

FUTURES, OPTIONS AND DERIVATIVES SEMINAR

Spring 2011 Syllabus

Michael Greenberger, J.D.

Professor, School of Law

Director, Center for Health and Homeland Security

e-mail: mgreenberger@law.umaryland.edu

Jeanne Stringer (Professor's Assistant)

Phone: 410.706.0585

e-mail: jstringer@law.umaryland.edu

*(Contact to make appointments to meet
with Professor Greenberger.)*

Jung Lee, J.D.

(Teaching Assistant)

Phone: 443.803.9732

e-mail: jlee@law.umaryland.edu

Elizabeth Webster, J.D.

(Teaching Assistant)

Phone: 410.706.5718

e-mail: ewebster1@law.umaryland.edu

Raymond Shin, J.D.

(Teaching Assistant)

Phone: 410.706.5729

e-mail: rshin@law.umaryland.edu

CLASS SCHEDULE: WEDNESDAY, 5:25-8:10 P.M., ROOM: 302

New issues regarding derivatives and the state of global financial markets are constantly arising, 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 Jung Lee, Elizabeth Webster, or Adam Coleman whenever you independently find materials or information relevant to the course that you believe the class would benefit from reading.

There is no casebook for this class. Indeed, there is no competent case book for this subject. Students will need to purchase (available on Amazon.com or in bookstores):

1. Simon Johnson and James Kwak, 13 Bankers: The Wall Street Takeover and the Next Financial Meltdown (2010).
2. Michael Lewis, The Big Short: Inside the Doomsday Machine (2010).

You may also refer to Professor Greenberger's website, <http://www.michaelgreenberger.com/>, for information regarding financial regulation and the Dodd-Frank Act.

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 Westlaw or Lexis to access the articles). The most efficient way to search for news articles in Westlaw or Lexis is to select the newspaper and query the title of the article. It may be useful to create free accounts for the New York Times and Washington Post.

READING ASSIGNMENTS ARE LISTED UNDER THE DAY THEY ARE DUE

***BEFORE THE FIRST CLASS:**

*Please read **The Big Short: Inside the Doomsday Machine** prior to the first day of class. The topics will be discussed during the initial two classes.*

CLASS 1: JANUARY 19, 2011: INTRODUCTION AND OVERVIEW OF THE FINANCIAL CRISIS OF 2008

Topics:

1. Roadmap of the Course
2. Watch *Inside Job* (2010) – “the definitive film about the economic crisis of 2008 and the role of Wall Street in modern society” (<http://www.sonyclassics.com/insidejob/>).
3. Discussion of flow charts on CDOs and CDSs (posted on Blackboard)

Reading Assignments:

1. Finish reading Lewis, The Big Short
2. Begin reading Johnson and Kwak, 13 Bankers
 - a. Read pages 1-87

CLASS 2: FEBRUARY 2, 2011: FUTURES, OPTIONS, AND DERIVATIVES LEXICON AND GENERAL CONCEPTS

Topics:

1. Finish discussion of CDO and CDS flow charts.
2. Discussion of The Big Short
3. Begin discussion of Johnson and Kwak, 13 Bankers

Reading Assignments:

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.
2. Johnson and Kwak, [13 Bankers](#)
 - a. Pages 88-152

CLASS 3: FEBRUARY 9, 2011: CONCEPTS AND FINANCIAL CRISIS CONTINUED

Topics:

1. Conclude discussion of Johnson and Kwak, [13 Bankers](#)

Reading Assignments:

1. Finish reading Johnson and Kwak, [13 Bankers](#)
 - a. Read pages 153-222

CLASS 4: FEBRUARY 16, 2011: DERIVATIVES

Topics:

1. Derivatives

Reading Assignments:

Derivatives

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 (Posted on **Blackboard**).
2. Satyajit Das, [Traders Guns & Money: Knowns and Unknowns in the Dazzling World of Derivatives](#) (2006).
 - b. Prologue (pp. 1-18) and Epilogue (Posted on **Blackboard**).

Note

The reading assignments for Class 5 are lengthy, so we recommend you get a head-start.

