CONTENTS

Acl	Acknowledgments		xxxi
		1. INTRODUCTION AND OVERVIEW	1
A.	Wł	nat Banks Are, What Banks Do	2
В.	Bas	sic Economic Concepts	4
	1.	Equity and Debt	4
	2.	Balance Sheets, Liquidity, and Leverage	5
		Questions and Comments	10
	3.	Direct Versus Intermediated Finance	10
	4.	Transaction Costs and Externalities	14
		Questions and Comments	16
C.		ancial Regulation: An American History	17
	1.	Founding Period	18
		Questions and Comments	20
	2.	Second Bank of the United States: 1816-1836	20
		Questions and Comments	22
	3.	Free Banking Era: 1836-1863	23
		Questions and Comments	24
	4.	National Bank Act: 1863-1864	24
	5.	From the Civil War to the Panic of 1907: 1865-1906	25
		a. Dual Banking System	25
		b. Unit Banking	26
		c. Market Segmentation	28
		d. Currency Politics	28
		Questions and Comments	29
	6.	Federal Reserve Act: 1907-1913	30
	_	Questions and Comments	32
	7.	Industry Consolidation: 1914-1928	33
		a. Branch Banking	34
		b. Chain Banking	35
		c. Bank Holding Companies	35
	8.	Crisis: 1929-1934	36
		Questions and Comments	38
	9.	Years of Stability: 1935-1979	39
		a. Geographic Expansion	40
		b. Growth of Thrift Institutions	42
		c. Securities Markets and Regulation	42
		Questions and Comments	43
			viii

xiv Contents

	10. Years of Stress: 1980-2006	43
	a. Savings and Loan Debacle	44
	b. Deregulating Deposit Interest Rates	45
	c. Dismantling Geographic Restrictions	46
	d. Breaking Down the Glass-Steagall Wall	47
	e. Financial Convergence	48
	f. Strengthening Capital Requirements	48
	g. Consumer Protection	49
	Questions and Comments	50
	11. Financial Crisis and Its Aftermath: 2007-Present	51
	a. Synopsis of the Crisis	51
	b. Strengthening Capital Regulation	53
	c. Risk Management and Compliance	53
	12. After the Crisis13. The Future	54
		56
D	Questions and Comments One Local Destring for the Read Ahead, Programming	56 58
D.	One Legal Doctrine for the Road Ahead: Preemption)0
	PART I BANKS	
	2. BANKS: FUNDAMENTAL CONCEPTS	63
	2. Dining. I Charmilla in Econoli 15	0,5
A.	What is a Bank?	63
	1. Model Bank Balance Sheet	63
	2. Demand Deposits and Banks' Payment Function	65
	3. Demand Deposits and Financial Intermediation	72
	Questions and Comments	72
В.	The Federal Reserve and the Money Supply	12
		73
	1. Adjusting Reserve Requirements	
	2. Open Market Operations	73
	2. Open Market Operations3. Lending to Banks	73 77
	 Open Market Operations Lending to Banks Interest on Excess Reserves 	73 77 78
	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments 	73 77 78 79 80 80
C.	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks 	73 77 78 79 80
C.	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks 	73 77 78 79 80 80 81 81
C.	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions 	73 77 78 79 80 80 81 81
C.	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions 	73 77 78 79 80 80 81 81 83
C.	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions Specialty Banks 	73 77 78 79 80 80 81 81 83 83
	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions Specialty Banks Money Market Funds 	73 77 78 79 80 80 81 81 83 83 84
C. D.	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions Specialty Banks Money Market Funds Regulatory Agencies 	73 77 78 79 80 80 81 81 83 83 84 85
	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions Specialty Banks Money Market Funds Regulatory Agencies U.S. Bank Regulators 	73 77 78 79 80 80 81 81 83 83 84 85 85
	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions Specialty Banks Money Market Funds Regulatory Agencies U.S. Bank Regulators Comptroller of the Currency 	73 77 78 79 80 80 81 81 83 83 84 85 85 86
	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions Specialty Banks Money Market Funds Regulatory Agencies U.S. Bank Regulators Comptroller of the Currency Federal Reserve System 	73 77 78 79 80 80 81 81 83 83 84 85 86 86
	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions Specialty Banks Money Market Funds Regulatory Agencies U.S. Bank Regulators Comptroller of the Currency Federal Reserve System Federal Deposit Insurance Corporation 	73 77 78 79 80 80 81 81 83 83 84 85 86 86 86
	 Open Market Operations Lending to Banks Interest on Excess Reserves Questions and Comments Types of Banks Commercial Banks Thrift Institutions Credit Unions Specialty Banks Money Market Funds Regulatory Agencies U.S. Bank Regulators Comptroller of the Currency Federal Reserve System 	73 77 78 79 80 80 81 81 83 83 84 85 86 86

