

“The political economy of post-crisis regulatory response: why does 'over-compliance' vary?”¹

Since the global financial crisis began in 2007-8, a number of countries have signaled their intention to adopt more stringent domestic rules than those proposed by the Basel Committee, sometimes ahead of the agreed implementation schedule. Although there are recent signs of its spread, such “over-compliance” with international standards is a longer standing phenomenon that has received insufficient attention in the political economy literature. I outline reasons why over-compliance can be politically sustainable in spite of financial globalization and the apparent growth in the incidence of “regulatory capture” in major countries. I show that in three important recent cases, Switzerland, the United States, and China, the nature and sources of over-compliance differs substantially. Domestic politics does not always produce substantive divergence in post-crisis regulatory responses from negotiated international agreements, but it tends to do so in ways that underline the growing difficulties of achieving a truly level playing field in global finance.

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“The political economy of post-crisis regulatory response: why does 'over-compliance' vary?”

A key component of the Basel Committee’s work agenda is to ensure strong regulatory regimes and effective supervisory systems across its member jurisdictions. Public confidence in prudential ratios, resilient banks and a level regulatory playing field for internationally active banks cannot be assured without consistency in the adoption and implementation of the Basel standards. The lessons of the recent financial crisis have underscored the need for full, timely and consistent implementation of the standards. (BCBS 2013: 1).

Prior to the recent Global Financial Crisis (GFC), the regulatory response to the last “once in a century crisis” associated with the Great Depression in the early 1930s was entirely unilateral and uncoordinated.² Regulatory responses to banking crises since the end of the Bretton Woods era became increasingly coordinated, primarily through the Basel Committee on Banking Supervision (BCBS). The main focus of such coordination was the process of standard setting itself (Kapstein 1994; Oatley & Nabors 1998; Singer 2007; Goodhart 2011). The diffusion and implementation of these standards received little attention in the aftermath of Basel I in 1988. Implementation became more important after the Asian crises of the late 1990s, led by the G7 and promoted through the IMF and World Bank’s Financial Stability Assessment Programme. But Basel and other international standards were in principle voluntary and promoted on a best efforts basis, so there were sharp limits to the ability of the IFIs to enforce convergence. The international divergence in implementation was often considerable and there was implicit agreement not to delve too far into the detail of national implementation, at least among major countries.³

² The US Banking Act of 1933 was the most extensive of these responses, had no foreign equivalent, and involved no international coordination.

³ On implementation divergence in Asia, see Walter 2006, 2008.

As the Basel Committee statement above suggests, the GFC brought with it a desire to focus much more closely on the process of implementation. The BCBS established a Basel III Regulatory Consistency Assessment Programme (RCAP) in 2012 “to *monitor* the timely adoption of Basel III standards, and to *assess* the consistency and completeness of the adopted standards and the significance of any deviations in the regulatory framework.” (BCBS 2013: 1). This reflects a broader effort on the part of the G20 since November 2008 to promote greater regulatory coordination, embodied in the Financial Stability Board’s *Coordination Framework for Monitoring the Implementation of Agreed G20/FSB Financial Reforms*, agreed in October 2011 (FSB 2011). In the case of BCBS standards, the designated monitoring body is the BCBS itself. Thus, even if Basel III standards retain the status of “soft law” by comparison with international treaties, there has been a clear shift since 2008 in the direction of the “hardening” of international financial regulatory standards.

Although the implementation delays and failures among the members of the G20 and beyond regarding the stricter regulatory standards agreed in Basel III in September 2010 remain a substantive concern, a growing challenge to the effective coordination of post-crisis regulatory responses has been the mushrooming of “over-compliance”⁴ (OC) announcements by different national jurisdictions. This raises a variety of challenges to the international coordination process, including that it could undermine the level playing field and the objective of eliminating opportunities for cross-border regulatory arbitrage that the BCBS, FSB and G20 claim to be essential in the post-crisis regulatory response. The BCBS has fudged the issue by agreeing to consider “super-equivalence” as effective equivalence: its investigative teams are instructed to ignore OC for purposes of compliance assessment, and

⁴ I define compliance with international standards as actor behaviour that is consistent with both their formal requirements and their intent. I define OC as national regulations that are more stringent than minimum international standards, such as those contained in Basel III. Regulators, including BCBS, prefer the term “super-equivalence”, but as I explain below this seems to elide the fact that such regulations are often claimed precisely *not* to be substantively equivalent to international standards. Industry and legal firms often refer to over-compliance as “gold plating”, but this term may in part be designed tactically to suggest that such extra stringency is wasteful and unnecessary.

these teams and national authorities are told that OC in one area of regulation cannot compensate for noncompliance in others (BCBS 2013: 6).

From a political economy perspective, such unilateral upward divergence from minimum international standards is also puzzling because it is commonly claimed to be difficult to do and impossible to sustain given the still high levels of globalization in the financial sector. Most of the literature in this field focuses on the political difficulty that governments and regulatory agencies have in negotiating and agreeing *minimum* international regulatory standards, deriving from an assumption that strong incentives to “race to the bottom” (RTB) exist (Kapstein 1994; Simmons 2001; Singer 2007). A related line of argument, in the Hirschman *Exit, Voice and Loyalty* (1970) tradition, is that the financial sector attained – and, even after the crisis, has retained – effective veto status in the major countries, able to block ambitious or threatening regulation (Hacker and Pierson 2011; Johnson and Kwak 2011). The exit threat is commonly seen as sufficient to deter unilateral departures from international standards in the direction of greater stringency. In most of this literature, over-compliance has thus generally been ignored because it has been assumed that it was politically unachievable, empirically unimportant, or unsustainable.

However, if we take headline official minimum capital requirements as an indicator, over-compliance has in fact been achievable, significant and (strikingly) often sustained. Table 1 shows that the incidence of over-compliance since the late 1990s in the international system have been high and very stable for both total required capital and required Tier I capital ratios. There is surprisingly little variation over time at the individual country level; the general rule (with a few exceptions) seems to be: once a (headline) overcomplier, always an overcomplier. The frequency distributions in figure 1 also show that over-compliance on Tier I capital ratios (for those countries for which there are data) is often substantial, both *de jure* and *de facto* (in terms of average reported actual Tier I ratios). They also suggest that

there is virtually no reported formal under-compliance with Basel capital ratios, whereas the literature might lead us to expect substantial amounts of cheating. Instead, deviations from international minimum standards appear almost entirely to be in the form of more, not less stringent national regulations. Since 2010, there are also indications that a number of countries intend to join the ranks of over-compliers on various aspects of Basel III, including Austria, China, India, the Philippines, Mongolia, Sweden, the UK, and in some respects the United States.⁵ That this list includes the two countries with the world's largest financial centres and historically the most important participants in the Basel process suggests that this is worthy of closer investigation.

