

Futures, Options and Derivatives Seminar

Fall 2009 Syllabus

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Class Schedule: Wednesday, 5:25-8:10 p.m., Room 107

New issues regarding derivatives and the state of global financial markets are constantly arising and so, we may periodically need to supplement/replace/move items on the syllabus. If this happens, you will be notified and instructed on how to acquire the new materials through Blackboard, which you should check regularly. You are also encouraged to contact Meaghan McCann or Sean Young whenever you independently find materials or information relevant to the course that you believe the class would profit from reading.

There is no casebook for this class. Indeed, there is no competent case book for this subject. Students will need to purchase:

- Satyajit Das, Traders Guns & Money: Knowns and Unknowns in the Dazzling World of Derivatives (2006)

You may also refer to Professor Greenberger's website, <http://www.michaelgreenberger.com/> on financial regulation.

For the most part students will be able to download all additional readings from Westlaw or Lexis. If a reading is not located on Westlaw or Lexis, the syllabus will direct students to Blackboard. When

available, a hyperlink is embedded in the article title so that you may directly access the document on the web (these hyperlinks may expire, and in that case, please proceed to Lexis to access the articles). The most efficient way to search for news articles in Lexis is to select the newspaper and query the title of the article. It may be useful to create accounts for the New York Times and Washington Post, which you can do for free.

Class 1: September 2, 2009: Collateralized Debt Obligations & the Sub-prime Mortgage Meltdown

1. Professor Greenberger's Interviews (Listen to the audio files available on Professor Greenberger's website and hyperlinked for your convenience below.)
 - a. [Our Confusing Economy, Explained](#) *Fresh Air*, WHYY (NPR) April 3, 2008.
 - b. [Was 'Adult Supervision' Needed On Wall Street?](#) *Fresh Air*, WHYY (NPR) Sept. 17, 2008.
 - c. [60 Minutes](#) - October 5, 2008 Professor Greenberger explains credit default swaps and their role in the subprime mortgage meltdown.
2. *Credit Crisis – The Essentials*, N.Y. Times
http://topics.nytimes.com/top/reference/timestopics/subjects/c/credit_crisis/index.html?scp=1-spot&sq=crisis&st=cse
3. Articles from the [N.Y. Times Special Series: The Reckoning](#)
 - a. Required Reading from the Series:
 - i. *By Saying Yes, WaMu Built Empire on Shaky Loans*, Dec. 28, 2008.
 - ii. *White House Philosophy Stoked Mortgage Bonfire*, Dec. 21, 2008.
 - iii. *Debt Watchdogs: Tamed or Caught Napping?* Dec. 7, 2008.
 - iv. *Citigroup Saw No Red Flags Even as It Made Bolder Bets*, Nov. 23, 2008.
 - v. *Deregulator Looks Back, Unswayed*, Nov. 17, 2008.
 - vi. *How the Thundering Herd Faltered and Fell*, Nov. 9, 2008.
 - vii. *Struggling to Keep Up as the Crisis Raced On*, Oct. 23, 2008.
 - viii. *Taking Hard New Look at a Greenspan Legacy*, Oct. 9, 2008.
 - ix. *Pressured to Take More Risk, Fannie Reached Tipping Point*, Oct. 5, 2008.
 - x. *Agency's '04 Rule Let Banks Pile Up New Debt*, Oct. 3, 2008.
 - xi. *Behind Insurer's Crisis, Blind Eye to a Web of Risk*, Sept. 28, 2008.
4. Financial Crisis 101: CDOs explained, Audio/Video Broadcast from Marketplace, a Public Radio Syndicated Broadcast, available at:
<http://marketplace.publicradio.org/display/web/2008/10/03/cdo/>.
5. Professor Greenberger's interview with Ira Glass on [This American Life Broadcast](#). Click on 'Full Episode' Icon, then skip ahead to 39:55 minutes into the broadcast for Professor Greenberger's comments.
6. [The Crash: What Went Wrong?](#) The Washington Post.
 - a. Three Parts:
 - i. Faiola, Anthony, Ellen Nakashima and Jill Drew, *Risk and Regulation*, Wash. Post, Oct. 15, 2008.

