International Scholars Journals

International Journal of Law and Legal Studies ISSN 2736-1608 Vol. 10 (2), pp. 001-002, June, 2022.
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Commentary

Importance and understanding of the financial law

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Received: 16-May-2022, Manuscript No. IJLLS-22-64469; Editor assigned: 19-May-2022, PreQC No: IJLLS-22-64469(PQ); Reviewed: 02-Jun-2022, QC No: IJLLS-22-64469; Revised: 08-Jun-2022, Manuscript No: IJLLS-22-64469 (R). Published: 15-Jun-2022

DESCRIPTION

Insurance, derivatives, commercial banking, capital markets, and investment management are all regulated by financial legislation. Understanding financial law is essential for understanding how banking and financial regulation are created and formed, as well as the legal basis for finance in general (Hales, 2019). Financial law encompasses a significant percentage of commercial law, as well as a significant portion of the global economy, and legal billables are reliant on strong and clear financial policy (Myers, et al., 2017). As a result, financial law, as the legislation governing financial enterprises, encompasses both public and private law issues. Understanding the legal ramifications of transactions and structures like indemnification and overdraft is critical to fully appreciating their impact in financial transactions (Miao, 2018). This is the most fundamental aspect of financial law. As a result, financial law distinguishes itself from commercial and corporate law by focusing on financial transactions, the financial market, and its participants; for example, the sale of goods may fall under commercial law but not financial law. Financial law can be divided into three overall processes, or pillars of law development, and five transaction silos, which represent the diverse financial situations found in finance.

Financial regulation is a type of regulation or supervision that imposes particular rules, limits, and guidelines on financial institutions in order to protect the financial system's stability and integrity. A government or a non-government group could be in charge of this. The organisation of banking sectors has also been altered by financial regulation, which has increased the variety of financial products accessible (Orru, et al., 2017). Financial regulation differs from financial law in that regulation establishes the guidelines, framework, and participatory rules of financial markets, as well as their stability and consumer protection; whereas financial law encompasses all aspects of finance, including the law that regulates party behaviour, of which financial regulation is an aspect (Paz, 2019). The three pillars of law formation that make up financial law serve as the operating mechanisms *via* which the law interacts with the financial system and financial activities in general. Market practises, case law, and regulation all work together to create a framework within which financial markets can operate (Solomon, et al., 2019). Furthermore, while legislation is often used to create regulation, market norms and case law serve as the major architects of the current financial system and offer the pillars on which markets are built. Strong markets must be able to rely on both self-regulation and customs, as well as commercially mined case law (Stevens, 1946). In addition to regulation, this must be done. Instability and rigidity within the market are likely to come from an inappropriate balance of the three pillars, contributing to illiquidity (Stevens, 1968).

These three pillars are supported by a number of legal concepts, including legal personality, set-off, and payment, which allow legal scholars to divide financial instruments and market structures into five legal silos: (1) simple positions, (2) funded positions, (3) asset-backed positions, (4) net positions, and (5) combined positions. Academic Joanna Benjamin uses them to demonstrate the differences between various groupings of transaction structures based on shared legal treatment grounds. The five position categories serve as a framework for understanding the legal treatment and limits of financial instruments.

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