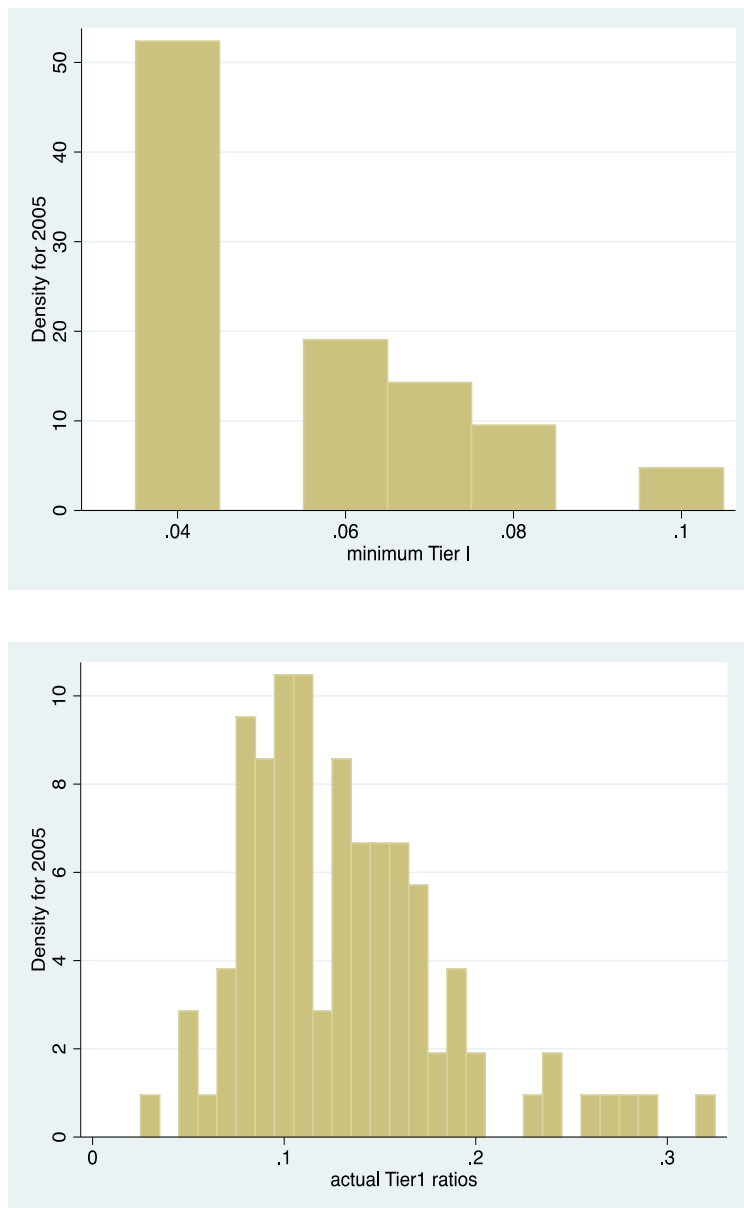
⁵ This paper focuses on variations in compliance with minimum capital standards, though as discussed later, compliance intentions vary considerably across different aspects of Basel III, including over-compliance with leverage and liquidity ratios, risk weighting rules, and the timing of phase-in of new rules (so-called “front loading”).

Table 1: Incidence of over-compliance with Basel I and II total and Tier I minimum capital requirements, 1999-2010.

Year	Count of minimum compliers (min. total CARs)	Count of overcompliers (min. total CARs)	Total countries	% Overcompliers (min. total CARs)	MEMO: % Overcompliers (min. Tier 1 CARs)
1999	66	32	98	33%	17%
2000	66	32	98	33%	17%
2001	71	52	123	42%	14%
2002	71	52	123	42%	11%
2003	71	52	123	42%	4%
2004	72	52	124	42%	4%
2005	79	53	132	40%	4%
2006	79	53	132	40%	8%
2007	79	53	132	40%	8%
2008	79	53	132	40%	10%
2009	79	53	132	40%	10%
2010	79	53	132	40%	10%

Source: IMF and national regulatory agencies.

Figure 1: Frequency distributions of minimum regulatory and actual average Tier I capital ratios in 2005



Source: IMF and national regulatory agencies.

In the next section of this paper, I elaborate further on why the existing literature has generally not expected the empirical outcomes summarized above. I then outline possible explanations for this apparently considerable variation in the degree of compliance with international regulatory standards. In the third section, I consider three important recent cases

of “intended over-compliance” to investigate the nature, political sources, and constraints upon actual over-compliance. The final section discusses some implications of the discussion.

1 Should over-compliance be scarce?

There has been a long run secular tendency in the major countries for simple total capital to asset ratios to fall since the late nineteenth century. Under the Basel regime since the late 1980s, leverage in advanced country banking systems continued to rise despite the introduction of minimum capital adequacy ratios that were initially intended to raise overall levels of capital among advanced country banks from the depleted levels of the early 1980s (Alessandri and Haldane 2009; Kapstein 1994). This trend has reinforced the common view among scholars and regulators that there are powerful systemic tendencies for a RTB in bank capital in an increasingly open global financial system (Hardy 2012; Kapstein 1989: 34; Meseguer and Gilardi 2009; Oatley and Nabors 1997; Simmons 2001). This view underlay the motivation to set minimum capital ratios for internationally active banks among members of the BCBS and later for most other countries, with the aim of putting a floor under the RTB process.

Although international negotiations on minimum capital standards took place in a relatively technocratic and depoliticized setting, there was an understanding that in the absence of international coordination it would be difficult to achieve and to sustain a domestic political consensus in favour of maintaining desirable and approximately similar levels of capital in domestic banking systems. There were at least three important ways in which the process of international coordination was intended to facilitate a domestic political consensus in favour of regulatory convergence. First, international standards would be non-binding recommendations to be implemented on a best efforts basis and would allow substantial room for national discretion in their implementation – seen as necessary in such a

politically sensitive policy area.⁶ Second, there was a commitment to best efforts implementation only among the very narrow membership of the BCBS; nonmember countries were free to adopt these recommended standards if they wished. Third, a commitment to roughly equivalent capital standards among those countries representing the bulk of international banking activity was intended to provide the regulatory agencies participating in the Basel process – who possessed limited if varying degrees of policy autonomy – with domestic political cover and leverage.

On the latter point, Singer (2007) for example recounts how national regulators, who favoured raising levels of bank capital at home confronted opposition from domestic banks and politicians who feared that unilateral increases in regulatory stringency would favour foreign bank competitors and economies. This led regulators to seek coordinated increases in bank capital in Basel I so as to assuage such competitiveness concerns. As is well known, British and American regulatory authorities in 1987 reached an initial bilateral deal to raise minimum capital standards so as to encourage other Basel members, especially those responsible for regulating the less well capitalized Japanese and French banks, to converge upon a similar standard. There was a degree of coercion involved, as there was a threat that the UK and US might exclude foreign banks from operating in their markets if these banks' home authorities did not adopt similar regulatory requirements (Oatley and Nabors 1997). However, Japanese and European regulators and banks obtained significant concessions in Basel I, and the Japanese regulators used the Basel process as a means of gaining domestic political leverage over opponents of more stringent capital requirements (Chey 2013).

The domestic and international politics of Basel was therefore almost entirely devoted to ensuring that relatively lax jurisdictions and less well-capitalized banks converged towards the focal points set by the British and American authorities. There was little expectation that

⁶ In another area of international coordination where more binding rules applied, GATT and WTO negotiations focused on agreeing maximum “bound” tariffs – countries were free to reduce tariffs to lower levels.

any major jurisdiction would wish to go beyond these new international minima and thereby risk the competitiveness of an industry seen as both increasingly important in its own right and as a vital underpinning of general economic prosperity.

The negative competitive consequences of over-compliance were often asserted, but more intuitively understood than comprehensively demonstrated. The costs of relative regulatory stringency might be concentrated or dispersed. If it reduces national banks' return on equity (RoE) compared to foreign competitors then shareholders, managers and employees will have strong incentives to lobby against it and to threaten to exit to less stringently regulated jurisdictions.⁷ Over-compliance costs may also be dispersed throughout the economy if higher capital requirements lead banks to shrink their balance sheets or to exit *en masse*, reducing domestic financial intermediation, growth and employment compared to other economies. There is much debate as to whether such costs exist and if so whether they are large,⁸ but banks and their lobby organizations have strong incentives to seek evidence to support the proposition that the costs are large and to provide it to policymakers.⁹ For both of these sorts of reasons the chairman of the British Bankers Association argued in 2010 that "it is vital to ensure that individual markets do not disrupt the international level playing field by adding their own 'finishes' or by being super-equivalent."¹⁰

Regulatory authorities in one relatively small over-compliant jurisdiction, Singapore (MAS), chose in 1992 to set a minimum capital ratio at 12%, to be comprised entirely of Tier

⁷ As Admati et al. (2011) point out, higher capital and lower leverage will normally reduce headline RoE, but not necessarily risk-adjusted RoE. The extent to which shareholders lose from OC may also depend in part on the level of "home bias" in equity portfolios. See McKinsey (2010) for a discussion of the likely negative impact of lower leverage on banks' headline RoE.

