Research Article

What Role for the New Financial Stability Board? The Politics of International Standards after the Crisis

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Abstract

Created in April 2009, the Financial Stability Board (FSB) represents the G20 leaders' first major international institutional innovation. Why was it established and what role will it play in global economic governance? The creation of the FSB has been linked to a US-led effort to strengthen an international prudential standards regime that had evolved in the years leading up to the 2007–08 global financial crisis. The FSB faces a number of serious challenges in its new role: developing effective mechanisms for monitoring and encouraging compliance; promoting the development of effective international standards and fostering consensus on their content; establishing its legitimacy *vis-à-vis* non-members and within member countries; and clarifying its relationship with other global governance institutions. Since these are very difficult tasks, the FSB may be forced to assume a less ambitious role in international regulatory politics than some of its creators initially envisioned.

Policy Implications

- The creation of the FSB is part of an ambitious effort to strengthen international prudential standards in response to the recent global financial crisis.
- The FSB faces many challenges: developing effective mechanisms for monitoring and encouraging compliance; promoting the development of effective international standards and fostering consensus on their content; establishing its legitimacy *vis-à-vis* non-members and within member countries; and clarifying its relationship with other global governance institutions.
- If these challenges prove too daunting, the FSB can still play an important, though less ambitious, role of fostering international cooperation to support a more pluralistic and decentralized international regulatory order.

Created in April 2009, the Financial Stability Board (FSB) represents the G20 leaders' first major international institutional innovation. Why was it established and what role will it play in global economic governance? While the FSB has been assigned a number of tasks, this article focuses on what is probably the most important one: the strengthening of international prudential financial regulation. After describing the emergence of an international standards regime before the crisis, the article explores how the creation of the FSB has been linked to a renewed effort to strengthen this regime. This initiative has been led by US officials and supported to date by the rest of the G20 for some specific reasons that are highlighted briefly. The article then outlines a number of challenges that the FSB faces in its new role: developing effective mechanisms for monitoring and encouraging compliance; promoting the development of effective international standards and fostering consensus on their content; establishing its legitimacy *vis-à-vis* non-members and within member countries; and clarifying its relationship with other global governance institutions. Since these are very difficult tasks, the article ends with some speculations about an alternative role that the FSB could assume which would be less ambitious but not necessarily less supportive of global financial stability.

The emergence of the international standards regime

Efforts to create international prudential financial standards began over two decades ago with the negotiation of the 1988 Basel Accord on bank capital adequacy by the Basel Committee on Banking Supervision (BCBS). In the wake of the 1994 Mexican crisis and the 1997–98 international financial crisis, initiatives to strengthen and promote international financial standards greatly intensified at the urging of G7 policy makers who believed that the crises had stemmed largely from poor supervisory and regulatory practices in developing countries (Helleiner and Pagliari, forthcoming; Porter, 2005; Walter, 2008). During this period, many new international standards – often drawing on US and British practices

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– were created including those relating to: banking supervision (developed in 1997 by the BCBS); securities regulation (developed in 1998 by the International Organization of Securities Commissions (IOSCO)); insurance supervision (created in 1997 by the International Association of Insurance Supervisors (IAIS)); corporate governance (developed in 1999 by the Organization for Economic Cooperation and Development (OECD)); payments systems (created in 2001 by the Committee on Payment and Settlement Systems (CPSS)); and accounting and auditing (created in 2002 by two private institutions, the International Accounting Standards Board (IASB) and the International Federation of Accountants (IFAC), respectively).[1]

In early 1999, the G7 also created the Financial Stability Forum (FSF) to coordinate the key actors involved in this emerging 'international standards regime' (Walter, 2008, p. 8). The FSF's membership included representatives from: the finance ministry, central bank and supervisory authority of each G7 country; a number of relevant international organizations (the International Monetary Fund (IMF), World Bank, Bank for International Settlements, OECD and the European Central Bank); and the international standard setting bodies and other groupings (the BCBS, IAIS, IOSCO, IASB, CPSS and the Committee on the Global Financial System). The FSF's first chair was Andrew Cockett (then general manager of the BIS), and it was located in Basel with a very small secretariat. Within a few months, the FSF expanded slightly to include one member from each of Australia, Hong Kong, the Netherlands and Singapore (and then also Switzerland in 2007).

