College of Europe
Collège d'Europe
Brugge Natolin

ECTS CARD

STUDY PROGRAMME	ACADEMIC YEAR	SEMESTER
EUROPEAN ECONOMIC STUDIES	**2025 - 2026**	**2nd**

COURSE TITLE

ECONOMICS OF EUROPEAN FINANCIAL REGULATION & SUPERVISION

COURSE PROFESSOR	COURSE ASSISTANT
DAVID NADRY & ORESTIS NIKOU	**UYANGA LKHAGVAJAV**
NATURE OF COURSE (COMPULSORY, ELECTIVE)	LANGUAGE OF INSTRUCTION
ELECTIVE	**ENGLISH**

ECTS CREDITS

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1. COURSE OBJECTIVE

The aim of the course is for the student to understand the key aspects of financial regulation and supervision in the EU, with a focus on banks / prudential aspects on one hand, and financial markets / conduct aspects on the other hand.

To that end, the course will discuss the principle notions of bank balance sheet, economic rationale for regulatory interventions in financial markets, the objectives of banking and financial market regulation and their key notions such as solvency ratios and types of regulatory capital. The students will also gain an understanding of the global regulatory architecture mainly under the Basel Committee on Banking Supervision. They will also hear about major regulatory reforms after the 2008 Global Financial Crisis, such as Basel III and Too-Big-To-Fail resolution reforms, changes to the supervisory architecture and the reforms under the Capital Markets Union recently rebranded as Savings and Investments Union. The course will also give a practical outline of the metier of supervision, the main supervisory models / approaches and the main phases of the supervisory cycle.

Finally, students will learn about the various stakeholders involved in policy-making and advocacy, and the effects of regulatory reforms on firms and the broader economy.

A number of case studies will bring these concepts to life, with a specific focus on understanding how a bank balance sheet interacts with bank regulation, how financial intermediation works in Europe, and how it is evolving due to innovation, competitive pressures and regulation. Students will also analyse and discuss supervisory problems and possible approaches to solve those problems. Through simulations of policy roundtables, students will debate and aim to convince each other about a specific policy outcome for bank and financial market regulation.

With the support of the Erasmus+ programme

2. LEARNING OUTCOMES

At the end of this course, the student will be able to:

- Explain the role and functioning of financial markets, and their linkages to the real economy;
- Identify different financial instruments, how they are valued and what purpose they serve;
- Describe how bank assets are risk-weighted and what are the key solvency/regulatory capital ratios.
- Understand current financial regulatory issues.
- Explain the concepts of financial regulation, supervision and enforcement;
- Distinguish the regulators at global level and in the EU who are responsible for supervising banks and financial market participants based on their roles and mandates;
- Explain the different phases of the regulatory and supervisory cycle and compare supervisory models;
- Develop and present an approach to a supervisory problem through group case studies.
- Distinguish the roles of stakeholders, public and private, in the regulatory process and the arguments they use to influence the policy outcome.

The learning outcomes for this course tie in with the following learning outcomes for the European Economic Studies programme:

- Use economic theory to assess current problems and policies;
- Work together in groups to solve problems, share tasks, prepare assignments, go through case studies and make presentations;
- Recognise, analyse, explain and critique economic developments and economic policies in Europe.
- Think innovatively and provide constructive analytical commentary on how the evolution of EU rules and policies may impact on future market development.

3. COURSE CONTENTS

<u>EU Financial Regulation – Focus on banks (Orestis Nikou)</u>

Module 1: Prudential framework

- Introduce the basic notions of bank balance sheet
- How and why banks Risk Weight their Assets
- What are the main elements of prudential regulatory capital and other prudential ratios
- Case study of analysing a bank's RWA and regulatory capital

Module 2: Global regulatory architecture

- Rationale for global cooperation in banking regulation
- Overview of the Basel Committee process and key regulatory products
- Link with prudential regulatory requirements, focus on post-2008 crisis reforms
- Other global regulatory bodies

Module 3: Prudential capital reforms

- Overview of Risk Weighting process, focus of Final Basel III
- Case study of analysing bank's impact from Final Basel III Output Floor
- Discussion on optimal level of capital and effects of prudential regulation on the economy, academic research background

Module 4: Advocacy

- Overview of interest representation in EU policy-making
- Description of main features of the advocacy process, key actors and main tools used
- Case study of analysing advocacy papers by interest representation organisations

Module 5: Resolution reforms

- Causes and consequences of the 2008 Global Financial Crisis
- Key elements of the Too-Big-To-Fail resolution reforms
- Case study of 2023 March turmoil

Module 6: Current Affairs

- Discuss current topics and future challenges in regulation: Non-banks, digital assets

<u>EU Financial Market Regulation and Supervision (David Nadry)</u>

Module 7: The Supervisory Architecture in the EU

- Pre-Global Financial Crisis landscape
- The establishment of the European System of Financial Supervision as a consequence of the Global Financial Crisis
    - The European Supervisory Authorities: who are they? Their mission, objectives, responsibilities and governance
    - The European Systemic Risk Board
- The Single Supervisory Mechanism for banks
- Overview of architecture in other jurisdictions

Module 8: Capital markets regulation

- Fundamentals of capital markets and market participants
- Key regulated areas of financial markets and why, evolution over time
- Policy-making from the regulator's perspective

Module 9: Savings and Investments Union (former Capital Markets Union)

- Origin and objectives
- Progress and roadblocks
- Where we are today: the 2025 Commission's market integration package
- To centralise, or not to centralise, that is the question

Module 10: Overview of Supervision and Enforcement

- Common supervisory and enforcement models (compliance-based, risk-based, outcome-focused, proactive, preventative, reactive, corrective, harmful vs. illegal, the compliance/enforcement pyramid)
- Supervisory convergence
- Supervision
  - "At the gate": registration / authorisation and perimeter monitoring
  - Risk identification and assessment
  - Strategy-setting
  - Ongoing supervision
  - Investigations / Examinations / Onsite inspections
- Enforcement process and enforcement measures
- Most Recent, Current and Future Supervisory Challenges
  - Brexit, COVID-19, Russia's invasion of Ukraine
  - Independence, Sovereignty
  - Financial and technological innovation: a market moving fast(er)
  - Data

    Climate change / sustainable finance: how can supervision help towards a greener economy?

4. TEACHING METHOD(S)

Number of teaching hours: 30 (David Nadry: 15, Orestis Nikou: 15)

Interactive lectures with practical case studies

The course will be taught in English; however, students are welcome to participate in French if they prefer to do so (e.g. asking or answering questions)

5. COURSE MATERIAL

Readings may be added during the course and, if so, will be referenced on the course website / intranet page.

6. EVALUATION

David Nadry: Written exam without documents (closed book) (50%)

Orestis Nikou: Group exercise, simulation of policy roundtable, verbal with documents (30%) + written exam without documents (closed book) (20%)

Second session: Written exam without documents (closed book) (100%)