CLASS 5: FEBRUARY 23, 2011: OPTIONS AND REGULATORY REFORM

Topics:

1. Options – Guest Lecturer, Christopher Webster, J.D.
 - a. *Note: you are responsible for information presented by guest lecturers.
2. History of Regulatory Reform

- a. Pre-Commodity Futures Modernization Act (CFMA)
- b. Post-CFMA
- c. Pre-Dodd-Frank Act
- d. Implementation of Dodd-Frank

Reading Assignments:

Options

1. Nick Battley, An Introduction to Commodity, Futures, & Options (Probus Publishing Co. 2d ed. 1995) (1989).
 - a. Read pages 109-125 (Posted on **Blackboard**).

History of Regulatory Reform

2. Out of the Black Hole: Regulatory Reform of the Over-the-Counter Derivatives Market, (Roosevelt), *available at* <http://www.michaelgreenberger.com/files/Greenberger-Derivatives-MMBM.pdf>.
3. Is Our Economy Safe? - A Proposal for Assessing the Success of Swaps Regulation under the Dodd-Frank Act (Roosevelt), *available at* <http://michaelgreenberger.com/files/greenberger-roosevelt-inst-paper-doddfrank.pdf>.
4. Professor Michael Greenberger's Financial Crisis Inquiry Commission Testimony, The Role of Derivatives in the Financial Crisis (June 30, 2010), *available at* http://michaelgreenberger.com/files/FCIC-Michael_Greenberger_Testimony.pdf
5. Professor Greenberger's Interviews (Listen to the audio files available on Professor Greenberger's website and hyperlinked for your convenience below.)
 - a. [Frontline: "The Warning."](#) Oct. 20, 2009. Professor Greenberger gives a blow-by-blow, first-hand account of the fight to regulate financial derivatives in the late 1990s.

CLASS 6: MARCH 2, 2011: COLLATERALIZED DEBT OBLIGATIONS & THE SUB-PRIME MORTGAGE MELTDOWN

Topics:

1. Regulatory Reform Continued
2. CDOs & Mortgage Meltdown

Reading Assignments:

1. 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.
2. McCracken, Jeffrey, *Lehman's Chaotic Bankruptcy Filing Destroyed Billions in Value*, Wall St. J. (Dec. 29, 2008). (Full-text available on LexisNexis).

3. Lee, Alvin, *'Demystifying' Derivatives*, Wall St. J. (Nov. 25, 2008), *available at* <http://online.wsj.com/article/SB122763756365057065.html?KEYWORDS=%27Demystifying%27+Derivatives>.

Note

The reading assignments for Class 7 are lengthy, so we recommend you get a head-start on the following:

4. Professor Michael Greenberger's Commodity Futures Trading Commission Testimony, Excessive Speculation: Position Limits and Exemptions (Aug. 5, 2009) *available at* http://michaelgreenberger.com/files/CFTC_AFR_Sign_On_Testimony_August_3.pdf.
5. Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010), *available at* http://www.cftc.gov/ucm/groups/public/@swaps/documents/file/hr4173_enrolledbill.pdf
 - a. Please read Sections 721, 723, and 725
6. Alert Memo, Cleary Gottlieb Steen & Hamilton, LLP, Dodd-Frank Wall Street Reform and Consumer Protection Act Poised to Usher in Sweeping Reform of U.S. Financial Services Regulation (Jul. 9, 2010) *available at* <http://www.cgsh.com/files/News/8a4361fa-131b-46b9-a3ad-779430dac8a6/Presentation/NewsAttachment/153327b9-3da0-4d63-b2cb-32c8022d8159/Cleary%20Gottlieb%20Dodd-Frank%20Alert%20Memo.pdf>
 - a. Please read Section IV on Derivatives Reforms (p19-29).

CLASS 7: MARCH 9, 2011: MARKET MANIPULATIONS

Topics:

1. Market Manipulations.

Reading Assignments:

Energy Manipulation

1. [60 Minutes, CBS News](#) - January 11, 2009, Professor Greenberger explains why excessive speculation in the oil market by large financial institutions is the primary culprit for 2008's record swing in gas prices.
2. Schwartz, Nelson and Nicola Clark, *Société Générale's Sales May Have Incited Market Plunge*, N.Y. Times (Jan. 26, 2008), *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%20Plunge&st=cse.
3. Professor Michael Greenberger's Commodity Futures Trading Commission Testimony, Excessive Speculation: Position Limits and Exemptions (Aug. 5, 2009) *available at* http://michaelgreenberger.com/files/CFTC_AFR_Sign_On_Testimony_August_3.pdf.
4. Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010), *available at* http://www.cftc.gov/ucm/groups/public/@swaps/documents/file/hr4173_enrolledbill.pdf
 - a. Please read Sections 721, 723, and 725