Contents

	2.	Other U.S. Government Agencies	88
		a. Financial Stability Oversight Council	88
		b. Consumer Financial Protection Bureau	88
		c. Department of Justice	88
		d. Securities and Exchange Commission	89
	2	e. Federal Housing Finance Agency	89
т.	3.	Basel Committee on Banking Supervision	89
Ε.	5tr 1.	ucture of American Bank Regulation	90 90
	2.	Dividing Regulatory Jurisdiction Pros and Cons of the American Regulatory System	90
	۷.	a. Regulatory Competition	93
		Questions and Comments	94
		b. Specialization	96
		Questions and Comments	96
		c. Duplication and Inefficiency	96
		Questions and Comments	98
F.	Wł	ny Regulate Banks?	100
		Schaake v. Dolley	101
		3. BANKING LAW BASICS	103
A.	En	fry	103
11.	1.	Forming a Bank	103
		Questions and Comments	106
	2.	Judicial Review of Chartering Decisions	107
		Camp v. Pitts	108
		Questions and Comments	109
	3.	Change in Control	110
		Questions and Comments	111
В.	Baı	nk Powers	112
	1.	Introduction	112
	2.	Why Limit Bank Powers?	113
		a. Keeping Banks Safe	114
		b. Facilitating Supervision	114
		c. Avoiding Conflicts of Interest	115
		d. Preventing Unfair Competition and the Spread	115
	2	of Government Subsidies	115
	3. 4.	Core Panking Powers	116 116
	4.	Core Banking Powers a. Enumerated Powers	110
		b. Powers Not Enumerated	117
		NationsBank of North Carolina v. Variable Annuity	110
		Life Insurance Co.	119
		Questions and Comments	120
	5.	Incidental Powers	121
	. •	Arnold Tours, Inc. v. Camp	122
		Questions and Comments	125
		Office of the Comptroller of the Currency	126
		Questions and Comments	129

xvi Contents

	6.	Powers over Real Property	129
		Questions and Comments	131
		Problem	131
	7.	Powers over Personal Property	132
	8.	Trust Powers	132
	9.	Securities Powers	134
		a. Basic Concepts	134
		b. Historical Background	135
		c. Securities Investments	135
		Questions and Comments	137
		d. Securities Brokerage	138
		Securities Industry Association v. Comptroller of the Currency	138
		Questions and Comments	139
		e. Securities Underwriting and Dealing	140
		Investment Company Institute v. Camp	141
		Questions and Comments	142
		Securities Industry Association v. Board of Governors	
		of the Federal Reserve System	143
		Questions and Comments	145
		Securities Industry Association v. Board of Governors of	
		the Federal Reserve System	146
		Questions and Comments	148
	10.	Insurance Powers	148
		a. Insurance Agency	148
		NationsBank of North Carolina v. Variable Annuity	
		Life Insurance Co.	150
		Questions and Comments	151
		More Questions and Comments	153
		Independent Insurance Agents of America v. Hawke	154
		Questions and Comments	156
		b. Insurance Underwriting	157
		Blackfeet National Bank v. Nelson	157
		Questions and Comments	160
		American Insurance Association v. Clarke	161
		Questions and Comments	164
C.	Geo	ographic Expansion	165
	1.	Rationale for Geographic Restrictions	166
		Questions and Comments	166
	2.	Intrastate Branching	167
	3.	Interstate Branching	167
	4.	Interstate Expansion by Bank Holding Companies	168
		a. Acquisitions of Nonbank Firms	168
		Lewis v. BT Investment Managers, Inc.	168
		Questions and Comments	171
	_	b. Acquisitions of Banks	171
	5.	Concentration Limits	171
		Questions and Comments	172
	6.	Internet Banking	173
		Questions and Comments	173