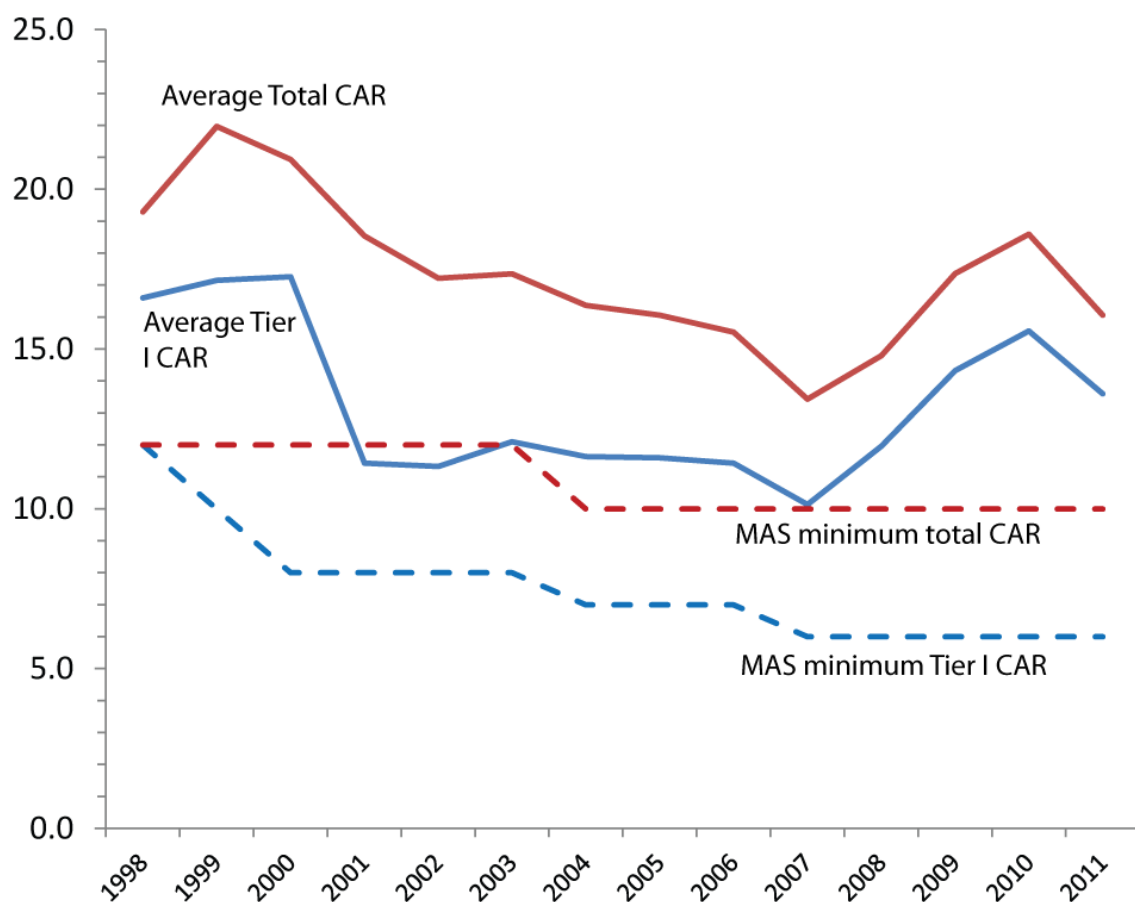
⁸ See the differing assessments of IIF (2012) on the one hand and Miles et al. (2012) and Admati and Hellwig (2013a, 2013b) on the other. This assessment is complicated by the possibility of non-linear relationships between financial leverage and growth: at higher levels of leverage, there may be positive growth benefits if OC resulted in the shrinkage of private credit in the economy (Arcand, Berkes and Panizza 2012).

⁹ E.g. British Bankers Association et al. (2005). For arguments that Basel III, which would further raise capital requirements among other things on a coordinated basis, was a step too far and would inflict large costs on the global economy, see Institute for International Finance (IIF 2011).

¹⁰ Marcus Agius, quoted in "Divided G20 poses threat to banking reform, Osborne warned." *The Guardian*, 23 October, 2010.

I capital, an unpopular action amongst local bankers who claimed that it depressed their RoE compared to international peers (Hamilton-Hart 2002: 96-98). Over time, MAS gradually relaxed its regulatory capital regime, reducing the minimum required Tier I capital ratio by half over 1998-2007, though it retained a modest degree of capital over-compliance, as did its banks (figure 2). This seemed to suggest that even a state with a general reputation for policy autonomy and stringency would find it difficult to sustain over-compliance under conditions of financial globalization.

Figure 2: Average Tier 1 and Total CARs for Singapore Banks Compared to MAS Minimum Requirements, 1998-2011.



Source: Monetary Authority of Singapore (MAS) and annual reports of DBS, OCBC and UOB banks.

There is also a surfeit of examples of significant retreats by politicians from earlier and more ambitious post-GFC regulatory responses in the face of bank lobbying and pressure from other governments who were reluctant to follow. Some of the best publicized of these have been in the United States, where bank lobbying has been intense since 2009 and there is a widespread view that Wall Street enjoys an effective veto over proposals that would substantially constrain its profitability.¹¹ These arguments chime with the argument of some political scientists that Congress and the White House have become increasingly beholden to business interests generally and finance in particular, in part because of electoral finance laws (Hacker and Pierson 2011; Johnson and Kwak 2011). In a few areas, however, US politicians and regulators have been able to impose more stringent regulation than this view suggests, though much less stringent than critics of the major banks would wish. The unilateral introduction of the Volcker rule, which constrains banks' ability to engage in proprietary trading, is one prominent example.

Thus, many policymakers and scholars have assumed that over-compliance would be scarce and difficult to sustain where adopted. It was perhaps particularly important that the key countries in the Basel process, the United States and Britain, were also until recently broadly in the camp of (approximately) minimum compliers with BCBS standards. Some offshore centres such as Switzerland and Singapore might sustain a reputation for relative regulatory stringency, but as long as the two leaders approximately coordinated their bank capital requirements this provided a dominant focal point for international convergence and policy analysis, reinforcing the view that over-compliance would be scarce in practice.

¹¹ For many examples, particularly relating to proposals to tackle the “too big to fail” problem by adopting rules that would reduce large bank size, see Johnson and Kwak (2011). On apparently effective European bank lobbying against original BCBS proposals on leverage and liquidity requirements, see Fitch (2013).

Analysts also operated in a G7-centric world until very recently; over-compliance was notably scarce in the G7, on which most academic work in this area concentrated.

As we have seen, however, regulatory over-compliance has for some time been an important phenomenon that has been sustained over time, even if it received little attention from policymakers and analysts. What might explain this?

2 When will over-compliance be politically sustainable?

One possibility is that those that argue that powerful RTB effects in bank regulation apply are right and that the appearance of widespread OC in the international system is a chimera. Governments might seek to obtain the best of both worlds by merely appearing to apply relatively stringent regulatory standards to banks to satisfy domestic critics, whilst surreptitiously compensating banks in other ways that have the effect of nullifying “headline” OC. For example, if nonperforming loans are systematically under-reported by banks and supervisors either lack the capacity or are discouraged by incumbent governments from detecting and penalizing such under-reporting, this can artificially inflate reported capital and allow banks easily to meet high minimum capital requirements. For example, Indonesian banks in the aftermath of the 1997-8 crisis reported headline capital ratios well above those of most advanced countries (from 2000, average reported CARs for Indonesian banks were around 20%, compared with about 12% for US banks).¹² At best, this only partially compensated for extensive under-reporting of NPLs and other weaknesses. Governments often have particularly strong incentives to to under-report NPLs in state-owned banks. Today, we might see OC intentions regarding core capital requirements by some emerging countries such as China in these terms, as I discuss below. Perhaps less obvious is that

¹² For more extensive supporting evidence and analysis, see Walter (2008: chapters 3 and 6).

headline OC in some major countries, including the US and UK, may also be less onerous than at first glance.

Governments with low enforcement capacity may deliberately use over-compliance as a mechanism to compensate for banking sector governance weaknesses that they lack the power to eliminate. Mongolia, which has announced new capital requirements that exceed Basel III minima, seems to be taking this approach.¹³ Mongolian banks complain about the excessive stringency of these regulations, but it is likely that they are compensated at least in part by their ability to hide weaknesses in their balance sheets. Again, in such cases it would be difficult to describe such national strategies as substantive OC.

