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INTERNATIONAL FINANCIAL REFORMS

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

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.

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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.

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Abbreviations

Basel Committee	Basel Committee on Banking Supervision
CFTC	Commodity Futures Trading Commission
CPSS	Committee on Payment and Settlement Systems
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
D-SIB	domestic systemically important bank
FDIC	Federal Deposit Insurance Corporation
Federal Reserve	Board of Governors of the Federal Reserve System
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
GDP	gross domestic product
G-SIB	global systemically important bank
G20	Group of Twenty
IADI	International Association of Deposit Insurers
IMF	International Monetary Fund
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IOSCO	International Organization of Securities Commissions
NAIC	National Association of Insurance Commissioners
OCC	Office of the Comptroller of the Currency
ODRG	OTC Derivatives Regulators Group
OECD	Organisation for Economic Co-operation and Development
OLA	Orderly Liquidation Authority
OTC	over-the-counter
ROSC	Reports on the Observance of Standards and Codes
SEC	Securities and Exchange Commission
SIFI	systemically important financial institution
Treasury	Department of the Treasury

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April 3, 2014

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

The Honorable Shelley Moore Capito
Chairwoman
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
House of Representatives

Cross-border interconnections in the financial markets and other factors helped spread disruptions in the global financial system during the 2007-2009 financial crisis and increased systemic risk at the national and international levels. For example, the rise in the complexity and globalization of over-the-counter (OTC) derivatives contributed to economic growth but created interconnections that helped spread disruptions quickly across markets and borders during the crisis. These and other disruptions contributed to widespread losses in economic output and wealth across the globe. In the United States, the 2007-2009 financial crisis was associated with large declines in economic output, household wealth, and other economic indicators.¹ In response to the financial crisis, the United States and other countries undertook a variety of initiatives to stabilize and reform their financial systems. For example, in the United States, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which includes a broad range of reforms intended to strengthen oversight of the financial services sector.²

At the international level, the U.S. President and leaders from other major jurisdictions positioned the Group of Twenty (G20) as the main

¹See, for example, GAO, *Financial Regulatory Reform: Financial Crisis Losses and Potential Impacts of the Dodd-Frank Act*, [GAO-13-180](#) (Jan. 16, 2013).

²Pub. L. No. 111-203, 124 Stat. 1376 (2010).

international forum for reforming financial regulations.³ In 2008, the G20 leaders held their first summit in Washington, D.C., and collectively committed to implement reforms designed to strengthen financial markets and regulatory regimes to avoid future financial crises. In doing so, the leaders acknowledged that regulation is first and foremost the responsibility of national regulators. But they also noted that the financial markets are global; thus, intensifying international cooperation, strengthening international standards, and implementing such standards consistently are necessary to help protect against adverse cross-border, regional, and global developments affecting international financial stability. Since 2008, the G20 leaders have met at least annually, in part to monitor progress and refine and expand their financial reform agenda. They generally have tasked their finance ministers and international bodies with implementing the agenda. In particular, the G20 leaders established the Financial Stability Board (FSB) as the successor to the Financial Stability Forum and made FSB responsible for coordinating and promoting the implementation of the G20 reform commitments.⁴

We prepared this report under the authority of the Comptroller General to conduct work on GAO's initiative to assist Congress with its oversight responsibilities. In light of the G20's efforts to reform financial regulations and the potential implications of such reforms for the United States, we examined the

- U.S. role in the international financial reform efforts, including the development of international financial standards, and
- implementation status of recent international financial reforms in the United States relative to other jurisdictions and challenges that any uneven progress may present.

³The G20, established in 1999, is a forum for international cooperation on important issues of the global economic and financial agenda. Its members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States, and the European Union. See the background section of this report for a more detailed discussion of the G20.

⁴The Financial Stability Forum was founded in 1999 by the G7 finance ministers and central bank governors. In 2008 the G20 leaders called for a larger membership of the Financial Stability Forum and re-established it as FSB in 2009 with a broadened mandate to promote financial stability.

To address our objectives, we reviewed and analyzed declarations, surveys, and reports issued by the G20, FSB, International Monetary Fund (IMF), and other international bodies since 2008. We also reviewed and analyzed studies on the G20 reforms by academics, industry associations, and others. We reviewed the accuracy of U.S. responses to selected questionnaires administered by FSB or a standard-setting body and asked other countries' national audit offices to do the same for their regulators' responses. Finally, we interviewed officials representing U.S. authorities—the Board of Governors of the Federal Reserve System (Federal Reserve), Commodity Futures Trading Commission (CFTC), Department of the Treasury (Treasury), Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and Securities and Exchange Commission (SEC)—FSB Secretariat, IMF, industry associations, and academics. Appendix I contains additional information on our scope and methodology.

We conducted this performance audit from March 2013 to April 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

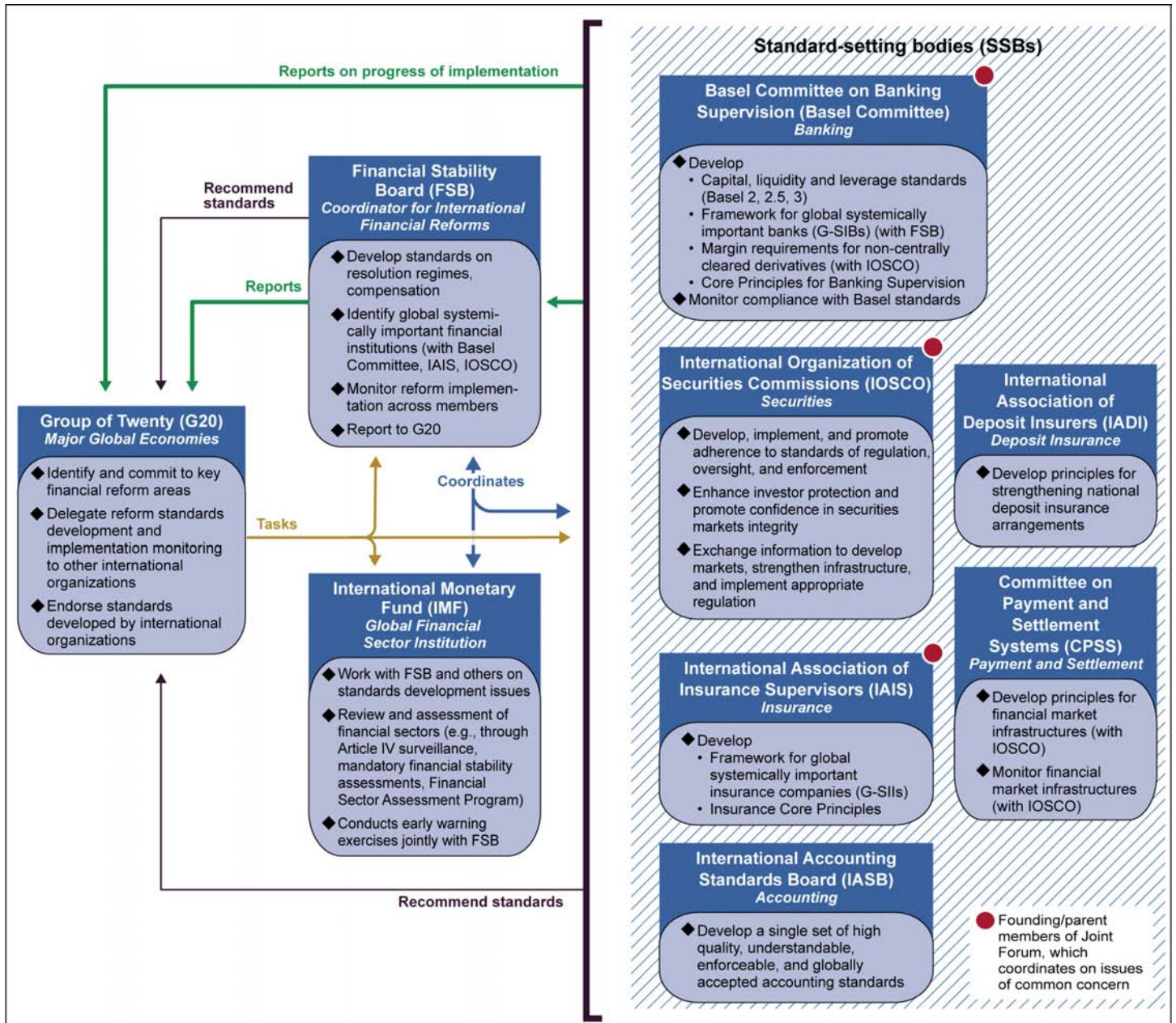
The International Financial Architecture

Numerous international bodies with different missions and members have played a role in implementing the G20 financial regulatory reform agenda. In general, many of these bodies operate on a consensus basis and have no legally binding authority. Thus, financial reform agreements reached by these bodies must be adopted voluntarily by their member jurisdictions, such as through legislative or regulatory changes (or both), to take effect. Figure 1 depicts some of the international bodies involved in the G20 financial regulatory reforms and that partly comprise an

international network often referred to as the “international financial architecture.”⁵

⁵As discussed in appendix II, other international bodies not presented in figure 1 also are involved in helping to implement the G20 financial reform commitments and are part of the international financial architecture.

Figure 1: Selected International Bodies Comprising the International Financial Architecture, as of January 2014



Source: GAO, based on international organization websites and U.S. federal agencies.

Note: This figure is not meant to be comprehensive but shows certain relationships and activities of selected international bodies involved in carrying out the reform agenda the G20 initiated in 2008.

G20

Within the international financial architecture, the G20 is a forum for international cooperation on global economic and financial issues. Its members include 19 countries and the European Union. The G20's objectives are to coordinate policy among its members to achieve global economic stability and sustainable growth; promote financial regulations that reduce risks and prevent future financial crises; and modernize the international financial architecture. The G20 was established in 1999 as a forum for finance ministers and central bank governors in the aftermath of the financial crisis of 1997-1998. The G20 was elevated to the political leader level in 2008, when its member countries' heads of state or government first met to respond to the global economic and financial crisis.⁶ G20 member jurisdictions account for approximately 90 percent of world gross domestic product, 80 percent of world trade, and are home to two-thirds of the world's population. Since 2008, the G20 leaders have met at least annually. The presidency of the G20 rotates annually among its members, and the host government supplies the staff for the secretariat that runs the agenda and hosts meetings that year. In addition to the G20 leaders meetings, the G20 finance ministers and central bankers, and the Sherpas, who are representatives of the leaders, meet on a regular basis. As the G20 operates on the basis of consensus, its commitments reflect the agreement of its members, including the United States.

FSB

The G20 established FSB in 2009 as the successor to the Financial Stability Forum to coordinate at the international level the work of national financial authorities and international standard-setting bodies in order to develop and promote the implementation of effective regulatory, supervisory, and other financial sector policies. FSB member institutions include finance ministries, financial regulatory authorities, and central banks of the G20 members, as well as those of Hong Kong Special Administrative Region (SAR), the Netherlands, Singapore, Spain, and Switzerland. FSB members also include international bodies—such as IMF, the Organisation for Economic Co-operation and Development, and the World Bank—and international standard-setting bodies, such as the Basel Committee on Banking Supervision (Basel Committee), International Accounting Standards Board (IASB), International

⁶Before 2008, the G20 was a finance minister/central bank governor-level body, while the political leaders of only the G7/G8 industrialized countries (Canada, France, Germany, Italy, Japan, the Russian Federation, the United Kingdom, and the United States) met regularly to discuss key economic issues. The G7/G8 has continued to meet regularly.

Organization of Securities Commissions (IOSCO), and International Association of Insurance Supervisors (IAIS).

According to FSB, it seeks to support the multilateral agenda for strengthening financial systems and the stability of international financial markets. FSB's mandate includes (1) assessing vulnerabilities affecting the global financial system and identifying and overseeing actions needed to address them; (2) promoting coordination and information exchange among authorities responsible for financial stability; (3) undertaking reviews of the policy development work of the international standard-setting bodies to ensure their work is timely, coordinated, focused on priorities, and addressing gaps; and (4) collaborating with IMF to conduct early warning exercises. In addition, FSB has instituted a framework for monitoring implementation of the G20 financial reforms and reports periodically to the G20 about standards development and implementation progress.

Organizationally, a 70-person Plenary, composed of one to three representatives from each represented jurisdiction or organization, is the sole decision-making body of FSB. The Plenary approves reports, principles, standards, recommendations, and guidance developed by FSB, and approves work programs and the FSB budget. The FSB Plenary is led by the FSB Chairman. A Steering Committee coordinates work in between Plenary meetings. FSB's work is carried out through the activities of standing committees, including the Standing Committee on Assessment of Vulnerabilities, the Standing Committee on Standards Implementation, and the Standing Committee on Supervisory and Regulatory Cooperation.⁷ The FSB Plenary is reviewing the structure of representation in FSB, which is to be completed by the next leaders summit in November 2014.⁸ As outlined in the FSB charter, FSB Plenary seat assignments are meant to reflect the size of the national economy, financial market activity, and national financial stability arrangements in a member jurisdiction. The staff of FSB members carry out the majority of

⁷Additional committees within FSB include a Standing Committee on Budget and Resources, the Resolution Steering Group, various working groups, and several Regional Consultative Groups.

⁸In a 2013 declaration, the G20 leaders supported FSB's proposal to review the structure of its representation.

FSB's work. The FSB Secretariat has approximately 30 staff members who also support FSB's work.

IMF

IMF is an organization of 188 member jurisdictions. Founded in 1944, IMF's primary purpose is to safeguard the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from one another. IMF's main activities include (1) providing advice to members on adopting policies that can help them prevent or resolve a financial crisis, achieve macroeconomic stability, accelerate economic growth, and alleviate poverty; (2) making financing temporarily available to members to help them address balance of payments problems; and (3) offering technical assistance and training to countries, at their request, to help them build the expertise and institutions they need to implement sound economic policies.

As part of its surveillance activities, IMF conducts surveillance of its members' financial sectors at the bilateral and multilateral levels and research and analysis of macroeconomic and financial issues. A comprehensive and in-depth review of individual members' and jurisdictions' financial sectors is undertaken by the mandatory financial stability assessments (mandatory FSAs) or the Financial Sector Assessment Program (FSAP), while Article IV staff reports (and associated selected issue papers) cover financial sector issues at a higher frequency and often follow-up on mandatory FSA or FSAP recommendations. IMF's multilateral surveillance appears in the form of regular reports, such as the *Global Financial Stability Report*, *World Economic Outlook*, *Fiscal Monitor*, and *Spillover* reports.⁹ In recent years, IMF has worked with FSB and international standard-setting bodies to develop standards and guidance, to the extent those activities are consistent with its mandate. In addition to these activities, the G20 has tasked IMF and FSB with the responsibility for conducting early warning exercises, which typically take place twice a year, to assess risks to global financial stability.

⁹Spillover reports examine the external effects of domestic policies in five systemic economies (China, the Euro area, Japan, the United Kingdom, and the United States). According to IMF, these reports, which underline the importance of financial links in spreading risk and analyze how policies in major economies impact financial markets, provide an added perspective to the policy line developed in bilateral discussions with each country, and serve as input into the Fund's broader multilateral surveillance.

Basel Committee

The Basel Committee is the primary global standard-setter for the prudential regulation of banks and provides a forum for cooperation on banking supervisory matters. Established in 1975, it sets supervisory standards and guidelines to promote global financial stability. The standards have no legal force but are developed and issued by Basel Committee members, with the expectation that individual national authorities will implement them.¹⁰ The Basel Committee members include central banks or bank supervisors for 27 jurisdictions.¹¹ The Basel Committee expanded its membership in 2009, adding the financial authorities of Argentina, Hong Kong SAR, Indonesia, Saudi Arabia, Singapore, South Africa, and Turkey to its membership. With the G20's support, the Basel Committee recently established a more active program to monitor members' commitments to implement Basel Committee standards. The Basel Committee works with FSB, of which it is a member, and other international standard-setting bodies to address financial reform issues within its mandate. The Basel Committee is a sponsor organization of the Joint Forum, which also includes IOSCO and IAIS, and which coordinates work on issues of common concern.

IOSCO

IOSCO sets global standards for the securities sector to protect investors, ensure efficient markets, and address systemic risks. Its members include more than 120 securities regulators. It also has affiliated members, including 80 other securities markets participants (such as stock exchanges). Established in 1983, IOSCO develops, implements, and promotes adherence to internationally recognized standards for securities regulation. It works with the G20 and FSB to develop standards and guidance to implement the global regulatory reforms that apply to securities markets and institutions. IOSCO is a founder of the Joint Forum, along with the Basel Committee and IAIS. IOSCO also works with the Committee on Payment and Settlement Systems (CPSS) on reform efforts related to financial market infrastructures, including central clearing counterparties.

¹⁰Basel Committee members are expected to implement the Basel standards at a minimum, but members may decide to go beyond the Basel standards.

¹¹The Basel Committee's members include organizations with direct banking supervisory authority and central banks from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, South Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

IAIS	<p>IAIS is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards, and other supporting material for the supervision of the insurance sector. Established in 1994, IAIS's objectives are to promote effective and globally consistent supervision of the insurance industry; to develop and maintain fair, safe, and stable insurance markets; and contribute to global financial stability. Its members include insurance supervisors and regulators from more than 200 jurisdictions in approximately 140 countries, including the United States.¹² Nongovernmental organizations and private sector entities also participate in IAIS activities as observers. As noted above, IAIS is a member of the Joint Forum.</p>
CPSS	<p>CPSS is a standard-setting body for payment, clearing, and securities settlement systems. Established in 1990, it also serves as a forum for central banks to monitor and analyze developments in domestic payment, clearing, and settlement systems. Its members include 25 central banks responsible for payment and settlement systems. CPSS is a member of FSB and cooperates with other groups, including IOSCO and the Basel Committee, to address issues of common concern.</p>
IADI	<p>IADI is the global standard-setting body for deposit insurers. IADI activities include developing principles, standards, and guidance to enhance the effectiveness of deposit insurance systems, methodologies for the assessment of compliance with its principles, standards, and guidelines, and facilitating assessment processes. IADI also provides guidance for establishing new—and enhancing existing—deposit insurance systems, and encourages international contact among deposit insurers and other interested parties. IADI has 73 member organizations from 71 countries. It recently worked with the Basel Committee to produce the Core Principles for Effective Deposit Insurance Systems, which was designated by FSB as one of the 12 key standards for sound financial systems.</p>

¹²The U.S. representatives include the Federal Insurance Office (FIO) Federal Reserve, and National Association of Insurance Commissioners (NAIC), which represents 50 U.S. state insurance regulators, the District of Columbia, and 5 U.S. territories. FIO, an office of the U.S. Department of the Treasury, was established under the Dodd-Frank Act. It has the statutory authority to represent the United States at IAIS and to coordinate federal efforts and develop federal policy on prudential aspects of international insurance matters. NAIC has no right to vote and can only designate up to 15 NAIC members to be permitted to vote at any time.

IASB

IASB is the standard-setting body of the IFRS Foundation, an independent, nonprofit, private sector organization working in the public interest. Established in 2001, IASB carries out the IFRS Foundation's stated objective of developing a single set of high-quality, understandable, enforceable, and globally accepted accounting standards.¹³ IASB members are responsible for the development and publication of International Financial Reporting Standards (IFRS). IASB members are independent experts, and the board is required to reflect geographical diversity. The IFRS Foundation also has as principal objectives promoting the use and rigorous application of IFRS; taking account of the reporting needs of emerging economies and small and medium-sized entities; and promoting and facilitating the adoption of IFRS through the convergence of national accounting standards and IFRS.

Informal Groups

Various jurisdictions also have formed informal coalitions to address specific multilateral financial issues. For example, according to U.S. regulatory officials who are involved in the group, the OTC Derivatives Regulators Group (ODRG) is an informal group of regulators in jurisdictions that account for the most significant derivatives activity around the world: Australia, Brazil, the European Union, Hong Kong SAR, Japan, Ontario and Quebec (Canada), Singapore, Switzerland, and the United States.¹⁴ ODRG focuses more strategically than the committees and activities under FSB and IOSCO on addressing critical cross-border issues in the OTC derivatives markets. ODRG reports periodically to the G20 finance ministers and central bank governors about its progress in identifying and addressing cross-border regulatory issues.

Overview of the G20 Leaders' Regulatory Reform Agenda and Implementation Process

The G20 leaders have committed to undertake a broad range of financial regulatory reforms since the 2007-2009 financial crisis. In 2008, the G20 leaders established principles for financial regulatory reform and developed a list of initial reform commitments. Through the eight summits held between 2008 and 2013, the G20 leaders have revised and

¹³IASB's predecessor, the International Accounting Standards Committee, was founded in 1973.

¹⁴Securities are regulated at the province level in Canada.

expanded the areas covered by their reform agenda.¹⁵ Table 1 summarizes the key sectors and functional areas covered by the G20 financial reform commitments.

Table 1: Key Reform Areas Addressed by G20 Leaders

Reform area	Summary G20 reform commitments
Banking	Increase banks' resilience to shocks by, among other things, raising capital requirements and introducing liquidity standards and a leverage ratio requirement. Strengthen banks' risk management practices and deposit insurance regimes.
OTC derivatives	Standardized OTC derivative contracts should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties. OTC derivative contracts should be reported to trade repositories. OTC derivatives that are not cleared through a central counterparty should be subject to higher capital and margin requirements.
Compensation practices	Reform compensation practices to support financial stability.
Enhanced Supervision of Systemically Important Financial Institutions (SIFIs) and Resolution Regimes ^a	Define the scope of SIFIs and determine and enhance their appropriate regulation or oversight. Resolution regimes should ensure an orderly wind-down of SIFIs, with the overall goal of reducing the moral hazard of SIFIs (ending "too big to fail").
Shadow banking	Expand the regulatory perimeter, including strengthening the regulation and oversight of shadow banking, and focusing on regulatory gaps and risks.
Hedge funds	Establish registration, appropriate disclosures, and oversight of hedge funds. Establish international information sharing framework and enhance counterparty risk management.
Securitization	Improve risk management for securitization, strengthen supervisory requirements or best practices for investment in structured products, and enhance disclosure of securitized products.
Macroprudential frameworks and tools	Establish a regulatory framework for macroprudential oversight, which includes enhanced systemwide monitoring and the use of macroprudential instruments. Improve cooperation between supervisors and central banks.
Credit rating agencies	Improve oversight, including registration of credit rating agencies; enforcing compliance and requiring changes to rating agency practices for managing conflicts of interest; and reducing reliance on credit ratings.
Accounting standards	Convergence by key international accounting standards bodies.
Financial markets	Undertake measures to address the risks posed by high frequency trading and "dark liquidity." Enhance market integrity and efficiency, and enhance market transparency in commodity markets.