Contents	xvii

D.	Fur	ndamental Changes	174
	1.	Charter Conversions	174
	2.	Merger	175
	3.	Dissolution	175
		4. SAFETY AND SOUNDNESS	177
A.	Inti	roduction	177
		Questions and Comments	177
В.	Bar	nk Runs and Panics	178
		Questions and Comments	180
C.	Liq	uidity Risk Management	181
		Questions and Comments	182
D.	Res	serve Requirements	183
	1.	Traditional Reserve Requirement	183
		Questions and Comments	183
	2.	Basel III Liquidity Rules	183
		a. Liquidity Coverage Ratio	184
		b. Net Stable Funding Ratio	188
		Questions and Comments	190
E.	Em	ergency Lending	191
	1.	Discount Window	191
		Questions and Comments	192
	2.	Emergency Lending to Nonbanks: The Notorious § 13(3)	193
		Starr International Corporation v. United States	194
		Questions and Comments	196
F.	Dep	posit Insurance	196
	1.	Introduction	197
	2.	Deposit Insurance Basics	198
		Kaysville City v. FDIC	198
		Questions and Comments	201
	3.	Deposit Insurance Pricing	201
		Questions and Comments	202
G.	Cap	pital Regulation	203
	1.	Meaning and Importance of Capital	203
		Questions and Comments	206
	2.	Capital Versus Liquidity	207
	3.	Financial Concepts	208
	4.	Regulatory Definitions of Capital	209
		a. Common Equity	210
		b. Additional Tier 1 Capital	210
		c. Tier 2 Capital	211
	5.	Risk-Based Capital Requirements	212
	6.	Leverage Ratios	215
	7.	Applying Capital Requirements to a Hypothetical Bank	216
		Problems	218
	8.	Capital Conservation Buffers	221
		Problems	222

xviii Contents

	9.	Community Bank Leverage Ratio	222
		Large Banks' Internal Models	223
		Megabanks	223
	11.	a. Countercyclical Buffer	224
		b. G-SIB Surcharge	224
		c. Supplementary U.S. Leverage Ratio	224
		d. Total Loss-Absorbing Capacity	225
		Questions and Comments	226
	12.	Regulatory Discretion to Require Additional Capital	226
		Reform Ideas	227
		a. Simpler, Higher Leverage Ratio	227
		Anat Admati & Martin Hellwig, The Parade	
		of the Bankers' New Clothes Continues:	
		31 Flawed Claims Debunked	227
		b. Contingent Convertible Bonds	228
		Questions and Comments	229
		c. Assessable Shares	230
		Questions and Comments	231
Η.	Coı	rrective Action	231
	l.	Internal Strategies for Restoring Capital	231
		Sovereign Wealth Funds	233
		Domestic Governments	233
		Value Investors	233
		Public Shareholders	233
		Acquirers	234
		Affiliates	234
	2	Questions and Comments	234
	2.	Prompt Corrective Action	235
I.	Ctr	Questions and Comments ess Tests	237 238
1.	5110		230
		Randal Quarles, Stress Testing: A Decade of Continuity and Change	239
		Questions and Comments	242
J.	Pru	dential Rules	242
٥.	l.	Interest-Rate Risk	242
	2.	Loans to One Borrower	244
		Questions and Comments	247
		Problems	248
	3.	Interbank Liabilities	250
		Questions and Comments	251
	4.	Insider Lending	251
		Questions and Comments	254
	5.	Other Insider Transactions	255
		Problems	255
		5. AFFILIATIONS	257
A.	Inti	roduction	257
В.	Res	strictions on Banks' Transactions with Affiliates	259
	1.	Introduction	259