In addition to prioritizing 12 international standards that would be promoted worldwide,[2] the FSF created working groups within its first year to study highly leveraged institutions, short-term capital flows and offshore financial centers (OFCs). The March 2000 report of the OFC working group was particularly noteworthy in recommending that FSF member countries consider using 'positive and negative incentives' to encourage compliance with a few core international standards, including those relating to cross-border cooperation and information sharing, and essential supervisory powers and practices (FSF, 2000, p. 29). This recommendation prompted the FSF a few months later to draw up a list of OFCs that were categorized according to the strength of their cooperation and their regulation and supervision.

This initial flurry of activity encouraged some to think that the FSF might emerge as a major player in international financial governance. But the FSF subsequently assumed a more low-key role. Although it continued to publish status reports on work elsewhere and regular evaluations of potential global financial system risk, the FSF did not publish any more subject-specific working group reports in the years leading up to the outbreak of the current crisis in 2007. In the words of Howard Davies and David Green (2008, p. 116), the FSF failed 'to carve out a distinctive position, integrating the various perspectives of the diverse membership, as was originally hoped'. The FSF also pulled back from playing a front-line role in promoting compliance with the international financial standards *vis-à-vis* OFCs. The IMF took on the task of evaluating their compliance and by 2005 the FSF declared that its list of OFCs was 'no longer operative' (FSF, 2005, p. 1).

The international standards project was also weakened by the mechanisms for promoting compliance beyond the OFCs. Around the time that the FSF was created, the IMF and World Bank established the Financial Sector Assessment Program (FSAP) to evaluate country compliance with all 12 international financial standards that the FSF had prioritized. The wariness of some developing countries towards the international standards regime led them to insist that the FSAP process was made voluntary and that governments be allowed to block publication of the results either in part or in full. After the election of the Bush administration in 2000, the US also initially refused to participate. By September 2008, 126 countries had undergone, or were undergoing, FSAPs, but some key G20 countries were not among them: Argentina, China, Indonesia and the US (Truman, 2009, p. 14). Developing countries also insisted that participation was voluntary in the preparation of the IMF's Reports on the Observance of Standards and Codes (ROSC) which summarized countries' compliance levels. Even when they participated in the ROSCs, some countries resisted publication of the results. In addition, a G7 effort to tie IMF lending terms to compliance with international standards was blocked by developing countries (Thirkell-White, 2007).

Why were many developing countries so wary of the international standards regime? One reason was that they had little formal representation in either the FSF or many of the international standard setting bodies (SSBs) that designed the standards (Porter and Wood, 2002). For example, the BCBS' membership before 2009 was restricted to the G7, Belgium, Luxembourg, the Netherlands, Spain, Sweden and Switzerland, while the CPSS included just the G7, Belgium, the Netherlands, Singapore, Hong Kong, Sweden and Switzerland). Even within the SSBs that have much wider membership such as IOSCO and the IASB, developing countries had concerns about their limited influence. The membership of IOSCO's Technical Committee which plays a key role in the development of that organization's regulatory initiatives involved only the G7 countries, Australia, Hong Kong, Mexico, the Netherlands, Spain and Switzerland before 2009. The private IASB was also dominated by members from developed countries. Because so many of the international standards had been developed and informed by the experience of advanced industrial countries (and especially the Anglo-American experience), their appropriateness for developing countries was questioned. The costs of implementation for developing countries also raised concerns.

Given developing country resistance within the Bretton Woods institutions, G7 governments were left to rely primarily on market pressure as the means to encourage compliance with the international standards regime. This compliance mechanism turned out to be quite weak (even leaving aside the issue that FSAP and ROSC participation was voluntary and that publication of results was blocked in some cases). Of the large number of countries that did end up undergoing FSAPs, evidence is mixed about whether countries adopting international standards were rewarded with investment.[3] Some countries also engaged in what Walter (2008) calls 'mock' compliance, particularly where effective third party monitoring was difficult in the case of standards such as bank supervision, corporate governance and accounting.

