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The domestic sources and power dynamics of regulatory networks: evidence from the financial stability forum

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ABSTRACT

Regulatory networks are key elements of the global economy, but little is known about their variation. Why do some states prefer the creation of state-centered networks, while others advocate technocratic networks? This article addresses this question by examining the creation of the Financial Stability Forum (FSF) in 1999. It advances an argument about how domestic regulatory structures and state power explain the variation in regulatory networks that empower certain actors over others in shaping global financial regulation. This article finds that while the USA favored a state-centered FSF, driven by finance ministries, European states preferred a technocratic forum, driven by international bodies. This is because the USA can secure control of state-centered networks given its bargaining weight, while European states tried to constrain US power through technocratic structures, especially under conditions of domestic regulatory fragmentation. The final outcome was a state-centered FSF dictated by the USA. By analyzing primary archival material and interviews with key policymakers, this study sheds light on the state preferences and bargaining capabilities of G7 states. This article also generates portable and testable implications for the creation of other regulatory networks.

KEYWORDS

financial stability board; financial regulation; historical institutionalism; power; standards and codes; global economic governance.

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1. INTRODUCTION

Regulatory networks, such as the Basel Committee for Banking Supervision (BCBS), the International Accounting Standards Board (IASB), and the International Organization of Securities Commissions (IOSCO), have become key elements of the global economy. Yet little is known about the variation of such networks and the effects of that variation.[1] Why do some states champion the creation of *state-centered* networks, driven by government representatives, while other states privilege *technocratic* networks, emphasizing independent domestic or global regulators? This variation in network designs directly influences global financial regulation by empowering certain actors over others when it comes to setting financial standards that go on to benefit or disadvantage the financial industries of states. It is thus surprising that existing theories in international political economy have failed to account for how and why states choose between different network structures.

This article explores the conditions under which states prefer the creation of *state-centered* or *technocratic* network designs. In a single case study, it explains the creation of the Financial Stability Forum (FSF) by analyzing intra-case variation in state preferences and institutional blueprints that states were considering. The FSF is a *state-centered* regulatory network coordinating sub-sectors of finance such as banking, securities, and insurance. The Group of Seven (G7) advanced economies established the FSF in 1999, with the goal of restoring global financial stability following the financial crises endured by emerging economies in the 1990s. The FSF has since become an important regulatory body, bringing together the finance ministries, central banks, and domestic supervisory agencies of the G7, a number of international financial institutions (IFIs), and global regulatory groups.[2] One of its core objectives has been to set and harmonize financial standards across countries and sectors. While the FSF has existed since the late 1990s, the forum only recently gained attention in the wake of the 2007−2009 global financial crisis, when at the G20 London Summit in 2009 it was reformed and renamed the 'Financial Stability Board' (G20, 2009). To the surprise of many, this led Timothy Geithner, then US Secretary of the Treasury, to praise the FSB as the 'fourth pillar' of global economic governance, following the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (Geithner, 2009). This not only underlines the importance of the FSF in the global economy, but it also begs the question as to how and why the FSF was created.

Conventional accounts of international institutional creation tend to privilege rationalist and historical institutionalist explanations. Rational design accounts stress the functional and mutually beneficial aspects of creating a *single* efficient institutional equilibrium, such as a regulatory

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network (Koremenos, Lipson, and Snidal, 2001; Slaughter, 2000). However, states often negotiate over competing network designs without an obvious optimal equilibrium, such as in the case of the FSF. Historical institutionalist scholarship, often based on the varieties of capitalism framework, emphasizes that liberal economies (e.g., the USA and the UK) tend to prefer arm's length financial regulation, whereas coordinated economies (e.g., Continental Europe) traditionally rely on more government involvement (Drezner, 2007; Fioretos, 2011a). Yet we often see, including in the case of the FSF, that the USA favors a more *state-centered* approach to financial regulation than its European counterparts. Other historical institutionalists champion the importance of domestic institutions, especially centralized regulatory agencies, in forming regulatory networks (Büthe and Mattli, 2011). This is because consolidated agencies would have a superior institutional platform, when compared to fragmented ones, from which to influence regulatory networks. But the case of the FSF shows that centralized structures are neither necessary nor sufficient in shaping these networks.

