GAO Highlights

Highlights of GAO-14-261, a report to congressional addressees

Why GAO Did This Study

Cross-border interconnections in the financial markets and other factors helped spread disruptions during the 2007-2009 financial crisis and increased systemic risk. In response to the crisis, the G20 positioned itself as the main international forum for reforming financial regulations. In 2008, the G20 leaders committed to implement a broad range of reforms designed to strengthen financial markets and regulatory regimes.

In light of the G20's reform efforts and the potential implications of the reforms for the United States, GAO examined (1) the U.S. role in the international financial reform efforts and (2) the implementation status of recent international financial reforms in the United States relative to other countries and challenges that uneven implementation may present. To address these issues, GAO reviewed and analyzed reports or other documents issued by the G20, FSB, IMF, and other international bodies since 2008 and studies on the G20 reforms by academics, industry associations, and others. GAO reviewed the accuracy of U.S. responses to select questionnaires administered by FSB and asked other countries' national audit offices to do the same for their regulators' responses. Finally, GAO interviewed officials representing U.S. agencies, FSB Secretariat, IMF, industry associations, and academics.

GAO is not making any recommendations in this report.

View GAO-14-261. For more information, contact A. Nicole Clowers at (202) 512-8678 or clowersa@gao.gov.

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INTERNATIONAL FINANCIAL REFORMS

U.S. and Other Jurisdictions' Efforts to Develop and Implement Reforms

What GAO Found

The United States has played an active role in helping to reform financial regulations to address weaknesses revealed by the 2007-2009 financial crisis. According to Treasury officials, during the acute phase of the crisis, the United States proposed elevating the Group of Twenty (G20) forum—representing 19 countries (including the United States) and the European Union—from the level of finance ministers and central banks to the level of heads of state or government. In 2008, the U.S. President and other G20 leaders held their first summit in Washington, D.C., in part to establish a framework to help prevent financial crises. The G20 leaders established principles for financial regulatory reform and agreed on a series of financial reforms, which they have revised or expanded at subsequent summits. To implement their reforms, the G20 leaders generally have called on their national authorities—finance ministries, central banks, and regulators—and international bodies, including the Financial Stability Board (FSB) and standard setting bodies, such as the Basel Committee on Banking Supervision. In 2009, the G20 leaders established FSB to coordinate and promote implementation of the financial reforms, which typically involves standard setting bodies developing international standards (e.g., principles, policies, or guidance) and then jurisdictions voluntarily adopting rules or policies consistent with these standards, such as through legislation or regulations. As members of FSB and international standard setting bodies, U.S. federal authorities have actively helped formulate the standards that implement the G20 reforms and cover, among other things, banking, derivatives, and hedge funds.

The United States and other jurisdictions have made progress implementing many of the G20 financial reform commitments, but most reforms have not been fully implemented by all jurisdictions. FSB and standard setting bodies collaboratively monitor and report on the implementation status of the G20 reforms. According to recent progress reports, the United States, like most FSB members, has implemented or is implementing G20 reforms that FSB designated as a priority based on their importance to global financial stability—including higher capital standards, derivatives reforms, compensation practices, policy measures for systemically important financial institutions, and regimes for resolving failing financial institutions. However, implementation varies among jurisdictions. For example, according to a September 2013 progress report, only the United States reported having rules at least partly in effect to implement the G20 reforms requiring derivatives to be centrally cleared, traded on organized trading platforms, and reported to trade repositories, while many other jurisdictions reported having rules in effect for only some of these reforms or adopted or proposed legislation to implement the reforms. To promote and monitor the adoption of the international standards by each jurisdiction, such as to ensure a level playing field, FSB, the International Monetary Fund (IMF), and the Basel Committee have established programs to review and assess their members' implementation of the standards. At the same time, legal, economic, and political factors can create implementation challenges for jurisdictions. For example, regulators in different jurisdictions may apply or interpret the standards differently. However, in some cases, inconsistent implementation of international financial standards could lead to certain activities migrating to less regulated jurisdictions (regulatory arbitrage) or adversely affect financial stability.