- ii. Appelbaum, Binyamin and Ellen Nakashima, *Banking Regulator Played Advocate Over Enforcer*, Wash. Post, Nov. 23, 2008.
- iii. Drew, Jill, *Frenzy*, Wash. Post, Dec. 16, 2008.
- b. Three Parts labeled *Investigating AIG*:
 - i. O'Harrow, Robert and Brady Dennis, *The Beautiful Machine*, Wash. Post, Dec. 29, 2008.
 - ii. O'Harrow, Robert and Brady Dennis, *A Crack in the System*, Wash. Post, Dec. 30, 2008.
 - iii. O'Harrow, Robert and Brady Dennis, *Downgrades and Downfall*, Wash. Post, Dec. 31, 2008.

Class 2: September 9, 2009: Collateralized Debt Obligations & the Sub-prime Mortgage Meltdown (Cont.)

1. Craig, Susan, Jeffrey McCracken, Aaron Lucchetti, and Kate Kelly, *The Weekend That Wall Street Died*, Wall St. J., Dec. 29, 2008.
2. McCracken, Jeffrey, *Lehman's Chaotic Bankruptcy Filing Destroyed Billions in Value*, Wall St. J., Dec. 29, 2008.
3. [Ferrel, Paul B., *Derivatives the new 'ticking bomb'*, Marketwatch.com, March 10, 2008.](#)
4. Lee, Alvin, *'Demystifying' Derivatives*, Wall St. J., Nov. 25, 2008.

Class 3: September 16, 2009: Introduction to Derivatives (cont.)

1. Nick Battley, *An Introduction to Commodity, Futures, & Options* (Probus Publishing Co. 2d ed. 1995) (1989).
 - a. Read pages 1-4, 7-18, 39-45, 99-102
 - b. Posted on Blackboard
2. Satyajit Das, *Traders Guns & Money: Knowns and Unknowns in the Dazzling World of Derivatives* (2006)
 - a. Prologue Pages 1-18
3. Affidavit, Professor I. Michael Greenberger, *CALYON v. VITRO ENVASES NORTEAMÉRICA, S.A. de C.V*
 - a. Posted on Blackboard

Class 4: September 23, 2009: Over the Counter Derivatives

1. Over-the-Counter Derivatives, 63 Fed. Reg. 26114 (May 12, 1998).
 - a. Read Sections I and II.
2. Report of the President's Working Group on Financial Markets, April 1999, *Hedge Funds, Leverage, and the Lessons of Long-Term Capital Management*
 - a. Posted on Blackboard.
 - b. Read pages 'The LTCM Episode' on pp. 10-17, 'Conclusions and Recommendations' on pp. 29-42, and 'The CFTC and Hedge Funds' in Appendix C

3. Counterparty Risk Management Policy Group Report from June 1999, *Improving Counter Party Risk Management*
 - a. Posted on Blackboard
 - b. Read pages 12-57.

Class 5: September 30, 2009: Commodities Futures Modernization Act

1. Schroeder, Michael and Greg Ip, *Out of Reach: The Enron Debacle Spotlights Huge Void in Financial Regulation—Energy Firm Lobbied Hard to Limit the Oversight of Its Trading Operations---Keeping Ms. Born at Bay*, Wall St. J., Dec. 13, 2001, at A1.
2. Manuel Roig-Franzia, *Credit Crisis Cassandra*, Wash. Post, May 29, 2009,
 - a. Available at:
<http://www.washingtonpost.com/wp-dyn/content/article/2009/05/25/AR2009052502108.html?sid=ST2009052502127>
3. Phillip McBride Johnson and Thomas Lee Hazen, *Derivatives Regulation*, (New York Aspen, 2004) (2007).
 - a. Posted on Blackboard and on reserve in Reading Room of TMLL.
 - b. Read pages 314-347; 1575-1584.
4. Optional: Morris, Betsy, *Trader, father, veteran, convict*, CNNMoney.com, June 7, 2008.
 - a. Available at:
http://money.cnn.com/2008/05/30/news/newsmakers/Trader_father_Morris.fortune/index.htm?postversion=2008060212
5. Re-Read Affidavit, Professor I. Michael Greenberger, *CALYON v. VITRO ENVASES NORTEAMÉRICA, S.A. de C.V*
 - a. Posted on Blackboard