The creation of the FSB and the renewed push for international standards

The current crisis has led to an important strengthening of the international financial standards regime with the FSB now at its core. This process began at the outbreak of the crisis when G7 finance officials assigned the FSF the lead role in outlining a road map for the agenda of international regulatory reform at their October 2007 meeting. The FSF released a very detailed plan in April 2008 which was then endorsed by the G7 and was subsequently refined in October. When the G20 leaders outlined their extensive agenda for regulatory reform at their first summit in November 2008, the details followed very closely those outlined in the FSF's road map (Helleiner and Pagliari, 2009a). At that summit, the G20 leaders (2008) continued to assign the FSF a leadership role in this area, but they noted that 'the Financial Stability Forum must expand urgently to a broader membership of emerging economies'. The G20 leaders also insisted that 'other major standard setting bodies should promptly review their membership'.

The SSBs responded quite rapidly. Before the G20 leaders' next summit in April 2009, China, Brazil and India became members of the Technical Committee of IOSCO. By June 2009, the BCBS had invited all G20 countries to become members. In July, the CPSS also expanded to include Australia, Brazil, China, India, Mexico, Russia, Saudi Arabia, South Africa and South Korea. The governance of the IASB was also reformed in a manner that provided a better guarantee for developing country representation (Helleiner and Pagliari, 2009b).

The most important change in the governance of international financial standards, however, came with the transformation of the FSF into the FSB. The new FSB was given a wider membership that included all G20 countries, Spain and the European Commission (along with all the original members of the FSF). Following in the FSF's tradition, not all members were equally represented. The FSB's Charter noted that 'the number of seats in the Plenary assigned to Member jurisdictions reflects the size of the national economy, financial market activity and national financial stability arrangements of the corresponding Member jurisdiction'. Accordingly, while the G7 and BRIC countries were each given three representatives, other countries received only two (Australia, Mexico, the Netherlands, Spain, South Korea and Switzerland) or one (Argentina, Hong Kong, Indonesia, Singapore, Saudi Arabia, South Africa and Turkey).[4]

The FSB was also given a slightly larger secretariat and a full-time secretary-general. Its internal governance became more sophisticated including not just a plenary (which works by consensus) but also a permanent steering committee and three standing committees (for Vulnerabilities Assessment, Supervisory and Regulatory Cooperation, and Standards Implementation). The FSB's new mandate was also wider than the FSF's, including tasks such as conducting (jointly with the IMF) early warning exercises, setting guidelines for and supporting the establishment of international supervisory colleges for private institutions, and supporting contingency planning for cross-border crisis management, particularly with respect to systemically important firms. In the regulatory area, the FSB was also given a stronger coordinating role *vis-à-vis* the SSBs. It was asked to 'undertake joint strategic 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'. It has also been tasked to:

> promote and help coordinate the alignment of the activities of the SSBs to address any overlaps or gaps and clarify demarcations in light of changes in national and regional regulatory structures relating to prudential and systemic risk, market integrity and investor and consumer protection, infrastructure, as well as accounting and auditing.

In addition, the FSB was assigned a much stronger role in promoting compliance with international financial standards. While the membership with the FSF had come with no obligations, countries that belong to the FSB must, according to the body's Charter, 'implement international financial standards'.[5] All FSB members must also undergo periodic peer reviews which include the use of FSAP reports. The peer review process includes not just country reviews but also thematic reviews (of which the first concerned the implementation by all members of the 'FSB Principles for Sound Compensation Practices'). In January 2010, FSB members strengthened the obligations of membership further to include undergoing an FSAP assessment 'every five years' and disclosing 'their degree of adherence of international standards, notably by publishing the detailed assessments prepared by the IMF and World Bank as a basis for the Reports on the Observance of Standards and Codes (ROSCs)' (FSB, 2010b, p. 1).

The FSB has committed to taking a more active role in promoting compliance with international standards among non-member countries. Its members will do this partly by 'leading by example' through implementing international standards and disclosing their levels of adherence (FSB, 2010b, p. 1). When they created the FSB, the G20 leaders also encouraged the FSB 'to develop a toolbox of measures to promote adherence to prudential standards and cooperation' with non-cooperative jurisdictions (NCJs). At their next summit in September 2009, they asked the FSB 'to report progress to address NCJs with regards to international cooperation and information exchange in November 2009 and to initiate a peer review process by February 2010' (G20 Leaders, 2009b, p. 10).[6]