¹⁵To date, the G20 leaders have held eight summits: (1) November 2008 in Washington, D.C., United States; (2) April 2009 in London, United Kingdom; (3) September 2009 in Pittsburgh, United States; (4) June 2010 in Toronto, Canada; (5) November 2010 in Seoul, South Korea; (6) November 2011 in Cannes, France; (7) June 2012 in Los Cabos, Mexico; and (8) September 2013 in St. Petersburg, Russia.

Reform area	Summary G20 reform commitments
Consumer Protection	Improve consumer finance protection related to issues such as disclosure, transparency, and education; protection from fraud, abuse and errors; and recourse and advocacy.

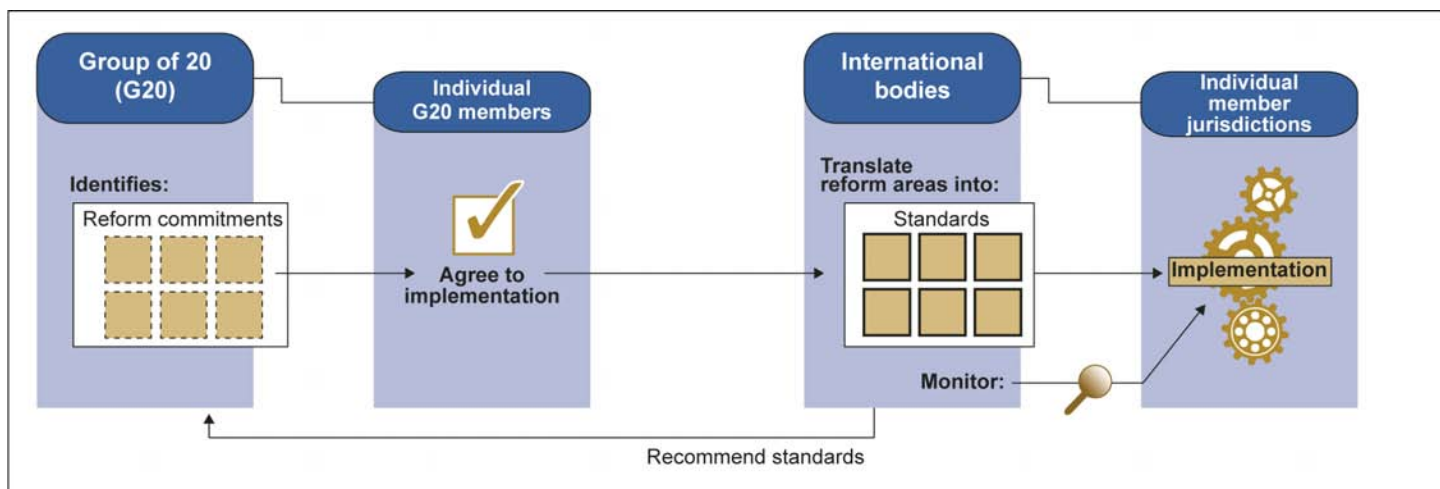
Source: GAO summary of G20 and FSB documents.

³FSB considers resolution regimes as part of a comprehensive “too-big-to-fail” framework to address risks posed by SIFIs. FSB notes that too-big-to-fail problems are when the threatened failure of a SIFI leaves public authorities with no option but to provide public funds to avoid widespread financial instability and economic damage.

The G20 leaders generally have called on their national authorities—along with FSB; standard setting bodies, such as the Basel Committee and IOSCO; and other bodies—to convert their broad financial reform commitments into more specific standards (including policies, principles, practices, or guidance).¹⁶ Although the standards are developed under the auspices of FSB or standard setting bodies (or both), the work of many of these entities largely is carried out by staff of finance ministries, central banks, and financial sector regulators of the member jurisdictions. Because international standards are not legally binding, individual countries or jurisdictions must voluntarily adopt them, such as through legislative or regulatory changes, or both, for the standards to take effect. For example, a jurisdiction may need to pass legislation and adopt regulations to implement one standard but only a regulation to implement another standard. In that regard, the legal and practical abilities of the G20 leaders to commit to legal and regulatory changes can vary widely, depending on the structure of the regulatory system in their jurisdictions (i.e., whether there are independent regulatory agencies) and on the nature of the relationship between the executive and legislative branches in their jurisdictions. Figure 2 illustrates this multistep process.

¹⁶Although the G20 leaders generally have set the international regulatory reform agenda, FSB or standard setting bodies may first develop recommendations for policy reforms and then ask the G20 leaders or G20 finance ministers and governors to endorse the recommendations as part of the reform agenda.

Figure 2: The G20-Initiated International Financial Reform Process



Source: GAO, based on international organization website information.

Although the G20 is serving as the main forum at the international level for reforming financial regulations, some academics have questioned the reliance on the G20 and other international bodies to reform international financial standards, citing various potential challenges with the current approach. For example, some maintain that international financial standards existed before the 2007-2009 financial crisis and were intended to reduce systemic risk but failed to prevent or mitigate the recent crisis.¹⁷ However, U.S. regulators and others have pointed to gaps or weaknesses in the international framework or standards that existed before the crisis and that the G20 reforms are intended to address. Additionally, some academics have questioned the potential effectiveness of international financial agreements or standards, arguing that their informal and nonbinding nature allows members to suffer limited consequences for noncompliance. In contrast, they also note that the informal approach influences behavior, with many governments adopting international financial standards into domestic law, or maintain that a formal approach to enforcement would not necessarily be more effective and could raise

¹⁷For example, see Howard Davies, "Global Financial Regulation after the Credit Crisis," *Global Policy*, vol. 1, no. 2 (May 2010) and Mario Giovanoli, "Reform of the International Financial Architecture after the Global Crisis," *N.Y.U. Journal of International Law and Policy*, vol. 42 (2009-2010).

domestic sovereignty issues.¹⁸ Finally, some academics have commented that FSB's limited and skewed geographic membership—despite its expansion to include some emerging countries—still may affect perceptions about its legitimacy.¹⁹ However, FSB's charter includes provisions for FSB to consult with nonmembers on strategic plans, principles, standards, and guidance, and to allow nonmembers to participate, on an ad hoc basis, in its working groups and committee meetings. As discussed earlier, FSB has a work plan to review the structure of its representation, which is to be completed by the November 2014 summit.

The Dodd-Frank Act

Congress passed the Dodd-Frank Act in 2010 in response to the regulatory and oversight weaknesses identified after the 2007-2009 financial crisis. As summarized on the Senate Banking Committee's website, the act seeks to (1) address risks to the stability of the U.S. financial system, in part through the creation of the Financial Stability Oversight Council (FSOC), (2) end too-big-to-fail bailouts of large, complex financial institutions, (3) increase transparency and regulation for certain complex financial instruments, and (4) strengthen protections for consumers and investors. The act requires federal agencies to issue hundreds of regulations to implement the act's requirements. Regulators have proposed many of the rules, but many of the Dodd-Frank Act rulemakings had yet to be finalized as of December 2013.²⁰ As discussed later in this report, many of the Dodd-Frank Act's provisions are similar to the international financial reform commitments agreed to by the G20 leaders.

¹⁸See, for example, Chris Brummer, "How International Financial Law Works (and How It Doesn't)," 99 *Geo. L.J.* 257 (2011), and Stavros Gadinis, "The Financial Stability Board: The New Politics of International Financial Regulation," 48, *Tex. Int'l L. J.* 157 (2013), and Douglas W. Arner, and Michael W. Taylor, "The Global Financial Crisis and the Financial Stability Board: Hardening the Soft Law of International Financial Regulation," 32 *U.New. S.Wales L. J.* 488 (2009).

¹⁹See, for example, Garry J. Schinasi, and Edwin M. Truman, *Reform of the Global Financial Architecture* (2010).

²⁰See GAO, *Dodd-Frank Regulations: Agencies Conducted Regulatory Analyses and Coordinated but Could Benefit from Additional Guidance on Major Rules*, [GAO-14-67](#) (Washington, D.C.: Dec. 11, 2013).

United States Has Played an Active Role in International Financial Regulatory Reforms but Has Faced Challenges

The United States has been active in the international financial regulatory reforms intended to address regulatory and other weaknesses revealed by the 2007-2009 financial crisis. Through its participation in the G20, the United States has helped set the G20 financial regulatory reform agenda. Moreover, through their participation on various international bodies, U.S. financial regulators and, where relevant, Treasury have helped develop standards to implement the G20 reform agenda. However, U.S. financial regulators have faced challenges in implementing the G20 financial reform agenda.

United States Has Helped Set the G20 Financial Regulatory Reform Agenda

The United States has played an important role in elevating the G20 summits to the level of head of state (or government) and in setting G20 agendas for reforming international financial regulation. According to Treasury officials, during the acute phase of the financial crisis in 2008, the United States proposed elevating the G20 forum from the traditional level of finance ministers and central banks to the level of heads of state or government. To that end, the G20 leaders, including the U.S. President, held a summit for the first time in Washington, D.C., in November 2008. The main objective for elevating the G20 forum was to help the world's major economies cope with the then-ongoing financial crisis and establish a framework to help prevent future financial crises. Among other things, the G20 leaders established principles for financial regulatory reform and developed a list of initial reform commitments. The U.S. President has attended the subsequent G20 leaders' summits and has continued to play an active role in helping to support or expand the G20 financial reform agenda. The G20 members' finance ministers and central bankers also have been meeting regularly to advance the reform agenda.

In addition to the U.S. President's direct participation in the G20 summits, the United States has helped to set the G20 financial reform agenda. For example, as host to the G20 summit in Washington (2008) and Pittsburgh (2009), U.S. officials were responsible for coordinating the preparation of the summit agendas and reform agreements. Agreements reached at the Pittsburgh summit included commitments by the G20 leaders to regulate the OTC derivatives markets and establish procedures to manage the failure of systemically important financial institutions. Moreover, U.S. officials have helped support and advance specific reform proposals for other summits. For example, in the lead-up to the London G20 summit in 2009, the United States publicly supported increasing capital requirements for banks, creating FSB, and expanding the scope of regulation to systemically important institutions and markets. In the lead-

up to the Toronto summit in June 2010, the United States reiterated its support for more stringent capital and liquidity requirements for banks. At the Toronto summit, leaders pledged to endorse the forthcoming capital reforms (i.e., the Basel III capital standards) at their summit in Seoul in November 2010.²¹

The United States also has been coordinating with international bodies and regulators to put in place domestic financial reforms. For instance, after the G20 summit in Seoul in November 2010, U.S. officials noted that the passage of the Dodd-Frank Act put the United States at the forefront of global financial reform. U.S. officials also highlighted that a number of the Dodd-Frank Act's provisions aligned with the G20 reform commitments. These included provisions for (1) a resolution regime, (2) a framework of oversight and reporting for OTC derivatives markets, (3) regulation of all firms that pose the most risk to the financial system, and (4) a registration requirement for advisers to hedge funds.²² Further, the officials noted that the United States is working closely with the European Union and others to ensure that the G20's agenda for regulatory reform is implemented.

United States Has Helped Develop International Financial Standards

The G20 leaders rely on their national authorities, FSB, and international standard setting bodies to implement their financial regulatory reform commitments. FSB and the standard setting bodies are membership organizations that rely substantially on finance ministries, central banks, and regulators from their member jurisdictions to help guide and carry out their work. Like the G20, FSB and many of the standard setting bodies follow a consensus-based decision-making process to develop their standards. U.S. banking regulators (FDIC, the Federal Reserve, and OCC), CFTC, SEC, and Treasury are members of FSB or standard setting bodies (or both) and, in some cases, have leadership roles, such as serving as committee chairs. Examples of international bodies in which U.S. authorities are members and have leadership roles include the following:

²¹Other U.S. priorities in the lead up to the Toronto summit included a restatement of support for stronger oversight of derivatives markets, more transparency and disclosure, and a more effective framework for winding down large global firms.

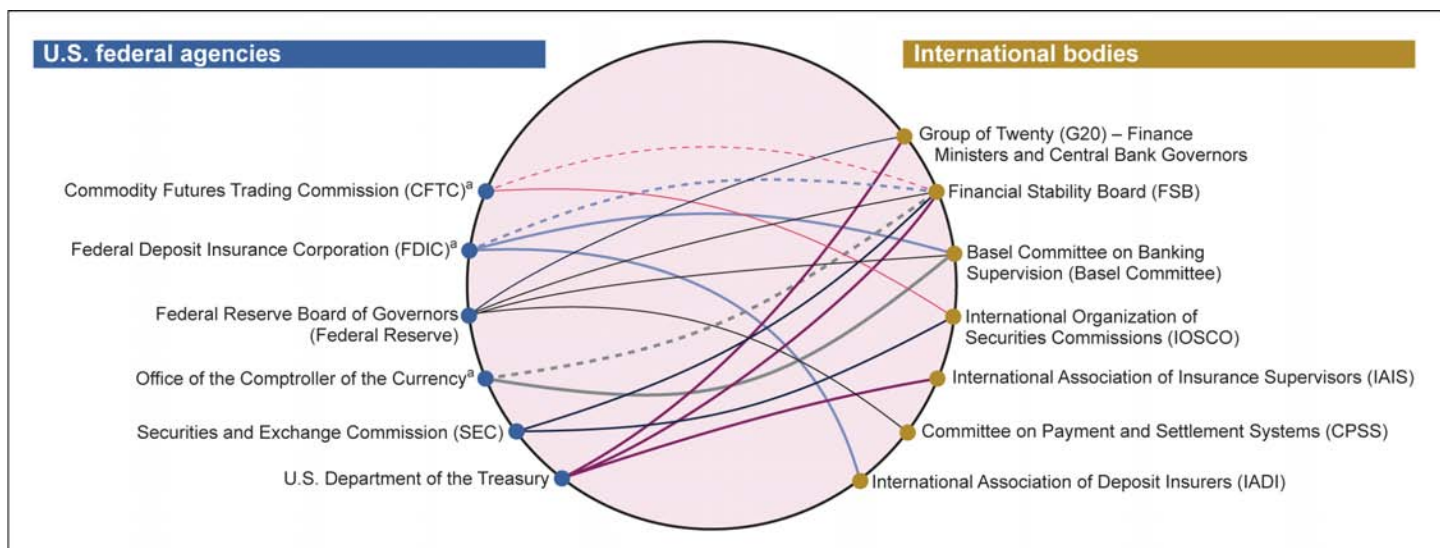
²²White House Fact sheet on the Seoul summit, available at <http://www.whitehouse.gov/the-press-office/2010/11/12/g-20-fact-sheet-us-financial-reform-and-g-20-leaders-agenda>.

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- **FSB:** FSB coordinates implementation of the G20 financial reform agenda. The Federal Reserve, SEC, and Treasury serve on FSB's Steering Committee and Plenary, which is FSB's decision-making body. These agencies also chair or are members of three key standing committees and, with CFTC, FDIC, the Federal Reserve Bank of New York, and OCC, have participated in or chaired other FSB working groups.
 - **Basel Committee:** The Basel Committee develops prudential standards for banks. FDIC, the Federal Reserve, and OCC are members of the Basel Committee. OCC chairs one of two key subcommittees—the Supervision and Implementation group. FDIC officials noted that the agency chairs a task force exploring options to improve the simplicity and comparability of the capital framework.
 - **IOSCO:** IOSCO sets global standards for the securities sector. SEC and CFTC have served in leadership roles in IOSCO and informal groups. For example, SEC and CFTC are both members of the IOSCO Board. In addition, CFTC and SEC co-chaired an IOSCO OTC derivatives task force that established standards for mandatory clearing. CFTC also co-chairs a separate IOSCO committee on commodity derivatives.
 - **CPSS:** CPSS sets global standards for payment, clearing, and securities settlement systems. The Federal Reserve and Federal Reserve Bank of New York are members of CPSS. They have participated in a number of CPSS and CPSS-IOSCO efforts, including the development of risk management standards for financial market infrastructures.
 - **IAIS:** IAIS sets global standards for the insurance industry. The U.S. Treasury's Federal Insurance Office chairs an IAIS committee that leads the development of prudential standards. The Federal Insurance Office also has served in leadership roles and as a member of other IAIS committees, subcommittees, and working groups.
 - **IADI:** IADI sets global standards for deposit insurers. The FDIC is an active member of IADI, sits on its Executive Council, and chairs and participates in a number of IADI committees, subcommittees, and working groups.

Figure 3 shows which U.S. authorities are members of selected international bodies (as represented by the solid lines). Although CFTC,

FDIC, and OCC are not members of FSB, they have participated in or chaired FSB working groups (as represented by the dashed lines).

Figure 3: U.S. Federal Agencies' Membership in Selected International Bodies



— U.S. federal agency is member of indicated international body
 - - - - U.S. federal agency is not a member of FSB but participates in selected FSB activities
 Source: GAO, based on international organization and U.S. federal agency information.

³CFTC, FDIC, and OCC are not members of FSB but participate in selected FSB activities.

As members of FSB and international standard setting bodies, U.S. financial regulators and Treasury have been actively involved in developing many of the international financial standards (including policies, principles, practices, or guidance) that implement the G20 financial reform commitments. Since 2008, FSB and international standard setting bodies have developed an array of new or revised standards covering a broad range of issues including banking, OTC derivatives, compensation practices, shadow banking, and SIFIs and resolution regimes. (See appendix III for a more detailed list of reform areas and objectives, related standards, and the participation of U.S. agencies.) Examples of standards that U.S. authorities helped develop include the following:

- **Basel capital standards:** FDIC, the Federal Reserve, Federal Reserve Bank of New York, and OCC, as U.S. representatives to the Basel Committee, helped develop the Basel III capital standards,

which set higher levels for capital requirements for banks and introduced a new global liquidity standard.²³ The Basel Committee released Basel III in December 2010, in part in response to the G20 leaders' calls for higher standards for capital and enhanced supervision.

- **OTC derivatives reforms:** CFTC, the Federal Reserve, or SEC helped develop standards issued by IOSCO or CPSS (or both) for financial market infrastructures, central clearing of OTC derivatives, and reporting of OTC derivatives.²⁴ These standards respond to the G20 leaders' commitment in 2009 to ensure that all standardized OTC derivative contracts would be traded on organized platforms, where appropriate, and cleared through central counterparties; and all OTC derivatives contracts would be reported to trade repositories.²⁵ CFTC, FDIC, the Federal Reserve, OCC, and SEC helped develop standards issued by the Basel Committee and IOSCO on margin requirements for non-centrally cleared OTC derivatives, as requested by the G20.²⁶

²³Basel Committee on Banking Supervision, *Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems* (Basel, Switzerland: Dec. 2010). The Basel Committee issued a revised version of the requirements in June 2011.

²⁴For example see Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, *Principles for Financial Market Infrastructures* (April 2012); Technical Committee of the International Organization of Securities Commissions, *Requirements for Mandatory Clearing*, OR05/12 (February 2012); Committee on Payment and Settlement Systems and Technical Committee of the International Organization of Securities Commissions, *Final Report: Report on OTC Derivatives Data Reporting and Aggregation Requirements* (January 2012); Technical Committee of the International Organization of Securities Commissions, *Report on Trading of OTC Derivatives*, FR03/11 (February 2011); and Technical Committee of the International Organization of Securities Commissions, *Follow-On Analysis to the Report on Trading of OTC Derivatives*, OR02/11 (January 2012).

²⁵FSB made recommendations in 2010 addressing practical issues that authorities may encounter in implementing the G-20 leaders' OTC derivatives reform commitments. See Financial Stability Board, *Implementing OTC Derivatives Market Reforms* (Oct. 25, 2010). At their November 2010 Seoul summit, G-20 leaders endorsed the FSB recommendations. At their November 2011 Cannes summit, G20 leaders called on the Basel Committee and IOSCO to work together and with other relevant organizations to develop standards on margining for noncentrally cleared OTC derivatives.

²⁶Basel Committee on Banking Supervision and Board of International Organization of Securities Commissions, "Margin Requirements for Non-Centrally Cleared Derivatives" (September 2013).

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- **Enhanced supervision of SIFIs and resolution regimes:** FDIC, the Federal Reserve Bank of New York, and Treasury helped develop standards issued by FSB for resolution regimes. The regimes would help enable authorities to resolve failing financial firms in an orderly manner and without exposing the taxpayer to the risk of loss.²⁷ According to FSB, these standards respond to a 2009 request by the G20 leaders to address too-big-to-fail problems associated with SIFIs—that is, when the threatened failure of a SIFI leaves public authorities with no option but to provide public funds to avoid widespread financial instability and economic damage.²⁸ Moreover, the standards are part of a broader SIFI framework intended to reduce both the probability and impact of SIFIs failing.²⁹

U.S. Challenges Involving the G20 Financial Regulatory Reforms

In our discussions with U.S. federal financial regulators, they identified time or resource constraints as key challenges in helping to develop international financial standards. One regulator said its staff members feel tension between allocating time to their routine regulatory duties and their international work. A U.S. regulator also said that since 2008, there has been a constantly increasing number of work streams, groups, and projects flowing from the G20, many with relatively short deadlines. Moreover, the number of overall projects tends to increase over time as old projects evolve into new areas and new projects are initiated. One of the regulators estimated that the number of projects had at least doubled since the start of the 2007-2009 financial crisis. Two of the regulators also told us they have faced resource constraints, such as not having the travel funds to attend meetings.