This article advances an argument about how domestic regulatory structures and the power position of states in finance explain the variation in regulatory networks. A growing body of work has emphasized that key actors utilize regulatory networks to export financial standards and secure compliance with these standards (Farrell and Newman, 2014; Simmons, 2001). This article argues that these key actors are able to do so by promoting different network designs: *state-centered* or *technocratic* networks, each of which offers distinct political channels that empower certain actors over others in shaping global financial regulation. If the USA, the most powerful state in finance, is unable to draw upon a centralized, domestic regulatory agency to represent its interests in a regulatory network – given its fragmented domestic regulatory landscape – then it can privilege its powerful treasury. This *state-centered* strategy secures control of the network and avoids losses in sovereignty. Where weaker states in finance (e.g., Continental Europe) are unable to draw upon a single domestic agency, they can champion *technocratic* structures driven by international bodies to constrain US power.

The empirical section analyzes primary and previously undisclosed archival material (i.e., minutes of meetings, memoranda, and correspondence between G7 states), public statements, and interviews with key policymakers in the USA and Germany, in order to trace the variation in state preferences and bargaining capabilities.[3] It demonstrates that states were bargaining over competing designs when modeling the FSF – among them a *state-centered* design with an emphasis on finance ministries (favored by the USA) and a *technocratic* design that privileged international bodies (favored by Germany). This underlines that the eventual

design of the FSF was not ordained. Rather, the outcome was a *state-centered* FSF favored by the USA that was able to exert its bargaining weight.

These findings have larger implications for how to think about international political economy. First, this study provides one of the most comprehensive accounts of how the FSF was established. As the formation of regulatory networks is largely understudied, not least due to opaque processes behind closed doors, this article contributes to our understanding of how these networks are built. Second, this article's argument is not limited to the creation of the FSF, but also generates testable and observable implications for other regulatory networks within and outside finance. Finally, this study contributes to earlier insights that explore the linkages between domestic and international factors in explaining global financial regulation.

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2. CREATING REGULATORY NETWORKS: DOMESTIC INSTITUTIONS AND STATE POWER

While there has been a burgeoning body of work on the growing importance of regulatory networks in the global economy, existing research has neglected the variation and effects of different network designs.[4] Scholars in comparative politics tend to overlook how domestic institutional structures shape regulatory outcomes beyond their own borders, whereas scholars in international relations (IR) often fail to account for the variation in state preferences – that is, the positions that governments adopt in international economic negotiations. This article develops a theoretical framework that explores the conditions under which states choose between different kinds of networks. It reconciles a prominent line of research in historical institutionalism in comparative politics, highlighting how domestic factors shape state preferences (Farrell and Newman, 2010, 2014, 2015; Fioretos, 2009, 2010a), with longstanding power approaches in IR, emphasizing the bargaining capabilities of states (Drezner, 2007; Krasner, 1991).[5]

2.1. Conventional accounts of international institutional creation

Existing accounts of international institutional creation privilege both rationalist and historical institutionalist explanations. While some of these theories have been used to explain the origins of formal international organizations, they can also generate observable implications for regulatory networks. First, rationalist accounts tend to focus on the functional and Pareto-improving effects of creating regulatory networks (Abbott and Snidal, 2000). According to Slaughter (2004), disaggregating states into regulatory sub-national building blocks – and establishing transnational linkages between domestic regulators – is an effective way

to govern an increasingly interdependent world. Regulatory networks would provide the most efficient, rational design in the 'Information Age,' provided the fast pace of interaction, flexibility, informality, and low cost that these networks entail (Cerny, 2010; Porter, 2005; Slaughter, 2000). These accounts thus emphasize the comparative advantages of networks vis-à-vis hierarchies in solving coordination problems (Koremenos, Lipson, and Snidal, 2001; Moschella, 2013).

