funds materials:
  - WSJ, Money Fund, Hurt by Debt Tied to Lehman, Breaks the Buck, Sept 17, 2008
  - WSJ, Why the Fed had to Backstop Money-Market Funds, Again, March 21, 2020,
  - WSJ, SEC Floats Rules to Shore Up Money Markets, Curb Insider Trading, December 15, 2021,
  - Report of the President’s Working Group on Financial Markets Overview of Recent Events and Potential Reform Options for Money Market Funds, December 2020 - skim for general understanding of MMMFs and the issues they present

Optional:
- Gamestop: U.S. Securities & Exchanges Staff Release GameStop Report;
  SEC Staff Releases Report on Equity and Options Market Structure Conditions in Early 2021
- For an in-depth read on gamestop and market structure see Staff Report on Equity and Options Market Structure Conditions in Early 2021
- For a quick take on GameStop listen to The Daily podcast: The GameStop Rebellion, February 1, 2021

Session 4: Feb 3, 2021 (Friend and Klein)
Financial crises, 2008 case study: Exploring the role of banks and other financial institutions (nonbanks, shadow banking system) in the greatest financial collapse since
the Great Depression. What went wrong? How did the Covid-induced financial crisis differ?

- Senate Report 111-176 - THE RESTORING AMERICAN FINANCIAL STABILITY ACT OF 2010, selected portions
- Causes of the Financial Crisis, Congressional Research Service, Mark Jickling, January 29, 2009
- Financial Crisis Inquiry Commission, January 2011, selected portions from the report
- In Fed We Trust, David Wessel, (Intro and Chapter 1; On The Brink, Henry Paulson (Chapter 7 in comparison to Taibbi assigned article Ten Years After the Crash We’ve Learned Nothing or Rolling Stone article from 2009)
- Rolling Stone, Ten Years After the Crash We’ve Learned Nothing, Matt Taibbi
  
  Optional:
  - HBO documentary, Panic: The Untold Story of the 2008 Financial Crisis | Full VICE Special Report | HBO
  - The Big Short, Michael Lewis - book or movie
  - NYT, DealBook Briefing: Reliving Wall Street’s Near-Death Experience, September 13, 2018

Session 5: Feb 10, 2021 (Friend)
(Guest speaker – former Senator Christopher Dodd)

- Senate Report 111-176 - THE RESTORING AMERICAN FINANCIAL STABILITY ACT OF 2010, selected portions
- 10 Years Of Dodd-Frank: Looking Back, And Ahead - Christopher Dodd, 10 Years of Dodd Frank: Looking Back, and Ahead, Law 360, July 20, 2020
- What You Should Know About Dodd-Frank and What Happens If It's Rolled Back; Walter Frick, Harvard Business Review, March 2, 2017
  
  Optional:
  - Act of Congress, Robert Kaiser

Session 6: Feb 17, 2021 (Friend)
Examining the effects of inequality and discrimination in the financial system. The significance of financial inclusion, discrimination (legal and illegal), payday lenders, and the Community Reinvestment Act. How are artificial intelligence and machine learning being used to provide/expand access to financial services?

- How the Other Half Banks, Mehrsa Baradaran, selected chapters
- Barefoot Innovation Podcast: A Financial Health Moon Shot: PayPal's Dan Schulman on Apple Podcasts
- FDIC National Survey 2019: How America Banks: Household Use of Banking and Financial Services
- Pew Charitable Trusts: Payday Lending in America
- Jennifer Tescher and David Silberman, Measuring the financial health of Americans
- Interagency Request for Information on AI and Machine Learning: Federal Register/Vol. 86, No. 60/Wednesday, March 31, 2021/Notices and House Financial Services Committee letter to the regulators, November 29, 2021

Optional:
- Justice Department Announces New Initiative to Combat Redlining

Session 7:  Feb 24, 2021 (Klein)
Consumer protection in financial services and the role and authority of the Consumer Financial Protection Bureau (CFPB).
(Potential Guest speaker, Richard Cordray, former director of the CFPB or Meredith Fuchs, first General Counsel of the CFPB)

- Elizabeth Warren, Unsafe at Any Rate
- Watchdog, Richard Cordray (Chapters 6,7,8, and 16)

Session 8:  March 3, 2021 (Klein)
Examining the role of the central bank.

- The Power and Independence of the Federal Reserve (The Power and Independence of the Federal Reserve),
- Letter from Senate Banking Committee Chairman - March 29, 2021 Mary C. Daly President and Chief Executive Officer Federal Reserve Bank of San Francisco 101 Market Street San Fr
• The Fed keeps expanding its powers, and that's making some nervous

Optional:
• Federal Reserve Bank of San Francisco Racial Equity Primer: Racial Equity Primer and response Senator Patrick Toomey, Ranking Member, Senate Banking, Housing, Urban Affairs Committee

Session 9: March 17, 2021 (Klein)
Financial stability – an overview. Who judges risk and who judges the judges? Systemic risk and the role of the Financial Stability Oversight Council (FSOC) and the Basel Committee on Banking Supervision, an international standard setter. What is moral hazard and what are its implications for the financial system and policy makers? How do credit rating agencies and accounting practices and conventions affect stability?