²⁷Financial Stability Board, “Key Attributes of Effective Resolution Regimes for Financial Institutions” (October 2011).

²⁸As we recently reported, U.S. government assistance to prevent the failures of certain large financial institutions during the 2007-2009 financial crisis helped avert a more severe crisis, but raised concerns about moral hazard and the appropriate scope of federal safety nets for the financial sector. Moral hazard can occur when market participants expect similar emergency actions in future crises, thereby weakening their incentives to properly manage risks. See GAO, *Government Support for Bank Holding Companies: Statutory Changes to Limit Future Support Are Not Yet Fully Implemented*, [GAO-14-18](#) (Washington, D.C.: Nov. 14, 2013).

²⁹Financial Stability Board, *Reducing the Moral Hazard Posed by Systemically Important Financial Institutions, FSB Recommendations and Time Lines* (Oct. 20, 2010).

The number of members from any one country is intended to be representative of the size of national economies, financial market activities, and national financial stability arrangements. However, two U.S. regulators told us FSB's selection of members has created additional coordination work for U.S. federal authorities. According to a U.S. regulator, U.S. membership in international bodies does not always reflect the significance of the U.S. economy. For example, while U.S. firms have a dominant share of the OTC derivatives markets, CFTC—one of the primary U.S. regulators responsible for overseeing derivatives markets—has no representation on the FSB Plenary, the FSB decision-making body. As a result, U.S. regulators have had to devote time and effort coordinating input and responses from U.S. regulators not represented on FSB. Treasury officials told us that FSB must limit the number of representatives from any member jurisdiction to prevent its membership from becoming too unwieldy, but recognized that this limitation creates additional coordination work for U.S. financial regulators. Treasury staff told us that to address this limitation Treasury established a liaison, who coordinates closely and regularly with all U.S. financial regulators to keep them informed of FSB's activities and work products and to obtain their input.

United States and Other Jurisdictions Report Having Made Progress Implementing International Reforms, but Most Reforms Have Not Been Fully Implemented

The United States and other jurisdictions report having made progress implementing the G20's international financial reforms, but most reforms have not been implemented by all jurisdictions. Under its mandate, FSB is responsible for coordinating and promoting the monitoring of the implementation of the G20 reform commitments and reporting on the implementation progress to the G20. In collaboration with standard setting bodies, FSB established a framework in 2011 to monitor and report on the implementation of the G20 financial reform commitments, including the related international financial standards.³⁰ In addition, FSB and IMF have programs to assess members' compliance with international financial standards and foster a level playing field. However, a broad range of legal, economic, and political factors can create implementation challenges for jurisdictions. The failure to implement the international reforms consistently could, among other things, hinder the ability of national authorities or international bodies to protect against developments affecting national and international financial stability.

Jurisdictions Vary in Their Implementation Stage of the Priority Area Reforms

FSB has selected priority reform areas that undergo more intensive monitoring and detailed reporting than other reform areas, and the list of priority areas is reviewed annually by FSB and revised as needed.³¹ FSB selects the areas based on the importance of their consistent and comprehensive implementation to global financial stability. For each priority area, an FSB working group or standard setting body is responsible for monitoring implementation progress and periodically preparing a progress report.³² Currently, FSB's priority areas are (1) the Basel framework; (2) OTC derivatives market reforms; (3) policy measures for SIFIs; (4) resolution regimes, (5) compensation practices;

³⁰Financial Stability Board, *A Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms* (Oct. 18, 2011). In general, FSB's implementation monitoring covers only the G20 financial reform commitments made in the aftermath of the global financial crisis.

³¹FSB's Plenary determines the priority areas and reviews those areas annually in light of policy developments at the international level. FSB's Standing Committee on Standards Implementation is responsible for proposing changes to the list annually.

³²Under FSB's coordination framework, such reports are to include information that (1) is collected and reported frequently, (2) provides regular country-by-country implementation details, (3) may be relevant for assessing implementation progress, (4) highlights issues and lessons of experience that implementation has raised for the authorities and market participants, and (5) provides potential recommendations to address major impediments to, or gaps in, implementation.

Implementation of Basel III Standards

and (6) shadow banking.³³ Based on recent progress reports, jurisdictions vary in their implementation stage of the priority area reforms.

At their 2010 summit in Seoul, the G20 leaders endorsed Basel III capital standards and committed to adopt and implement the standards.³⁴ According to the Basel Committee’s progress report issued in October 2013, 11 of its 27 members had implemented in full the Basel capital framework, which includes Basel II, 2.5, and III standards (see table 2).³⁵ Specifically, 12 jurisdictions reported that they had issued final Basel III capital rules that were legally in force. At that time, the United States and 14 other jurisdictions reported that they had issued final rules to implement the Basel III capital standards, but the rules had not yet taken effect.³⁶ The remaining member jurisdiction reported that a regulation on Basel III was to be issued in 2013.

Table 2: Implementation Status of Basel Capital Framework as Reported by Members of the Basel Committee, as of October 2013

Country or jurisdiction	Basel II	Basel 2.5	Basel III ^a
Argentina	○	○	○
Australia	●	●	●
Belgium	●	●	○

³³We do not report separately on the implementation progress for resolution regimes and shadow banking. First, we discuss implementation progress of resolution regimes but only for SIFIs. Second, FSB noted that progress for shadow banking will be reported once implementation is sufficiently under way. For the time being, FSB is reporting on those elements of shadow banking that already are under way under nonpriority areas (which we discuss in the following section).

³⁴At their 2011 summit in Cannes, the G20 leaders called on jurisdictions to meet their commitment to implement fully and consistently Basel II and Basel 2.5 by 2011 and Basel III (starting in 2013, for completion by 2019).

³⁵Basel Committee on Banking Supervision, Progress Report on Implementation of the Basel Regulatory Framework (Basel, Switzerland: October 2013).

³⁶The United States issued final and interim final Basel III rules in the summer of 2013 (78 Fed. Reg. 62018 (Oct. 11, 2013) and 78 Fed. Reg. 55340 (Sept. 10, 2013)). The rules’ phase-in period for larger banking organizations began in January 2014, and the rule’s phase-in period for less complex banking organizations will not begin until January 2015. The Basel requirements include implementation of certain provisions by 2019, but the federal rules provide until 2021 for phasing in certain requirements, such as the percentage of nonqualifying capital instruments issued prior to September 12, 2010, includable in additional tier 1 or tier 2 capital.

Country or jurisdiction	Basel II	Basel 2.5	Basel III ^a
Brazil	●	●	●
Canada	●	●	●
China	●	●	●
European Union	●	●	◐
France	●	●	◐
Germany	●	●	◐
Hong Kong SAR	●	●	●
India	●	●	●
Indonesia	●	○	◐
Italy	●	●	◐
Japan	●	●	●
Luxembourg	●	●	◐
Mexico	●	◐	●
Netherlands	●	●	◐
Russia	◐	◐	◐
Saudi Arabia	●	●	●
Singapore	●	●	●
South Africa	●	●	●
South Korea	●	●	◐
Spain	●	●	◐
Sweden	●	●	◐
Switzerland	●	●	●
Turkey	●	●	◐
United Kingdom	●	●	◐
United States	◐	◐	◐

● Implemented ◐ Implementation ongoing ○ Not implemented

Source: Basel Committee on Banking Supervision.

^aBasel Committee members agreed to implement Basel III from January 1, 2013, through January 1, 2019, subject to transitional and phase-in arrangements.

As previously discussed, although the Basel Committee members have adopted or will adopt rules to implement the Basel capital standards, the adoption of the standards does not necessarily ensure that they will be applied consistently across banks and jurisdictions. In that regard, the Basel Committee established the Regulatory Consistency Assessment Program in 2012. The committee monitors the transposition of Basel III standards into domestic regulations semiannually based on information provided by each of its member jurisdictions. The aim of such monitoring is to ensure that the internationally agreed timeline remains on track. The

committee publishes its results in regular progress reports (discussed earlier).

The Basel Committee also assesses the consistency of implementation of the Basel III standards. These assessments are done on a jurisdictional and thematic basis.

- Member jurisdictional assessments review the extent to which domestic Basel III regulations in each member jurisdiction are aligned with the Basel III standards. The assessments examine the consistency and completeness of the adopted standards, including the significance of any deviations in the standards, and provide an overall assessment of compliance using a four-grade scale: compliant, largely compliant, materially non-compliant, and noncompliant. As of year-end 2013, the committee had completed seven jurisdictional assessments. In its assessments of Brazil, China, Switzerland, Singapore, and Japan, the committee found their rules generally to be compliant with the Basel standards. The committee conducted assessments of the European Union's and United States' proposed Basel III rules but did not assign them a grade because of the draft nature of the rules.³⁷
- Thematic assessments review regulatory outcomes to ensure that the prudential ratios calculated by banks are consistent across banks and jurisdictions and predominantly reflect differences in risk rather than in practice. The committee initially focused its thematic assessments on analyzing how banks were weighing (or valuing) assets based on their risk level, because differences in the application of the Basel standards can lead to variations in the amount of capital banks have to hold. In that regard, the objective of the assessments generally has been to obtain a preliminary estimate of the potential for variation in risk-weighted assets across banks and highlight aspects of the Basel standards that contribute to this variation. The committee's two

³⁷The Basel Committee's assessment found the European Union's proposed approach generally complied with 12 of the 14 key components of the Basel framework. See Basel Committee on Banking Supervision, *Basel III Regulatory Consistency Assessment (Level 2)*, preliminary report European Union (October 2012). The committee's assessment found the United State's proposed approach generally complied with 12 of the 13 key components. See Basel Committee on Banking Supervision, *Basel III Regulatory Consistency Assessment (Level 2)*, preliminary report United States of America (October 2012). A component for operational risk was not assessed, as it is not applicable in the United States.

Implementation of the OTC Derivatives Reforms

assessments on this issue found considerable variation across banks in the average risk-weighted assets for market risk in the trading book and credit risk in the banking book.³⁸ Part of the variation was attributed to differences in supervisory practices or decisions. According to a Basel Committee Chairman, information from the studies is being used by national supervisors and banks to take action where needed, such as to improve consistency. The Basel Committee also plans to use the results as part of its ongoing policy work.

At the 2009 summit in Pittsburgh, the G20 leaders committed that all standardized OTC derivatives should be traded on organized trading platforms and centrally cleared; all OTC derivatives should be reported to a repository; and all noncentrally cleared OTC derivatives should be subject to higher capital requirements. At the 2011 summit in Cannes, the G20 leaders further agreed to require noncentrally cleared OTC derivatives to be subject to margin requirements—the posting of collateral to offset losses caused by the default of a derivatives counterparty. FSB and standard setting bodies, including the Basel Committee, CPSS, and IOSCO, have issued most of the standards needed to implement the G20 OTC derivatives reforms.³⁹

According to FSB's sixth progress report on implementation of OTC derivatives market reforms issued in September 2013, over half of FSB's 19 member jurisdictions, including the United States, reported having proposed or enacted legislation to require OTC derivatives transactions to be centrally cleared, traded on organized trading platforms, and reported to trade repositories.⁴⁰ As shown in table 3, five jurisdictions, including the

³⁸Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme Analysis (RCAP): Risk-weighted Assets for Credit Risk in the Banking Book* (July 2013), and *Regulatory Consistency Assessment Programme (RCAP): Analysis of Risk-weighted Assets for Market Risk* (January 2013; revised February 2013).

³⁹See, for example, the Committee on Payment and Settlement Systems Technical Committee International Organization of Securities Commissions, *Principles for Financial Market Infrastructures* (April 2012); Committee on Payment and Settlement Systems Technical Committee of the International Organization of Securities Commissions, *Final Report: Report on OTC Derivatives Data Reporting and Aggregation Requirements* (January 2012); and Basel Committee on Banking Supervision and Board of the International Organization of Securities Commissions, *Margin Requirements for Noncentrally Cleared Derivatives* (September 2013).

⁴⁰Financial Stability Board, *OTC Derivatives Market Reforms, Sixth Progress Report on Implementation* (Sept. 2, 2013). FSB has 24 member jurisdictions but treats the European Union members as one jurisdiction in this instance.

United States, reported having proposed or enacted legislation to implement the margin requirements. Table 3 also shows that the United States is the only jurisdiction with regulations in force and operating for the central clearing, organized platform trading, and trade reporting requirements (for at least part of the market), but many jurisdictions reported having adopted regulations for the trade reporting requirement. Only one jurisdiction reported having adopted regulations for the margin requirement. According to FSB, the schedule for further changes in legislative and regulatory frameworks is uneven across jurisdictions and commitment areas.

Table 3: Implementation Status of the G20 OTC Derivatives Reforms as Reported by FSB Member Jurisdictions, as of September 2013

Jurisdiction	Status of legislation				Status of regulation			
	Central clearing	Exchange or platform trading	Reporting to trade repository	Margin	Central clearing	Exchange or platform trading	Reporting to trade repository	Margin
Argentina	○	○	—	—	○	○	—	—
Australia	○	○	○	—	/	—	●	—
Brazil	—	—	○	—	—	—	●	—
Canada	○	○	○	—	—	—	/	—
China	+	○	○	—	+	○	○	—
European Union	○	+	○	○	○	—	○	—
Hong Kong SAR	+	+	+	+	—	—	●	—
India	○	○	○	○	○	□	●	□
Indonesia	—	○	○	—	—	●	●	—
Japan	○	○	○	—	●	—	●	—
Mexico	NA	NA	NA	NA	/	/	/	—
Russia	○	○	○	NA	—	—	○	—
Saudi Arabia	NA	NA	NA	NA	—	—	●	—
Singapore	○	/	○	—	—	—	/	—
South Africa	○	○	○	□	—	—	/	—
South Korea	○	—	○	—	—	—	●	—
Switzerland	/	/	□	/	—	—	—	—
Turkey	○	—	○	—	—	—	—	—
United States	○	○	○	○	●	●	●	+

Legend:

— - No action NA - Not applicable + - Proposed / - Consultation
 □ - Partially adopted ○ - Adopted ● - Partially effective ● - Effective

Source: FSB.

Notes: "No action" means that no action has been taken to date. "NA" means not applicable in the jurisdiction (i.e., legislative changes or implementing rules may not be needed in certain jurisdictions). "Consultation" means that official documents have been published for public consultation. "Proposed" means draft legislation or regulations have been submitted through the appropriate process. "Partially adopted" means that final legislation or rules have been adopted for part of the relevant commitment area and are enforceable. "Adopted" means that final legislation or rules have been adopted by the appropriate bodies and are enforceable. "Partially effective" means regulations are in force and operating for a part of the market. "Effective" means that regulations are in force and operating. Although the G20 OTC derivatives reform commitments cover capital, our table omits implementation of the capital requirements, because the requirements generally are addressed by the Basel capital framework (discussed above).

In its progress report, FSB also noted that in light of the global nature of OTC derivatives markets, cross-border coordination was needed to avoid unnecessary duplicative, inconsistent, or conflicting regulations.⁴¹ FSB plans to publish a progress report by April 2014 that provides, among other things, an updated assessment of reform implementation, including any remaining issues in the cross-border application of regulations.

While cross-border coordination issues persist, we reported in late 2013 that CFTC and SEC took steps to coordinate with foreign authorities on several rulemakings related to Dodd-Frank swap reforms, which include clearing, exchange trading, and reporting requirements.⁴² For example, CFTC issued many swap-related rules and noted that it coordinated with international bodies, such as the European Securities Markets Authority, European Central Bank, and regulators in the United Kingdom, Japan, Hong Kong SAR, Singapore, Sweden, and Canada. On the swap entities rule, CFTC and SEC staffs said that they participated in numerous conference calls and meetings with international regulators.

Implementation of the G20 Reforms for SIFIs

The 2007-2009 financial crisis revealed weaknesses in the existing regulatory framework for overseeing SIFIs, which FSB defines as institutions of such size, market importance, and interconnectedness that their distress or disorderly failure could destabilize the financial system and result in severe economic consequences. According to FSB, when the threatened failure of a SIFI leaves public authorities with no option but to provide public funds to avoid financial instability and economic

⁴¹ FSB has conducted thematic peer reviews of compensation, risk disclosure practices, mortgage underwriting and origination practices, deposit insurance systems, risk governance, resolution regimes, and reliance on credit rating agencies. FSB plans to conduct a peer review on the extent to which OTC derivatives trades are being reported to trade repositories in 2014.

⁴² [GAO-14-67](#).

damage, the SIFI can be considered too big—or too important—to fail.⁴³ The knowledge that this can happen could encourage SIFIs to take excessive risks (referred to as moral hazard) and may represent a large implicit public subsidy of private enterprise. At the Pittsburgh Summit in 2009, G20 leaders called on FSB to propose measures to address the systemic and moral hazard risks associated with SIFIs. FSB developed a framework intended to reduce the probability and impact of SIFIs failing.⁴⁴ The SIFI framework recommends new international standards for national resolution regimes (called “Key Attributes of Effective Resolution Regimes for Financial Institutions”) and requirements for banks determined to be globally systemically important to have additional loss absorption capacity to reflect the greater risk they pose to the global financial system. At the 2010 summit in Seoul, the G20 leaders endorsed the FSB’s SIFI framework.

Resolution Regimes

In its April 2013 peer review report on resolution regimes, FSB reported that some of its member jurisdictions developed new or revised existing resolution regimes.⁴⁵ For example, FSB noted that the United States has implemented a new resolution regime—referred to as Orderly Liquidation Authority (OLA)—aligned with FSB’s key attributes through its passage of the Dodd-Frank Act. OLA includes broad authorities to wind-up failing financial companies that meet certain systemic criteria. FSB also noted that Australia, Germany, Mexico, Netherlands, Spain, Switzerland, and the United Kingdom have amended their resolution regimes through

⁴³GAO is currently undertaking work on the economic benefits that the largest bank holding companies (those with more than \$500 billion in total consolidated assets) have received as a result of actual or perceived U.S. government support. GAO has issued one of two reports on this topic. See [GAO-14-18](#). A second report will address questions about whether the largest bank holding companies have received funding or other economic advantages as a result of expectations that the U.S. government would not allow them to fail.

⁴⁴Financial Stability Board, *Reducing the Moral Hazard Posed by Systemically Important Financial Institutions, FSB Recommendations and Time Lines* (Oct. 20, 2010).

⁴⁵Financial Stability Board, “Thematic Review on Resolution Regimes,” *Peer Review Report* (Apr. 11, 2013).

legislative changes.⁴⁶ At the same time, FSB noted that many of its member jurisdictions need to take further legislative measures to implement the key attributes fully in substance and scope. In its report entitled *Report on Progress and Next Steps Towards Ending Too-Big-To-Fail (TBTF)* issued in September 2013, FSB noted that it will coordinate with IMF, the World Bank, and international standard setting bodies to finalize a methodology to assess implementation of the key attributes at the national level for use by IMF and the World Bank in their Standards and Codes Initiative (discussed later).

In addition to legislative changes, FSB found that sector-specific regimes for restructuring or winding down financial firms exhibited a broad range of practices in terms of scope and authorities. According to FSB, this is to be expected, because the key attributes do not prescribe the specific form of the resolution regime as long as the regime is consistent with the key attributes. All FSB members, including the United States, reported that they have specific powers to restructure or wind up banks (or both) that are distinct from ordinary corporate insolvency (see table 4). However, the extent to which the resolution regimes also cover insurers, investment or securities firms, and financial market infrastructure varies across jurisdictions.

⁴⁶For example, in Australia, legislation was enacted in 2008 and 2010 to strengthen the crisis resolution powers available to its financial regulator. In the Netherlands, the resolution framework was broadened to address the risks posed by systemically relevant banks. Following the financial crisis, the Spanish government strengthened the deposit insurance agency, which is able to provide financial support in resolution, and in June 2009 created the Bank Resolution Authority to assist the reorganization of the banking industry. Similarly, following the financial crisis, the Swiss Banking Act was revised in 2011 and 2012 to include specific requirements for systemically important banks and additional restructuring provisions. In December 2013, the European Parliament and EU member countries reached agreement on the Bank Recovery and Resolution Directive, and its implementation will be an important step towards implementation of the key attributes in EU member countries.

Table 4: Select Features of Sector-Specific Regimes as Reported by FSB Member Jurisdictions, as of April 2013

Jurisdiction	Authority to restructure and/or wind up banks? ^a	Authority to restructure and/or wind up insurers? ^a	Authority to restructure and/or wind up securities or investment firms? ^a	Authority to restructure and/or wind up financial market infrastructures? ^a	Are there legal provisions or policies that mandate or strongly encourage cross-border cooperation of resolution authority?
Argentina	✓	✓	✗	✗	✗
Australia	✓	✓	✗	✗	✓
Brazil	✓	✓	✓	✗	✗
Canada	✓	✓	✗	✗	✗
China	✓	✓	✓	✗	✗
France	✓	✓	✓	✓	✓ ^b
Germany	✓	✓	✗	✓	✓ ^b
Hong Kong SAR	✓	✓	✗	✗	✓
India	✓	✗	✗	✗	✗
Indonesia	✓	✗	✗	✗	✓
Italy	✓	✓	✓	✓	✓ ^b
Japan	✓	✓	✗	✗	✓
Mexico	✓	✓	✗	✗	✗
Netherlands	✓	✓	✓	✓	✓ ^b
Russia	✓	✓	✓	✓	✗
Saudi Arabia	✓	✓	✓	✗	✗
Singapore	✓	✓	✗	✗	✗
South Korea	✓	✓	✓	✗	✗
South Africa	✓	✓	✗	✗	✗
Spain	✓	✓	✓	✗	✓
Switzerland	✓	✓	✓	✓	✓
Turkey	✓	✓	✓	✗	✗
United Kingdom	✓	✓	✓	✓	✓
United States	✓	✓	✓	✓	✓

✓ Yes

✗ No

Source: FSB.

