



INSTITUTE FOR FINANCIAL MARKET REGULATION

University at Albany

State University of New York

Albany Law School

Problem Statement: The Need to Understand Public and Private Sharing of Financial Regulation

The fundamental regulatory trade-off, in the financial industry and other areas of regulation, is between the benefits of giving firms discretion over their own operations and the benefits of external controls. A firm's insiders prefer operational discretion in order to expedite work, facilitate innovation, and attract customers, and society loses the benefit of insiders' knowledge if outsiders routinely intervene in their operations. However, insiders' single-minded focus on production can lead them to harm investors and financial markets a whole, or, in other areas of regulation, neglect considerations like environmental or worker safety. Through government regulation and other controls, society induces firms to pay attention to such values more than they would otherwise. Nevertheless, controlling complex interactions in firms and industries through legal commands, while commonly necessary, is extraordinarily difficult. External regulators' challenge is to oversee industry, as guided by laws, without imposing rules that excessively inhibit productive work and innovation.

Understanding how modern regulatory systems shape financial market structure, financial technology, risk management, and enforcement requires understanding working relationships between the public and private sectors. The public and private sectors jointly identify financial regulatory problems and have to work together to create and manage solutions to them. Moreover, what we learn about such regulation arguably applies to public management generally. Public management increasingly involves overseeing and coordinating public, nonprofit, and private organizations jointly producing activities affecting public welfare. Formal legal responsibilities, technology, incentives, and social factors interactively determine how effectively organizations in different sectors cooperate to deal with these tasks. How regulators and firms deal with each other in this network of formal and informal relations is one instance of the larger story of how public management operates today, so understanding the patterns in financial market regulation is useful for those who research, teach, or practice in areas well outside financial market regulation.

The Institute for Financial Market Regulation develops research and education to understand this system of shared regulation in financial markets and to prepare students to work effectively within the system in both the public and private sectors.

Institute for Financial Market Regulation at the University at Albany and Albany Law School

Creating an enabling environment

The Institute for Financial Market Regulation (IFMR) is a collaboration of the University at Albany-SUNY, Albany Law School, and the professional community in financial market regulation designed to connect regulatory and market professionals with academic researchers and educators. Its goal is to develop research and education that is built on a solid understanding of regulatory and industry operations through continuous interaction among academics and regulatory and market professionals in the public and private sectors. It emphasizes the need to understand how business processes, law, public policy, and technology interactively shape market and regulatory processes and advance both the theory and practice of market regulation. The need to base research on a solid understanding of regulatory and industry operations is a core principle of its work.

Two central principles drive the activities of the Institute.

- Collaboration among practicing professionals and academic organizations is central to high-quality and relevant education and research in financial market regulation.
- Education and research in financial market regulation require knowledge of how finance, law, public policy, and computer and information technology jointly shape financial market regulation.

The Institute's Advisory Council provides important guidance for IFMR's research and educational programs by identifying emerging issues in the field and reviewing and participating in the Institute's projects.

IFMR Education and Research

The Institute oversees an undergraduate major and minor in Financial Market Regulation at the University at Albany and graduate and legal education in financial market regulation at the University at Albany and Albany Law School. The program is designed to graduate students who are capable of responding in sophisticated, flexible ways to current developments in financial markets, whether in entry-level professional practice or in graduate and law school. The Institute also contributes to the theory and practice of financial market regulation through research connecting academic researchers' specialized training with professionals' knowledge and experience, engaging live issues facing regulators and supervisors.

Together, IFMR students, professional participants, and faculty engage financial regulation issues in each of these areas:

- The business of financial markets.
- The law of market regulation.
- Public policy in financial market regulation.
- Information Management and Technology

IFMR's research projects have examined how the private and public sectors share financial regulatory responsibilities, the determinants of effective regulation within financial institutions and industry governance, the impact of technological change on regulatory operations and management in the public and private sectors, and specific regulatory issues in municipal securities, derivatives markets, and other areas of market regulation. Further information on the Institute for Financial Market Regulation can be found at <http://www.albany.edu/ifmr/>.