The ambition was scaled back somewhat in November 2009 when the FSB reported that it would begin by examining 'jurisdictions that pose a risk to financial stability because of their systemic importance and weak adherence to the relevant standards'. It was announced that a list of jurisdictions would be identified by February 2010 to be prioritized for a 'transparent review process' (FSB, 2009b, p. 10). Echoing the FSF's approach *vis-à-vis* OFCs a decade earlier, the FSB also reported in January 2010 that it would focus initially only on compliance with the international cooperation and information exchange principles within the BCBS Core Principles for Effective Banking Supervision, the IAIS Insurance Core Principles and the IOSCO Objectives and Principles of Securities Regulation. The FSB then identified an initial list of jurisdictions in February with whom the FSB began to dialogue. These jurisdictions have been told that continuing non-compliance could be met with a number of measures including 'the option of publishing by the end of 2010 the names of non-cooperative jurisdictions in the event that other measures to promote adherence to international cooperation and information exchange standards are not achieving sufficient progress' (FSB, 2010b, p. 4). After this initial round of evaluations, the FSB has noted its intention to launch a second round involving new jurisdictions with the 'ultimate goal' being 'to promote adherence by all countries and jurisdictions to regulatory and supervisory standards concerning international cooperation and information exchange' (FSB, 2010c, p. 10).

The goal of the FSB's initiatives concerning compliance *vis-à-vis* members and non-members is 'to strengthen adherence to international financial standards' by 'fostering a race to the top, wherein encouragement from peers motivates all countries and jurisdictions to raise their level of adherence' (FSB Charter). These efforts represent a renewed push to promote and enforce global prudential standards, but one that goes beyond the initiatives that followed the crisis of the late 1990s. By linking membership in the FSB formally to adherence to international standards (and mandatory FSAPs and disclosure of compliance levels), policy makers appear to have 'hardened' the commitment of all FSB countries – including developing country members – to these standards. The new peer review process also creates a potentially important new mechanism for monitoring and encouraging compliance among members. The willingness of FSB members to target NCJs with specific countermeasures also suggests a tougher approach *vis-à-vis* non-members than in the FSF period. In that era, pressure on most non-member countries to comply had been weak, resting on the FSAP/ROSC process and market pressures (as well as a broader assumption that countries would recognize the inherent attractiveness of best practice standards). Only OFCs had been threatened with direct penalties (see FSF, 2000, pp. 31–32) and even then, the threats had been very weak after 2000. Now, the FSB has set its sights on all jurisdictions and is taking the lead role in developing specific measures to encourage compliance among NCJs.

Explaining the FSB's new role

How do we explain this renewed and intensified push to strengthen the international standards regime? At first glance, this development is puzzling. The regime emerged in response to the crisis of the late 1990s which generated support for, and confidence in, the idea that western – and more specifically, Anglo-American – approaches to financial regulation could be a model for others (Walter, 2008). The current crisis has undermined this support and confidence. In this context, many analysts predicted that the crisis might weaken efforts to promote international financial standards and lead to a greater fragmentation of international financial regulation, along national and regional lines (Helleiner, 2009; Mosley, 2009). The FSB's creation and its initial activities, however, suggest the opposite outcome, at least so far.

One explanation for this outcome has been US leadership. US officials emerged as leading champions of the creation of the FSB and the new push to strengthen compliance with international standards. Treasury Secretary Geithner, in particular, has been a strong advocate of these initiatives, arguing forcefully for an international 'level playing field' (a goal that is also outlined in the preamble to the FSB's Charter). As he put it at the time of the G20 Pittsburgh summit:

> the basic strategy is a simple strategy. You get countries to agree to raise the standards, to commit to a level playing field, and then you have a huge interest in all countries in holding each other accountable to hold their institutions to that same standard, because they all know that if anybody tries to compete by lowering those standards, it would be adverse to their interests. That's the basic dynamic. So the important thing we did in London, and you're going to see substantial additional progress here today, is to add, in effect, a fourth pillar to the architecture of cooperation we established after the second world war (US Treasury, 2009).