^aRefers to powers for restructuring and/or winding up banks, insurers, securities or investment firms, and financial market infrastructures that are distinct from ordinary corporate insolvency proceedings. These powers are not necessarily aligned with those specified in key attribute 3 (resolution powers).

^bOnly within the European Union.

Additionally, in its April 2013 peer review report on resolution regimes, FSB reported that the resolution regimes of most of its members neither require nor prohibit cooperation with foreign resolution authorities. FSB regards legal frameworks for cross-border cooperation as a key attribute of resolution regimes. According to FSB, eight jurisdictions have statutory provisions that explicitly empower or strongly encourage resolution authorities to cooperate with foreign authorities (Australia, Hong Kong SAR, Indonesia, Japan, Spain, Switzerland, United Kingdom, and United States) while several others indicated that it is their policy to cooperate where possible.

In 2012, we reported that international coordination remains a critical component in resolving the failure of a large, complex financial company and that regulators have been taking steps to address this issue, including through their work with FSB.⁴⁷ More recently, in a 2013 report, we examined the advantages and disadvantages of certain proposals to revise the U.S. Bankruptcy Code for financial company bankruptcies, including proposals to change the role of financial regulators in the bankruptcy process and the special treatment of qualified financial contracts, such as derivatives.⁴⁸ We recommended that FSOC should consider the implications for U.S. financial stability of changing the role of regulators and the treatment of qualified financial contracts in financial company bankruptcies. Although our recommendation continues to have merit, FSOC has not yet implemented the recommendation. FSB made related recommendations in its peer review on resolution regimes (discussed later)—namely designating a lead authority for resolving domestic entities of the same group and introducing powers to impose a

⁴⁷GAO, *Bankruptcy: Agencies Continue Rulemakings for Clarifying Specific Provisions of Orderly Liquidation Authority*, [GAO-12-735](#) (Washington, D.C.: July 12, 2012).

⁴⁸GAO, *Financial Company Bankruptcies: Need to Further Consider Proposals' Impact on Systemic Risk*, [GAO-13-622](#) (Washington, D.C.: July 18, 2013).

temporary stay on the exercise of contractual acceleration or early termination rights in financial contracts, subject to suitable safeguards.⁴⁹

Identification of Largest and Most Complex SIFIs

Complementing the resolution regime reforms, FSB, the Basel Committee, IAIS, and others have taken steps to reduce the probability of the failure of SIFIs in part by working to establish requirements aimed at increasing SIFIs' capacity to absorb losses. In November 2013, FSB published its updated annual list of global systemically important banks (G-SIB), which generally comprise the largest and most complex internationally active banks.⁵⁰ As shown in table 5, there were 29 G-SIBs headquartered in 11 countries: 8 in the United States; 4 each in France and the United Kingdom; 3 in Japan; 2 each in China, Spain, and Switzerland; and 1 each in Germany, Italy, Netherlands, and Sweden. G-SIBs are grouped into one of five buckets based on their systemic importance, which correspond to increasing levels of additional loss absorbency requirements. The requirements are to be updated shortly and implemented by jurisdictions and phased in from January 2016, with full implementation by January 2019.⁵¹

According to the Basel Committee's August 2013 progress report, Canada and Switzerland have issued final regulations for G-SIBs and domestic systemically important banks (D-SIBs) and begun to enforce them.⁵² Ten of the Basel Committee members have issued final D-SIB

⁴⁹ FSB's *Key Attributes of Effective Resolution Regimes* recommends, among other things, that resolution authorities have the power to temporarily stay the exercise of early termination rights that may otherwise be triggered when a firm enters resolution. For example, under the Dodd-Frank Act's provisions on Orderly Liquidation Authority, qualified financial contracts—financial agreements including securities and commodities contracts, forward contracts, and repurchase and swap agreements—are subject to a 1-day stay and counterparties cannot terminate their contracts until 5:00 p.m. on the day after FDIC begins its receivership. During this time, FDIC may have transferred the contract to a bridge financial company or repudiated (rejected) it.

⁵⁰ Financial Stability Board, *2013 Update of Group of Global Systemically Important Banks* (Nov. 1, 2013).

⁵¹ G-SIBs also are subject to resolution planning requirements and higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance, and internal controls.

⁵² Basel Committee on Banking Supervision, *Report to G20 Leaders on monitoring implementation of Basel III regulatory reforms*, Bank for International Settlements (August 2013).

regulations that were not yet in force (South Africa and EU member states). The remaining member jurisdictions, including the United States, had not yet issued draft rules. At the time, U.S. regulators expected to issue a notice of proposed rulemaking for G-SIBs by year-end 2013.⁵³ As of February 2014, the U.S. regulators had not issued a rule proposal to implement regulation for the Basel Committee G-SIB risk-based capital surcharge framework.

Table 5: G-SIBs as of November 2013, Required Level of Additional Loss Absorbency, and Home Country

G-SIB	Required level of additional loss absorbency^a	Home country
HSBC	2.5 percent	United Kingdom
JP Morgan Chase	2.5 percent	United States
Barclays	2.0 percent	United Kingdom
BNP Paribas	2.0 percent	France
Citigroup	2.0 percent	United States
Deutsche Bank	2.0 percent	Germany
Bank of America	1.5 percent	United States
Credit Suisse	1.5 percent	Switzerland
Goldman Sachs	1.5 percent	United States
Group Crédit Agricole	1.5 percent	France
Mitsubishi UFJ FG	1.5 percent	Japan
Morgan Stanley	1.5 percent	United States
Royal Bank of Scotland	1.5 percent	United Kingdom
UBS	1.5 percent	Switzerland
Bank of China	1 percent	China
Bank of New York Mellon	1 percent	United States
BBVA	1 percent	Spain
Groupe BPCE	1 percent	France
Industrial and Commercial Bank of China Limited	1 percent	China
ING Bank	1 percent	Netherlands

⁵³The Federal Reserve has issued several rules to enhance prudential standards for bank holding companies with \$50 billion or more in total consolidated assets and nonbank financial companies FSOC has designated for supervision by the Federal Reserve. These rules apply to U.S. G-SIBs and D-SIBs.

G-SIB	Required level of additional loss absorbency^a	Home country
Mizuho FG	1 percent	Japan
Nordea	1 percent	Sweden
Santander	1 percent	Spain
Société Générale	1 percent	France
Standard Chartered	1 percent	United Kingdom
State Street	1 percent	United States
Sumitomo Mitsui FG	1 percent	Japan
Unicredit Group	1 percent	Italy
Wells Fargo	1 percent	United States

Source: GAO analysis of FSB reports.

^aThe additional loss absorbency requirements will be phased in starting in January 1, 2016.

FSB and standard setting bodies also have been extending the SIFI framework to other institutions.⁵⁴ First, in response to a request by the G20 leaders, FSB extended the G-SIFI framework to domestic systemically important banks. In October 2012, the Basel Committee issued its framework for dealing with such banks, which focuses on the impact that the distress or failure of banks will have on the domestic economy.⁵⁵ Second, IAIS developed a methodology to identify global systemically important insurers.⁵⁶ In July 2013, FSB, in consultation with IAIS and national authorities, identified nine insurers (including three U.S. insurers) as global systemically important insurers, which will be subject to a set of policy measures consistent with the SIFI framework.⁵⁷ Third, FSB, in consultation with IOSCO, has developed draft methodologies to

⁵⁴In the United States, under the Dodd-Frank Act, FSOC is authorized to determine that a nonbank financial company's material financial distress—or the nature, scope, size, scale, concentration, interconnectedness, or mix of its activities—could pose a threat to U.S. financial stability and that such company will be subject to supervision by the Federal Reserve and enhanced prudential standards. FSOC designated American International Group, Inc., General Electric Capital Corporation, Inc., and Prudential Financial, Inc., for consolidated supervision by the Federal Reserve. We currently are examining FSOC's designation process.

⁵⁵Basel Committee on Banking Supervision, *A Framework for Dealing with Systemically Important Banks* (October 2012).

⁵⁶International Association of Insurance Supervisors, *Global Systemically Important Insurers: Initial Assessment Methodology* (July 18, 2013).

⁵⁷Financial Stability Board, *Global Systemically Important Insurers and the Policy Measures That Will Apply to Them* (July 18, 2013).

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identify nonbank, noninsurance G-SIFIs, which were issued for public consultation in January 2014.

According to FSB's second progress report issued in August 2013, all but two FSB jurisdictions (Argentina and Indonesia) have implemented FSB's compensation principles and standards in their national regulation or supervisory guidance.⁵⁸ The principles and standards for significant financial institutions include having a board remuneration committee as an integral part of their governance structure, ensuring that total variable compensation does not limit institutions' ability to strengthen their capital base, and providing annual reports on compensation to the public on a timely basis. In light of the implementation status, FSB concluded that national implementation of the principles and standards can be considered largely complete and noted that the focus now is on effective supervision and oversight of firms. In addition, the report noted that while good progress continues to be made, more work needs to be done by national authorities and firms to ensure that implementation of the FSB principles and standards is effectively leading to more prudent risk-taking behavior. The report also noted that there still is some way to go before the improvements in compensation practices can be deemed effective and sustainable, particularly given the practical challenges to embedding risk management in firms' compensation practices.

According to FSB, several authorities noted that firms still were expressing some concerns about a level playing field with respect to jurisdictions that may not have fully implemented the principles and standards. At the same time, FSB noted that national authorities have yet to see any real evidence that the implementation of the principles and standards has impeded or diminished the ability of supervised institutions to recruit and retain talent. In 2012, FSB established the bilateral complaint handling process—a mechanism for national supervisors from FSB jurisdictions to bilaterally report, verify, and, if needed, address specific compensation-related complaints by financial institutions based on level playing field concerns. According to FSB, no firm had submitted a

⁵⁸Financial Stability Board, *FSB progress report: Implementing the FSB Principles for Sound Compensation* (Aug. 26, 2013).

complaint, as of August 2013. FSB plans to continue to monitor the implementation of the principles and standards.⁵⁹

United States and Other FSB Member Jurisdictions Reported That They Have Implemented or Are Implementing Most of the G20 Reform Commitments in the Nonpriority Areas

The United States and other FSB members reported that they have implemented or are in the process of implementing most of the G20 financial reform commitments in the nonpriority areas. FSB generally monitors the implementation of the G20 reforms in the nonpriority areas less intensively—primarily through annual surveys of its members.⁶⁰ Specifically, FSB’s 2013 survey of its members covered the G20 financial reform commitments in the nonpriority areas. The data are self-reported by FSB member jurisdictions, and FSB generally does not evaluate the survey responses to verify the accuracy or assess the effectiveness of implementation. Although the priority and nonpriority areas overlap in some areas, the reform commitments in the nonpriority areas cover a broader range of sectors and functions, including shadow banking, hedge funds, securitization, credit rating agencies, financial markets, and supervision.⁶¹

As shown on table 6, implementation of the G20 financial reform commitments varies by nonpriority reform area. All FSB members reported that they implemented or have been implementing 15 of the commitments. For example, all members reported making progress in implementing commitments to strengthen oversight of shadow banking, register hedge funds, regulate credit rating agencies, and enhance supervision, accounting standards, and financial consumer protection. In

⁵⁹FSB has conducted two peer reviews on compensation. See Financial Stability Board, “Thematic Peer Review on Compensation,” *Peer Review Report* (Mar. 30, 2010), and Financial Stability Board, “2011 Thematic Peer Review on Compensation,” *Peer Review Report* (Oct. 7, 2011).

⁶⁰For the G20 reform commitments in the nonpriority areas, implementation monitoring is undertaken by FSB’s Implementation Monitoring Network. In large part, FSB has monitored progress through annual surveys of its member jurisdictions, with the first survey completed in 2010. In some cases, standard setting bodies may collect and report implementation information to FSB. In its 2010 and 2011 surveys, FSB generally covered all of the G20 reform commitments. After adopting its coordination framework in 2011, FSB has sought to exclude from the survey the G20 reform commitments on its priority area list.

⁶¹Shadow banking is a priority area, and FSB plans to report on the implementation of the reform commitments once implementation is sufficiently under way. In the interim, FSB included the G20 reform commitment on shadow banking in its 2013 jurisdictional survey.

contrast, one or more FSB members reported no action to implement 11 nonpriority commitments, which include strengthening supervisory requirements for investment in structured products, enhancing disclosure of securitized products, strengthening national deposit insurance arrangements, and enhancing market transparency in commodity markets.

Table 6: Implementation Status of the G20 Financial Reform Commitments in the Nonpriority Areas as Reported by the United States and Other FSB Member Jurisdictions, as of August 2013^a

G20 Financial Reform Areas and Objectives		United States	FSB members: complete	Draft/ongoing	No action	N/A
Refining the regulatory perimeter	1. Review of boundaries of the regulatory framework including strengthening oversight of shadow banking	Complete	18	7	0	0
Hedge funds	2. Registration, appropriate disclosures and oversight of hedge funds ^b	Complete	17	5	0	2
	3. Establishment of international information sharing framework	Draft	15	3	2	5
	4. Enhancing counterparty risk management	Complete	19	6	0	0
Securitization	5. Improving the risk management of securitization	Complete	20	4	1	0
	6. Strengthening of regulatory and capital framework for monolines	N/A	3	5	0	17
	7. Strengthening of supervisory requirements or best practices for investment in structured products	No Action	16	7	2	0
	8. Enhanced disclosure of securitized products	Complete	16	7	2	0
Enhancing supervision	9. Consistent, consolidated supervision and regulation of SIFIs	Complete	18	7	0	0
	10. Establishing supervisory colleges and conducting risk assessments	Complete	16	3	0	6
	11. Supervisory exchange of information and coordination	Complete	20	4	0	1
	12. Strengthening resources and effective supervision	Complete	22	3	0	0
Building and implementing macro-prudential frameworks and tools	13. Establishing regulatory framework for macro-prudential oversight	Complete	22	3	0	0
	14. Enhancing system-wide monitoring and the use of macro-prudential instruments	Draft	18	6	1	0

G20 Financial Reform Areas and Objectives		United States	FSB members: complete	Draft/ongoing	No action	N/A
	15. Improved cooperation between supervisors and central banks	Complete	22	2	1	0
Improving oversight of credit rating agencies	16. Enhancing regulation and supervision of CRAs	Complete	23	2	0	0
	17. Reducing the reliance on ratings ^c					
Enhancing and aligning accounting standards	18. Consistent application of high-quality accounting standards	Draft	23	2	0	0
	19. Appropriate application of Fair Value Accounting	Complete	19	6	0	0
Enhancing risk management	20. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks	Complete	19	6	0	0
	21. Efforts to deal with impaired assets and raise additional capital	Complete	17	5	1	2
	22. Enhanced risk disclosures by financial institutions	Complete	23	2	0	0
Strengthening deposit insurance	23. Strengthening of national deposit insurance arrangements	Draft	10	10	2	3
Safeguarding the integrity and efficiency of financial markets	24. Enhancing market integrity and efficiency	Draft	12	9	1	3
	25. Enhanced market transparency in commodity markets	Complete	10	9	3	3
	26. Legal Entity Identifier	Complete	11	12	1	1
Enhancing financial consumer protection	27. Enhancing financial consumer protection	Complete	15	10	0	0

Source: FSB.

^aThe data are self-reported by FSB member jurisdictions, and FSB generally does not evaluate the survey responses to verify the accuracy or assess the effectiveness of implementation.

^bUnited Kingdom did not submit a response.

^cFSB did not collect information for its members on this G20 commitment, because it was conducting a thematic peer review on this issue.

Table 6 also shows the United States reported that it has taken action to implement all but one of the nonpriority G20 reform commitments—strengthening of supervisory requirements or best practices for investment in structured products—and has completely implemented 19

of the 27 nonpriority reform commitments.⁶² Japan and South Korea reported being the furthest along—completely implementing 23 of the 27 nonpriority commitments. Additionally, 21 of the 24 FSB member jurisdictions reported having completely implemented 16 or more of the nonpriority commitments.

Although the FSB survey data provide a broad picture of the implementation status of the G20 reform commitments in the nonpriority areas, the survey and its data have limitations. Importantly, the data are self-reported by FSB members. According to an FSB official, the FSB Secretariat has followed up bilaterally in a small number of cases to collect additional information and clarify certain responses, but FSB generally does not evaluate the survey responses to verify the accuracy or assess the effectiveness of implementation. As a result, the survey findings do not allow straightforward comparisons between jurisdictions or across reform areas. Also, some commitments are broadly defined and, to an extent, open to interpretation. For example, one reform commitment for hedge funds is enhancing counterparty risk management, and FSB reported that 19 members effectively implemented the reform. One of these members reported addressing the issue partly through an annual hedge fund survey; in contrast, another member reported adopting legislation and regulation to implement the reform. To interpret each G20 reform commitment, FSB added a new field in its 2013 survey that identifies the international standard associated with a particular reform commitment.

IMF and FSB Conduct Reviews to Assess Implementation and Effectiveness of International Financial Reforms

IMF and the World Bank's FSAP and ROSC

While the Basel Committee conducts reviews of its members (discussed earlier), IMF and FSB also have programs to monitor the implementation of international financial standards and review the effectiveness of the supervision. These programs include IMF and the World Bank's Financial Sector Assessment Program (FSAP) and Reports on the Observance of Standards and Codes (ROSC) assessments, as well as FSB thematic and country peer reviews.

FSAP provides the framework for comprehensive and in-depth assessments of a country's financial sector. FSAP assessments gauge

⁶²The United States noted that the National Association of Insurance Commissioners has taken action to improve its process for assessing and valuing the credit quality of securitizations held by insurance companies.

the stability of the financial sector and assess its potential contribution to growth.⁶³ Historically, participation in FSAP has been voluntary, but in 2010 IMF made financial stability assessments under FSAP a mandatory part of the surveillance for members with systemically important financial sectors.⁶⁴ As of November 2013, IMF has identified 29 jurisdictions, including the United States, as having such a sector, in part based on the size and interconnectedness of each country's financial sector.⁶⁵ Similarly, following the 2007-2009 financial crisis, the G20 countries committed to undergo an FSAP every 5 years.

For the first time, the United States underwent an FSAP between 2009 and 2010, when the Dodd-Frank Act was being deliberated and before it was enacted.⁶⁶ The FSAP report discussed, among other things, the U.S. experience with and recovery from the recent financial crisis, factors that contributed to the crisis, and legislative actions being undertaken by the United States to reform its financial system. The report included a number of recommendations broadly intended to institutionalize and strengthen systemic risk oversight; redesign the regulatory architecture; strengthen

⁶³FSAPs have two components: a financial stability assessment, which is IMF's responsibility, and a financial development assessment in developing and emerging market countries, which is the World Bank's responsibility. To assess financial stability, an FSAP examines the soundness of the banks and other financial institutions, conducts stress tests, rates the quality of financial regulation and supervision against accepted international standards, and evaluates the ability of country authorities to intervene effectively in case of a financial crisis. FSAP recommendations are of an advisory nature, but future FSAPs and other peer reviews assess the extent to which recommendations have been implemented.

⁶⁴The mandatory financial stability assessments under an FSAP include an assessment of (1) the source, probability, and potential impact of the main risks to macro-financial stability in the near term, based on an analysis of the structure and soundness of the financial system and its inter-linkages with the rest of the economy; (2) the country's financial stability policy framework, involving an evaluation of the effectiveness of financial sector supervision against international standards; and (3) the authorities' capacity to manage and resolve a financial crisis should the risks materialize, looking at the country's liquidity management framework, financial safety nets, crisis preparedness, and crisis resolution framework.

⁶⁵The jurisdictions are Australia, Austria, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Hong Kong SAR, Italy, India, Ireland, Japan, Luxembourg, Mexico, the Netherlands, Norway, Poland, Russia, Singapore, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

⁶⁶International Monetary Fund, "United States: Publication of Financial Sector Assessment Program Documentation—Financial System Stability Assessment," *IMF Country Report No. 10/247* (Washington, D.C.: July 9, 2010).

micro-prudential regulation and supervision; strengthen oversight of market infrastructure; enhance crisis management, resolution, and systemic liquidity arrangements; and address too-big-to-fail issues and the future of the housing government-sponsored enterprises.⁶⁷ The report recognized that the Dodd-Frank Act was largely consistent with the FSAP recommendations but noted effective implementation would be key.

IMF and the World Bank also have a program to assess member compliance with international financial sector standards, the results of which are summarized in a ROSC. IMF and the World Bank have recognized international standards in policy areas identified as key for sound financial systems and deserving of priority implementation in consideration of a country's circumstances. The standards include those developed by the Basel Committee, CPSS, IOSCO, IAIS, IADI, and IASB. These assessments are voluntary, even in jurisdictions for which an FSAP stability assessment is mandatory. ROSCs can be done on a stand-alone basis or as part of an FSAP. For example, the FSAP review of the United States included ROSCs covering international banking, securities, insurance, clearing, and settlement standards.⁶⁸ The assessment of the U.S. supervisory system against international codes identified many positive aspects but also some important shortcomings.⁶⁹

FSB's Thematic and Country Peer Reviews

FSB developed a peer review program in 2010. These reviews are part of FSB's efforts to promote financial stability by developing strong regulatory, supervisory, and other financial policies and fostering a level

⁶⁷Housing government-sponsored enterprises include Fannie Mae and Freddie Mac, which were created by Congress as private, federally chartered companies to provide, among other things, liquidity to home mortgage markets by purchasing mortgage loans, thus enabling lenders to make additional loans. Given their precarious financial condition, Fannie Mae and Freddie Mac were placed in conservatorship in September 2008, with the Federal Housing Finance Agency serving as the conservator under powers provided in the Housing and Economic Recovery Act of 2008.

⁶⁸International Monetary Fund, "United States: Publication of Financial Sector Assessment Program Documentation— Reports on Observance and Codes," *IMF Country Report No. 10/250* (July 2010).

⁶⁹For example, the assessment found that (1) the multiplicity of regulators created challenges for systemic oversight, (2) consolidated regulation and supervision have fallen short of what is necessary for effective oversight of systemic groups, (3) weaknesses existed in the regulation and supervision of risk management, and (4) funding arrangements for supervisors were a concern, especially for SEC, CFTC, and the state insurance regulators.

playing field. Under the FSB charter, member jurisdictions have committed to undergo periodic peer reviews. FSB's peer program includes two types of reviews: thematic and country.