From this rational design perspective, we should expect states to design a *single* institutional equilibrium for the FSF that primarily focuses on solving coordination problems. As financial regulation is considered to be highly technical, states should create a regulatory network without using bargaining power to defend national interests or fighting over the distributive consequences of such a new body. In short, the FSF should constitute a technical consensus and the most efficient solution to solve coordination problems (Porter, 2003). Yet, these accounts not only turn a blind eye to conflict between states, with varying state interests and abilities to pursue these interests, but also neglect the possible variation in network designs along the 'Pareto frontier' (Krasner, 1991).

Second, historical institutionalists tend to stress the ways in which states attempt to replicate their domestic economic preferences at the international level, which is often based on the varieties of capitalism framework (Drezner, 2007; Fioretos, 2011a; Hall and Soskice, 2001;Kalinowski, 2013; Zimmermann, 2009). According to these accounts, states seek to protect and extend their domestic regulatory frameworks by promoting their domestic preferences through regulatory initiatives at the global level. These preferences are derived from domestic economic traditions. This would allow states to avoid the adjustment costs incurred in changing their regulatory status quo and to shape regulatory frameworks abroad in ways preferable to them. Drezner (2007: 42) articulates what we would conventionally expect different states to promote:

> In liberal market economies, particularly the United States, there is a strong tradition of minimal government interference in the economy. Regulatory agencies are separated from government ministries to reduce the state's ability to impose significant regulations. Firms coordinate their activities primarily through decentralized market arrangements. In coordinated market economies, firms rely more on nonmarket institutions to allocate scarce resources ... Government ministries house their own enforcement agencies, making it easier for the state to regulate. The expectation of government intervention in the economy is greater than in liberal market economies.

Similarly, Fioretos (2011a: 64) argues that it is 'important for governments in liberal market economies to secure multilateral designs that are

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liberal in design ... because other forms impose significant maladaptation costs on firms.' Walter (2008: 1) further states that liberal economies prefer 'technocratic, apolitical, and insulated' arm's-length financial regulation (cp. Farrell, 2003; Posner, 2009; Schmidt, 2009). From these varieties of capitalism perspectives, we should expect liberal economies, particularly the USA, to advocate the creation of a *technocratic* network for the FSF with minimal government interference. Coordinated market economies in Europe should promote a *state-centered* body with an emphasis on government representation and interference. Yet these accounts neither explain changing preferences over time, making them somewhat strong forms of path dependence, nor why the USA preferred a *state-centered* network for the FSF, when its European counterparts favored a *technocratic* body. This body of work also tends to neglect the variation in state preferences among liberal or coordinated economies, which is often based on differences in domestic regulatory structures or traditions (e.g., Farrell and Newman, 2010;Wood, 2005).

Third, other historical institutionalists emphasize how domestic regulatory institutions empower some actors over others when shaping regulatory networks (Büthe and Mattli, 2011; Coffee, 1995; Mattli and Büthe, 2003; Singer, 2009). Büthe and Mattli (2011) argue that states with unified authority structures can greatly influence regulatory networks, given the high degree of organization, expertise, and resources of their domestic agencies. Establishing institutional compatibility between the domestic and global level then provides an advantage in information aggregation and a superior bargaining position in setting global standards, whereby domestic agencies 'promote and defend at the international level the regulatory preferences of their domestic stakeholders to minimize domestic switching costs' (Büthe and Mattli, 2011: 12; Coffee, 1995). States with fragmented structures are disadvantaged by a lack of domestic coordination. From this institutional compatibility perspective, we should expect states with unified authority structures to prefer − and have a clear advantage in constructing − a *technocratic* structure for the FSF that privileges their domestic unified agencies (cp. Jupille, Mattli, and Snidal, 2013, ch. 6; Nölke and Perry, 2007).