• Financial Regulatory Reform: A New Foundation, US Treasury Department, Chapter 1
• Task Force on Financial Stability, report June 2021
• FSOC Reform: An Overview of Recent Proposals, March 2015, Bipartisan Policy Center

Session 10: March 24, 2021 (Friend)
Rise of Fintech and disaggregating banking services. A look at the circumstances and factors that enabled the growth of fintech, the current state of the industry, where it’s headed, the politics and regulation of fintech, and an international comparison.
(Guest speakers, David Ehrich, Co-founder Alliance for Innovative Regulation (AIR) and Co-Founder of Petal and Nick Cook, Head of Global Strategy & Partnerships at AIR and former Director of Innovation, UK Financial Conduct Authority)

• The Financial Conduct Authority’s Innovation Journey, Moving Forward in the Face of Uncertainty, Amy Friend, March 2021
• Banking With Interest podcast: “That Reckoning Is Absolutely Happening”: Venture Capitalist Hans Morris on the Future of Fintech on Apple Podcasts
• Additional materials

Optional:
• Brett King (Futurist), Bank 4.0 - Keynote Address, Intellect User Meet, April 2019 (youtube)

Session 11: March 31, 2021 (Klein)
(Potential guest speaker, Raj Date, first Deputy Director, CFPB, fintech investor and board member of crypto exchange company and various fintechs)
Morgan Ricks, Lev Menard, and John Crawford, *FedAccounts: digital dollars*

FedAccounts: Digital Dollars by Morgan Ricks, John Crawford, Lev Menand :: SSRN

Neha Narula, MIT: Neha's Writings

Tim Massad, former CFTC Chairman, It's time to strengthen the regulation of crypto-assets

President's Working Group on Financial Markets (forthcoming)

Session 12: April 7, 2021 (Klein)

Data. Who controls financial data? Are financial privacy protections adequate? What about cybersecurity - do we have a fighting chance?

(Potential guest speaker, Patricia Mosser, Director MPA Program in Economic Policy, Columbia University and previously head of Research and Analysis at the Office of Financial Research, US Department of Treasury, or Jennifer Tescher, President of the Financial Health Network)

Mitchell Sandler, *Legal and Regulatory Landscape*
(Consumer Financial Data:)

Jennifer Tescher and Daniel Murphy, Brookings Policymakers must enable consumer data rights and protections in financial services

Session 13: April 14, 2021 (Friend)

ESG (Environmental, Social, Governance) - diversity, climate change, and other societal factors with implications for financial institutions

Office Hours with Gary Gensler: The SEC & Climate Risk Disclosure

Financial Stability Oversight Council Identifies Climate Change as an Emerging and Increasing Threat to Financial Stability, fact sheet and selective readings from report

Diversity and Inclusion: Holding America's Large Banks Accountable, House Financial Services Committee Report, February 2020

Bank of England: DP21/2: Diversity and inclusion in the financial sector - working together to drive change, July 2021, selected portions

Optional:

Financing a Net Zero Economy: The Consequences of Physical Climate Risk for Banks

Financing a Net-Zero Economy: Measuring and Addressing Climate Risk for Banks

Session 14: April 21, 2021 (Klein)


Betsy Vereckey, *5 predictions on the future of financial regulation*
• Aaron Klein, _How to Fix the Covid Stimulus Problem, Roundtable: Public Money_.
  Klein, _How to Fix the Covid Stimulus Payment Problem: Accounts, Information, and Infrastructure_
• Joanne Barefoot, _Financial Regulation for the Digital Age_

**Bios:**

Amy Friend - Amy has over 25 years of experience shaping banking and consumer financial protection law and regulation. Amy was Senior Deputy Comptroller and Chief Counsel to the Office of the Comptroller of the Currency (OCC), a bureau of the US Treasury Department, from February 2013 - November 2017, where she oversaw all of the agency’s legal activities and licensing functions. Amy led the OCC’s strategic initiative on responsible innovation resulting in the establishment of the Office of Innovation and the fintech national bank charter. Previously, she held a number of positions in the US Congress, including Chief Counsel to the Senate Banking Committee, where she led the Committee’s work in responding to the 2008 financial crisis, including the development and passage of the Dodd-Frank Act, and Minority General Counsel to the House Financial Services Committee.

Amy currently is a senior advisor to FS Vector, an advisory firm serving innovative financial companies with their compliance, business strategy and policy needs. She is on the board of directors of Varo Bank, a mission driven mobile bank and the first fintech to get a banking charter, and chairs the board of FinRegLab, a nonprofit that tests new technologies and data to inform public policy and drive more inclusive financial services. In 2019, Amy co-founded ALLRISE DC, an organization that promotes women’s leadership in financial services through mentorship, networking and education. She serves on the advisory council of the Alliance for Innovative Regulation, a global nonprofit advancing the goals of fair finance through the use of responsible technology and modernized regulation.

Aaron Klein - Aaron is a senior fellow in Economic Studies at the Brookings Institution, focused on financial technology and regulation; payments; macroeconomics; and infrastructure finance and policy. Prior to joining Brookings in 2016, he directed the Bipartisan Policy Center’s Financial Regulatory Reform Initiative, where he managed a Commission of regulatory experts who performed the first comprehensive bipartisan analysis of the effectiveness of the new regulatory regime put in place after the financial crisis.

Between 2009 and 2012, Aaron served as the deputy assistant secretary for economic policy at the Department of Treasury. He worked on financial regulatory reform issues including crafting and helping secure passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. He also played leading roles in responding to the economic crisis, housing finance reform, transportation and infrastructure policy, and Native American policy.
Prior to his appointment, Aaron served as chief economist of the Senate Banking, Housing and Urban Affairs Committee for Chairmen Chris Dodd and Paul Sarbanes. He worked on numerous pieces of major legislation, including the Emergency Economic Stabilization Act (aka TARP), Housing and Economic Recovery Act, and the SAFETEA Act of 2005—re-writing America’s surface transportation system.