Contents **xix**

	2.	Section 23A	260
	3.	Section 23B	262
	4.	Perspective on Sections 23A and 23B	263
	5.	Capital Consequences	264
	_	Problems	265
C.		nk Holding Company Basics	266
	1.	Definitions	267
		a. Company	267
		b. Control	267
		i. Statutory Control	268
		ii. Controlling Influence	268
		Questions and Comments	270
	_	c. Bank	270
	2.	Permissible Activities	271
	3.	Approval Requirements	273
		Problems	274
	4.	Other Aspects of Regulation	275
ъ	5.	Powers of Holding Company Banks and Their Subsidiaries	275
D.		ancial Holding Companies	275
	l.	Eligibility	276
	2.	Permissible Activities	277
		Questions and Comments	279
г	TP]	Problems	281
Ε.		ift Holding Companies	281
F.		osidiaries Of Banks	283
G.		cker Rule	283
Η.		ancial Conglomerates	284
	l.	Risk to Affiliated Banks	284
		Omarova, From Gramm-Leach-Bliley to Dodd-Frank: The Unfulfilled Promise	
		of Section 23A of the Federal Reserve Act	285
			286
	2.	Questions and Comments Systemically Important Financial Institutions	286
	۷.		287
		Questions and Comments	287
		6. INTERNATIONAL BANKING	289
A.	For	eign Banks in the United States	290
	1.	International Banking Act	290
		U.S. Department of the Treasury, Report to Congress on Foreign Government Treatment of U.S. Commercial	
		Banking Organizations	290
		Questions and Comments	290
	2		292
	2.	Subsidiary Bank	
	3. 4.	Branch	293 293
	4. 5.	Agency Representative Office	293 294
		Commercial Lending Company	294 294
	6. 7	Nonbank Activities and Affiliations	294 294
	7.	Ouestions and Comments	294 294
		QUESTIONS AND COMMENTS	4

xx Contents

В.	U.S. Banks Abroad 1. Subsidiary Bank	295 295
	2. Branch	295
	3. Representative Office	296
	4. Edge or Agreement Corporation	296
	5. International Banking Facility	296
	6. Correspondent Banking Relationships	296
C.	International Standards	297
	Basel Committee on Banking Supervision,	
	Core Principles for Effective Banking Supervision	298
D.	Foreign Bank Soundness	300
	1. Capital-Equivalent Deposit	300
	2. Capital-Based Prudential Rules	300
	3. Supervision	301
E.	U.S. Banks' Liability For Deposits At Foreign Branches	302
	Vishipco Line v. Chase Manhattan Bank, N.A.	302
	Questions and Comments	303
	Garcia v. Chase Manhattan Bank, N.A.	303
	Questions and Comments	304
	Citibank, N.A. v. Wells Fargo Asia Limited	305
	Questions and Comments	306
F.	Foreign Bank Branch as a Separate Entity	306
	Motorola Credit Corp. v. Standard Chartered Bank	307
	Questions and Comments	309
	Problems	309
	7. SUPERVISION, EXAMINATION, AND ENFORCEMENT	313
	THIS ENTONCEMENT	717
A.	1	313
	1. Background	313
	Cuomo v. Clearing House Association, LLC	315
	Questions and Comments	317
	2. The Supervisory System	317
	3. Examination Mechanics	318
	Arwin G. Zeissler and Andrew Metrick, JPMorgan	
	Chase London Whale E: Supervisory Oversight	320
	Questions and Comments	323
	Builders Bank v. Federal Deposit Insurance Corporation	327
	Questions and Comments	328
	Problems	330
	Questions and Comments	331
	4. Other Bases for Examination: Bank Holding Companies	223
ъ	and the Consumer Financial Protection Bureau	331
В.	Enforcement	332
	1. Matters Requiring (Immediate) Attention	333
	Matters Requiring Attention	334
	Questions and Comments	335