Thematic reviews focus on the implementation and effectiveness of FSB-endorsed international standards deemed important for global financial stability. The objectives of the reviews are to encourage consistent cross-country and cross-sector implementation, evaluate (where possible) the extent to which standards have had their intended results, and identify gaps and weaknesses in reviewed areas. As previously discussed, FSB has conducted thematic peer reviews in the priority reform areas, such as compensation and resolution regimes. It also has conducted peer reviews in nonpriority reform areas, including the following:

- The ongoing peer review on credit ratings was assessing FSB member progress implementing FSB's Principles for Reducing Reliance on Credit Rating Agency Ratings.⁷⁰ The interim report identified several areas where accelerated progress is needed, including the need for FSB members to provide incentives to financial institutions to develop their own independent credit assessment processes. It also identified challenges that need to be addressed, which include reducing undue reliance on credit ratings in international standards, identifying suitable alternative standards of creditworthiness, and addressing constraints in the development of internal risk assessment systems.
- The peer review on risk governance found that national authorities, since the crisis, have taken several measures to improve regulatory and supervisory oversight of risk governance at financial institutions. These measures include developing or strengthening existing regulation or guidance, raising supervisory expectations for the risk management function, engaging more frequently with the board and management, and assessing the accuracy and usefulness of the information provided to the board to enable effective discharge of their responsibilities.⁷¹ It also made four recommendations targeting areas in which more substantial work was needed, including strengthening regulatory and supervisory guidance, reviewing principles for risk

⁷⁰Financial Stability Board, *Interim Report of the Peer Review of the FSB Principles for Reducing Reliance on Credit Rating Agency Ratings* (Aug. 29, 2013).

⁷¹Financial Stability Board, *Thematic Review on Risk Governance* (Feb. 11, 2013).

governance, and exploring ways to formally assess risk culture at financial institutions.

FSB's country reviews focus on the implementation of international standards and their effectiveness nationally. The reviews examine steps taken or planned by national authorities to address FSAP and ROSC recommendations of IMF and the World Bank. (FSB peer reviews take place 2 to 3 years following an FSAP.) Unlike an FSAP, an FSB country review does not comprehensively analyze a jurisdiction's financial system structure or policies, or its compliance with international financial standards. According to an FSB official, both country and thematic peer reviews have the inherent limitation of being primarily "desktop-based" reviews, which constrains the review team's ability to engage in on-site interactions to assess implementation progress, challenges, and impact. FSB's peer review handbook notes that country peer reviews will include a brief on-site visit in the reviewed jurisdiction to meet with the authorities, and subject to the agreement of the reviewed jurisdiction, the on-site visit also may include meetings with relevant market participants.⁷² Such a visit should support the peer review's objective and be consistent with equal treatment of members under the peer review process, and its expected benefits should outweigh the resource costs.

As part of this commitment, the United States volunteered to undergo a country peer review in 2013.⁷³ The review found that U.S. authorities had made good progress in following up on FSAP recommendations, particularly in regard to systemic risk oversight arrangements and the supervision and oversight of financial market infrastructures. At the same time, the review included recommendations targeted at systemic risk oversight arrangements, supervision and oversight of financial market infrastructures, and insurance supervision. For example, FSB recommended that FSOC develop a more systematic, analytical, and transparent macroprudential framework for coordinating efforts and incorporating the bottom-up views of member agencies to address systemic risk. In addition, FSB recommended that FSOC develop a more in-depth and holistic analysis of the systemic risks to financial stability. Similarly, in 2012, we reported that FSOC's establishment of a Systemic Risk Committee to facilitate coordination among its member staffs can

⁷²Financial Stability Board, *Handbook for FSB Peer Reviews* (Jan. 7, 2014).

⁷³Financial Stability Board, "Peer Review of the United States," *Peer Review Report* (Aug. 27, 2013).

help FSOC analyze known risks, but the approach does not take full advantage of FSOC member agency resources to identify new threats to the financial system. We also reported that FSOC identifies a number of potential emerging threats to financial stability in its annual reports, but does not use a systematic, forward-looking approach to identify such threats.⁷⁴ To address these weaknesses, we recommended, among other things, that FSOC develop (1) a monitoring approach that includes systematic sharing of key financial risk indicators across FSOC members and member agencies to assist in identifying potential threats for further monitoring or analysis; and (2) a more systematic, forward-looking approach for reporting on potential emerging threats to financial stability in annual reports. In its comment letter, Treasury stated that officials will carefully consider the report's findings and recommendations. As of March 2014, Treasury had taken some steps to implement the recommendations, but the recommendations had not been fully implemented.

While FSB noted that federal and state authorities in the United States began addressing FSAP recommendations on the insurance sector—for example, establishing the Federal Insurance Office—it also noted that significant additional work is needed. According to FSB, the structure and characteristics of insurance supervision in the United States—the multiplicity of state regulators, the absence of federal regulatory powers to promote greater regulatory uniformity, and the limited rights to preempt state law—constrain the federal government's ability to ensure regulatory uniformity in this sector.⁷⁵ FSB recommended that the U.S. authorities should promote greater regulatory uniformity in the insurance sector, including by conferring additional powers and resources at the federal level where necessary.

⁷⁴GAO, *Financial Stability: New Council and Research Office Should Strengthen the Accountability and Transparency of Their Decisions*, [GAO-12-886](#) (Washington, D.C.: Sept. 11, 2012).

⁷⁵FSB noted that while the Federal Insurance Office represents the United States on international insurance matters and negotiates covered agreements, only the states have the authority (but are under no legal obligation) to implement laws that are consistent with those agreements and international standards agreed to within IAIS.

Jurisdictional Differences and Other Factors May Create Implementation Challenges for the G20 Financial Reforms

As recognized by regulators, industry associations, and academics, a broad range of legal, economic, and political factors can create implementation challenges for jurisdictions. For example, differences in economic development of countries and differences in philosophy or ideology between jurisdictions can make it difficult for the international standards to be implemented consistently across jurisdictions. Representatives from one industry association told us that when standard setting bodies set narrow or detailed principles, such principles can become difficult to implement consistently because of jurisdictional differences. In addition, legislatures and industry groups may support more or less stringent requirements than called for by the standards. Finally, domestic regulators may apply or interpret the standards differently from other domestic regulators. As discussed previously, the Basel Committee's thematic reviews found variation in the application of the capital standards across jurisdictions and partly attributed the variations to differences in supervisory practices.

As recognized by the G20 leaders, international bodies, industry associations, and others, the failure to implement the international financial standards consistently across jurisdictions could have a number of negative consequences. Most importantly, such inconsistencies could hinder or weaken the ability of national authorities or international bodies to protect against developments affecting national and international financial stability and help prevent or mitigate future financial crises. Moreover, a regulator stated that inconsistent implementation could lead to an unlevel playing field for financial institutions or regulatory arbitrage. For example, financial markets or services could migrate to less-regulated or unregulated jurisdictions. It also could impose a variety of avoidable costs on financial institutions with negative consequences for customers, investors, and national and global economies. For example, financial institutions operating in multiple jurisdictions could be subject to conflicting or duplicative rules and, thus, higher compliance costs.

Some academics and industry associations also have noted that complete global consistency across all financial regulations is not necessarily possible or preferable. Two academics suggest that if jurisdictions face significant limitations in their ability to reach agreement, harmonization efforts might lead to agreement on only weak global

standards.⁷⁶ An academic we interviewed said that harmonized regulations across all jurisdictions may provide a level playing field but could be problematic, in part by not providing jurisdictions with the flexibility to respond to their differences. He also said that standardizing regulations could cause financial institutions to behave in the same way and unintentionally concentrate risk (e.g., holding the same types of assets). Similarly, an industry association noted that international consistency does not require uniformity but an appropriate level of similarity, comparability, and predictability of regulatory outcomes across jurisdictions.⁷⁷ According to the association, international consistency also means striking a balance between consistency and the need for sensible local differences and supervisory discretion. In light of the potential for inconsistent implementation in areas that may result in unnecessary negative consequences, the review programs operated by FSB, IMF, and international standard-setting bodies likely will play an important role in addressing this issue. Indeed, some academics and industry associations view FSB's peer reviews as an important mechanism for monitoring and encouraging compliance with international financial standards. Moreover, one academic suggests that the reviews may help deepen commitment to the standards by domestic officials by holding member jurisdictions accountable not only to an international body but also to each other. However, some express concern about the potential effectiveness of FSB peer reviews, in part because any of their recommendations, like the international financial standards, are not binding.

Agency Comments and Our Evaluation

We provided a draft of this report to CFTC, FDIC, FSB, the Federal Reserve, IMF, OCC, SEC, and Treasury, for their review and comment. All of the agencies except for the Federal Reserve provided technical comments, which we have incorporated, as appropriate. Treasury and SEC provided written comments that we have reprinted in appendixes V and VI, respectively.

In commenting on our draft report, Treasury noted that the G20, FSB, and international standard-setting bodies have been cooperating since the

⁷⁶See, for example, Stephane Rottier and Nicolas Veron, "Not All Financial Regulation Is Global," *Bruegel Policy Brief*, Issue 2010/07 (August 2010).

⁷⁷Institute of International Finance, *Promoting Greater International Regulatory Consistency* (June 2013).

financial crisis on advancing the international financial reform agenda and strengthening the global financial system. Treasury further noted that the United States has played a leadership role in designing and implementing this agenda. Finally, Treasury agreed with the report that international reform efforts are not complete. Treasury noted that it would continue to work with other regulators to forge high-quality, compatible rules, encouraging reforms in other jurisdictions as strong as those in the United States, and would continue to promote greater consistency and convergence.

SEC noted that it welcomed GAO's review of the international reform efforts and valued GAO's perspective in this area. SEC stated that the report correctly notes that international standards are not legally binding and rely on the decision of national authorities to implement the standards (reflecting, among other considerations, appropriate respect for national sovereignty). SEC also noted that it was pleased that the report acknowledges that while negative consequences can flow from varying degrees of implementation of international standards, there also can be good reasons behind such differences, such as avoiding a movement to less robust standards or the unintentional concentration of risks. SEC agrees with the report's discussion that there may be reasons to take into account variations in national legal and market structures and conditions, including differences in economic development and enforcement authority.

SEC also comments on a number of specific issues in the report. SEC noted that it does not share the view that international organizations "implement" international standards, nor should they have that authority. Our report summarizes the international financial reform process, drawing a clear line between the development of international standards under the auspices of FSB or standard-setting bodies (or both) and the voluntary adoption of rules or policies consistent with these standards by jurisdictions, such as through legislation or regulations. SEC also noted that interconnections permitted disruptions to spread quickly across borders but was unsure that such interconnections increased systemic risk as stated in our report. No single definition for systemic risk exists, but systemic risk has been viewed as the possibility that a single event could broadly affect the entire financial system, causing widespread losses rather than just losses at one or a few institutions. As we recently reported in January 2013, the 2007-2009 financial crisis illustrated the potential for systemic risk to be generated and propagated outside of the largest financial firms (such as by money market mutual funds), in part because of interconnections not only between firms but also between markets. SEC also noted the particular status of the accounting standard-

setting bodies. In particular, both IASB and the Financial Accounting Standards Board are independent, private-sector organizations. Although the IASB is an FSB member, the legitimacy of the accounting standards that these bodies set depends, among other things, on those bodies' ability to set accounting standards free from political interference. We have added a clarifying note in figure 4 in appendix II to reflect this comment. Finally, SEC noted that our report uses the term "shadow banking" and it is not appropriate to use this term to refer to market-based financing, which serves a credit intermediation function. Our report discusses shadow banking, because it is one of the G20 financial reform commitments—expanding the regulatory perimeter, including strengthening of the regulation and oversight of shadow banking. Our report does not define shadow banking but rather uses FSB's *Policy Framework for Addressing Shadow Banking Risks in Securities Lending and Repos* (see appendix III, table 7) as a reference document. According to FSB, this policy was intended to help strengthen oversight and regulation of the shadow banking system. The policy notes that the "shadow banking system" can broadly be described as "credit intermediation involving entities and activities (fully or partially) outside the regular banking system." Therefore, the use of the term shadow banking is appropriate for this report.

We are sending copies of this report to CFTC, FDIC, the Federal Reserve, OCC, SEC, and Treasury, interested congressional committees and members, and others. This report will also be available at no charge on our website at <http://www.gao.gov>.

Should you or your staff have questions concerning this report, please contact me at (202) 512-8678 or clowersa@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix VII.



A. Nicole Clowers
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report reviews the (1) U.S. role in the international financial reform efforts, including the development of international financial standards, and (2) implementation status of recent international financial reforms in the United States relative to other jurisdictions and challenges or concerns that any uneven progress could present.

To address the first objective, we reviewed and analyzed declarations, communiqués, and other statements issued by the G20 leaders about their agreed-to commitments to reform financial regulations. In addition, we reviewed and analyzed reports or other documents issued since 2008 by various international bodies—including the Financial Stability Board (FSB), International Monetary Fund (IMF), Basel Committee on Banking Supervision, International Organization of Securities Commissions, Committee on Payment and Settlement Systems, and International Accounting Standards Board—about their role in implementing the G20 reforms, such as through the development of international financial standards, or monitoring the implementation status of the G20 reforms at the international and jurisdictional levels. We also reviewed press statements, policy documents, or other material issued by U.S. and other jurisdictions about their work to support the G20 financial reforms. We interviewed U.S. financial regulatory authorities, including the Commodity Futures Trading Commission (CFTC), Federal Deposit Insurance Corporation (FDIC), Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency (OCC), Securities and Exchange Commission (SEC), and Department of the Treasury—and FSB and IMF officials about their role in the G20 reform efforts, including implementation challenges. To gain insights about the G20 financial reforms and associated implementation challenges, we also reviewed numerous studies by academics and other experts and interviewed four professors in the fields of law, economics, and political science and two industry associations representing banks or over-the-counter (OTC) derivatives market participants. We judgmentally selected these parties based on studies or other material they issued on the G20's international financial reforms, and the results are not generalizable.

To address the second objective, we reviewed, analyzed, and summarized progress reports, peer reviews, surveys, or other material prepared by FSB and international bodies, including the Basel Committee on Banking Supervision and IMF, on the implementation status of the G20 reforms in the priority areas at the jurisdictional level. Similarly, we also reviewed and analyzed FSB's annual surveys of its member jurisdictions on their implementation status of the G20 reforms in the nonpriority areas. We reviewed the accuracy of U.S. responses to

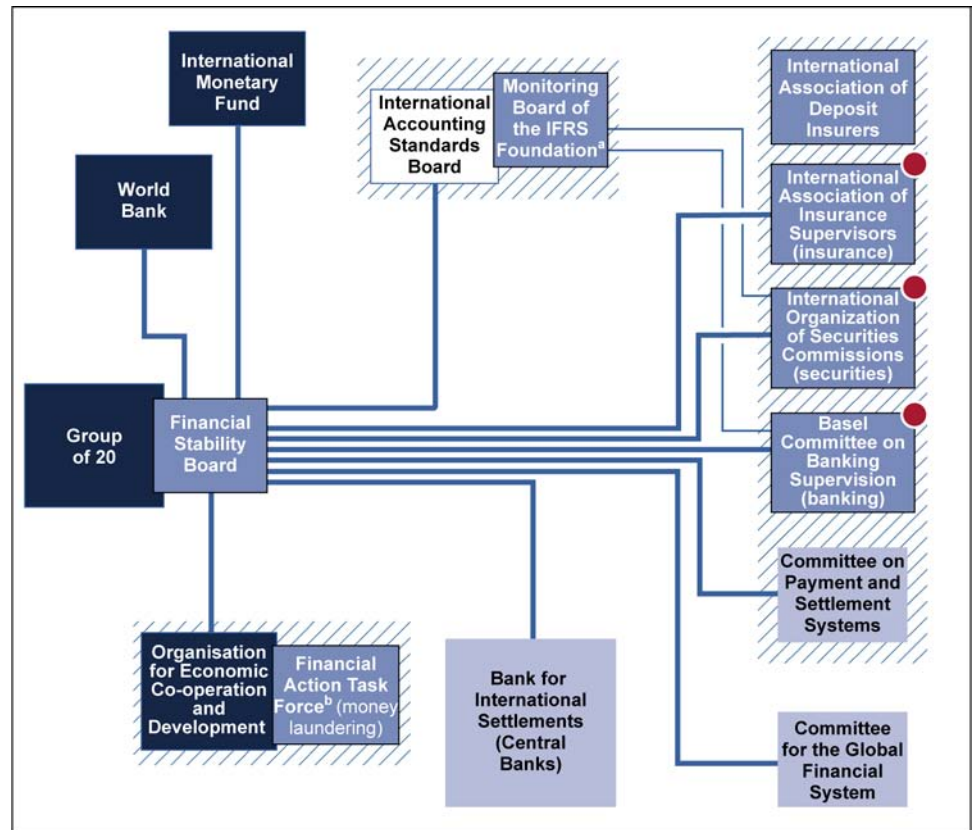
questionnaires administered by FSB or a standard setting body that covered U.S. progress implementing Basel II, 2.5, and III and the G20's OTC derivatives reforms, including the requirements for OTC derivatives transactions to be centrally cleared, traded on organized trading platforms, and reported to trade repositories, and we generally found the U.S. responses were accurate. We also asked audit offices of 14 jurisdictions that are members of FSB—and which are participating in an International Organization of Supreme Audit Institutions working group on financial reforms—to do the same for their regulators' responses. Finally, as identified above, we interviewed officials representing U.S. regulators, FSB, IMF, industry associations, and academics about challenges or concerns that uneven implementation of the G20 financial reforms across jurisdictions could present.

We conducted this performance audit from March 2013 to April 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: The International Financial Architecture and International Bodies

As shown in figure 4, a variety of international bodies are part of the international financial architecture.

Figure 4: International Bodies Included in the International Financial Architecture



- Members of FSB
- Founding/parent members of Joint Forum, which coordinates on issues of common concern
- Private sector organization
- ▨ Standard-setting bodies
- Government representative-led bodies
 - Financial sector/central banks
 - Financial sector
 - Multiple sectors

Source: GAO, based on U.S. federal agency information and international organization website information.

Note: This figure is not meant to be comprehensive. Some bodies have relationships to one another that are not depicted here.

^aThe Monitoring Board of the IFRS Foundation oversees the work of the International Accounting Standards Board (IASB). IASB carries out the IFRS Foundation's stated objectives of developing a single set of high-quality, understandable, enforceable, and globally accepted International Financial Reporting Standards (IFRS). The members of the Monitoring Board are the Growth and Emerging Markets Committee of the International Organization of Securities Commissions, the Financial Services Agency of Japan, the European Commission, and the U.S. Securities and Exchange Commission. Additional members of the Monitoring Board selected in January 2014 are the

Comissão de Valores Mobiliários of Brazil and the Financial Services Commission of Korea. The Basel Committee on Banking Supervision is an observer. Although IASB—an independent, private-sector organization—is an FSB member, a US regulator has noted that the legitimacy of the accounting standards that IASB sets depends, among other things, on its ability to set accounting standards free from political interference.

^bThe Organisation for Economic Co-operation and Development provides secretariat services for the Financial Action Task Force.

In addition to the international bodies discussed in the background section of the report (such as the Financial Stability Board, Basel Committee on Banking Supervision, International Organization of Securities Commissions, International Association of Insurance Supervisors, and the International Monetary Fund), other international bodies comprising the international financial architecture include the following:

**Bank for International
Settlements**

The Bank for International Settlements provides a forum for international cooperation among central banks and within financial and supervisory communities. Its members as of July 2013 are central banks or monetary authorities of 59 economies plus the European Central Bank. The Bank for International Settlements acts as a bank for central banks; publishes economic and monetary research; and acts as a counterparty for central banks in their financial transactions and as agent or trustee in connection with international financial operations. It also hosts other international financial organizations and groups, such as FSB and the Basel Committee.

**Committee on the Global
Financial System**

The Committee on the Global Financial System is a central bank forum to monitor issues relating to financial markets and systems. It works to identify and assess potential sources of stress in global financial markets.

**Financial Action Task
Force**

The Financial Action Task Force is an organization of 36 jurisdictions that sets standards and promotes effective implementation of legal, regulatory, and operational measures for combating money laundering, terrorist financing, and other related threats to the integrity of the international financial system.

**Organisation for Economic
Co-operation and
Development**

The Organisation for Economic Co-operation and Development is a membership organization of 34 countries that promotes economic growth and employment among its members, while maintaining financial stability. It has cooperated with the G20 in areas related to promoting economic

growth, and in areas of financial regulation such as developing principles on consumer protection. It also is involved in global tax standards development.

The World Bank

The World Bank, established in 1944, provides financial and technical assistance to developing countries with the goals of ending extreme poverty and promoting shared prosperity by fostering income growth of the bottom 40 percent of every country. Headquartered in Washington, D.C., with 10,000 staff in 120 offices worldwide, the bank provides financial assistance products and services and engages in a range of knowledge-sharing activities.

The Monitoring Board of the IFRS Foundation

The Monitoring Board of the IFRS Foundation oversees the work of the International Accounting Standards Board (IASB). As noted in the background section of this report, the IASB carries out the IFRS Foundation's stated objectives of developing a single set of high-quality, understandable, enforceable, and globally accepted accounting standards. IASB members are responsible for the development and publication of International Financial Reporting Standards (IFRS). The members of the Monitoring Board are the Growth and Emerging Markets Committee of the International Organization of Securities Commissions, the Financial Services Agency of Japan, the European Commission, and the U.S. Securities and Exchange Commission. Additional members of the Monitoring Board selected in January 2014 are the Comissão de Valores Mobiliários of Brazil and the Financial Services Commission of Korea. The Basel Committee on Banking Supervision is an observer.