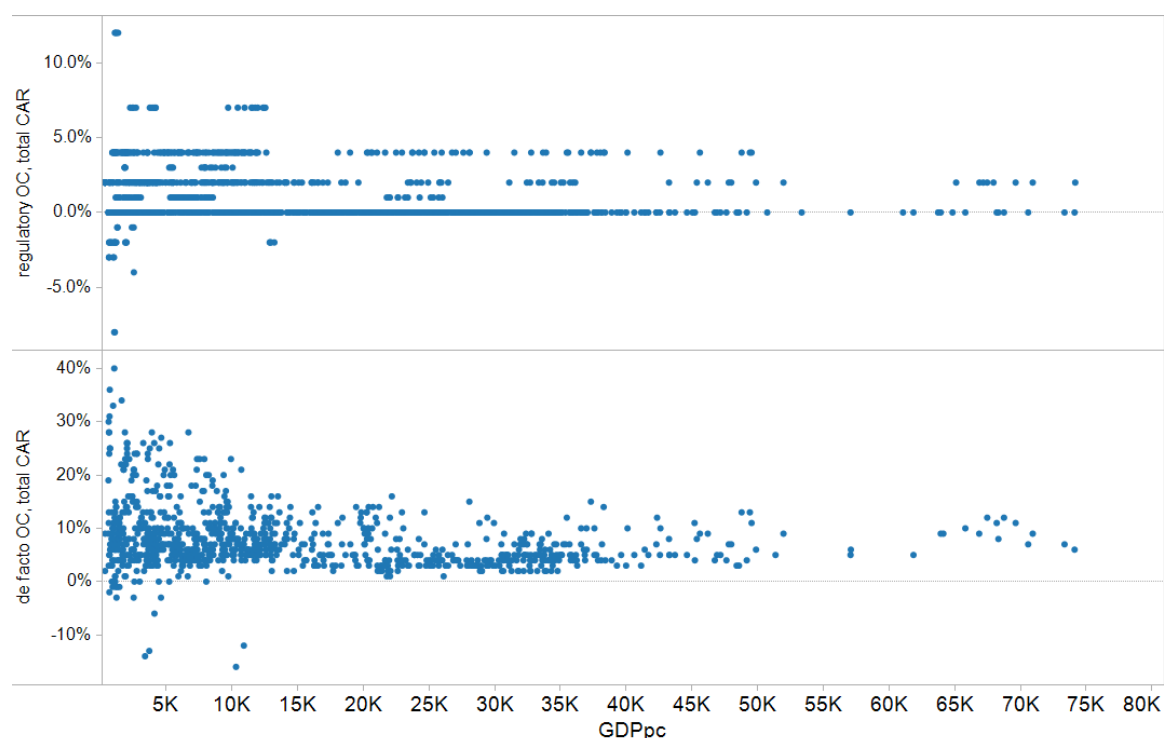
A variety of factors will shape the extent to which headline regulations are effectively implemented and enforced and thus significantly constrain private sector actors. Generally, countries in which the rule of law is weak, bureaucratic capacity low, the private economic costs of substantive compliance with international standards are high, and corporate ownership is relatively concentrated tend to exhibit a greater tendency to mock compliance.¹⁴ Mock OC might be particularly tempting in post-crisis environments when governments hope to signal that banks are well capitalized and safe but underlying levels of economic and financial distress are still high.

There is some evidence for this proposition. Figure 3 shows that the incidence of formal regulatory over-compliance with Basel capital adequacy standards – and the average incidence of “excess” capital in national banking systems – is concentrated at the lower end of the global income distribution (by country). Among more advanced countries, headline OC is more modest.

¹³ Interviews, Mongolian regulators, October 2013.

¹⁴ For an elaboration and investigation in the Asian context after 1997, see Walter (2008).

Figure 3: Regulatory and *de facto* over-compliance with Basel I and II minimum total capital ratios by country GDP per capita (excess of required and actual average CARs over Basel 8% minimum)



Source: IMF, World Bank, and national regulators.

2.1 Bank interests

Banks often claim that regulatory over-compliance places them at a competitive disadvantage, but this may not always be the case – which might lead them to engage in less intensive or effective lobbying against regulatory over-compliance. It could be that banks in over-compliant jurisdictions are somehow compensated.

The CFO of JP Morgan, Marianne Lake, recently noted that her bank, America’s largest, faced the highest regulatory capital requirement of any US bank,¹⁵ and suggested publicly that its management believed that its scale gave it “pricing power” that would nullify

¹⁵ US regulators have the discretion to apply variable capital surcharges to large individual banks.

the competitive disadvantage this higher capital requirement produced.¹⁶ This apparent advantage of oligopoly power entails potentially large social costs – but how much the extra capital required of large banks like JP Morgan offsets this size advantage is uncertain. Size can also produce other kinds of advantage. To the extent that large banks receive hidden state subsidies because market actors believe they enjoy an implicit public guarantee, OC may only partly offset the advantages of size (Haldane 2012; IMF 2014, ch.3). However, we would still expect large banks to lobby against any form of OC that reduces the existing advantages they may enjoy.

The cohesiveness of financial sector interests can also vary substantially, depending on industry structure. In countries with large numbers of relatively small banks, regulatory over-compliance that is targeted at large banks may be supported if it is seen as tipping the competitive playing field in their favour. The effectiveness of bank lobbying against OC may also be greater when nonfinancial industry is relatively dependent upon bank lending, and thus inclined to support bank opposition to OC. This may partly explain why relatively bank-dominated economies such as Japan's and some on the European continent have often both opposed international agreements significantly to raise required bank capital and chosen not to engage in OC. German and French authorities appeared to be strongly opposed to the higher capital requirements suggested by UK regulators both in Basel negotiations over 2009-10 and in negotiations over the Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD IV) in the European Union. For these kinds of reasons, we might expect a greater likelihood of sustained OC in more capital markets-based financial systems.

Sometimes OC might even favour banks if signals of relative financial strength increase profitability. Hardy (2012) argues that due to information asymmetries, strong banks

¹⁶ “JP Morgan targets \$30bn war chest,” *FT.com*, 25 February 2014.

will have an incentive to signal this strength to external investors and creditors through a visibly *lower* capital ratio than their peers (an incentive that could reinforce RTB tendencies). But the incentives to economize on capital and to increase leverage might vary by business segment: trading desks prior to the crisis appeared to favour high leverage, whereas other activities such as wealth management might benefit from a perception that they are relatively well capitalized. This possibility is analogous to “race to the top” phenomena that some have pointed to in areas like health and environmental standards, though it may only apply in particular niche areas of finance (Vogel 1995: 97).

2.2 “Punish the banks” coalitions

Anti-bank political coalitions are often stronger after costly crises. Much public anger was generated in a number of major countries from the large bailouts of banks and the perception that this amounted to socializing the private costs of excessive risks taken by “overpaid bankers.” Politicians across crisis-hit G20 countries made much play of the fact that they were responding to public anger through more stringent regulation and other measures including sector-specific taxes.

It is not obvious, however, that public anger explanations could explain relatively technical forms of OC like requiring high levels of required CET1 capital – as opposed to more populist policy measures like bonus taxes or bank size levies. Politicians may also be aware that they will not benefit from OC if it induces some financial activity to move to less stringently regulated jurisdictions and/or if it reduces levels of financial intermediation, growth and employment. They may try to reconcile these conflicting pressures by pandering to populist demands via mock OC or by imposing symbolic rather than onerous punishments.

Much should therefore depend on whether domestic political institutions sustain and channel public anger of this kind into policy reforms that impose additional costs and

regulations on financial firms. Political systems that include mechanisms such as citizens' referenda or in which grassroots movements enjoy significant autonomy vis-à-vis party leaderships might favour post-crisis regulatory responses of a relatively stringent variety.

2.3 *Limited state fiscal capacity – when not to rely on Basel*

Another “state interest” reason why OC with Basel standards is concentrated in relatively poor countries might be that these are often states with low fiscal capacity, so that explicit or implicit sovereign guarantees of banks are unavailable.¹⁷ In such circumstances, it may be rational for governments (and bank creditors) to insist on relatively high levels of capital in domestic banks, whether these are private or state-owned.