Class 6: October 7, 2009: Intermediaries and Clearing

1. Professor Greenberger's Expert Report in *Hodgson v. Man Financial, Inc.*, No. 06-CV-1944 (E.D. Pa. Apr. 6, 2007)
 - a. Posted on Blackboard
 - b. Read pages 1–3, 6–63 (focus on pages 22–36, 45–93)
2. Schwartz, Nelson and Nicola Clark, *Société Générale's Sales May Have Incited Market Plunge*, N.Y. Times, Jan. 26, 2008.
 - a. Available at
http://www.nytimes.com/2008/01/26/business/worldbusiness/26bank.html?_r=1&scp=1&sq=G%C3%A9n%C3%A9rale%E2%80%99s%20Sales%20May%20Have%20Incited%20Market%20Plung&st=cse
3. Nick Battley, *An Introduction to Commodity, Futures, & Options* (Probus Publishing Co. 2d ed. 1995) (1989).
 - a. Read pages 21–29, 125–129
 - b. Posted on Blackboard

Class 7: October 14, 2009: Introduction to Options

1. Professor Greenberger's Rebuttal Report in *Hodgson v. Man Financial, Inc.*, No. 06-CV-1944 (E.D. Pa. June 1, 2007)
 - a. Posted on Blackboard
 - b. Read pages 2-12; 16-43; 45-47, 52
2. Nick Battley, *An Introduction to Commodity, Futures, & Options* (Probus Publishing Co. 2d ed. 1995) (1989).
 - a. Read pages 109–125
 - b. Posted on Blackboard
3. Robert W. Hamilton & Richard A. Booth, *Business Basics for Law Students* (4th ed. 2006).
 - a. Posted on Blackboard
 - b. Read pages 498 (last ¶)—499 (2nd full ¶)

Class 8: October 21, 2009: The Enron, London, and Swaps Loopholes

1. Staff of S. Comm. on Homeland Security and Gov't Affairs, Permanent Subcomm. On Investigations, Report on Excessive Speculation in the Natural Gas Market (Comm. Print 2007).
 - a. Posted on Blackboard
 - b. Scan pages 23–50 (“Natural Gas Markets”)
2. [Professor Greenberger's June 23, 2008 Testimony before the U.S. House Energy and Commerce Subcommittee on Oversight and Investigations Energy Speculation: Is Greater Regulation Necessary to Stop Price Manipulation? - Part II](#)
3. Professor Greenberger's February 3, 2009 Testimony before the U.S. House Committee on Agriculture: Discussion Draft: The Derivatives Market Transparency and Accountability Act of 2009
 - c. Available at: [Professor Greenberger's website](#)
4. Professor Greenberger's August 5, 2009 Testimony before the U.S. Commodity Futures Trading Commission: Excessive Speculation: Position Limits and Exemptions
 - a. Available at: [Professor Greenberger's website](#)
5. Koppel, Nathan, *Attorney Charged over Refco Collapse*, Wall St. J., Dec. 19, 2007, at B2.

Class 9: October 28, 2009: Enron Derivative Fiasco: Market Manipulation

1. Professor Greenberger's testimony before the Democratic Policy committee, *Lesson from Enron: An Oversight Hearing on Energy Trading and Gas Prices*.
 - c. Focus on pages 2-7
 - d. Posted on Blackboard
2. William C. Powers, *Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp*, Feb. 1, 2002,
 - a. Available at <http://news.findlaw.com/hdocs/docs/enron/sicreport/index.html>
 - b. Read pages 3–17
 - c. Posted on Blackboard

- d. The remainder of the reading is assigned by last name; please be prepared to discuss your section.
 - i. Last names beginning A through G: read “Chewco” section, pp. 41-67
 - ii. Last names beginning H through O: read “Rhythms Netconnections” section, pp. 77-96
 - iii. Last names beginning P through Z: read “Raptors” section, pp. 97-133

Class 10: November 4, 2009: Regulatory Reform Proposals

- TBA

Class 11: November 11, 2009: Regulatory Reform Proposals

- TBA

Class 12: November 18, 2009: Regulatory Reform Proposals

- TBA

No Class November 25, 2009

Last Class:

1. Satyajit Das, Traders Guns & Money: Knowns and Unknowns in the Dazzling World of Derivatives (2006).
 - a. Chapter 8 and Epilogue
2. Any remaining material that was not discussed in class to date.