Appendix III: Reform Areas and Objectives of the Group of Twenty, Standards Developed by International Bodies, and U.S. Agencies' Participation

The Group of Twenty (G20) leaders have committed to undertake a broad range of financial regulatory reforms at the various summits held since 2008. The G20 leaders generally have tasked their national authorities—along with the Financial Stability Board (FSB), standard-setting bodies, such as the Basel Committee on Banking Supervision, the International Organization of Securities Commissions (IOSCO), International Association of Insurance Supervisors (IAIS), and other bodies—with converting their broad financial reform commitments into more specific standards (including policies, principles, practices, or guidance). Although the standards are developed under the auspices of FSB or standard setting bodies (or both), the work of many of these entities largely is carried out by staff of finance ministries, central banks, and financial sector regulators of the member institutions. As shown in table 7, various U.S. agencies have participated in the development of standards needed to implement the G20 reform commitments, and all have been involved in their review.

**Appendix III: Reform Areas and Objectives of
the Group of Twenty, Standards Developed by
International Bodies, and U.S. Agencies'
Participation**

Table 7: G20 Reform Objectives, Selected International Standards, and U.S. Participation

G20 reform area and objective	Standard ^a	International body responsible for standard	U.S. participant(s) in standard development ^b
1. Banking: <ul style="list-style-type: none"> • Increasing banks' resilience to shocks • Strengthen banks' risk management practices • Strengthening deposit insurance regimes 	Basel capital framework, (Basel II, 2.5, III) (standards)	Basel Committee on Banking Supervision (Basel Committee)	<ul style="list-style-type: none"> • Board of Governors of the Federal Reserve System (Federal Reserve Board) • Federal Deposit Insurance Corporation (FDIC) • Federal Reserve Bank of New York • Office of the Comptroller of the Currency (OCC)
	Core principles for banking supervision (principles)	Basel Committee	<ul style="list-style-type: none"> • FDIC • OCC
	Principles for the supervision of financial conglomerates (principles)	Joint Forum, Basel Committee	<ul style="list-style-type: none"> • Federal Reserve Board • National Association of Insurance Commissioners • OCC • Securities and Exchange Commission (SEC)
	Principles for effective risk data aggregation and risk reporting (principles)	Basel Committee	<ul style="list-style-type: none"> • Federal Reserve Bank of New York • Federal Reserve Board • OCC
	Principles for the sound management of operational risk (principles)	Basel Committee	<ul style="list-style-type: none"> • FDIC • Federal Reserve Bank of Boston • Federal Reserve Bank of New York • Federal Reserve Board • OCC
	Principles for sound stress testing practices and supervision (principles)	Basel Committee	<ul style="list-style-type: none"> • FDIC • Federal Reserve Bank of New York • OCC • Office of Thrift Supervision^c
	Core principles for effective deposit insurance systems	Basel Committee, International Association of Deposit Insurers	<ul style="list-style-type: none"> • FDIC

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G20 reform area and objective	Standard^a	International body responsible for standard	U.S. participant(s) in standard development^b
2. Over-the counter (OTC) Derivatives markets <ul style="list-style-type: none"> • Central clearing of all standardized derivative products • Trading on exchanges and electronic trading platforms, where appropriate • Mandatory reporting to trade repositories • Higher capital charges for noncentrally cleared derivatives and margin requirements for noncentrally cleared derivatives 	Principles for financial market infrastructures (principles)	Committee on Payment and Settlement Systems (CPSS), International Organization of Securities Commissions (IOSCO)	<ul style="list-style-type: none"> • Commodity Futures Trading Commission (CFTC) • Federal Reserve Bank of New York • Federal Reserve Board • SEC
	Requirements for mandatory clearing	IOSCO	<ul style="list-style-type: none"> • CFTC (Co-chair of Task Force on OTC Derivatives) • SEC (Co-chair of Task Force on OTC Derivatives)
	Report on trading of OTC Derivatives	IOSCO	<ul style="list-style-type: none"> • CFTC (Co-chair of Task Force on OTC Derivatives) • SEC (Co-chair of Task Force on OTC Derivatives)
	Report on OTC derivatives data reporting and aggregation requirements	CPSS, IOSCO	<ul style="list-style-type: none"> • CFTC (Co-chair) • Federal Reserve Board • Federal Reserve Bank of New York • SEC
	Margin requirements for non-centrally cleared derivatives (principles)	Basel Committee, IOSCO	<ul style="list-style-type: none"> • CFTC • FDIC • Federal Reserve Board • OCC • SEC
3. Compensation Practices	FSF principles for sound compensation practices (principles)	Financial Stability Forum ^d	<ul style="list-style-type: none"> • Federal Reserve Bank of New York • Federal Reserve Board
	Implementing guidance for principles for sound compensation practices (guidance)	Financial Stability Board (FSB)	<ul style="list-style-type: none"> • Federal Reserve Board
4. Systemically Important Financial Institutions (SIFIs) and Resolution Regimes <ul style="list-style-type: none"> • Reducing the moral hazard of SIFIs (i.e. ending “too-big-to-fail”) 	Reducing the moral hazard posed by systemically important financial institutions (recommendations)	FSB	<ul style="list-style-type: none"> • FDIC • Federal Reserve Board • OCC

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G20 reform area and objective	Standard^a	International body responsible for standard	U.S. participant(s) in standard development^b
	Key attributes of effective resolution regimes for financial institutions (principles)	FSB	<ul style="list-style-type: none"> • CFTC • FDIC • Federal Reserve Bank of New York • OCC • Department of the Treasury (Treasury)
	Principles for the supervision of financial conglomerates (principles)	Joint Forum	<ul style="list-style-type: none"> • Federal Reserve Board • OCC • SEC
	Policy measures for global systemically important financial institutions (including global systemically important banks [G-SIBs]) (framework)	FSB, Basel Committee	<ul style="list-style-type: none"> • FDIC • Federal Reserve Board • OCC • Treasury
	Framework for domestic systemically important banks D-SIBs (principles)	FSB, Basel Committee	<ul style="list-style-type: none"> • FDIC • Federal Reserve Board • OCC
	Framework for global systemically important insurers (G-SIIs) (principles)	International Association of Insurance Supervisors (IAIS)	<ul style="list-style-type: none"> • Treasury (Federal Insurance Office [FIO])
	Insurance core principles (principles)	IAIS	<ul style="list-style-type: none"> • Treasury (FIO)
5. Shadow Banking	Policy framework for addressing shadow banking risks in securities lending and repos (guidance)	FSB	<ul style="list-style-type: none"> • Federal Reserve Board • SEC
<ul style="list-style-type: none"> • Expanding the regulatory perimeter including strengthening of the regulation and oversight of shadow banking 	Policy framework for strengthening oversight and regulation of shadow banking entities (guidance)	FSB	<ul style="list-style-type: none"> • Federal Reserve Bank of New York • SEC • Treasury
6. Hedge funds	IOSCO report on hedge fund oversight including six high-level principles on regulation of hedge funds (principles)	IOSCO	<ul style="list-style-type: none"> • CFTC • SEC
<ul style="list-style-type: none"> • Registration, appropriate disclosure, and oversight • International information sharing • Enhancing counterparty risk management 	Capital requirements for bank exposures to central counterparties (standards)	Basel Committee	<ul style="list-style-type: none"> • FDIC • OCC
	Basel Committee guidance on banks' interactions with highly leveraged institutions (guidance)	Basel Committee	<ul style="list-style-type: none"> • FDIC • Federal Reserve Bank of New York • Federal Reserve Board • OCC

**Appendix III: Reform Areas and Objectives of
the Group of Twenty, Standards Developed by
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Participation**

G20 reform area and objective	Standard^a	International body responsible for standard	U.S. participant(s) in standard development^b
7. Securitization <ul style="list-style-type: none"> • Enhance counterparty risk management • Strengthening of supervisory requirements or best practices for investment in structured products • Enhance disclosure of securitized products 	IOSCO recommendations in report on global developments in securitization regulations (principles)	IOSCO	• SEC
	Enhancements to the Basel II framework (standards)	Basel Committee	• OCC
	Good practices in relation to investment managers' due diligence when investing in structured finance instruments (guidance)	IOSCO	• SEC
	Suitability requirements for distribution of complex financial products (guidance)	IOSCO	• SEC
	Principles for ongoing disclosure for asset-backed securities (principles)	IOSCO	• SEC
8. Macroprudential Frameworks and Tools <ul style="list-style-type: none"> • Establishing regulatory framework for macroprudential oversight • Enhancing system-wide monitoring and the use of macroprudential instruments • Improved cooperation between supervisors and central banks 	Operationalizing the selection and application of macroprudential instruments (guidance)	Committee on the Global Financial System	• Federal Reserve Bank of New York • Federal Reserve Board
	IMF paper on macroprudential policy, an organizing framework (guidance)	International Monetary Fund (IMF)	• N/A (IMF staff)
	Good practice principles on supervisory colleges (guidance and principles)	Basel Committee	• FDIC • OCC
9. Credit Rating Agencies (CRA) <ul style="list-style-type: none"> • Enhancing regulation and supervision of CRAs • Reducing reliance on credit ratings 	Code of conduct fundamentals for credit rating agencies (standard)	IOSCO	• SEC
	Principles for reducing reliance on CRA Ratings (principles)	FSB	• FDIC • SEC
10. Accounting Standards <ul style="list-style-type: none"> • Convergence by key global accounting standards bodies 	International Financial Reporting Standards (IFRS) (standard)	IFRS Foundation	• Financial Accounting Standards Board
	U.S. Generally Accepted Accounting Principles	Financial Accounting Foundation	

**Appendix III: Reform Areas and Objectives of
the Group of Twenty, Standards Developed by
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Participation**

G20 reform area and objective	Standard^a	International body responsible for standard	U.S. participant(s) in standard development^b
11. Financial Markets <ul style="list-style-type: none"> Enhancing market integrity and efficiency Address risks posed by high frequency trading and dark liquidity Enhanced market transparency in commodity markets 	Report on regulatory issues raised by the impact of technological changes on market integrity and efficiency (guidance)	IOSCO	<ul style="list-style-type: none"> SEC
	Report on principles for dark liquidity (guidance, principles)	IOSCO	<ul style="list-style-type: none"> SEC
	Legal entity identifier (standard)	Legal Entity Identifier Regulatory Oversight Committee	<ul style="list-style-type: none"> CFTC FDIC Federal Reserve Board OCC SEC Treasury (Office of Financial Research, Chair)
	Principles for the regulation and supervision of commodity derivatives markets (principles)	IOSCO	<ul style="list-style-type: none"> CFTC (Co-chair)
12. Consumer Protection Improve consumer finance protection	G20 high-level principles on financial consumer protection	FSB, Organisation for Economic Co-operation and Development (OECD)	<ul style="list-style-type: none"> Consumer Financial Protection Bureau Treasury

Source: GAO summary of information from U.S. federal agencies and international bodies

Notes: FSB = Financial Stability Board; Basel Committee = Basel Committee on Banking Supervision; IOSCO = International Organization of Securities Commissions; IADI = International Association of Deposit Insurers; IAIS = International Association of Insurance Supervisors; IMF = International Monetary Fund; OECD = Organisation for Economic Cooperation and Development.

^aStandard refers to standards, guidance, frameworks, and principles.

^bU.S. federal agencies review and provide input on all draft standards, principles, and other guidance produced by international bodies of which they are members or that concern relevant reform areas. This column describes U.S. participation on committees or working groups developing specific standards.

^cThe Dodd-Frank Act eliminated the Office of Thrift Supervision, which chartered and supervised federally chartered savings institutions and savings and loan holding companies. Rulemaking authority previously vested in the Office of Thrift Supervision was transferred to OCC for savings associations and to the Federal Reserve Board for savings and loan holding companies. Supervisory authority was transferred to OCC for federal savings associations, to FDIC for state savings associations, and to the Federal Reserve Board for savings and loan holding companies and their subsidiaries, other than depository institutions.

^dThe Financial Stability Forum was reconstituted as the Financial Stability Board by the G20 in 2009.

Appendix IV: Implementation Status of the Group of Twenty's Reform Commitments Reported by Select Member Jurisdictions of the Financial Stability Board

The Financial Stability Board (FSB) is responsible for coordinating the implementation of the Group of Twenty's (G20) financial reform commitments and reporting implementation progress to the G20. In collaboration with standard setting bodies, FSB established a framework in 2011 to monitor and report on the implementation of the G20 financial reform commitments.¹ FSB has selected priority reform areas that undergo more intensive monitoring and detailed reporting than other reform areas, and the list of priority areas is reviewed annually by FSB and revised as needed.² Priority reform areas are selected based on the importance of their consistent and comprehensive implementation toward global financial stability. For each priority area, an FSB working group or a standard setting body is responsible for monitoring implementation progress and periodically preparing a progress report.³ Currently, FSB's priority areas are (1) the Basel II, 2.5, and III framework; (2) OTC derivatives market reforms; (3) compensation practices; (4) policy measures for global SIFIs; (5) resolution regimes; and (6) shadow banking.⁴

For the G20 financial reform commitments in the nonpriority areas, FSB generally monitors their implementation less intensively, primarily through

¹FSB, *A Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms* (Oct. 18, 2011). FSB's implementation monitoring covers only the G20's financial reform commitments made in the aftermath of the global financial crisis, unless otherwise mandated by the G20.

²FSB's Standing Committee on Standards Implementation is responsible for proposing changes to the list annually.

³Such reports are to include information that (1) is collected and reported frequently, (2) provides regular country-by-country implementation details, (3) may be relevant for assessing implementation progress, (4) highlights issues and lessons of experience that implementation has raised for the authorities and market participants, and (5) provides potential recommendations to address major impediments to, or gaps in, implementation.

⁴We do not report separately on the implementation progress for resolution regimes and shadow banking. First, we discuss implementation progress of resolution regimes but only for SIFIs. Second, FSB noted that progress for shadow banking will be reported once implementation is sufficiently under way. For the time being, FSB is reporting on those elements of shadow banking that already are under way under nonpriority areas.

annual surveys of its member jurisdictions.⁵ FSB's 2013 survey of its member jurisdictions covered 27 G20 financial reform commitments. The survey data are self-reported by FSB member jurisdictions, and FSB generally does not evaluate the survey responses to verify the accuracy or assess the effectiveness of implementation.

Figure 5 provides country profiles that summarize information on the implementation status of selected G20 financial reform commitments by the 11 countries that are home to global systemically important banks, as identified by FSB. The country profiles include information on the implementation status of G20 reform commitments in priority and nonpriority areas. The profiles also provide examples of how countries have implemented certain nonpriority reforms, such as through legislative or regulatory changes. These examples are excerpts taken from FSB's 2013 surveys completed by the jurisdictions and reflect the differences in the approaches taken by the jurisdictions. Finally, each profile includes information on a country's population, gross domestic product (GDP), and global competitiveness index.⁶

⁵For the G20 reform commitments in the nonpriority areas, implementation monitoring is undertaken by FSB's Implementation Monitoring Network. In large part, FSB has monitored progress through annual surveys of its member jurisdictions, with the first survey completed in 2010. In some cases, standard setting bodies may collect and report implementation information to FSB. In its 2010 and 2011 surveys, FSB generally covered all of the G20 reform commitments. After adopting its coordination framework in 2011, FSB has sought to exclude from the survey the G20 reform commitments on its priority area list.

⁶Developed by the World Economic Forum, the global competitiveness index is a comprehensive tool designed to measure the microeconomic and macroeconomic foundations of national competitiveness. The index scale ranges from 1 to 7 (with 7 the highest score), and 148 economies are ranked based on their score.

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Figure 5: Country Profiles—China

China



Key economic indicators
 Population (millions): 1,344.1
 GDP (US\$ in billions): 8,227.0
 GDP per capita (US\$): 6,076

Global Competitiveness Index 2013-2014 ranking: 29

Non-priority area comments
Shadow banking: The size and complexity of shadow banking in China is relatively low. All Chinese non-bank financial institutions already are strictly regulated. In March 2013, the China Banking Regulatory Commission released rules on commercial banks' wealth management funds' investing in non-standardization credit assets.
Registration and oversight of hedge funds: China's amendment to the Securities Investment Fund law was approved in December 2012. This law added a new section on private funds, requiring private fund managers to register and report product information. The law also subjects private fund managers to fund raising, operation, and disclosure standards.
Supervision and regulation of SIFIs: China's Guidelines on Consolidated Banking Supervision provides a comprehensive framework for consolidated supervision of banking groups, including the scope, elements and methods of consolidated supervision, requirements for consolidated supervision of cross-border activities, and guidance on banking groups' own management activities on a consolidated basis.

Implementation status of Basel Framework by Members of the Basel Committee as of August 2013 (Jurisdiction: China)

Basel II	Implemented
Basel 2.5	Implemented
Basel III	Implemented

Implementation Status of the G20 OTC Derivatives Reforms by FSB Member Jurisdictions as of September 2013

(Jurisdiction: China)	Legislation	Regulation
Central clearing	Proposed	Proposed
Exchange or platform trading	Adopted	Adopted
Reporting to trade repository	Adopted	Adopted
Margin	No action	No action

Select Features of Resolution Regimes in FSB Jurisdictions as of April 2013 (Jurisdiction: China)

Authority to restructure and/or wind up banks	●
Authority to restructure and/or wind up insurers	●
Authority to restructure and/or wind up securities or investment firms	●
Authority to restructure and/or wind up financial market infrastructures	
Are there legal provisions or policies that mandate or strongly encourage cross-border cooperation of resolution authority	

Status of Implementation of G20/FSB recommendations by member jurisdictions, self-reported in IMN 2013 Survey	China
Refining the regulatory perimeter	
1. Review of boundaries of the regulatory framework including strengthening oversight of shadow banking	Complete
Hedge Funds	
2. Registration, appropriate disclosures and oversight of hedge funds	Draft/ongoing
3. Establishment of international information sharing framework	Not applicable
4. Enhancing counterparty risk management	Draft/ongoing
Securitization	
5. Improving the risk management of securitization	Complete
6. Strengthening of regulatory and capital framework for monolines	Not applicable
7. Strengthening of supervisory requirements or best practices for investment in structured products	Complete
8. Enhanced disclosure of securitized products	Complete
Enhancing Supervision	
9. Consistent, consolidated supervision and regulation of SIFIs	Draft/ongoing
10. Establishing supervisory colleges and conducting risk assessments	Complete
11. Supervisory exchange of information and coordination	Complete
12. Strengthening resources and effective supervision	Complete
Building and implementing macro-prudential frameworks and tools	
13. Establishing regulatory framework for macro-prudential oversight	Complete
14. Enhancing system-wide monitoring and the use of macro-prudential instruments	Draft/ongoing
15. Improved cooperation between supervisors and central banks	Complete
Improving oversight of credit rating agencies	
16. Enhancing regulation and supervision of CRAs	Complete
17. Reducing the reliance on ratings	Not collected
Enhancing and aligning accounting standards	
18. Consistent application of high-quality accounting standards	Complete
19. Appropriate application of Fair Value Accounting	Complete
Enhancing risk management	
20. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks	Complete
21. Efforts to deal with impaired assets and raise additional capital	Complete
22. Enhanced risk disclosures by financial institutions	Complete
Strengthening deposit insurance	
23. Strengthening of national deposit insurance arrangements	Draft/ongoing
Safeguarding the integrity and efficiency of financial markets	
24. Enhancing market integrity and efficiency	Not applicable
25. Enhanced market transparency in commodity markets	Complete
26. Legal Entity Identifier	Draft/ongoing
Enhancing financial consumer protection	
27. Enhancing financial consumer protection	Draft/ongoing

Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

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Figure 6: Country Profiles–France



France

Key economic indicators
 Population (millions): 65.4
 GDP (US\$ in billions): 2,608.7
 GDP per capita (US\$): 41,141

Global Competitiveness Index 2013-2014 ranking: 23

Non-priority area comments
Shadow banking: As a general rule, the vast majority of entities captured by the Financial Stability Board's definition of shadow banking are regulated through prudential rules or the Autorité des Marchés Financiers' regulation and supervision.
Registration and oversight of hedge funds: Depending on the assets under management or use of leverage, hedge fund managers must register or apply for an authorization. Registered managers must comply with minimum reporting requirements, and authorized managers that are leveraged on a substantial basis must comply with a wider set of reporting requirements.
Supervision and regulation of SIFIs: France was assessed compliant with Basel Core Principle 23 on globally consolidated supervision, and Insurance Core Principle 17 on group-wide supervision was considered "largely observed." The major French insurers are subject to a consolidated supervision.