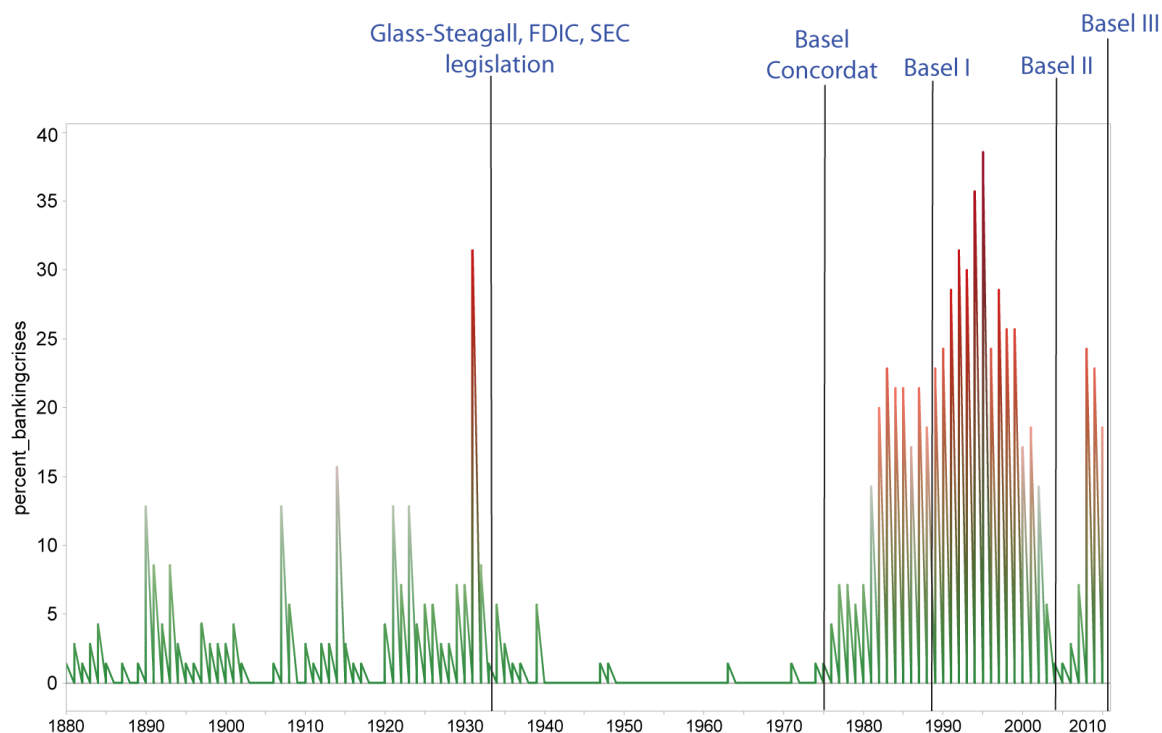
State capacity to provide fiscal guarantees of bank liabilities may also be limited in systemic crises even in highly creditworthy countries, if individual banks or the banking sector collectively is large compared to the state budget: Switzerland, the UK, Iceland and Ireland suffered from this problem in 2007-9. Even if the state has an interest in such cases in promoting greater resilience in its banking sector, however, this does not mean that politicians will be willing or able to deliver on this preference. Precisely in cases where the state and taxpayers have large potential exposures to financial sector failure, the political influence of financial sector can be greatest.

Much will depend on the relative autonomy of the state and its regulatory agencies from financial sector influence and the willingness and ability of political parties and their leaderships to build broad coalitions supporting substantive OC. This willingness may be increased if, in the negotiation of international standards, the government and its regulatory agencies prefer significantly more stringent regulatory standards than its foreign negotiating partners are willing to agree. Senior figures in the Bank of England and FSA during the Basel

¹⁷ Low-income economies may also be relatively volatile and information about customers relatively poor, increasing the riskiness of bank lending.

III negotiations indicated that their regulatory preferences significantly exceeded in stringency what was achievable in the BCBS negotiations. In such circumstances, the preference for post-negotiation OC may be stronger, a signal that minimum international standards are not perceived as a universally appropriate focal point for convergence (cf. Garrett and Weingast 1993). The higher the level of uncertainty about whether international standards are sufficient to achieve their intended objectives (e.g. financial stability), the more likely are some actors to see OC as providing an appropriate extra margin of safety. Certainly, the record of Basel in fostering financial stability has been very disappointing (figure 4). The apparent increasing dissatisfaction with Basel standard setting might be one important reason for the apparent proliferation of OC announcements since September 2010. It also underlines the interdependence of the negotiation and implementation phases of international standards.

Figure 4: Will Basel n work? The incidence of new banking crises (% of all countries experiencing a new crisis) and major regulatory responses, 1880-2010



Source: Reinhart & Rogoff (2009), author.

3 Case studies

I now turn to consider OC outcomes in three cases, Switzerland, the United States and China. Switzerland is a case at the high end of OC among advanced countries and has a longstanding reputation for regulatory stringency and a very large financial sector relative to economic size. The United States remains pivotal in various respects and, in terms of its past history of Basel implementation and its political system, an unlikely case of OC. China, until the eve of the GFC, was almost certainly another case of Asian under-compliance with Basel standards, but which has since then signaled a desire to engage in a modest degree of over-compliance with Basel III. I show that the nature and sources of OC in these three cases differ substantially. In all three, there are signs of skepticism concerning the Basel process and a willingness to depart from key elements of the Basel III deal.

3.1 *The Swiss finish*

Swiss regulatory authorities had a tradition of relative stringency preceding the GFC, although interestingly this “was not made publicly explicit.”¹⁸ Since the crisis, Swiss authorities have announced a minimum total capital ratio of 19%, the highest among the major financial centres, with a 10% CET1 minimum capital ratio.¹⁹ The ratio is applied to UBS and Credit Suisse on a group and national subsidiary basis, presumably so that their foreign subsidiaries, which may be subject to lower capital requirements in host countries, do not reduce the overall effect of the rule. Swiss banks have also announced plans to exit some capital-intensive segments. Does this suggest an unusual willingness to inflict significant costs on its important financial industry?

There are other indications that OC in Switzerland is imposed in ways that lessen the economic impact of the Swiss finish. Despite its vaunted conservatism, the BCBS has found Switzerland to be non-compliant with Basel III in various areas.²⁰ The most stringent capital requirements are only placed on the two large Swiss G-SIBs, UBS and CS. The smallest Swiss banks need only comply with minimum Basel III capital and leverage requirements, while medium-sized banks must meet 12% total capital requirements (compared to 10.5% in Basel III). Even for the major banks, Switzerland has chosen (like the UK) not to implement a higher leverage ratio than the Basel III minimum. This potentially allows banks to manage RWAs in order to meet the relatively high capital requirements. Indeed, the Swiss approach to RWAs is no longer an area of OC. Since 2012, the Swiss National Bank (SNB) has required banks to disclose both model-based alongside standardized approach risk weightings, which may foster some market discipline as regards RWA management. But this is less stringent than the US approach (see below). The SNB (2013) has also argued that the

¹⁸ BCBS, *Regulatory Consistency Assessment Programme (RCAP), Assessment of Basel III regulations – Switzerland*. Basel: BCBS, June 2013, 5.

¹⁹ The UK requirement for ring-fenced banks is also 10% for CET1, up to 17% for total capital.

²⁰ BCBS, *Regulatory Consistency Assessment Programme (RCAP), Assessment of Basel III regulations – Switzerland*. Basel: BCBS, June 2013, 9-10.

two G-SIBs' leverage ratios remain too low and below the international peer average at 2.3%, suggesting that although reported capital ratios are now high, the regulatory authorities have been unable to reduce real levels of leverage in the major Swiss banks as quickly as they would like.

Although the Swiss authorities seem to have responded to the public outrage over the UBS bailout of 2008 by applying relatively onerous restrictions on the two largest banks, the impact is therefore diluted in practice. With high leverage still present in the major banks, state and taxpayer exposure to a still large and internationalized banking sector has not been eliminated.

Switzerland's specialization in wealth management also means that financial sector interests might be more aligned with capital OC than in most other countries. The BCBS assessment team, which met with industry representatives, found that "the overall industry view was positive about FINMA regulations, its approach to regulation and supervision (principle-based, super-equivalence, and Basel III implementation."²¹ Small banks in Switzerland are not subject to the Swiss finish on capital requirements but they tend in practice to maintain significant capital surpluses above these – again, pointing to the possible market benefits of perceived OC in the wealth management segment. However, if perceptions of rock solid safety are truly beneficial for wealth managers, this does not seem to have translated into strong industry support for OC in other areas, notably on simple leverage ratios. This casts doubt on the level of underlying support in the Swiss banking sector for substantive OC.