Contents **xxi**

	2.	Conditional Approvals	336
	3.	Written Agreements	336
	4.	Cease-and-Desist Orders	337
		a. Grounds	337
		b. Procedure	338
		c. Content of Order	338
		Questions and Comments	339
		Dodge v. Comptroller of the Currency	340
		Questions and Comments	343
	5.	Suspension, Removal, and Prohibition	344
		a. Hazards of Prediction	344
		b. Requisites of Removal	345
		c. Industry-Wide Bar	346
		FDIC v. Meyer	346
		Questions and Comments	348
	6.	Civil Money Penalties	349
		Questions and Comments	351
	7.	Terminating or Suspending Deposit Insurance	352
	8.	Back-Up Enforcement Action	353
		Enforcement Problems	353
	9.	Civil Litigation	355
		a. Policy Considerations in Imposing Liability	356
		b. Director and Officer Liability	356
		Atherton v. FDIC	357
		Questions and Comments	359
		c. Attorney, Accountant, and Appraiser Liability	360
		O'Melveny & Myers v. FDIC	360
		Questions and Comments	362
		d. Regulatory Malpractice as a Defense	363
	10.	Criminal Penalties	363
		Questions and Comments	366
		8. BANK FAILURE AND SYSTEMIC RISK	367
	_		
A.		roduction	367
	l.	Receivership	368
_		Questions and Comments	370
В.		pointing a Receiver	370
	2.	Grounds for Receivership	371
	3.	Due Process	372
		Franklin Savings Association v. Director,	
		Office of Thrift Supervision	373
		Questions and Comments	374
	4.	Conservatorship and Receivership	375
		Questions and Comments	376
C.		acturing Resolution	376
	1.	How Receivership and Deposit Insurance Intertwine	376
	2.	Resolution Options	378
	3.	Least-Cost Resolution Requirement	378

xxii Contents

D.	Marshaling Assets	379
	1. Overview of Receiver's Powers	379
	2. Avoiding Fraudulent Transfers	380
	3. Pursuing Claims Against Failed Banks' Directors	
	and Officers	381
	Hawker v. Doak	381
	Questions and Comments	382
	4. Terminating Contracts and Leases	383
	5. Enforcing Cross-Guarantee Liability	384
E.	Paying Valid Claims in Order of Priority	385
	1. Priorities	385
	a. Secured Claims	386
	b. Unsecured Claims	386
	2. Setoff	388
	3. Bankruptcy and Resolution	388
	Waldron v. FDIC	389
	Questions and Comments	391
F.	Orderly Liquidation Authority for Big Banks	392
	State National Bank of Big Spring v. Lew	394
	Questions and Comments	395
G.	Single Point Of Entry	396
	Federal Register, Volume 78. No. 243	396
	Questions and Comments	397
H.	Systemic Risk	397
	1. Systemic Risk and Systemically Important	200
	Financial Institutions	398
	2. Systemic Risk Exception to Least-Cost Resolution	399
	3. Dodd-Frank's Systemic Risk Provisions Mattifa June v. Fingueial Stability	399
	MetLife, Inc. v. Financial Stability	400
	Oversight Council Questions and Comments	404
I.	Living Wills	405
1.	Wells Fargo & Company, Wells Fargo Bank, National	407
	Association, Resolution Plan Public Summary	406
	Questions and Comments	408
	Questions and comments	100
	9. CONSUMERS, COMMUNITIES,	
	AND OTHER CONSTITUENTS	409
A.	Abuse of Market Power	410
	1. Antitrust Conspiracies	410
	United States Department of Justice Office of	
	Public Affairs, Five Major Banks Agree to	
	Parent-Level Guilty Pleas	411
	United States v. Citicorp	414
	Questions and Comments	415
	2. Mergers and Acquisitions	416
	a. Introduction	416
	Questions and Comments	417