Yet there are a number of reasons why this might be different. First, assuming that states are aware of the benefits of unified structures, they might simply replace fragmented domestic institutions with unified ones, in order to speak with one voice at the global level (Mügge, 2006).[6] Second, we even see that states dissolve unified structures. The UK Financial Services Authority (FSA), a centralized regulatory agency, was recently separated into two smaller agencies, at which time it also transferred regulatory power to the Bank of England (Treanor, 2013).[7] Third, this account cannot tell us what states promote if they do not have a consolidated agency from which to access regulatory networks. These points

underline that states are not trapped in their institutional legacies and that the merits of unified authority structures are often overstated. A closer look reveals that the USA has a highly fragmented regulatory structure in finance, but is nonetheless able to shape the creation of and secure access to the FSF, even more so than states with unified authority structures such as the UK.

2.2. Domestic institutions, state power, and the formation of regulatory networks

It is widely known that regulatory networks serve as instruments for exporting financial standards and securing compliance with these standards (Bach and Newman, 2010; Helleiner and Pagliari, 2011; Raustiala, 2002; Simmons, 2001; Verdier, 2009). Given the elevated salience of the financial sector and regulatory networks since the early 1990s, it should come as no surprise that the most powerful actors try to gain control of these networks, whereas weaker actors attempt to constrain the most powerful (Farrell and Newman, 2014). But little is known about the ways in which actors are able to do so.

This article introduces a new dimension of variation in regulatory networks: *state-centered* networks, driven by government representatives (such as finance ministries), and *technocratic* networks, driven by independent regulators drawn from international organizations or domestic authorities (such as the US Securities and Exchange Commission). While *technocratic* networks can minimize direct political interference, *state-centered* networks ensure the pursuit of political agendas. *State-centered* forums provide a clear advantage to the most powerful states, allowing them to exert direct bargaining weight. *Technocratic* networks that privilege either IFIs or independent domestic or global regulators can, under certain conditions, promote policies that are not in the interest of the most powerful states. Both network designs therefore offer distinct political channels that empower certain actors over others in shaping global financial regulation. But what explains that some states prefer the creation of *state-centered* networks, while others prefer *technocratic* networks?

Existing research has fruitfully explored the ways in which states access regulatory networks if they have a domestic 'focal point' – a consolidated domestic regulatory agency – to represent their interests in regulatory networks. The IASB and IOSCO, two *technocratic* networks in accountancy and securities run by independent domestic regulators, provide good examples. Scholars remark that the USA has been effective in influencing IOSCO and the IASB through its powerful SEC and the Financial Accounting Standards Board (Jupille, Mattli, and Snidal, 2013, ch. 6; Nölke and Perry, 2007; Perry and Nölke, 2006;). Yet, less is known about what states prefer if they do *not* have a centralized agency from

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which to access regulatory networks. The FSF, for instance, is a global regulatory initiative that spans most sub-sectors of finance, including banking, securities, and insurance. Many states, including the USA, do not have a single regulator for these sectors.

The main theoretical contribution of this article is to explore state preferences under conditions of domestic regulatory fragmentation. In fact, the USA has a highly fragmented authority structure that has evolved over the past 150 years, with multiple regulatory agencies in banking, securities, and insurance (e.g., the SEC, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the Commodity Futures Trading Commission, etc.). Similarly, Germany had a fragmented regulatory system in the 1990s, with multiple agencies overseeing its financial sector: the *Bundesaufsichtsamt für den Wertpapierhandel* in securities, *Bundesaufsichtsamt für das Versicherungswesen* in insurance, and the *Bundesaufsichtsamt für das Kreditwesen* in banking. France and Italy also retained 'multiple, functionally differentiated and autonomous regulators to oversee different segments of their financial systems' (Perez and Westrup, 2010: 1173). As a result, these states lacked centralized, domestic agencies able to represent their interests in banking, securities, and insurance in a regulatory network such as the FSF.