Nor, despite the public revulsion at the UBS bailout, do the direct democracy aspects of the Swiss political system seem to have played an important role in shaping post-crisis

²¹ *Ibid.*, 11. See also "Transcript: View from the Top with Urs Roth of the Swiss Bankers Association," *FT.com*, 30 October 2009.

regulation. No financial sector-specific referenda have been held since 2008. Thomas Minder, an activist citizen, launched a populist anti-bonus campaign in 2008 after the UBS failure, but with little success. In March 2013, a referendum on the modest proposal to increase shareholder say over executive pay across Swiss industry passed by a 68% overall majority, despite opposition from the Swiss business lobby, Economiesuisse, and from the Federal Government. A more radical proposal in November 2013 to cap CEO pay at 12 times a company's lowest salary was rejected.

Direct democracy may have provided a general background threat to politicians that encouraged them to be seen to take some action against the major banks, but the damage inflicted on the Swiss financial sector has so far been low. Politically, the federal government can claim that its largest banks are subject to a pride-inducing Swiss finish designed to protect taxpayer interests. But they have not been willing to empower the regulatory agencies to take more radical action. The nature of Swiss OC seems less stringent than is often claimed and designed as much to ensure the longer-term competitiveness of key parts of its financial system.

3.2 The United States: emergent OC?

In contrast to the Swiss case and with UK proposals for a higher leverage ratio,²² the main areas of announced US OC are on leverage and liquidity requirements for large banks. Under the regulators' proposal of July 2013, there will be a minimum 5% leverage ratio for the largest US bank holding companies (BHCs), with a 6% requirement for their subsidiaries.

²² The UK government rejected the recommendation of the Independent Commission on Banking (ICB) proposal for a 4.06% leverage ratio. The ICB proposal was aimed at ensuring that the leverage ratio would operate as an effective backstop under the proposed 11.5% Tier I requirement for ring-fenced banks. This decision leaves the UK with OC for ring-fenced banks on the CET1 ratio (10%, compared with the 7% Basel III minimum), and minimum compliance with the Basel III leverage ratio.

The proposal was finalized by US regulators in April 2014.²³ Under existing accounting rules, the US GAAP method for calculating total assets is relatively lenient. Nevertheless, some claim that this rule would be substantially more constraining than the 3% minimum leverage rule in Basel III and in the EU (Bank of England 2013: 69). This is not self-evident, however. FDIC calculations (see table 2) suggest that the leverage ratio of the major US banks at the end of 2013 would have been substantially lower (30% lower on average) than if they were calculated according to European accounting standards (IFRS). For Goldman Sachs, the difference was -47%, suggesting that a minimum leverage ratio of 5% under US GAAP might imply an IFRS leverage ratio of only 2.65%. Even so, some non-US G-SIBs are even more highly leveraged, and large US banks complain that the enhanced leverage ratio will become a “frontstop” for minimum Tier 1 capital requirements rather than a backstop, reducing lending, growth, and putting large US banks at a disadvantage vis-à-vis foreign banks (The Clearing House 2013).

²³ “Agencies Adopt Enhanced Supplementary Leverage Ratio Final Rule and Issue Supplementary Leverage Ratio Notice of Proposed Rulemaking,” <http://www.fdic.gov/news/news/press/2014/pr14025.html>, accessed 10 April 2014.

Table 2: Major Global Banks: Estimated Difference in Leverage Ratios, US GAAP vs. IFRS, Q4 2013

	US GAAP leverage ratios	IFRS leverage ratios	% difference, US G-SIBs
US G-SIBs	6.57%	4.62%	-29.7%
Bank of America	6.02%	4.19%	-30.4%
Bank of New York Mellon	4.24%	4.07%	-4.0%
Citigroup	6.60%	4.67%	-29.2%
Goldman Sachs	7.71%	4.09%	-47.0%
JPMorgan Chase	6.22%	4.22%	-32.2%
Morgan Stanley	5.98%	3.28%	-45.2%
State Street	5.11%	4.97%	-2.7%
Wells Fargo	8.24%	8.37%	1.6%
Non-US G-SIBs		4.07%	
Banco Santander (Spain)		3.03%	
Bank of China (China)		6.68%	
Barclays (UK)		3.47%	
BBVA (Spain)		5.12%	
BNP Paribas (France)		3.62%	
BPCE Group (France)		3.91%	
Crédit Agricole (France)		3.60%	
Deutsche Bank (Germany)		2.14%	
HSBC (UK)		5.49%	
ING Bank (Netherlands)		3.93%	
Nordea Bank (Sweden)		4.13%	
RBS (UK)		3.76%	
Société Générale (France)		2.81%	
Standard Chartered (UK)		5.75%	
UBS (Switzerland)		3.31%	
Unicredit (Italy)		5.33%	
Credit Suisse (Switzerland)	4.37%		
Mitsubishi UFJ (Japan)	5.47%		
Mizuho FG (Japan)	2.63%		
Sumitomo Mitsui FG (Japan)	3.39%		

Source: Statement by Thomas M. Hoenig, Vice Chairman, Board of Directors, FDIC, on the Adoption of the Supplementary Leverage Ratio, April 8, 2014.

Note: The leverage ratio is the ratio of adjusted tangible equity to adjusted tangible assets.

US regulatory agencies are well aware of the problem created by different accounting rules and in April 2014 proposed a new notice of proposed rulemaking (NPR) that, if adopted, would bring the denominator calculation for US leverage ratio into conformity with

changes agreed to in the BCBS in January 2014.²⁴ These modified rules would apply to all internationally active banks in the US, not only those subject to the enhanced supplementary leverage ratio. The Financial Services Roundtable, a lobby group for major US banks, claimed that the enhanced leverage ratio “puts American financial institutions at a clear disadvantage against overseas competitors...and will likely result in tighter access to loans for businesses across the country.”²⁵

In October 2013, US regulators also proposed a tighter liquidity coverage ratio (LCR) for major banks than in Basel III, for implementation two years in advance of the international schedule. The Basel III standard was intended to require banks to hold a minimum amount of high quality liquid assets (HQLA) that could be converted easily into cash and allow banks to maintain operations without access to additional funds over a period of 30 days. The US proposal is more restrictive than Basel as it narrows the range of assets qualifying as HQLA and makes more restrictive assumptions about the rate of outflow of some kinds of funding (US Shadow Financial Regulatory Committee 2013).

Are banks compensated for modest OC in these areas? The United States has not opted for a Swiss finish on capital requirements, though the increasing focus on OC on the leverage rule for large banks seems to reflect growing skepticism among US regulators and politicians regarding complex risk weighting approaches. The Collins Amendment to section 171 of the 2010 Dodd-Frank Act requires banks adopting the advanced approach for risk weighting to meet a 100% risk-weight floor based on the standardized approach. This will effectively require all US banks, including the largest, at least to meet the requirements of the standardized approach to risk weighting and seems explicitly designed to ensure that the

²⁴ FDIC, “Agencies Adopt Enhanced Supplementary Leverage Ratio Final Rule and Issue Supplementary Leverage Ratio Notice of Proposed Rulemaking,” April 8, 2014, <https://www.fdic.gov/news/news/press/2014/pr14025.html>, accessed 10 April 2014.

²⁵ “Leverage Ratio Rule puts U.S. Banks at International Disadvantage,” Financial Services Roundtable, April 8, 2014,

largest banks are unable to obtain a regulatory advantage over small banks, or to use the advanced approach to offset the higher capital requirements of Basel III. If maintained, this goes beyond the current Basel III agreement²⁶ and could reverse the trend since 1996 towards “privatizing regulation” by allowing major US banks to determine their own capital requirements (cf. Búthe and Mattli 2011).

US politicians and agencies have, like the Swiss, focused the elements of regulatory OC on the (eight) largest BHCs. This may deliver some competitive benefits to smaller banks and their local customers – though given the other advantages of size, it is very unclear whether these benefits substantially tilt the playing field to the disadvantage of the largest banks. Politically, it has the characteristics of a divide and rule strategy, and it appears to have mobilized small banks to support these aspects of OC in the US regulatory response to the crisis. As with its implementation of Basel I and II,²⁷ the US government has chosen only to implement Basel III for so-called “core” banks (though it allows others to opt in to Basel implementation). Of 6,263 US banks at end-March 2012, there were only 17 core banks, eight of which are designated as G-SIBs. The enhanced leverage ratio will only apply to major banks. The differential application of regulations in the US is particularly stark in the case of the proposed liquidity rule, which will not apply at all to small banks and other NBFIs, and larger but less internationally active banks will only need to hold a 21-day liquidity buffer (compared to the 30 day Basel III rule).