The US leadership role can partly be seen in the context of the renewed commitment of the Obama administration to multilateralism and strengthening of international institutions in the context of the changing US position in the world economy. But David Singer's (2007) analytical framework also suggests more specific interests that US policy makers have had in this initiative.[7] The US subprime crisis has generated enormous domestic pressure on US officials to tighten domestic financial regulations, but they are aware that unilateral tightening risks undermining the international competitive position of the US financial sector. If, however, all states can be encouraged to tighten their standards in tandem with the US, the competitive concerns can be addressed. International regulatory coordination, in other words, helps US policy makers meet the twin goals of stability and competitiveness. This motivation also helped to drive the initial US leadership role in creating the 1988 Basel Accord (Kapstein, 1989; Singer, 2007). It was less present during the push international standards regime after the late 1990s when the US did not face the same kind of competitive challenges and the goal was primarily that of minimizing financial instability stemming from emerging markets.[8] But its re-emergence in this current context helps to explain why the US commitment to enforce compliance abroad is stronger now than in the decade leading up to 2007 when insiders report that the US argued against a stronger role for the FSF.[9]

Given that British and continental European governments are also under intense domestic pressures to strengthen financial regulations at home, this motivation helps to explain their support for these initiatives as well. But what about developing country governments, some of which were quite skeptical of the international standards regime in the past decade? For developing countries within the G20, it helps that their frustration at being excluded from the decision-making 'club' had partly been addressed.[10] These countries now have a seat at the table of the rule makers through their membership in the FSB, the G20 leaders' process (which emerged in the crisis as the lead grouping setting international policy in this area)[11] as well as some of the SSBs. This marks a sharp contrast with the politics of international standard setting in the wake of the 1997–98 crisis, when the G7 took the lead role.

Developing country officials have also seen the strengthening of international standards as a tool for guaranteeing better regulation of the leading markets in developed countries, most notably those in the US and Europe. As the effects of the US subprime crisis spread worldwide by the summer of 2008, developing countries suddenly found themselves in the opposite position from a decade earlier. During the 1997–98 crisis, G7 countries had worried that poor regulatory practices in developing countries were generating negative externalities for their own economies. Now, the shoe was on the other foot, as developing countries were sideswiped by the consequences of regulatory failures in the US and European markets. In both instances, the strengthening of international standards was seen as a way to minimize externalities stemming from abroad.

Challenges for the FSB

If support for the FSB's new role can be explained in these ways, it is less clear whether this support will last. The FSB faces a number of significant challenges in carrying out its new role of strengthening the international standards regime. To begin with, at an operational level, the FSB will need to develop more efficient and effective mechanisms for monitoring and encouraging compliance. The FSB has given the FSAPs a more prominent role in this area, but the latter consumed an enormous amount of time and resources before the crisis (costing over $1 billion; Davies and Green, 2008, p. 121), and they have attracted considerable criticism. Given the eventual system blow-up, was this time and money well spent? What improvements could be made? In what ways could FSAPs be better aligned with the FSB priorities? If compliance is to be monitored effectively, the problem of 'mock' compliance will also need to be addressed. Since this phenomenon is particularly prevalent where standards are ambiguous or complex, the task would be made easier if standards were simple, clear and measurable.

The FSB's peer review process is a promising new mechanism for monitoring and encouraging compliance, but it too faces challenges. Although the OECD's experience reminds us how peer review mechanisms can be quite successful, the success of the OECD peer reviews rests partly on a strong secretariat that supports the whole process (Pagani, 2002). Because of its tiny size, the FSB's staff may find it difficult to perform this role well. If the peer review process is to be effective, the FSB members must commit to funding a more substantial secretariat.

The FSB should also clarify the consequences for member countries of non-compliance with international standards. Although the FSB has made compliance a condition of membership, the penalties for non-compliance of members remain unspecified. The FSB's Charter notes that 'the eligibility of Members will be reviewed periodically by the Plenary in the light of the FSB objectives'. But since the plenary operates on a consensus basis, its ability to revoke a country's membership without that country's agreement seems highly constrained.

Rather than rely on the plenary to judge whether countries have upheld their membership obligations, a more forceful approach might be to draw on the model of the WTO's dispute settlement panels. In his proposal for a new 'World Financial Organization', Barry Eichengreen (2009, p. 19) has suggested that membership obligations to uphold international financial standards could be enforced by appointing 'independent panels of experts to determine whether countries were in compliance with those obligations'. As in the WTO model, sanctions would then be authorized against countries judged to be non-complying: 'other members would be within their rights to restrict the ability of banks and nonbank financial institutions chartered in the offending country to do business in their markets'. As Eichengreen notes, 'this would provide a real incentive to comply'. If the FSB was to embrace this approach, a much clearer mechanism for enforcing the obligations of membership would be established. Member countries might not be willing, however, to accept such a strengthening of the FSB's power and of their commitments to international standards. Indeed, at the moment, their commitments remain entirely non-binding in a legal sense even with the new FSB's membership rules because the FSB's Charter is, in its own words, 'not intended to create any legal rights or obligations'.