If the USA, the most powerful state in finance, is unable to draw upon a single domestic regulatory agency to represent its interests in a regulatory network, then the state can privilege its powerful treasury. This *state-centered* strategy secures control of the network and avoids losses in sovereignty. Involving its treasury positions the USA to (1) ensure access to regulatory networks and, accordingly, the ability to defend and extend its domestic regulatory status quo by avoiding switching costs for its own industries; (2) overcome the competing jurisdictions and interests of multiple domestic agencies; and (3) increase the legitimacy of regulatory networks by privileging government representatives instead of unelected, independent regulators. There is broad agreement that the USA has been the strongest financial power in the late 1990s, given its market size, political heft, and centrality in the global financial system (Gruber, 2000; Kapstein, 1989; Posner 2009). In a *state-centered* network, this power position enables the US Treasury to promote US standards in states that previously promoted different standards. The high political profile and policy authority of finance ministries, including their links to leaders (and to IFIs), can push states' commitment to financial standards. The USA is therefore able to tie down other states to commitments and minimize losses in sovereignty (cp. Ikenberry, 2001). This is not to argue that the USA always prefers *state-centered* networks; the USA can favor such structures if it is unable to select a *single* domestic agency under conditions of domestic regulatory fragmentation.

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Where weaker states in finance, such as Continental Europe, are unable to draw upon centralized domestic agencies to represent their interests in regulatory networks, they can champion *technocratic* networks driven by international bodies. This network structure allows weaker states to constrain US power and promote their own interests through international institutions such as IFIs and global regulatory bodies. Certainly, the USA also exerts influence within these international bodies, but the country often laments the over-representation of European states at the IMF and the World Bank (Wade, 2011). As Abdelal (2007: 26−27) suggests, 'international organizations are, after all, run by bureaucracies and officials, frequently European, who have envisioned the creation of a very different organization of global finance [compared with the U.S.].' Scholarship along this path usually refers to international organizations such as the IMF, World Bank, the Organization for Economic Co-operation and Development (OECD), and the Bank for International Settlements (BIS), but others have also pointed out that Europeans have a strong influence in regulatory networks such as the International Association of Insurance Supervisors (IAIS) (Quaglia, 2014;Singer, 2007). This demonstrates that Continental European states can pursue strategies, through which they are able to exert influence in a subtler way, 'promoting European standards internationally through international organisation'[8] (Buck, 2007). Weaker states can thus seek to restrain US power through technocratic institutions (cp. Ikenberry, 2001).

Lastly, this article addresses how divergent state preferences result in institutional outcomes, arguing that state bargaining capabilities, as opposed to strictly functional imperatives, explain international institutional creation. Knight (1995: 108) indicates that 'institutional development is a contest among actors to establish rules that structure outcomes to those equilibria most favorable for them.' Accordingly, although new institutional structures might even be Pareto-improving in that states agree on mutually undesirable outcomes, they can still disagree on the final institutional choice. In short, all actors would be worse off without *any* agreement of establishing new institutional structures, but the new agreement leaves room for competing outcomes along the Pareto frontier, which gives powerful states an advantage to dictate the final outcome (Krasner, 1991; Kapstein, 1989, 1992). These approaches often highlight the relative market size of states as the key source of power (Drezner, 2007; Gruber, 2000). This article concurs with this prominent body of work that characterizes the USA as the strongest financial power in the late 1990s, with a clear bargaining advantage over European states (e.g., Posner, 2009).[9] Concomitantly, European states often have different interests and preferences, which can further decrease their bargaining leverage in international negotiations (Fioretos, 2010b; Quaglia, 2014).[10]

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While this article is consistent with these approaches in that it demonstrates that bargaining weight often explains institutional outcomes, it also goes beyond conventional power approaches. Power-based accounts in IR tend to explain the creation of regulatory networks – the FSF, in particular – as a function of great power interest. As Drezner (2007: 147) notes, 'the United States and European Union created club IGOs – like the Financial Stability Forum . . . to ensure control over the establishment and enforcement of common financial standards.' Yet, this does not tell us much about the specific design of the FSF, as it does not spell out observable and testable implications. Relatedly, it does not shed light on intra-case variation of state preferences and conflict *among* G7 states.