Focusing the key elements of OC with Basel III on the G-SIBs has helped US regulators to reduce the impact of their still substantial lobbying power in Washington, but how much? There are few areas in which the two major parties can reach agreement in this

²⁶ In July 2009, the BCBS agreed to extend Basel I capital floors beyond 2009, but at the level of 80%. The Basel assessment team judged the US rule to be more conservative in practice. (BCBS, *Basel III regulatory consistency assessment (Level 2), Preliminary report: United States of America*. Basel: BCBS, October 2012, 19.

²⁷ US implementation of Basel II was substantially delayed compared to the EU and elsewhere and a commitment to rectify this was only made after the 2008 crisis.

era of deep ideological conflict, though some aspects of post-crisis banking regulation seem to be among them. The Republican Party might be expected to align itself more closely with business interests, but since 2008 it has had to contend with the grassroots Tea Party movement, which has actively protested against and monitored Washington's level of support for the "TBTF" banks. Politically, JP Morgan's "whale" debacle helped to invigorate this tendency and to make it difficult for policymakers to argue that America's largest and best-managed banks could effectively manage their own risks. This helps to explain the growing focus of regulators on the leverage and liquidity ratios, the most important areas of regulatory OC in the US after the Volcker rule.

The limits of political populism are, however, clear in the US case. In April 2013, Senators Brown (Dem.) and Vitter (Rep.) introduced a bill (S.798) to the US Senate aimed at addressing the TBTF problem by requiring a minimum leverage ratio of 8-15% for large banks. The bill was passed to the Senate's Committee on Banking, Housing and Urban Affairs where it has since lingered; Govtrack gives it only a 10% chance of passing.²⁸ It was backed strongly by the small US bank lobby, the Independent Community Bankers of America, but opposed by major banks.²⁹ On present indications, bank lobbies appear to have been able to block a bill aimed at addressing the implicit public subsidies that still likely accrue to the largest banks (IMF 2014: ch.3). The anti-large bank coalition in the US has thus won some modest victories but, in the eyes of some commentators, has lost the larger war to reduce bank leverage substantially (Miles et al. 2012; Admati and Hellwig 2013a).

3.3 *China: early ambition in retreat*

It hardly needs saying that populist politics have played almost no role in the Chinese approach to post-crisis regulation. Here, the politics of post-crisis regulatory response have

²⁸ <https://www.govtrack.us/congress/bills/113/s798>, accessed 10 April 2014.

²⁹ "Finance: Out to Break the Banks," *FT.com*, 30 April 2013.

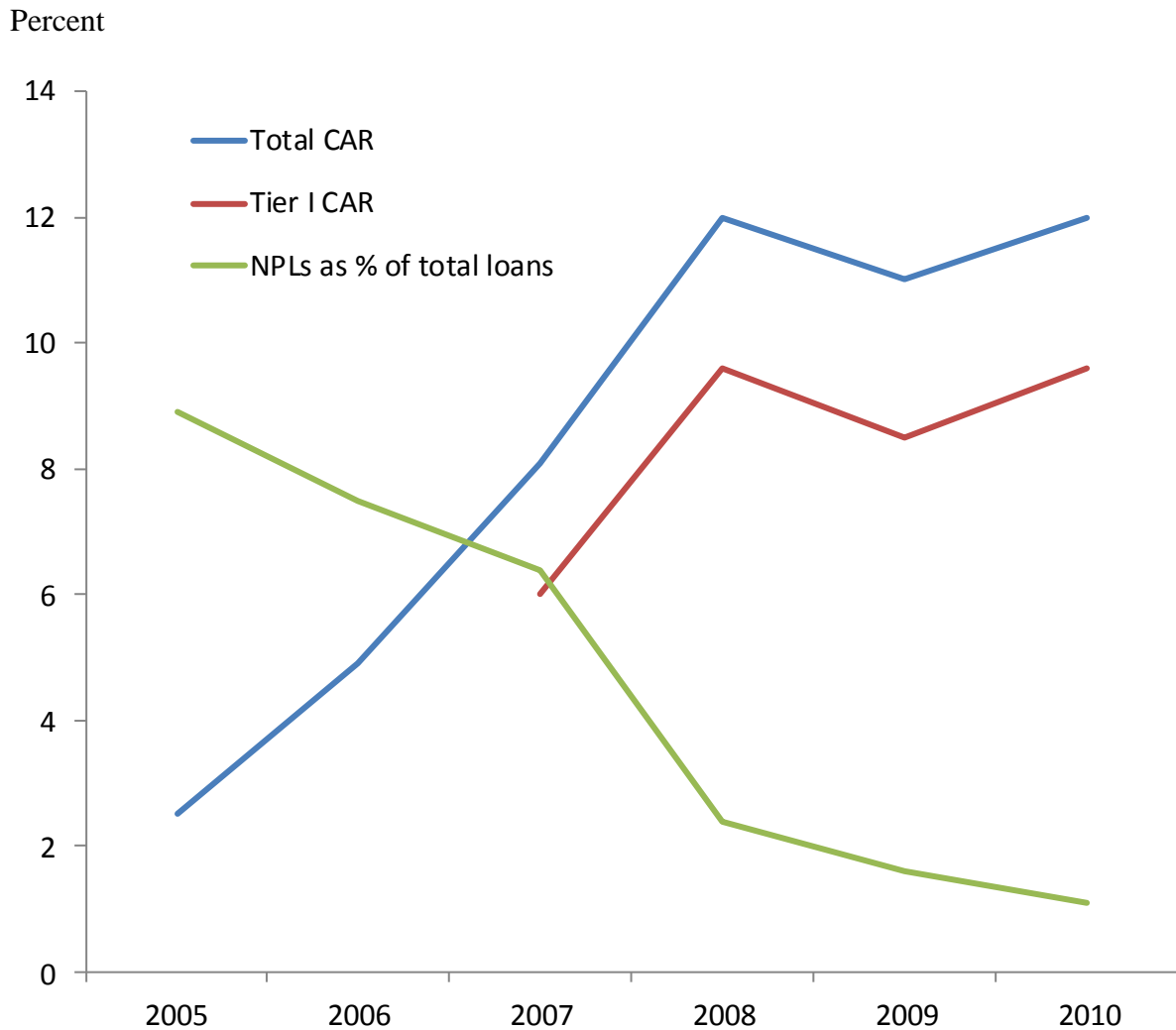
been more a matter of shifting leadership preferences and the contradictions involved in the process of reforming the major state-controlled commercial banks. In August 2011, the China Banking Regulatory Commission (CBRC) announced that it would adopt Basel III standards ahead of the implementation schedule and set minimum domestic standards at a slightly higher level than required by the agreement. CBRC would require Chinese banks to maintain a CET1 capital ratio of 5% (compared to 4.5% in Basel III) and would require systemically important banks (defined on a domestic basis) to hold an additional 1% of core capital compared to the Basel III minimum (Risk.net 2012: 5-6). The major five banks (those designated by CBRC as systemically important) would be required to meet the new requirements by end-2013, and other banks by end-2016, compared with the Basel III deadline of end-2014 for CET1. This modest capital over-compliance for the major banks was complemented in CBRC's announcement that all Chinese banks would be expected to maintain a maximum simple leverage ratio of 4% of Tier 1 capital to total assets, one year ahead of schedule (in China, all Tier I capital is in the form of common equity, and accounting rules are mostly equivalent to IFRS). The new short and long term liquidity rules in Basel III would also be implemented in China two years ahead of schedule, by 2013 and 2016 respectively (Risk.net 2012: 6).

This announced OC intention was limited but remarkable for a country that was a laggard until very recently. Only from the mid-1990s did the Chinese leadership see Basel standards as providing useful benchmarks for reforming the highly inefficient and mostly insolvent domestic banking sector. Indeed, Basel was used explicitly as a source of domestic political leverage for achieving these goals. The Basel minimum CAR of 8% was adopted in the law of the People's Bank of China in 1995, but its initial practical importance was limited (Brehm and Macht 2004). As elsewhere in developing Asia, mock compliance was extensive

in the first decade of Basel implementation in China, with lax loan accounting and provisioning standards and very weak enforcement (Brehm 2008).

