Financial regulation – Exam – 10th of February 2025 – 2pm

Please pay attention to spelling and grammar, as well as readability. Feel free to write your answers in English or in French but stick to a single language. Feel also free to complement your thoughts with a simple diagram or charts. Concision will be gratified, and failure to comply with the instructions like language, readability or off-topic can be penalised.

Open question – max. 2 pages

What were the causes for the failure of SVB in March 2023, and for the failure of Credit Suisse?

What are the 3 lessons you find the most pertinent out of the management of these failures?

Illustrate with specifics facts and examples, demonstrating what you have learnt from the lectures and showing your ability to put this in perspective with the question asked.

Knowledge check – short answers

1. Describe the legislative process of a regulation, from the trigger to the regulation being enforced.
2. What are the key metrics in liquidity, explain their differences. To what extent an asset could be "highly liquid", provide an example.
3. Describe the difference between RWA and LBS ratios, including pros and cons of both metrics.
4. Explain the concepts of banking book and trading book. Why does the regulation have to further specify the boundary between the banking book and the trading book? Provide an example.
5. Pick one type of crisis mentioned in class. Describe the mechanism of the crisis from the initial shock to the contagion (if key concepts are mentioned, provide the definitions).

Case study – Climate risk.

Consider the following article. Briefly summarize the key facts and provide a commentary in light of the topics discussed in class (for example, consider the following questions).

- **Define climate risks (be specific), explain how it can translate into financial risks. Provide concrete examples.**
- **What are the impacts (e.g. banks, insurers, financial markets) and how can we reduce financial risks?**
- **What is the existing framework (e.g. international level, in the EU). What potential criticism could you address to it?**
- **What criticism could be addressed to current green finance products? Provide examples.**
- **Elaborate on other possible ways to address climate risk in the financial regulation.**

Financial Times

Hottest January on record shocks scientists, Attracta Mooney and Jana Tauchinski, January 2025
Data adds to fears that climate change is accelerating, as La Niña phenomenon fails to cool global temperatures

Last month was the hottest January on record, surprising scientists who expected the cooling La Niña weather cycle in the tropical Pacific to slow almost two years of record-high temperatures.

January ranked as the third-hottest month globally on record, with a surface air temperature of 13.23C - 1.75C above the pre-industrial average - according to the Copernicus Climate Change service, the EU's Earth observation agency.

The warming, despite the emergence of La Niña in December, is set to fuel concerns that climate change is accelerating at a time when countries such as the US, the world's largest historical polluter, pull back on commitments to reduce emissions.

Bill McGuire, emeritus professor of geophysical and climate hazards at UCL, said the January data was "both astonishing and, frankly terrifying", adding: "On the basis of the Valencia floods and apocalyptic Los Angeles wildfires, I don't think there can be any doubt that dangerous, all-pervasive, climate breakdown has. arrived. Yet emissions continue to rise'

Samantha Burgess, strategic lead for climate at the European Centre for Medium-Range Weather Forecasts, which oversees Copernicus, said January was "another surprising month, continuing the record temperatures observed throughout the past two years, despite the development of La Niña".

Copernicus found Europe had experienced its second-hottest January ever, despite below-average temperatures across Iceland, the UK, Ireland, northern France and parts of Scandinavia.

The average sea surface temperature globally was 20.78C, the second-highest value on record for the month after January last year. Although the central equatorial Pacific had become cooler, temperatures were "unusually high in many other, ocean basins and seas" the scientists said.

Richard Allan, professor in climate science at the University of Reading in the UK, said much of the "global sea surface remained remarkably warm in early 2025, primarily a result of human-caused warming".

He added that natural weather fluctuations from week to week can "cause warmer or colder conditions over continental areas" which he said "contributed to the unexpected record global temperatures at the beginning of 2025".

The naturally occurring La Niña weather phenomenon typically results in cooler global temperatures, while temperatures increase during its opposite El Niño warming phase. El Niño ended in May 2024, while delayed weaker La Niña conditions emerged in the equatorial Pacific Ocean in December, according to the National Oceanic and Atmospheric Administration.

Earlier this week, James Hansen, the scientist who sounded the alarm about climate change in the 1980s, said this year was likely to be of a similar average temperature to 2024, despite La Niña.

Last year was the hottest on record, with the global average temperature rising 1.5C above pre-industrial levels.