Implementation status of Basel Framework by Members of the Basel Committee as of August 2013 (Jurisdiction: France)

Basel II	Implemented
Basel 2.5	Implemented
Basel III	Implementation ongoing

Implementation Status of the G20 OTC Derivatives Reforms by FSB Member Jurisdictions as of September 2013

(Jurisdiction: European Union)	Legislation	Regulation
Central clearing	Adopted	Adopted
Exchange or platform trading	Proposed	No action
Reporting to trade repository	Adopted	Adopted
Margin	Adopted	No action

Select Features of Resolution Regimes in FSB Jurisdictions as of April 2013 (Jurisdiction: France)

Authority to restructure and/or wind up banks	●
Authority to restructure and/or wind up insurers	●
Authority to restructure and/or wind up securities or investment firms	●
Authority to restructure and/or wind up financial market infrastructures	●
Are there legal provisions or policies that mandate or strongly encourage cross-border cooperation of resolution authority	● (within EU)

Status of Implementation of G20/FSB recommendations by member jurisdictions, self-reported in IMN 2013 Survey	France
Refining the regulatory perimeter	
1. Review of boundaries of the regulatory framework including strengthening oversight of shadow banking	Complete
Hedge Funds	
2. Registration, appropriate disclosures and oversight of hedge funds	Complete
3. Establishment of international information sharing framework	Complete
4. Enhancing counterparty risk management	Complete
Securitization	
5. Improving the risk management of securitization	Complete
6. Strengthening of regulatory and capital framework for monolines	Draft/ongoing
7. Strengthening of supervisory requirements or best practices for investment in structured products	Complete
8. Enhanced disclosure of securitized products	Complete
Enhancing Supervision	
9. Consistent, consolidated supervision and regulation of SIFIs	Complete
10. Establishing supervisory colleges and conducting risk assessments	Complete
11. Supervisory exchange of information and coordination	Complete
12. Strengthening resources and effective supervision	Complete
Building and implementing macro-prudential frameworks and tools	
13. Establishing regulatory framework for macro-prudential oversight	Complete
14. Enhancing system-wide monitoring and the use of macro-prudential instruments	Complete
15. Improved cooperation between supervisors and central banks	Complete
Improving oversight of credit rating agencies	
16. Enhancing regulation and supervision of CRAs	Complete
17. Reducing the reliance on ratings	Not collected
Enhancing and aligning accounting standards	
18. Consistent application of high-quality accounting standards	Complete
19. Appropriate application of Fair Value Accounting	Complete
Enhancing risk management	
20. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks	Complete
21. Efforts to deal with impaired assets and raise additional capital	Draft/ongoing
22. Enhanced risk disclosures by financial institutions	Complete
Strengthening deposit insurance	
23. Strengthening of national deposit insurance arrangements	Complete
Safeguarding the integrity and efficiency of financial markets	
24. Enhancing market integrity and efficiency	Draft/ongoing
25. Enhanced market transparency in commodity markets	Draft/ongoing
26. Legal Entity Identifier	Complete
Enhancing financial consumer protection	
27. Enhancing financial consumer protection	Complete

Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

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Figure 7: Country Profiles—Germany



Germany

Key economic indicators
 Population (millions): 81.8
 GDP (US\$ in billions): 3,400.6
 GDP per capita (US\$): 41,513

Global Competitiveness Index 2013-2014 ranking: 4

Non-priority area comments
Shadow banking: Germany has implemented the European Alternative Investment Fund Managers Directive into national law.
Registration and oversight of hedge funds: Germany has in force a regulatory framework for hedge funds. This framework sets out regulation for managers of hedge funds as well as for hedge funds themselves.
Supervision and regulation of SIFs: To come into effect, the E.U. Capital Requirement Directive IV provisions (finalized in July 2013) required a further transposition into national law. The amendments to the German 'Kreditwesengesetz' passed the Federal Council in late June 2013 and entered into force by January 1, 2014.

Implementation status of Basel Framework by Members of the Basel Committee as of August 2013 (Jurisdiction: Germany)

Basel II	Implemented
Basel 2.5	Implemented
Basel III	Implementation ongoing

Implementation Status of the G20 OTC Derivatives Reforms by FSB Member Jurisdictions as of September 2013

(Jurisdiction: European Union)	Legislation	Regulation
Central clearing	Adopted	Adopted
Exchange or platform trading	Proposed	No action
Reporting to trade repository	Adopted	Adopted
Margin	Adopted	No action

Select Features of Resolution Regimes in FSB Jurisdictions as of April 2013 (Jurisdiction: Germany)

Authority to restructure and/or wind up banks	●
Authority to restructure and/or wind up insurers	●
Authority to restructure and/or wind up securities or investment firms	●
Authority to restructure and/or wind up financial market infrastructures	●
Are there legal provisions or policies that mandate or strongly encourage cross-border cooperation of resolution authority	● (within EU)


Status of Implementation of G20/FSB recommendations by member jurisdictions, self-reported in IMN 2013 Survey	Germany
Refining the regulatory perimeter	
1. Review of boundaries of the regulatory framework including strengthening oversight of shadow banking	Draft/ongoing
Hedge Funds	
2. Registration, appropriate disclosures and oversight of hedge funds	Draft/ongoing
3. Establishment of international information sharing framework	Complete
4. Enhancing counterparty risk management	Complete
Securitization	
5. Improving the risk management of securitization	Complete
6. Strengthening of regulatory and capital framework for monolines	Not applicable
7. Strengthening of supervisory requirements or best practices for investment in structured products	Complete
8. Enhanced disclosure of securitized products	Draft/ongoing
Enhancing Supervision	
9. Consistent, consolidated supervision and regulation of SIFs	Complete
10. Establishing supervisory colleges and conducting risk assessments	Complete
11. Supervisory exchange of information and coordination	Complete
12. Strengthening resources and effective supervision	Complete
Building and implementing macro-prudential frameworks and tools	
13. Establishing regulatory framework for macro-prudential oversight	Complete
14. Enhancing system-wide monitoring and the use of macro-prudential instruments	Complete
15. Improved cooperation between supervisors and central banks	Complete
Improving oversight of credit rating agencies	
16. Enhancing regulation and supervision of CRAs	Complete
17. Reducing the reliance on ratings	Not collected
Enhancing and aligning accounting standards	
18. Consistent application of high-quality accounting standards	Complete
19. Appropriate application of Fair Value Accounting	Complete
Enhancing risk management	
20. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks	Complete
21. Efforts to deal with impaired assets and raise additional capital	Draft/ongoing
22. Enhanced risk disclosures by financial institutions	Complete
Strengthening deposit insurance	
23. Strengthening of national deposit insurance arrangements	Complete
Safeguarding the integrity and efficiency of financial markets	
24. Enhancing market integrity and efficiency	Draft/ongoing
25. Enhanced market transparency in commodity markets	Complete
26. Legal Entity Identifier	Complete
Enhancing financial consumer protection	
27. Enhancing financial consumer protection	Complete

Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

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Figure 8: Country Profiles—Italy

Italy



Key economic indicators, 2012
 Population (millions): 60.7
 GDP (US\$ in billions): 2,014.1
 GDP per capita (US\$): 33,115

Global Competitiveness Index 2013-2014 ranking: 49

Non-priority area comments
Shadow banking: Italy's law requires the Bank of Italy and Commissione Nazionale per le Società e la Borsa to review, at least every 3 years, the contents of their regulations in order to adapt them to the evolution of market conditions and interests of investors. The regulatory framework is consistent with the principle that entities undertaking similar risks should be subject to the "equivalent prudential requirements" integrated with the "proportionality criterion."
Registration and oversight of hedge funds: Hedge funds managers are regulated and supervised in the same way as Undertakings for Collective Investment in Transferable Securities managers. Hedge funds managers are subject to authorization and must comply with rules on general organization, capital adequacy, internal control systems, rules of conduct, and conflict of interest.
Supervision and regulation of SIFs: The Bank of Italy's prudential regulations already take the systemic importance of supervised financial institutions into account, according to a proportionality criterion. In the context of Basel II Pillar 2, institutions deemed as systemically important are subject to more stringent prudential requirements than other intermediaries, especially for risk control and measurement procedures and corporate governance.

Implementation status of Basel Framework by Members of the Basel Committee as of August 2013 (Jurisdiction: Italy)

Basel II	Implemented
Basel 2.5	Implemented
Basel III	Implementation ongoing

Implementation Status of the G20 OTC Derivatives Reforms by FSB Member Jurisdictions as of September 2013

(Jurisdiction: European Union)	Legislation	Regulation
Central clearing	Adopted	Adopted
Exchange or platform trading	Proposed	No action
Reporting to trade repository	Adopted	Adopted
Margin	Adopted	No action

Select Features of Resolution Regimes in FSB Jurisdictions as of April 2013 (Jurisdiction: Italy)

Authority to restructure and/or wind up banks	●
Authority to restructure and/or wind up insurers	●
Authority to restructure and/or wind up securities or investment firms	●
Authority to restructure and/or wind up financial market infrastructures	●
Are there legal provisions or policies that mandate or strongly encourage cross-border cooperation of resolution authority	● (within EU)

Status of Implementation of G20/FSB recommendations by member jurisdictions, self-reported in IMN 2013 Survey	Italy
Refining the regulatory perimeter	
1. Review of boundaries of the regulatory framework including strengthening oversight of shadow banking	Complete
Hedge Funds	
2. Registration, appropriate disclosures and oversight of hedge funds	Complete
3. Establishment of international information sharing framework	Complete
4. Enhancing counterparty risk management	Draft/ongoing
Securitization	
5. Improving the risk management of securitization	Complete
6. Strengthening of regulatory and capital framework for monolines	Complete
7. Strengthening of supervisory requirements or best practices for investment in structured products	No action
8. Enhanced disclosure of securitized products	Draft/ongoing
Enhancing Supervision	
9. Consistent, consolidated supervision and regulation of SIFs	Complete
10. Establishing supervisory colleges and conducting risk assessments	Complete
11. Supervisory exchange of information and coordination	Complete
12. Strengthening resources and effective supervision	Complete
Building and implementing macro-prudential frameworks and tools	
13. Establishing regulatory framework for macro-prudential oversight	Draft/ongoing
14. Enhancing system-wide monitoring and the use of macro-prudential instruments	No action
15. Improved cooperation between supervisors and central banks	Draft/ongoing
Improving oversight of credit rating agencies	
16. Enhancing regulation and supervision of CRAs	Complete
17. Reducing the reliance on ratings	Not collected
Enhancing and aligning accounting standards	
18. Consistent application of high-quality accounting standards	Complete
19. Appropriate application of Fair Value Accounting	Complete
Enhancing risk management	
20. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks	Draft/ongoing
21. Efforts to deal with impaired assets and raise additional capital	Complete
22. Enhanced risk disclosures by financial institutions	Complete
Strengthening deposit insurance	
23. Strengthening of national deposit insurance arrangements	No action
Safeguarding the integrity and efficiency of financial markets	
24. Enhancing market integrity and efficiency	Complete
25. Enhanced market transparency in commodity markets	Complete
26. Legal Entity Identifier	Draft/ongoing
Enhancing financial consumer protection	
27. Enhancing financial consumer protection	Complete

Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

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Figure 9: Country Profiles—Japan



Japan

Key economic indicators, 2012
 Population (millions): 127.8
 GDP (US\$ in billions): 5,964.0
 GDP per capita (US\$): 46,736

Global Competitiveness Index 2013-2014 ranking: 9

Non-priority area comments
Shadow banking: Japan participates proactively in international discussions on shadow banking in the Financial Stability Board and International Organization of Securities Commissions.
Registration and oversight of hedge funds: Managers who use the same style of investment management as hedge funds are now subject to registration as discretionary investment managers and investment trust managers under the Financial Instruments and Exchange Act. On January 21, 2010, the Financial Supervisory Authority published the "Development of Institutional Frameworks Pertaining to Financial and Capital Markets," which includes measures to expand coverage of registration to some types of foreign investment entrustments, including foreign hedge funds.
Supervision and regulation of SIFIs: In February 2013, the Financial Supervisory Authority published a new supervisory guideline, which clarifies that the recovery and resolution plans for global systemically important banks and, as necessary, other financial institutions that could have an impact on financial stability in the event of their failure should be developed at least annually.

Implementation status of Basel Framework by Members of the Basel Committee as of August 2013 (Jurisdiction: Japan)

Basel II	Implemented
Basel 2.5	Implemented
Basel III	Implemented

Implementation Status of the G20 OTC Derivatives Reforms by FSB Member Jurisdictions as of September 2013

(Jurisdiction: Japan)	Legislation	Regulation
Central clearing	Adopted	Effective
Exchange or platform trading	Adopted	No action
Reporting to trade repository	Adopted	Effective
Margin	No action	No action

Select Features of Resolution Regimes in FSB Jurisdictions as of April 2013 (Jurisdiction: Japan)

Authority to restructure and/or wind up banks	●
Authority to restructure and/or wind up insurers	●
Authority to restructure and/or wind up securities or investment firms	
Authority to restructure and/or wind up financial market infrastructures	
Are there legal provisions or policies that mandate or strongly encourage cross-border cooperation of resolution authority	●

Status of Implementation of G20/FSB recommendations by member jurisdictions, self-reported in IMN 2013 Survey	Japan
Refining the regulatory perimeter	
1. Review of boundaries of the regulatory framework including strengthening oversight of shadow banking	Draft/ongoing
Hedge Funds	
2. Registration, appropriate disclosures and oversight of hedge funds	Complete
3. Establishment of international information sharing framework	Complete
4. Enhancing counterparty risk management	Complete
Securitization	
5. Improving the risk management of securitization	Complete
6. Strengthening of regulatory and capital framework for monolines	Not applicable
7. Strengthening of supervisory requirements or best practices for investment in structured products	Complete
8. Enhanced disclosure of securitized products	Complete
Enhancing Supervision	
9. Consistent, consolidated supervision and regulation of SIFIs	Complete
10. Establishing supervisory colleges and conducting risk assessments	Complete
11. Supervisory exchange of information and coordination	Complete
12. Strengthening resources and effective supervision	Complete
Building and implementing macro-prudential frameworks and tools	
13. Establishing regulatory framework for macro-prudential oversight	Complete
14. Enhancing system-wide monitoring and the use of macro-prudential instruments	Complete
15. Improved cooperation between supervisors and central banks	Complete
Improving oversight of credit rating agencies	
16. Enhancing regulation and supervision of CRAs	Complete
17. Reducing the reliance on ratings	Not collected
Enhancing and aligning accounting standards	
18. Consistent application of high-quality accounting standards	Complete
19. Appropriate application of Fair Value Accounting	Complete
Enhancing risk management	
20. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks	Complete
21. Efforts to deal with impaired assets and raise additional capital	Complete
22. Enhanced risk disclosures by financial institutions	Complete
Strengthening deposit insurance	
23. Strengthening of national deposit insurance arrangements	Complete
Safeguarding the integrity and efficiency of financial markets	
24. Enhancing market integrity and efficiency	Complete
25. Enhanced market transparency in commodity markets	Complete
26. Legal Entity Identifier	Draft/ongoing
Enhancing financial consumer protection	
27. Enhancing financial consumer protection	Complete

Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

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Figure 10: Country Profiles–Netherlands

Netherlands



Key economic indicators, 2012
 Population (millions): 16.7
 GDP (US\$ in billions): 773.1
 GDP per capita (US\$): 46,142

Global Competitiveness Index 2013-2014 ranking: 8

Non-priority area comments
Shadow banking: The Dutch central bank has identified and plotted shadow banking activities in the Netherlands in an occasional paper and is open to consider proposals to further regulate shadow banking provided that real benefits of shadow banking are kept.
Registration and oversight of hedge funds: In July 2011, the European Alternative Investment Fund Managers Directive was published. The Netherlands has implemented this directive as of July 2013.
Supervision and regulation of SIFIs: Netherlands is working on recovery and resolution plans, has set up crisis management groups for the systemically important banks, and is working on harmonizing the resolution regime in the European context. The Netherlands largely complies with the Principles for the Supervision of Financial Conglomerates of 2012. Any new elements included in the 2012 principles in comparison to the 1999 principles will be implemented in Netherlands legislation as soon as a revision of the EU Directive takes account of those elements.

Implementation status of Basel Framework by Members of the Basel Committee as of August 2013 (Jurisdiction: Netherlands)

Basel II	Implemented
Basel 2.5	Implemented
Basel III	Implementation ongoing

Implementation Status of the G20 OTC Derivatives Reforms by FSB Member Jurisdictions as of September 2013

(Jurisdiction: European Union)	Legislation	Regulation
Central clearing	Adopted	Adopted
Exchange or platform trading	Proposed	No action
Reporting to trade repository	Adopted	Adopted
Margin	Adopted	No action

Select Features of Resolution Regimes in FSB Jurisdictions as of April 2013 (Jurisdiction: Netherlands)

Authority to restructure and/or wind up banks	●
Authority to restructure and/or wind up insurers	●
Authority to restructure and/or wind up securities or investment firms	●
Authority to restructure and/or wind up financial market infrastructures	●
Are there legal provisions or policies that mandate or strongly encourage cross-border cooperation of resolution authority	● (within EU)

Status of Implementation of G20/FSB recommendations by member jurisdictions, self-reported in IMN 2013 Survey	Netherlands
Refining the regulatory perimeter	
1. Review of boundaries of the regulatory framework including strengthening oversight of shadow banking	Complete
Hedge Funds	
2. Registration, appropriate disclosures and oversight of hedge funds	Complete
3. Establishment of international information sharing framework	Complete
4. Enhancing counterparty risk management	Complete
Securitization	
5. Improving the risk management of securitization	Complete
6. Strengthening of regulatory and capital framework for monolines	Not applicable
7. Strengthening of supervisory requirements or best practices for investment in structured products	Complete
8. Enhanced disclosure of securitized products	Complete
Enhancing Supervision	
9. Consistent, consolidated supervision and regulation of SIFIs	Complete
10. Establishing supervisory colleges and conducting risk assessments	Complete
11. Supervisory exchange of information and coordination	Draft/ongoing
12. Strengthening resources and effective supervision	Complete
Building and implementing macro-prudential frameworks and tools	
13. Establishing regulatory framework for macro-prudential oversight	Complete
14. Enhancing system-wide monitoring and the use of macro-prudential instruments	Complete
15. Improved cooperation between supervisors and central banks	Complete
Improving oversight of credit rating agencies	
16. Enhancing regulation and supervision of CRAs	Complete
17. Reducing the reliance on ratings	Not collected
Enhancing and aligning accounting standards	
18. Consistent application of high-quality accounting standards	Complete
19. Appropriate application of Fair Value Accounting	Draft/ongoing
Enhancing risk management	
20. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks	Complete
21. Efforts to deal with impaired assets and raise additional capital	Complete
22. Enhanced risk disclosures by financial institutions	Complete
Strengthening deposit insurance	
23. Strengthening of national deposit insurance arrangements	Complete
Safeguarding the integrity and efficiency of financial markets	
24. Enhancing market integrity and efficiency	Draft/ongoing
25. Enhanced market transparency in commodity markets	Draft/ongoing
26. Legal Entity Identifier	Complete
Enhancing financial consumer protection	
27. Enhancing financial consumer protection	Complete

Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

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Figure 11: Country Profiles–Spain



Spain

Key economic indicators, 2012
 Population (millions): 46.2
 GDP (US\$ in billions): 1,352.1
 GDP per capita (US\$): 29,289

Global Competitiveness Index 2013-2014 ranking: 35

Non-priority area comments
Shadow banking: Spanish regulation already is wide in its perimeter. Spanish authorities are participating in international and European projects to strengthen the regulation and oversight of the shadow banking system.
Registration and oversight of hedge funds: Spain has fully implemented domestic hedge funds regulations. While the level of hedge fund activity in Spain is rather low, implemented regulation in Spain on hedge funds already requires mandatory registration of both managers and hedge funds themselves.
Supervision and regulation of SIFIs: For regulation on SIFIs, the Capital Requirement Directive IV text includes a mandatory systemic risk buffer of common equity Tier 1 (CET1) capital for banks that are identified by the competent authority as globally systemically important institutions. The mandatory surcharge will be between 1 and 3.5 percent CET 1 and apply from January 1, 2016, onwards. The identification criteria follow the Basel Committee's framework for global systemically important banks.