5. Alert Memo, Cleary Gottlieb Steen & Hamilton, LLP, Dodd-Frank Wall Street Reform and Consumer Protection Act Poised to Usher in Sweeping Reform of U.S. Financial Services Regulation (Jul. 9, 2010) available at <http://www.cgsh.com/files/News/8a4361fa-131b-46b9-a3ad-779430dac8a6/Presentation/NewsAttachment/153327b9-3da0-4d63-b2cb-32c8022d8159/Cleary%20Gottlieb%20Dodd-Frank%20Alert%20Memo.pdf>
 - a. Please read Section IV on Derivatives Reforms (p19-29).

-----**SPRING BREAK – March 12-21**-----

CLASS 8: MARCH 23, 2011: DODD-FRANK ACT - PART I

Topics:

1. Overview of the Dodd-Frank Act
2. Definitions
3. Interest Swaps and Forwards Regulation

Reading Assignments:

1. Professor Greenberger's Interviews (Listen to the audio files available on Professor Greenberger's website and hyperlinked for your convenience below.)
 - a. "[The Diane Rehm Show,](#)" NPR – Dec. 14, 2009, Professor Greenberger discusses financial regulatory legislation passed by the U.S. House.
 - b. "[The Diane Rehm Show,](#)" NPR – April 26, 2010, Professor Greenberger is part of a live discussion on the latest financial regulatory reform efforts on Capitol Hill.
 - c. "[The Diane Rehm Show,](#)" NPR - June 28, 2010, Professor Greenberger gives a detailed overview of the financial regulatory reform package.
2. Gretchen Morgenson, *It's Not Over Until It's in the Rules*, N.Y. Times (Aug. 28, 2010), available at <http://www.nytimes.com/2010/08/29/business/29gret.html?pagewanted=1&ref=derivatives>
3. Professor Greenberger's comment letter on Notice of Proposed Rulemaking on Agricultural Commodity Definition, available at http://www.michaelgreenberger.com/files/Greenberger_Agricultural_Commodity_Def_Comment_Letter.pdf.
4. Professor Greenberger's comment letter on Definitions Contained in Title VII of Dodd-Frank Act, available at http://www.michaelgreenberger.com/files/Michael_Greenberger_on_Definitions.pdf.
5. Professor Greenberger's comment letter in response to the Notice of Request for Comments issued by the Department of the Treasury on Determination of Foreign Exchange Swaps and Forwards, available at http://www.michaelgreenberger.com/files/Greenberger_FX_comment_letter.pdf.

CLASS 9: MARCH 30, 2011: DODD-FRANK ACT - PART II

Topics:

1. Position Limits
2. Financial Reform

Reading Assignments:

****Please be prepared to discuss Professor Greenberger's March 3, 2011 Testimony and his August 5, 2009 Testimony, the Bloomberg Interview, and Professor Greenberger's Comment Draft Letter on Position Limits.**

1. **Professor Michael Greenberger's Testimony before the Senate Committee on Agriculture, *Implementation of Title VII of the Wall Street Reform and Consumer Protection Act* (Mar. 3, 2011) available at http://www.michaelgreenberger.com/files/110303-Greenberger_Senate_Ag_Testimony2.pdf.
2. **Professor Michael Greenberger's Commodity Futures Trading Commission Testimony, *Excessive Speculation: Position Limits and Exemptions* (Aug. 5, 2009) available at http://michaelgreenberger.com/files/CFTC_AFR_Sign_On_Testimony_August_3.pdf.
3. **Professor Greenberger's Comment Draft Letter on Position Limits (Posted on **Blackboard**).
4. ** Michael Greenberger, *Q&A*, Bloomberg Brief: Financial Regulation (Mar. 25, 2011) (Posted on **Blackboard**).
5. Brooke Masters, Patrick Jenkins, and Justin Baer, *Big banks investigated over Libor*, Financial Times (March 15, 2011) available at <http://www.ft.com/cms/s/0/ab563882-4f08-11e0-9c25-00144feab49a.html#ixzz1HvDUVKsD> (you may need to use Lexis to pull this article).
6. New York Times Opinion Editorial, *Who Will Rescue Financial Reform?* (Mar. 27, 2011) available at http://www.nytimes.com/2011/03/28/opinion/28mon1.html?_r=2&hp.