A second challenge for the FSB is that it must encourage the development of effective international standards that minimize future crises as well as foster consensus on their content. The development of appropriate standards is inherently difficult given the constant innovation in financial markets and the tendency of policy makers to fight the last battle rather than the next one. But the political task of creating and maintaining consensus on the content of international standards may prove just as challenging for the FSB. In the pre-crisis era, Anglo-American practices acted as a kind of focal point for international coordination because of their prestige and apparent success. As these practices have lost some of their legitimacy, international standard setting may become more difficult, especially with a larger and more diverse group of countries now in the decision-making bodies. One test of these difficulties will arise immediately as the FSB has chosen for 2010 to prioritize work on 'measures to address the "too big to fail" problems associated with systemically important financial institutions' (FSB, 2010a, p. 2). This work involves controversial issues relating to the creation of 'living wills', tougher differentiated standards for these institutions, and questions surrounding the definition of 'systemically important'. If consensus is too hard to reach in this and other areas, we may see the emergence of smaller subgroups of FSB countries moving forward with coordination initiatives. The creation of an 'OTC Derivatives Regulators' Forum' in September 2009 involving only developed country officials may be one example of this phenomenon already.[12]

Reconciling the unique needs of developing countries with the goal of harmonized international standards may be a particular challenge for the FSB. As noted above, developing country governments often have quite distinct perspectives on the desirability of some of the standards that have been promoted since the late 1990s. Some of the recent reform proposals may also impose particular costs on developing countries. Developing country governments may also seek to promote standards relating to topics that have not received much attention so far in the post-2007 international regulatory agenda, such as the regulation of agricultural futures markets or the role that restrictions on cross-border financial movements can play as countercyclical regulatory tools. If developing countries' commitment to the process is to remain, their participation in rule making must translate into real influence and the content of the renewed international standards regime must shift to reflect their concerns and interests. In this respect, it is discouraging that the new steering committee and all three of the new standing committees were chaired initially by officials from developed countries (Griffith-Jones, 2009).

Third, the legitimacy of the FSB may well quickly become a highly politicized issue among non-members because of its narrow membership. Most of the world's countries still remain outside the FSB and the SSBs as rule takers. If the FSB moves in an ambitious way to enforce worldwide compliance *vis-à-vis* rules set by itself or the SSBs, a political backlash will likely ensue. So far, the FSB has selected a course of action *vis-à-vis* non-members that is likely to minimize the likelihood of that scenario. In addition to focusing on only a select group of systematically important NCJs, the FSB has decided to promote compliance not with detailed rules but solely with a limited number of broad principles promoted by the BCBS, IAIS and IOSCO relating to international cooperation and information exchange. This 'principles-based' international harmonization allows for more policy space and is less likely to provoke negative reactions abroad. If, however, the ambitions of FSB members to promote worldwide standards ramp up in the coming years, its relationship with non-members could quickly become contentious.

In that situation, one obvious solution would be to transform the FSB into a more legitimate 'fourth pillar' of global economic governance – alongside the IMF, World Bank and WTO – by providing more of the world's countries with a voice in its deliberations. Combining more universal country representation with the need for effective small group discussion could be achieved by strengthening the role of its steering committee and/or allowing for regional representation or IMF-style constituency systems. Alternatively, the FSB and/or other regulatory bodies could preserve their existing membership but be made accountable to a more universal body such as the International Monetary and Financial Committee (IMFC) of the IMF (or the Global Economic Coordination Council of the United Nations that the Stiglitz Commission has recommended; see UN, 2009).