Contents xxiii

	b. Standard Antitrust Analysis	418
	U.S. Department of Justice and the Federal	
	Trade Commission, Horizontal Merger Guidelines	418
	Questions and Comments	421
	c. Bank Antitrust Analysis	425
	Questions and Comments	427
	United States v. Philadelphia National Bank	427
	Questions and Comments	431
	United States v. Connecticut National Bank	432
	Questions and Comments	433
В.	Tying	435
	Davis v. First National Bank of Westville	437
	Mid-State Fertilizer Co. v. Exchange	
	National Bank of Chicago	439
	Questions and Comments	441
	Problems	442
C.	Data Security	442
	Gramm-Leach-Bliley Act § 501	443
	Questions and Comments	443
	Questions and Comments	445
	Questions and Comments	447
D.	Privacy	447
	Questions and Comments	450
E.	Usury	451
	1. State Rules	451
	Questions and Comments	452
	2. Usury Limits on National Banks	453
	Tiffany v. National Bank of Missouri	453
	Questions and Comments	455
	Marquette National Bank of Minneapolis v. First	
	of Omaha Service Corp.	456
	Questions and Comments	459
	Smiley v. Citibank (South Dakota)	459
	Questions and Comments	462
	3. Usury Limits on State-Chartered Banks	463
	Questions and Comments	464
F.	Discrimination in Lending	464
	1. Persons Protected and Liable	464
	Questions and Comments	465
	2. Effects Test	465
	Questions and Comments	466
	3. Family Status	466
	Questions and Comments	467
	4. Special Purpose Programs	467
	Questions and Comments	468
	5. Redlining	468
	Questions and Comments	468
G.	Truth in Lending	469
	1. The Statutory Framework	469

xxiv Contents

	2.	What Is a "Finance Charge"?	471
		Household Credit Services, Inc. v. Pfenning	471
		Questions and Comments	473
	3.	Changes to Credit Card Accounts	474
		Barrer v. Chase Bank USA	474
		Questions and Comments	476
Η.	Cre	dit Reporting	476
	1.	CRAs	478
		Questions and Comments	478
	2.	Furnishers	479
	3.	Users	479
		Safeco Ins. Co. of America v. Burr	479
		Questions and Comments	484
	4.	Remedies	484
I.	Pre	datory Lending	485
		Questions and Comments	487
J.	Rea	ll Estate Transactions	487
		Bar-Gill, The Law, Economics and Psychology of	
		Subprime Mortgage Contracts	488
		Questions and Comments	491
	1.	Truth in Lending Act	492
		a. The Borrower's Right to Rescind a Mortgage Loan	492
		Jesinoski v. Countrywide Home Loans, Inc.	492
		Questions and Comments	493
	2.	Real Estate Settlement Procedures Act	494
		Freeman v. Quicken Loans, Inc.	495
		Questions and Comments	498
	3.	Ability-to-Repay Requirements	499
		Questions and Comments	500
	4.	Regulation of Mortgage Originators	500
	5.	Foreclosure Practices and Abuses	501
		Questions and Comments	502
K.	Del	ot Collection	503
		Jerman v. Carlisle, McNellie, Rini, Kramer & Ulrich LPA	504
		Questions and Comments	506
L.	Uni	fair, Deceptive, or Abusive Acts and Practices	507
		Questions and Comments	508
M.	Arb	oitration Clauses	512
		AT&T Mobility LLC v. Concepcion	513
		Questions and Comments	516
		Questions and Comments	517
N.	Cor	nmunity Reinvestment and Development	518
		Questions and Comments	521
		Macey & Miller, The Community Reinvestment	
		Act: An Economic Analysis	521
		Barr, Credit Where It Counts: The Community	
		Reinvestment Act and Its Critics	523
		Questions and Comments	524

Contents	XXV

O.	Lender Liability	528
	Brown v. Avemco Investment Corp.	528
	Questions and Comments	530
	Connor v. Great Western Savings & Loan Association	532
	Questions and Comments	536
	Kham \mathcal{C} Nate's Shoes No. 2, Inc. v. First Bank of Whiting	537
	Questions and Comments	540
	Problem	541
	10. (ANTI-) MONEY LAUNDERING	543
Α.	Introduction	543
л.	Questions and Comments	544
В.	Legal Requirements Of Bank Secrecy And	711
ъ.	Anti-Money Laundering Law	544
	1. Currency and Foreign Transactions Act of 1970	545
	California Bankers Association v. Shultz	546
	Questions and Comments	548
	2. International Emergency Economic Powers Act (1977)	549
	3. Money Laundering Control Act (1986)	549
	Ratzlaf v. United States	550
	Questions and Comments	553
	4. Money Laundering Prosecution Act of 1988	554
	5. Annunzio-Wylie Money Laundering Suppression Act (1992)	554
	6. USA PATRIOT Act	556
	Questions and Comments	556
C.	Money Laundering And Federalism	557
	Fourth Corner Credit Union v. Federal Reserve	
	Bank of Kansas City	557
	Questions and Comments	561
D.	Tax Evasion And Foreign Corruption	562
	1. Tax Evasion	562
	2. Foreign Corrupt Practices Act	563
	Questions and Comments	564
	DADE II. NONDANIZ EINANGIAI INCERTURIONG	_
	PART II NONBANK FINANCIAL INSTITUTIONS	
	11. INSURERS	567
A.	Introduction	567
В.	What is Insurance?	567
	Problems	570
	SEC v. Variable Annuity Life Insurance Co.	572
	Questions and Comments	574
	Blackfeet National Bank v. Nelson	575
	Questions and Comments	577