CLASS 10: APRIL 6, 2011: DODD-FRANK ACT – PART III

Topics:

1. Foreign Exchange Swaps
2. Corporate Ownership of Facilities
3. Manipulation

Reading Assignments:

1. Comment Letter by Michael Greenberger, Professor, University of Maryland School of Law, Director, Center for Health and Homeland Security, to Mary J. Miller, Assistant Secretary for Financial Markets, Office of Financial Institutions Policy, Department of the Treasury, Determination of Foreign Exchange Swaps and Forwards (Nov. 29, 2010), available at http://www.michaelgreenberger.com/files/Greenberger_FX_comment_letter.pdf.

2. Robert Kuttner, *Blowing a Hole in Dodd-Frank: Treasury Secretary Timothy Geithner is widely expected to exempt currency derivatives from coverage. But the Fed spent trillions to prop up the market in 2008* (Mar. 18, 2011) available at http://prospect.org/cs/articles?article=blowing_a_hole_in_doddfrank.
3. Professor Greenberger's comment letter on Requirements for Derivatives Clearing Organizations, Designated Contract Markets, and Swap Execution Facilities Regarding the Mitigation of Conflicts of Interest, available at http://www.michaelgreenberger.com/files/Greenberger_OwnershipCap_CommentLetter.pdf.
4. Professor Greenberger's comment letter in response to ICE Trust, LLC's Application for Registration as a Derivatives Clearing Organization (Dec. 17, 2010), available at http://www.michaelgreenberger.com/files/Greenberger_CFTC_ICE_Trust_Application_for_DCO.pdf.
5. Professor Greenberger's comment letter on Financial Resources Requirements for Derivatives Clearing Organizations, available at http://www.michaelgreenberger.com/files/Greenberger_DCO_Financial_Resources.pdf.
6. Professor Greenberger's comment letter on Process for Review of Swaps for Mandatory Clearing, available at <http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=26885&SearchText>.
7. Professor Greenberger's Interviews (Listen to the audio files available on Professor Greenberger's website - "[Planet Money](#)," NPR (June 10, 2010) - Professor Greenberger says clearinghouses do a good job of managing risk.
8. Louise Story, *A Secretive Banking Elite Rules Trading in Derivatives*, N.Y. Times (Dec. 11, 2010), available at http://www.nytimes.com/2010/12/12/business/12advantage.html?_r=1&hp=&pagewanted=print.
9. Professor Greenberger's comment letter on Prohibition of Market Manipulation, available at <http://comments.cftc.gov/PublicComments/ViewComment.aspx?id=26915&SearchText>.

****APRIL 13, 2011: NO CLASS****

CLASS 11: APRIL 20, 2011: DODD-FRANK ACT – PART IV

Topics:

1. Business Conduct Standards

Reading Assignments:

1. Comment Letter by Michael Greenberger, Professor, University of Maryland School of Law, Director, Center for Health and Homeland Security, Barbara Roper, Director of Investor Protection, Consumer Federation of America, Lisa Donner, Executive Director, Americans for Financial Reform, and Damon Silvers, Director of Policy and Special Counsel, AFL-CIO, to David Stawick, Secretary, Commodity Futures Trading Commission, Business Conduct Standards For Swap Dealers and Major Swap Participants With Counterparties, RIN number

- 3038—AD25 (February 22, 2011), available at <http://www.michaelgreenberger.com/files/CFA-AFR-CFTC-business-conduct-standards-comment-letter.pdf>.
2. Anthony Aarons, *Deutsche Bank Faces First German Top Court Swap Case*, BLOOMBERG BUSINESSWEEK (Feb. 7, 2011), available at <http://news.businessweek.com/article.asp?documentKey=1377-a6EcD8RJ6QpQ-54J9LQBRDFP0BMH1UIIHP7KOOQ>.
 3. James Wilson, *Deutsche Bank suffers swaps setback*, FIN. TIMES (March 22, 2011), available at <http://www.ft.com/cms/s/0/78b0c3b6-5467-11e0-979a-00144feab49a.html#axzz1HKwiaINT>.
 4. Shad-Johnson Jurisdictional Accord Information (Posted on **Blackboard**).