Fourth, the FSB faces the challenge of establishing its legitimacy even within the domestic polities of the member countries. In times of financial stability, international prudential regulatory issues do not attract much domestic interest and the kinds of agreements and consensus that are reached in rarefied international technocratic circles are easily implemented at home (Porter, 2005). The crisis that began in 2007 has created a very different domestic political context in the US, Europe and elsewhere. Officials have quickly learned that the understandings developed in meetings of the G20, FSB and international standard setting bodies may not be shared by domestic societal interests that are now highly mobilized *vis-à-vis* these issues in locations such as the US Congress and the European Parliament (Helleiner and Pagliari, 2009c). If the FSB's goals are to be accepted within the member countries, the body needs to establish its legitimacy in a wider way by enabling a broader set of societal interests to have their voices heard in its deliberations.

This is no easy task, as the other global economic institutions have discovered. The difficulties are perhaps compounded in the FSB's case because it has inherited the network-based culture of the FSF and many other standard setting bodies that values exclusive and technocratic deliberations (Baker, 2009a, 2009b). The FSB has also already set off partly on the wrong foot. Its Charter allows for consultation 'with other stakeholders including private sector and non-member authorities'. Elsewhere, the Charter notes: 'in the context of specific sessions of the Plenary, the Chair can also invite, after consultation with Members, representatives of the private sector'. These provisions can be criticized for suggesting that the FSB may engage with the 'private sector' while remaining unresponsive to broader societal groups. Such an approach will be particularly sensitive in the current political context where many blame the crisis, at least in part, on the private 'capture' of the international regulatory agenda in the pre-2007 era (e.g. Baker, 2010; Johnson, 2009; Underhill and Zhang, 2008). To avoid these problems, the FSB needs to develop 'access points' (Mattli and Woods, 2009) for wider societal interests to become more involved in international regulatory discussions (Helleiner and Porter, 2009).

Finally, the FSB faces the challenge of clarifying its relationship with other global governance institutions. It does not operate in an institutional vacuum and its success will be determined in part by its ability to navigate within a crowded international institutional landscape in a manner that boosts its effectiveness. At the moment, its most important relationship is with the G20 leaders' forum that created it. Whereas the FSF had reported to the G7 finance ministers and central bank governors, the FSB reports to the G20 leaders. This accountability to the political leaders of the world's most powerful states gives the FSB greater authority in global economic governance and these leaders have provided strong guidance to the institution during its initial life. But this relationship also means that the FSB's fate is tied up with that of the new G20 leaders' forum. Although that forum has been very active and important during the global financial crisis, it is difficult to predict its future prominence and cohesion. The FSB's long-term future – as well as its legitimacy *vis-à-vis* non-G20 countries, as noted above – might be placed on a more solid foundation if it was to report to a body such as the IMFC (particularly if the latter was reformed). Indeed, the G20 leaders have already instructed the FSB to report to the IMFC on issues relating to 'build up of macroeconomic and financial risks and actions needed to address them' (G20 Leaders, 2009a, p. 1). This accountability relationship could also help to resolve some of the jurisdictional tensions that emerged between the IMF and FSF before the FSB's creation.

The FSB's relationship with many SSBs is also very important to its future. As noted above, the FSB has been assigned a stronger role than the FSF in coordinating their activities. But its capacity to do so is compromised by the ambiguous nature of the relationship between the FSB and the SSBs outlined in the FSB's Charter. The latter notes that SSBs 'will report to the FSB on their work' in order to provide 'a broader accountability framework' for them. At the same time, it adds a crucial caveat that this reporting will take place 'without prejudice to their existing reporting arrangements or their independence' (quotes from FSB Charter). The FSB's ability to manage this ambiguous relationship with the SSBs will determine its effectiveness in fulfilling its mandate in this area.

Conclusions: scaling back the ambition?

Each of the challenges just noted is a significant one for this new institution to face. Taken together, they raise the question of whether some of the FSB's enthusiasts may be setting their goals for the new institution too high. Even before the current crisis, many had come to question the objective of constructing detailed international prudential standards that were harmonized on a worldwide basis. Walter, for example, ended his detailed study of the pre-2007 international standard regime with considerable skepticism. In addition to the political problems involved, he raised the question of whether it might be better to allow countries more room to develop differentiated standards that are more appropriate to local circumstances and to different levels of development, particularly in areas where there is no real consensus about what a best practice standard might be (Walter, 2008, pp. 181–183; see also Wade, 2007).