xxvi Contents

C.	The Insurance Policy	577
	French Laundry Partners v. Hartford	
	Fire Insurance Company	577
	Questions and Comments	580
D.	Economic Principles Underlying The Business Of Insurance World Trade Center Properties, L.L.C. v.	581
	Hartford Fire Insurance Company	582
	Comment	585
E.	McCarran-Ferguson Act	585
	Questions and Comments	588
F.	Solvency Regulation	589
	1. Licensing	590
	2. Insurance Accounting	590
	3. Reserves	590
	4. Investment Limits	591
	5. Rate Regulation	591
	6. Guarantee Funds	592
	7. Examination and Enforcement	592
	8. Capital Requirements	592
G.	Systemic Risk	593
	Schwarcz and Schwarcz, Regulating Systemic Risk	
	in Insurance	593
	Questions and Comments	595
Н.	Risk Classification	596
	Avraham, Logue, and Schwarcz, Understanding	
	Insurance Antidiscrimination Laws	597
	Questions and Comments	599
	NAACP v. American Family Mutual Insurance Company	600
	Questions and Comments	602
I.	Residual Market Mechanisms	603
	Insurance Information Institute, Insurance Handbook	603
	Questions and Comments	606
J.	Consumer Protection Regulation	606
	12. SECURITIES FIRMS, BROKER-DEALERS,	
	AND INVESTMENT ADVISORS	609
A.	Introduction	609
В.	Regulatory Structure	610
	1. Brokers and Dealers	611
	2. Securities and Exchange Commission	611
	3. State Securities Regulators	613
	4. Self-Regulatory Organizations	613
C.	Securities and Securities Registration	614
	1. What Is a Security?	614
	Hodges v. Harrison	615
	Questions and Comments	618
	2. Securities Registration	619
	Questions and Comments	622

Contents	xxvii

D.	Ma	rket Regulation	623
		Macey & O'Hara, The Law and Economics	
		of Best Execution	624
E.	Reg	gulation of Underwriting	626
	_	Questions and Comments	628
F.	Bro	oker-Dealer Regulation	629
	1.	Margin Rules	629
	2.	Net Capital	630
		In re Whitney & Co.	630
		Questions and Comments	631
	3.	Churning, Suitability, and Unauthorized Trading	631
		Securities And Exchange Commission v. Botvinnik	631
		Questions and Comments	634
	4.	Market Making and Other Dealing	634
	5.	Boiler Rooms	635
		Berko v. Securities and Exchange Commission	635
		Questions and Comments	639
	6.	Securities Investor Protection Corporation	639
		Securities and Exchange Commission v. Securities	
		Investor Protection Corporation	641
		Questions and Comments	643
		In re Madoff	643
		Question	645
	8.	Regulation of Broker-Dealers and Investment Advisors	645
		a. Fiduciary Duties	645
		Division of Investment Management, Securities and	
		Exchange Commission, Regulation of Investment Advisers	646
		b. Payment for Order Flow	649
		Division of Investment Management, Securities	
		and Exchange Commission, Study on Investment	
		Advisers and Broker-Dealers	650
		c. Regulation Best Interests	651
		Jay Clayton, SEC Chair, Regulation Best Interest	
		and the Investment Adviser Fiduciary Duty: Two	
		Strong Standards That Protect and Provide Choice	
		for Main Street Investors	651
		Questions and Comments	654
		13. INVESTMENT COMPANIES	657
A.	Intr	roduction	657
	1.	Types of Investment Companies	658
		a. Regulatory Categories	658
		b. Asset Portfolios and Investment Objectives	661
		c. Active Versus Passive Management	662
		Questions and Comments	663
		Problems	664
	2.	Investment Company Structure	665
	3.	Potential for Abuse	666