After the shock of the Asian crisis, the leadership accelerated banking sector reform, focusing on the recapitalization of the major state-owned commercial banks (SOCBs) and the disposal of their extensive accumulated NPLs. Minimum CARs were more actively enforced and new accounting and loan loss provisioning rules were introduced over 2001-2 (Angklomkiew et al. 2009: 73-4). But even according to official figures, banking system NPLs in 2003 were 18% of total loans, down from 30% in 2001. According to the CBRC (2008: 146), the proportion of banking system assets in banks compliant with Basel I was a mere 0.6% in 2003, but by early 2008 the figure was just over 80% and by its end 99.9%. Formal compliance with Basel minima is therefore a very recent phenomenon in China, coinciding with the onset of the GFC (figure 5). However, doubts about the quality of banks' balance sheets have remained given persisting party-state control of the financial sector. Politically powerful local authorities in China have for many years used banks as sources of finance for their own projects, with little incentive to repay. Persistently high NPLs and extensive insolvency resulted (Davies 2008; Luo 2008; Shih 2008). Central government reforms, including the establishment of the CBRC in 2003, aimed to constrain such connected lending and to strengthen the central managements of major banks and of Beijing.

Figure 5: China Banking System Health Indicators, 2005-10: Total Capital and Tier I Capital as Percentages of Risk Weighted Assets, and Non-performing Loans as Percentage of Total Gross Loans.



Source: IMF 2011: 27.

The apparent success of these reforms and the growing strength of China’s major banks gradually led to a greater degree of ambition, including a partial adoption of Basel II for the SOCBs (CBRC 2007: 70; CBRC 2008: 73). The GFC accelerated China’s decision to adopt Basel II. China joined the BCBS in March 2009 and brought forward its deadline for Basel II implementation by the SOCBs by one year (to end-2011). After the Basel III agreement, the government felt able to shift towards an over-compliance strategy.

What has driven this strategy?³⁰ Over-compliance is in part an indication of China's general willingness to accept its broad obligations in international organizations where these sufficiently coincide with party interests. In the latter respect, it also indicates the leadership's continuing concerns about the domestic financial system, concerns that have increased once again since 2009. Banking sector reforms were interrupted by the emergency created by the GFC in 2008-9, as banks became the primary mechanism of disbursing the government's "fiscal" stimulus. The rapid expansion of credit for infrastructure projects led to a lending spree to so-called local government funding platforms (LGFPs). After 2009, rumours proliferated that banks have understated their exposure to LGFPs and that many of these loans will never be repaid.³¹ More recently, there is growing concern that regulatory pressure on banks to restrain lending has led to a rapid expansion of the unregulated shadow banking sector.³²

Thus, on the one hand the government's response to the GFC partly reversed reformers' attempts to instill a more rules-based regulatory culture in China and to break the grip of local authorities on bank branches. Such reformers retain some leverage within the party-state, however, and can point to the serious potential consequences, economic and political, of renewed domestic financial fragility. Modest medium-term over-compliance with Basel capital standards can be justified as necessary compensations for the potentially damaging domestic consequences of the post-GFC credit boom. However, as the economy has slowed, pressure to relax regulatory stringency has resurfaced. The deadline for implementing the new CET1 capital requirements was pushed back to the end of 2018.³³ This

³⁰ Except where otherwise indicated, the following paragraphs on Chinese government motivations draw on interviews conducted with Chinese officials and bankers in Beijing and London since 2008.

³¹ "China tells banks to roll over loans," *FT.com*, 12 February 2012; Michael Pettis, "China's Explosive Debt Growth Can't Continue Much Longer," 24 January 2012, www.carnegieendowment.org; "China Debts Dwarf Official Data With Too-Big-to-Finish Alarm," *Bloomberg*, 18 December 2011.

³² "Fear of crisis intensifies China's political battles," *FT.com*, 9 April 2014.

³³ "China postpones bank capital adequacy rules: media," *Reuters*, 14 December 2011; "China eases stance on new banking rules," *FT.com*, 19 February 2012.

is despite the fact that CET1 capital already constituted over three quarters of total capital in the Chinese banking system, and the weighted average CET1 capital ratio was 10% by 2012.³⁴

There may also have been external motivations for Chinese over-compliance. From China's perspective, the GFC demonstrated that the biggest threat to global and local financial and economic stability was "the lack of financial regulation and supervision" in the major developed countries.³⁵ The GFC increased the perceived need in Beijing to ensure that other major jurisdictions, especially in the United States and Europe, implement Basel III and adopt a more conservative stance towards financial regulation and supervision. Given the uncertainties surrounding implementation in the major countries, these concerns were justified. Over 2010-11, Basel III was attracting considerable criticism in the United States, and America's long delayed and partial adoption of Basel II cast a long shadow over its intentions (Foot and Walter 2011: chapter 6). As the experience of the Kyoto Protocol demonstrated, any hesitation on China's part to implement Basel III might be interpreted abroad as another reason for developed countries to avoid adoption.

Although the modest headline over-compliance with Basel III capital requirements was more likely driven by concerns partly to compensate for domestic financial fragility, the concern not to encourage foreign defection may have provided an additional incentive for China's ambitious timetable for domestic implementation to shift attention elsewhere in the BCBS and G20. There may also have been an element of hubris, visible in other areas of Chinese policymaking since 2008. Chinese banks already had high levels of CET1 capital, low leverage, were flush with deposits and relied little on wholesale funding or complex trading activities. They were also now among the world's largest. Since 2013, the new Xi/Li

³⁴ BCBS, *Regulatory Consistency Assessment Programme (RCAP), Assessment of Basel III regulations – China*. Basel: BCBS, September 2013.

³⁵ Interview, Chinese regulator, November 2011.

leadership appears to have become more focused on the negative consequences of the post-2008 credit boom for the banking system and the economy. As growth rates have fallen below 8%, there seems little reason to risk exacerbating the slowdown by premature regulatory tightening in a bank-dominated system. At the same time, the threat of non-implementation in the developed countries has receded, particularly in the United States.

4 Conclusion

China's retreat from modest over-compliance reveals the difficulty of committing credibly to relatively stringent bank regulation even in polities in which government authority is extensive. At the opposite end of the political spectrum, OC in Switzerland is less impressive than first meets the eye, perhaps designed more to protect the interests of Swiss banking than to end TBTF. Perhaps most surprisingly, the US case suggests that some modest real OC is still possible in a globalized financial system. However, none of the OC currently on the table approaches estimates of what some analysts argue would be "optimal" from the perspective of financial and economic stability or social equity (Admati et al. 2011; Admati and Hellwig 2013a, 2013b; Haldane 2012; Hellwig et al. 2011; Miles et al. 2012). Despite complaints from major banks about the unreasonable and onerous nature of Basel III and of the modest OC envisaged in some countries, current proposals in major jurisdictions like the US, UK and Switzerland seem more designed to live with overly complex and over-large banks than to regulate them out of existence.

Why do post-crisis regulatory responses continue to vary, despite the growing emphasis since the 1970s on international regulatory coordination? Notwithstanding the globalization of finance since that time, variations in economic structure, domestic institutions and politics matter. This is especially the case in many of the poorest countries, for which Basel norms have never been appropriate. Among advanced countries, OC tends to be much more constrained, reflecting a continuing desire on the part of governments not to

jeopardize the competitiveness of banks and the health of the economy. Banks in countries like the US and UK have argued strongly that OC will have serious unintended consequences. But while politicians and regulatory agencies have been sensitive to this possibility, they have sometimes been willing and able to push through somewhat more stringent measures at the national level than were agreed internationally. The same cannot be said of governments and regulators in countries such as France and Germany, who resisted both key aspects of Basel III and the desire of other EU countries to go beyond them, and who continue to tolerate very high levels of leverage among their major banks.

The importance of domestic politics in this process has led to growing divergence in the detail of regulation in the major countries. British and US authorities have recently moved towards requiring the local branches of foreign banks to meet requirements similar to those of foreign-controlled subsidiaries (Tarullo 2014: 4). All this reflects rising dissatisfaction with negotiation outcomes at Basel, precisely at the same time that international standards have hardened and efforts at international monitoring of implementation has increased. The days when a US-UK bilateral deal could set an approximate focal point for global convergence seem to be over, suggesting difficult days ahead for international regulatory coordination.

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