Implementation status of Basel Framework by Members of the Basel Committee as of August 2013 (Jurisdiction: Spain)

Basel II	Implemented
Basel 2.5	Implemented
Basel III	Implementation ongoing

Implementation Status of the G20 OTC Derivatives Reforms by FSB Member Jurisdictions as of September 2013

(Jurisdiction: European Union)	Legislation	Regulation
Central clearing	Adopted	Adopted
Exchange or platform trading	Proposed	No action
Reporting to trade repository	Adopted	Adopted
Margin	Adopted	No action

Select Features of Resolution Regimes in FSB Jurisdictions as of April 2013 (Jurisdiction: Spain)

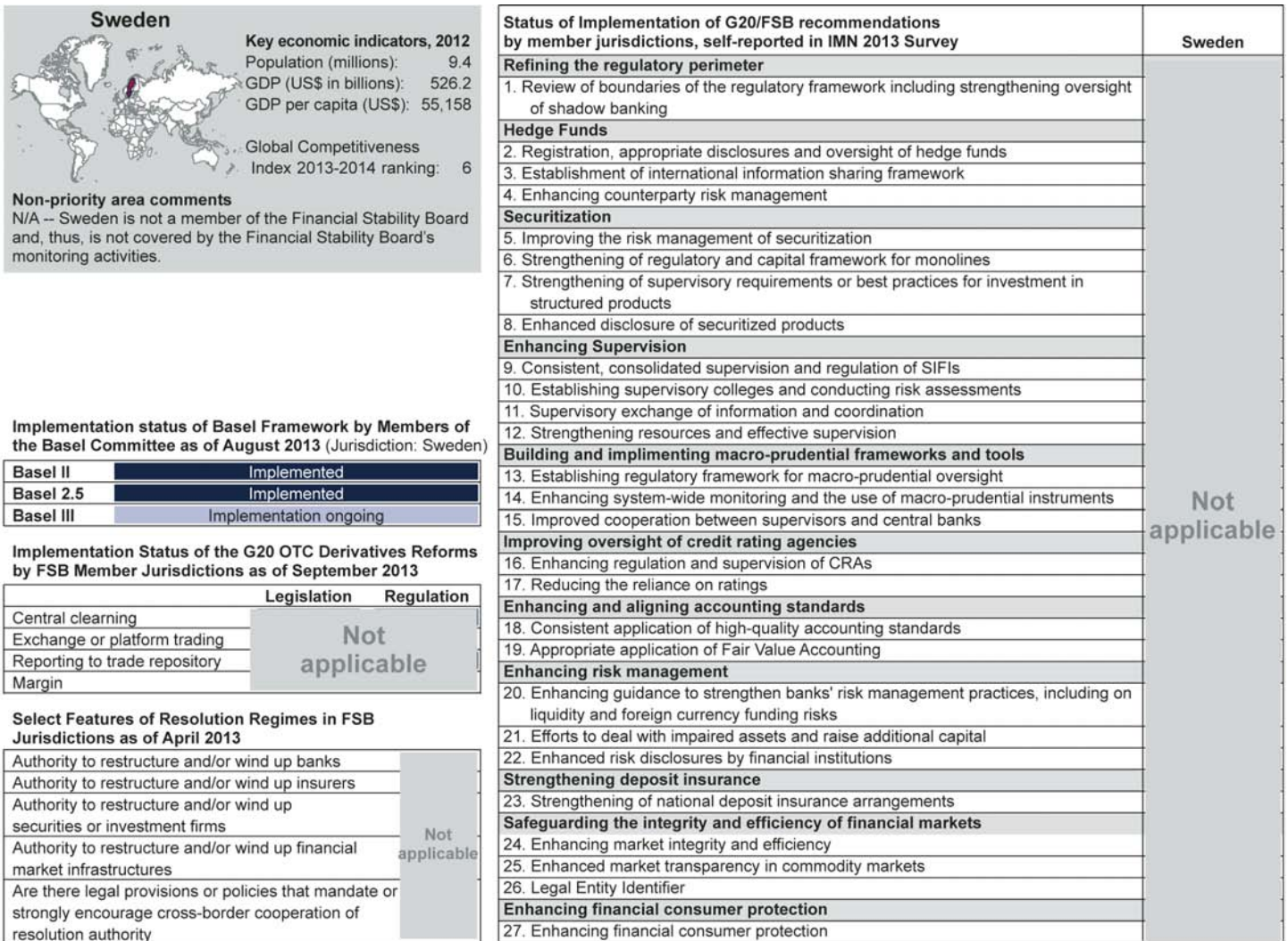
Authority to restructure and/or wind up banks	●
Authority to restructure and/or wind up insurers	●
Authority to restructure and/or wind up securities or investment firms	●
Authority to restructure and/or wind up financial market infrastructures	●
Are there legal provisions or policies that mandate or strongly encourage cross-border cooperation of resolution authority	●

Status of Implementation of G20/FSB recommendations by member jurisdictions, self-reported in IMN 2013 Survey		Spain
Refining the regulatory perimeter		
1. Review of boundaries of the regulatory framework including strengthening oversight of shadow banking		Draft/ongoing
Hedge Funds		
2. Registration, appropriate disclosures and oversight of hedge funds		Complete
3. Establishment of international information sharing framework		Complete
4. Enhancing counterparty risk management		Complete
Securitization		
5. Improving the risk management of securitization		Complete
6. Strengthening of regulatory and capital framework for monolines		Not applicable
7. Strengthening of supervisory requirements or best practices for investment in structured products		Complete
8. Enhanced disclosure of securitized products		Complete
Enhancing Supervision		
9. Consistent, consolidated supervision and regulation of SIFIs		Complete
10. Establishing supervisory colleges and conducting risk assessments		Complete
11. Supervisory exchange of information and coordination		Complete
12. Strengthening resources and effective supervision		Complete
Building and implementing macro-prudential frameworks and tools		
13. Establishing regulatory framework for macro-prudential oversight		Complete
14. Enhancing system-wide monitoring and the use of macro-prudential instruments		Draft/ongoing
15. Improved cooperation between supervisors and central banks		Complete
Improving oversight of credit rating agencies		
16. Enhancing regulation and supervision of CRAs		Complete
17. Reducing the reliance on ratings		Not collected
Enhancing and aligning accounting standards		
18. Consistent application of high-quality accounting standards		Complete
19. Appropriate application of Fair Value Accounting		Complete
Enhancing risk management		
20. Enhancing guidance to strengthen banks' risk management practices, including on liquidity and foreign currency funding risks		Draft/ongoing
21. Efforts to deal with impaired assets and raise additional capital		Draft/ongoing
22. Enhanced risk disclosures by financial institutions		Complete
Strengthening deposit insurance		
23. Strengthening of national deposit insurance arrangements		Not applicable
Safeguarding the integrity and efficiency of financial markets		
24. Enhancing market integrity and efficiency		Draft/ongoing
25. Enhanced market transparency in commodity markets		Draft/ongoing
26. Legal Entity Identifier		Complete
Enhancing financial consumer protection		
27. Enhancing financial consumer protection		Draft/ongoing

Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

Appendix IV: Implementation Status of the Group of Twenty's Reform Commitments Reported by Select Member Jurisdictions of the Financial Stability Board

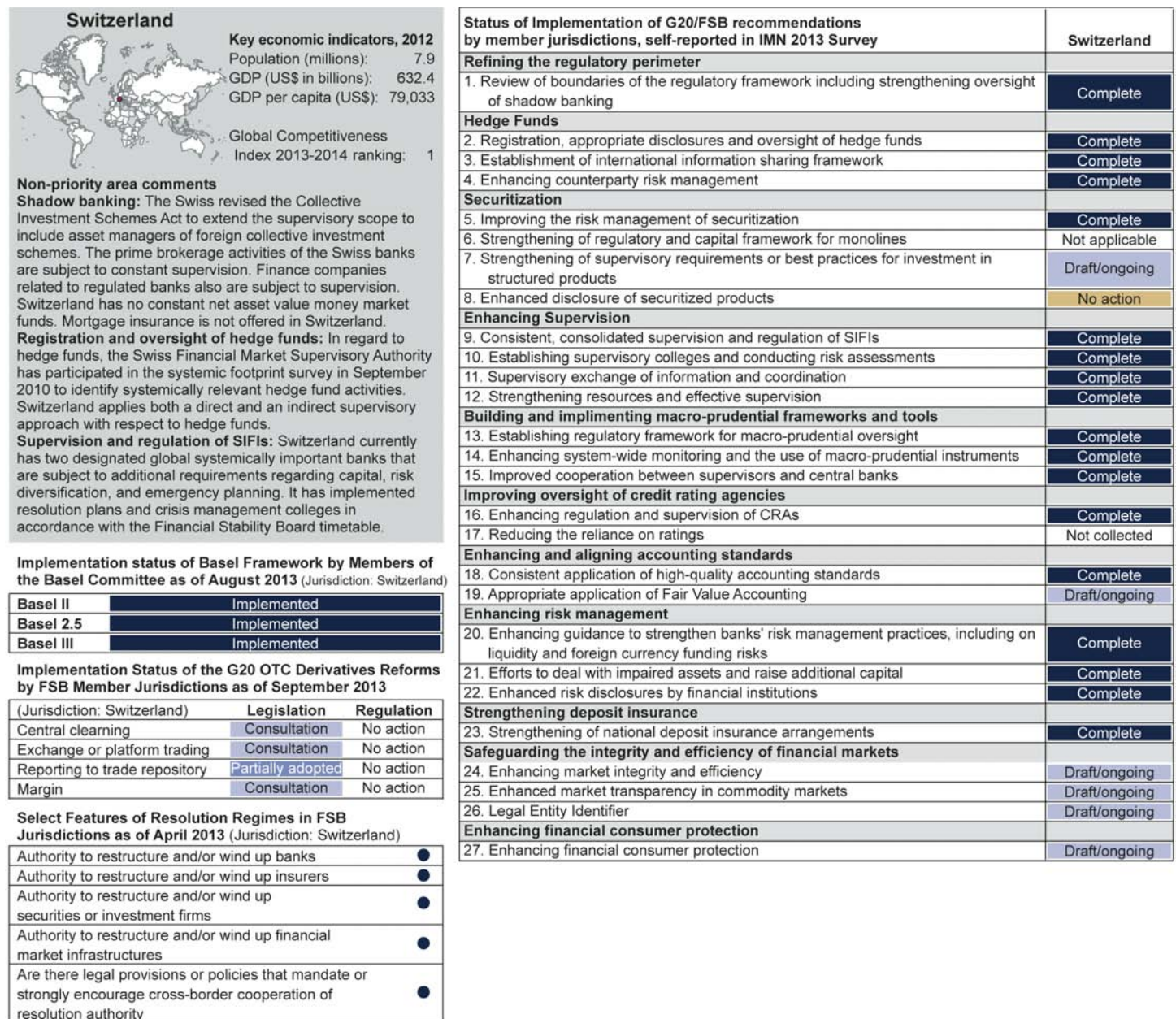
Figure 12: Country Profiles—Sweden



Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

**Appendix IV: Implementation Status of the
Group of Twenty's Reform Commitments
Reported by Select Member Jurisdictions of
the Financial Stability Board**

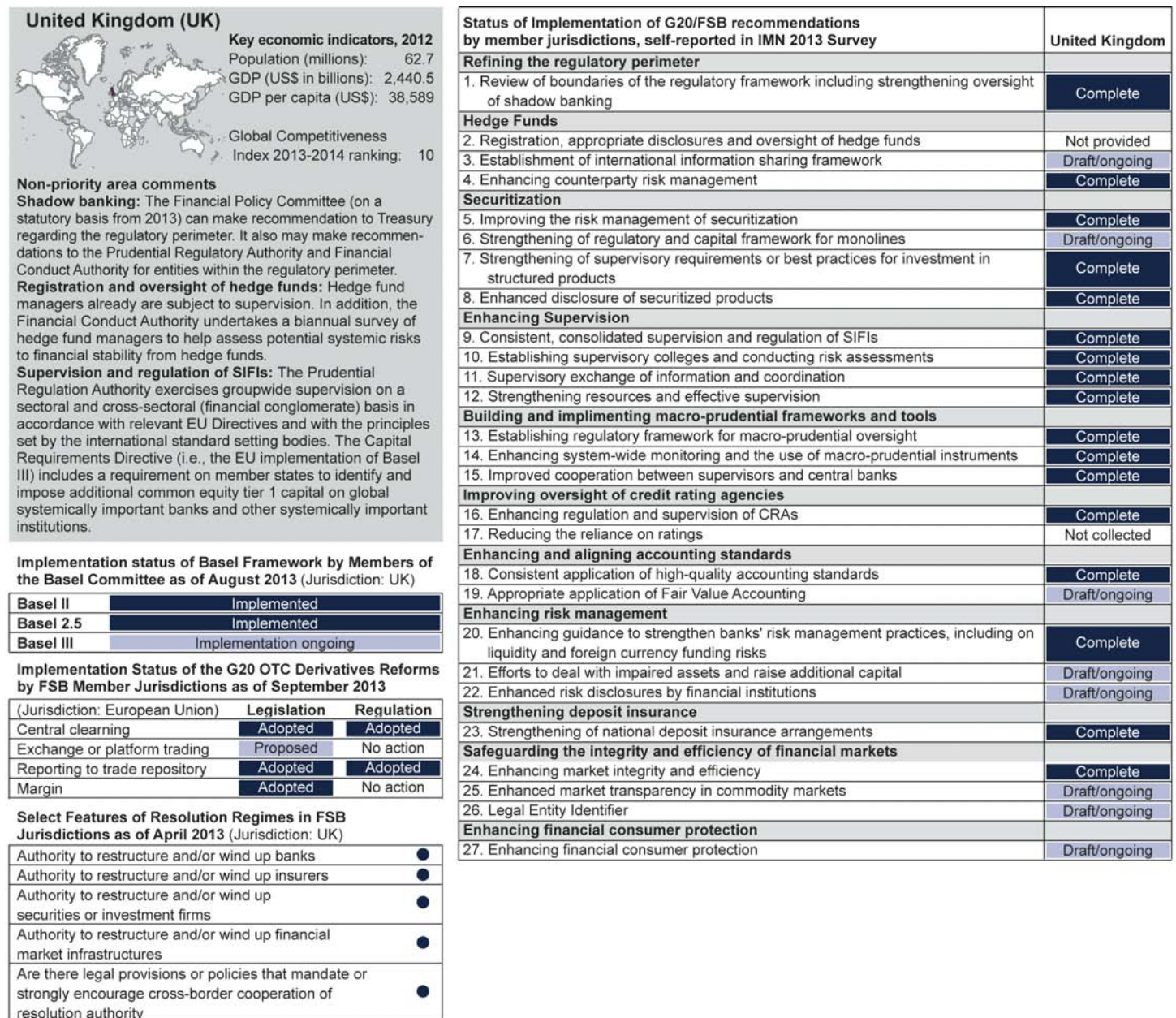
Figure 13: Country Profiles—Switzerland



Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

**Appendix IV: Implementation Status of the
Group of Twenty's Reform Commitments
Reported by Select Member Jurisdictions of
the Financial Stability Board**

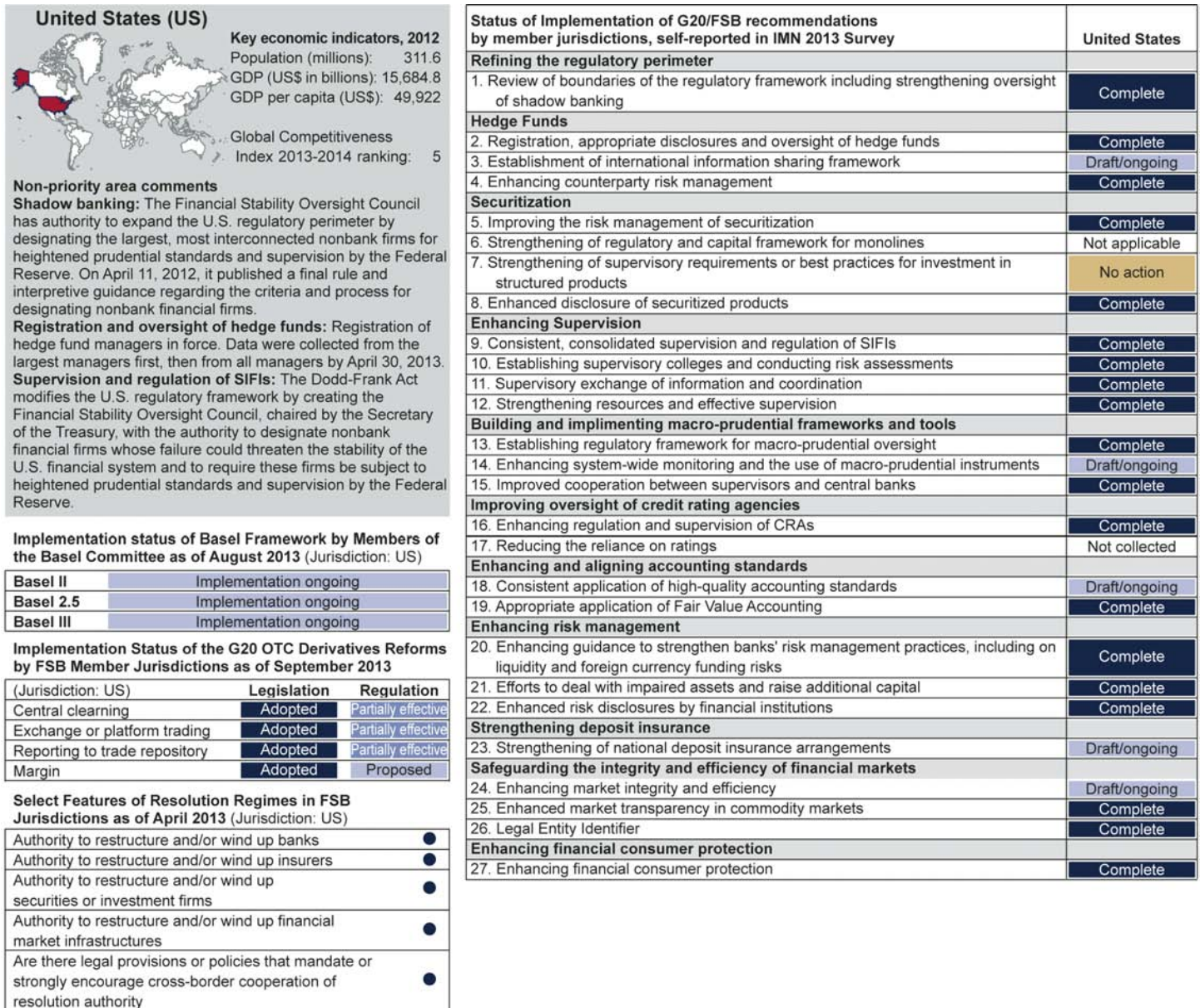
Figure 14: Country Profiles—United Kingdom (UK)



Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

**Appendix IV: Implementation Status of the
Group of Twenty's Reform Commitments
Reported by Select Member Jurisdictions of
the Financial Stability Board**

Figure 15: Country Profiles—United States (US)



Sources: Financial Stability Board, Basel Committee on Banking Supervision, and World Economic Forum.

Appendix V: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

March 24, 2014

Ms. A. Nicole Clowers
Director, Financial Markets and Community Investment
Government Accountability Office
441 G Street NW
Washington, D.C. 20548

Dear Ms. Clowers:

We thank the Government Accountability Office staff for its study "International Financial Regulatory Reforms." This report details the strong record of accomplishment on international financial regulatory reforms since the onset of the financial crisis, including the many actions taken internationally to strengthen the resilience of the global financial system and enhance the Financial Stability Board (FSB) so it could play a critical role in advancing the agenda.

As your report well underscores, the G-20, the FSB, and the international standard-setting bodies have cooperated closely in this endeavor. They have put together a string of accomplishments – agreement on Basel III, a common definition of capital and more recently the leverage ratio, capital surcharges for global systemically important banks, and beginning to end the opacity of the over-the-counter derivatives market by calling for central clearing, reporting, and more transparent trading requirements. The FSB is working to facilitate cross-border arrangements to resolve large global financial institutions, including through its development of the international resolution standard, the *Key Attributes of Effective Resolution Regimes for Financial Institutions*.

The United States has played a leadership role in designing and implementing the international financial regulatory agenda, positioning the G-20 to shape the international regulatory reform agenda, and boosting the role of the FSB. In addition, the United States set an example for the world through our innovative stress tests in 2009 and enacting the Dodd-Frank Act in 2010. Indeed, many aspects of the Dodd-Frank Act and the international agenda are closely aligned, reflecting the tireless work of our regulators, despite sometimes severe resource constraints.

Finally, as the report rightfully notes, our work is not done. As Secretary Lew has stated, we will continue working with other regulators to forge high quality, compatible rules, encouraging reforms in other jurisdictions that are as strong as our own. Treasury will continue to promote greater consistency and convergence, and a race to the top.

Thank you for the GAO's fine work in highlighting the strong and ambitious efforts made since the crisis to advance international financial regulatory reform.

Sincerely,

Handwritten signature of Mark Sobel in black ink.

Mark Sobel

Appendix VI: Comments from the Securities and Exchange Commission



OFFICE OF
INTERNATIONAL
AFFAIRS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

March 21, 2014

VIA EMAIL

A. Nicole Clowers
Director, Financial Markets and Community Investment
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Clowers:

Thank you for the opportunity to review and comment on the draft report entitled, "International Financial Regulatory Reforms: U.S. and Other Jurisdictions' Efforts to Develop and Implement Reforms" (GAO-14-261). We are also grateful for your staff's consideration of our views in the development of this report. SEC staff welcomes GAO's review of the U.S. role in international reform efforts and the GAO's examination of the status of implementation of those reforms. As one of the national authorities with responsibility for those reforms, we value GAO's perspective in this area.

With G-20 leadership, the FSB is making valuable contributions to the process of enhancing international cooperation on financial regulation, particularly with regard to promoting coordination and information exchange among authorities responsible for financial stability and encouraging the work of the international standard-setting bodies. As the report correctly notes, for instance in its discussion of the "International Financial Architecture," international standards are not legally binding and rely on the decision of national authorities to implement these standards, reflecting, among other considerations, appropriate respect for national sovereignty. For that reason, we do not share the view that international organizations "implement" international standards, nor should they have that authority. Rather, while the international organizations develop guidelines and standards, the national authorities determine whether and how to implement them.

As you know, the Securities and Exchange Commission (like the Commodity Futures Trading Commission) is an independent agency that has a statutory obligation to engage in its own processes for input and deliberation. The outcome of those processes may differ from the international standard-setting bodies' recommendations due to challenges discussed in the report, such as time or resource constraints, or the differences simply may be a product of assigning those functions to independent agencies and those agencies' judgments in the execution of their respective mandates. Thus, here, as elsewhere, a lack of consistent implementation of international standards across jurisdictions may represent a reasoned choice and/or legal obligations or constraints within the individual jurisdictions.

We are pleased that the report acknowledges that while negative consequences can flow from varying degrees of implementation of international standards, there also can be good reasons behind such differences, such as avoiding a movement to less robust standards or the unintentional concentration of risks. We agree with the discussion in the report that there may well be reasons to take into account variations in national legal and market structures and conditions, including differences in economic development and enforcement authority. There can be value in allowing individual jurisdictions to have the flexibility to respond to these differences.

Identifying appropriate departures from international standards versus unnecessary deviations with negative consequences can be difficult, but is of critical importance. While the peer review programs of the various international standard-setting organizations undoubtedly should take them into account, any suggestion that those processes should have greater binding affect ignores the inherent limitations in those processes and runs the risk of undermining the central premises of national regulation and sovereignty.

We also note a few more specific points. The report states that cross-border interconnections increased systemic risk, but we are not sure that is the case. It is certainly the case, however, that interconnections permitted disruptions to spread quickly across borders.

With regard to the chart providing a picture of selected international bodies, it is worth noting the particular status of the accounting standard-setting bodies. Both the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) are independent, private-sector organizations. Although the IASB is an FSB member, the legitimacy of the accounting standards that these bodies set depends, among other things, on those bodies' ability to set accounting standards free from political interference.

Finally, we note that the term "shadow banking" is used in your report. We do not believe it is appropriate to use this term to refer to market-based financing which serves a credit intermediation function. Aside from the inappropriately ominous word choice, which has gained wide usage in other settings, the phrase tends to imply that activities so labelled should be analyzed in the same manner as banking, with similar regulatory tools necessarily to be applied to issues raised by this financing mechanism. We disagree with that implication.

Thank you once again for the opportunity to review and comment on the draft report.

Sincerely,



Paul Leder
Director

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

A. Nicole Clowers, (202) 512-8678, clowersa@gao.gov

Staff Acknowledgments

In addition to the contact named above, Richard Tshara (Assistant Director), Rudy Chatlos, Catherine Gelb, Camille Keith Jennings, Thomas McCool, Thomas Melito, Marc Molino, Akiko Ohnuma, Barbara Roesmann, and Jessica Sandler made key contributions to this report.

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