xxviii Contents

В.	Sta	tutory Framework	667
	1.	Investment Company Act of 1940	667
	2.	Investment Advisers Act of 1940	670
	3.	Other Securities Laws	671
	4.	Internal Revenue Code	671
		Problems	672
C.	What Is An Investment Company?		
	1.	Two Prima Facie Definitions	673
	2.	Inadvertent Investment Company	673
		SEC v. Fifth Avenue Coach Lines, Inc.	674
		Questions and Comments	678
	3.	Exceptions	678
		a. Specialized Exceptions	678
		b. Private-Issuer Exceptions	678
		c. Operating-Company Exceptions	678
		ICOS Corp.	679
		Questions and Comments	681
		SEC v. National Presto Industries, Inc.	681
		Questions and Comments	685
		Problems	686
D.	Inv	estment Company Governance	688
	1.	Shareholders' Role	688
	2.	Directors' Role	688
		Burks v. Lasker	689
	3.	Governance Standards	691
		Questions and Comments	692
E.	Inv	estment Advisers' Compensation	693
		Gartenberg v. Merrill Lynch Asset Management, Inc.	694
		Questions and Comments	698
		Questions and Comments	700
		Ribstein, Federal Misgovernance of Mutual Funds	700
		Questions and Comments	702
		Jones v. Harris Associates L.P.	703
		Questions and Comments	706
F.	Coı	nflicts Of Interest	707
		Frankel & Laby, The Regulation of Money	
		Managers: Mutual Funds and Advisers	707
		Questions and Comments	713
		SEC v. Talley Industries, Inc.	714
		Questions and Comments	716
		United States v. Deutsch	716
		Questions and Comments	719
		United States v. Ostrander	719
		Questions and Comments	721
		Problems	723
		State of New York v. Canary Capital Partners, LLC	725
	_	Questions and Comments	729
G.		ticular Types Of Investment Companies	730
	1.	Money Market Funds	730

Contents	X	xxix

	a. Pricing	731
	b. Qualitative Safeguards	732
	c. Other Safeguards	732
	2. Closed-End Companies	733
	a. Limits on Capital Structure and Share Redemption	733
	SEC Division of Investment Management,	
	Protecting Investors: A Half-Century of Investment Company Regulation	733
	Questions and Comments	733 734
	b. Trading Discount	734
	Questions and Comments	735 736
	3. Exchange-Traded Funds	736
	Birdthistle, The Fortunes and Foibles of Exchange-	7 70
	Traded Funds: A Positive Market Response to the	
	Problems of Mutual Funds	736
	Questions and Comments	739
	4. Hedge Funds	740
	14. FINTECH	743
A.	Introduction	743
В.	Regulatory Arbitrage	744
	Board of Governors of the Federal Reserve System v.	
	Dimension Financial Corporation	744
	Questions and Comments	748
	1. Fintech and Regulatory Arbitrage	748
	Questions and Comments	749
C.	Chartering	750
	1. Partnerships	750
	Madden v. Midland Funding, LLC	751
	Questions and Comments	753
	2. Fintech Charter	754
	Vullo v. Comptroller of the Currency	755
	Questions and Comments	758
D.	Payments	759
	Lael Brainard, Federal Reserve Governor,	
	Delivering Fast Payments for All	759
_	Questions and Comments	761
E.	Cryptocurrency	762
	Securities and Exchange Commission, Report of	
	Investigation Pursuant to Section 21(a) of the	
	Securities Exchange Act of 1934: The DAO	763
_	Questions and Comments	765
F.	Conclusion	766
	ole of Cases	767
	ole of Statutes and Regulations	771
	le of Authorities	779
Ind	lex	787