

## 28C00800 FINANCIAL MARKETS AND INSTITUTIONS

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### EXAM

April 24, 2023 at 16-19.

The exam makes 50% of the total grade. To pass the course, minimum is 25 points out of 50.

**Please answer all questions in English. No dictionaries allowed. Please write clearly. If I can't read your answer, I can't grade it.**

1. Brief questions [6 points each, not more than 150 words per question, total max 30 points.]
  - a. ECB's TLTRO programs
  - b. ESG exclusion in discretionary mandates
  - c. Aktia's life insurance company follows the Solvency II directive. What does this mean?
  - d. G-SIBs
  - e. Why is it that *forward guidance* of central banks may potentially lead to increased risk taking?
  
2. Essay [max 450 words, max 20 points]

*Financial Times, March 13, 2023*

*Michael Ohlrogge, associate professor at the New York University School of Law, said Silicon Valley Bank's collapse highlighted "weaknesses in the assumptions that are baked into" bank regulation.*

*The 2018 rollback of the Dodd-Frank act, the biggest deregulatory effort since the 2007-08 financial crisis, exempted some banks with assets of up to \$250bn from the Fed's toughest supervisory measures, including stress tests as well as capital and liquidity requirements. In testimony to the Senate in 2015, SVB's chief executive Greg Becker asked lawmakers to increase the asset threshold below which "significant regulatory burdens" would not apply. The bipartisan legislation was a cornerstone of Donald Trump's presidency, but critics warned it would weaken a regulatory apparatus that had been built to avoid future crises.*

*The Dodd-Frank rollback “definitely reduced the buffer of shareholder funds that banks need to have in order to absorb losses”, said Ohlrogge. “Had it not been for that, then Silicon Valley Bank would have had a larger buffer . . . it would have been less likely for there to be a run in the first place and in the event of a run it would have lessened any kind of loss that those uninsured depositors are going to be facing,” he said.*

2a) What is the Dodd-Frank act? What was the reason for the “Dodd-Frank rollback”? Who are those “uninsured depositors”? [max 10 points]

2b) It was later announced that all deposits at Silicon Valley Bank are guaranteed according to a joint statement released by the Federal Reserve, the Department of the Treasury and Federal Deposit Insurance Corporation (FDIC). Why aren't all bank deposits guaranteed in normal market conditions anyway? [max 10 points]