As G20 countries have intensified the push for a stronger international standards regime, these kinds of critiques have grown. Like Walter, other critics have raised concerns about the political feasibility of creating 'one-size-fits-all' global standards, as well as the desirability of such standards in the financial regulatory realm. In addition to being inappropriate for many individual countries' needs, detailed harmonized international rules are said to be too inflexible to alter in response to changing conditions. Some analysts also note that they may increase international instability if they end up being of poor quality and/or strengthen the international correlation of risks.[13] The case against detailed international rules has also been boosted by many of the new macroprudential regulatory goals which require differentiated implementation at the national level.[14]

If some of the challenges outlined in the previous section are not addressed effectively by the FSB, these critiques of recent efforts to strengthen the international standards regime are likely to become more influential. Would that development leave the FSB without a clear mandate in international regulatory policy? It need not. Most critics of efforts to strengthen international standards still see an important role for international cooperation.[15] To address competitive pressures and externalities stemming from lax regulation elsewhere, they are usually supportive of some regulatory coordination, usually at the level of broad principles. Many are also keen to see international cooperation that boosts national authorities' ability to regulate through information sharing, research collaboration, global early warning systems and capacity building. These various international cooperative activities are all ones that the FSB is well designed to take on with its existing mandate. They would leave the institution with a somewhat less ambitious workload but not necessarily one that is less supportive of global financial stability. That at least is the case made by critics of the strengthening of international standards such as Dani Rodrik (2009, p. 80), who argues:

> the world economy will be far more stable and prosperous with a thin veneer of international cooperation superimposed on strong national regulations than with attempts to construct a bold global regulatory and supervisory framework. The risk we run is that pursuing an ambitious goal will detract us from something that is more desirable and more easily attained.

Under any scenario, then, it is clear that the FSB is likely to have an important future in international regulatory politics. If the political support behind strengthening the international standards regime holds up, the FSB will certainly have its hands full, including with the tasks of addressing the challenges outlined in the previous section. But if it fails to meet those challenges and support for stronger international standards erodes, the FSB could still have a central role to play in pioneering new forms of international cooperation to support a more pluralistic and decentralized international regulatory order. The new fourth pillar of global economic governance is clearly here to stay, even if its place in the world is not quite yet determined.

Notes

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1. The G7 also promoted a World Bank standard on insolvency and creditor rights, the Financial Action Task Force's recommendations relating to anti-money laundering and terrorist finance, and IMF standards relating to macroeconomic policy and data transparency.
2. These included the standards mentioned in the first paragraph of this section as well as those in Note 1.
3. See, for example, Mosley, 2009; Walter, 2008.
4. The FSB's Charter notes: 'Delegations with more than one seat have one representative seated at the back. Representatives sitting at the back have the rights of the table. Representation at the table can be changed according to the topic discussed'.
5. At the time of the FSB's creation, the G20 leaders clarified that this obligation included implementation of the 12 international standards prioritized since the late 1990s (FSB, 2009b).
6. After its September 2009 meeting, the FSB (2009a) also reported that it was developing 'a toolbox of measures to promote adherence' with prudential standards.
7. Singer focuses exclusively on the incentives facing regulators because he assumes they are the key actors in international regulatory negotiations. With the emergence of the G20 leaders setting the regulatory agenda, his model can be widened out to include incentives facing political leaders more generally.
8. I am grateful to Andrew Walter for suggesting this point.
9. For that earlier US role, see Davies and Green, 2008, p. 116.
10. For a discussion of the 'club' nature of standard setting before the current crisis, see Drezner, 2007, ch. 5.
11. Even before the creation of the FSB in April 2009, the G20 leaders had created a set of working groups that drove the agenda of international regulatory reform in the lead-up to the London G20 summit and each was co-chaired by a developed country and a developing country.
12. http://www.newyorkfed.org/newsevents/news/markets/2009/ma090924.html. I am grateful to Tony Porter for highlighting this initiative and its possible significance. The forum includes representatives from the G7 countries, the EU, Australia, Belgium, Netherlands, Portugal, Spain, Switzerland as well as CPSS and IOSCO.
13. For various critiques of detailed international harmonization of prudential standards, see Bryant, 2003; Levinson, 2010; Persaud, 2010; Pomerleano, 2009; Rodrik, 2009; Sheng, 2009; Tarullo, 2008; Warwick Commission, 2009.
14. See, for example, Brunnermeier et al., 2009, Warwick Commission, 2009.
15. See the references in Note 13.

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