This article fills in these gaps and expects considerable disagreement between G7 states as to what the FSF should look like, with a clear bargaining advantage of the USA. In particular, we should expect the USA to promote a *state-centered* network, while Continental European states should promote a *technocratic* network, given their fragmented domestic regulatory structures and different power positions in finance. The following section tests these observable implications by examining the creation of the FSF, with a detailed analysis of state preferences and bargaining capabilities of the USA and Germany, including additional evidence from other G7 members, such as the UK.

3. EXPLAINING THE CREATION OF THE FINANCIAL STABILITY FORUM

There was little disagreement among advanced economies that financial stability needed to be restored after the financial crises of the 1990s had unfolded. Indeed, the G7 agreed that new structures were needed to overcome regulatory clashes in global finance, which were said to have contributed to these crises in the first place. A series of statements by the G7 suggests that states were seemingly concerned with reducing transaction costs and solving coordination problems. For instance, the final report, which resulted in the creation of the FSF, utilizes relatively technical language, not revealing any conflict among states. The report reads:

> These consultations were helpful in identifying key areas in the international financial system where improvements are essential in order to safeguard the proper functioning of the markets. A broad consensus emerged during this consultation process and is reflected in this report. (Tietmeyer, 1999a)

Unsurprisingly, the FSF itself identified the main goal of the forum's establishment as the provision of 'new structures for enhancing cooperation among the various national and international supervisory bodies

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and international financial institutions so as to promote stability in the international financial system' (FSB, 2012). These passages capture the repeated technical calls for new, informal arrangements in the global financial system to close coordination gaps, without changing the formalized global architecture in major ways (Tietmeyer, 1999a). This appears to support efficiency-seeking and Pareto-improving 'rational design' accounts (Moschella, 2013) in that it is effective and mutually beneficial to address coordination problems by creating a regulatory network.

Scholarship on epistemic communities and technical expertise often follows such views with regard to the FSF. Porter (2003: 545), for instance, expresses this perspective by stressing:

> The work programmes of the FSF . . . are also not as biased towards the interests of the powerful . . . and this can be explained in part by the well-established expectation from the legacy of technical collaboration that problems be addressed through research and reasoned debate rather than demands and threats.

However, as Finnemore (1996: 35) rightly remarks, no matter how technical international bodies might seem, they 'are never neutral forums.' In a different study, Finnemore and Goldstein (2013: 13) elaborate that '[t]here is no obvious single equilibrium or Pareto optimal strategy guiding state choices in many, even most, of the situations that might interest us . . . Their options are often painful and their choices far from foreordained.' A closer look reveals competing state preferences, power dynamics, and conflicts among states when modeling the FSF. Certainly, all states agreed on mutually undesirable *economic* outcomes, including the shared harm of persisting financial volatility, coordination problems, and regulatory clashes; however, there were several *political* choices available that could have resulted in either a new equilibrium or a failure to cooperate (cp. Kinne, 2013). There was no obvious functional or technical-rational outcome, since any choice would have had different distributional consequences.

3.1. The mandate to create the FSF and early proposals

In 1998, the USA organized a meeting of the Group of 22 (G22) advanced and emerging economies in Washington, DC, to discuss dysfunctions in the global financial system and how to reform the existing financial architecture following the crises in the 1990s (Clarke, 2014; Lombardi, 2011; Walker 2001a). The G22 swiftly drafted a report, in which it briefly discussed the creation of a *Financial Sector Policy Forum* as a regulatory and supervisory body that would:

> discuss international financial sector stability issues, across functional lines. The forum would consist of representatives of finance ministries, central banks, and financial supervisors from interested systemically important industrial and emerging market economies, as well as the IFIs and the international regulatory bodies. (G22, 1998a: 49)

By convening national representatives, global regulatory groups, and IFIs, the G22 envisioned a 'system for the exchange of information on financial sector regulatory and supervisory methods' (G22, 1998a: 49).

Just prior to the G22 report, Gordon Brown, then the UK's chancellor of the exchequer, had proposed the creation of a *Standing Committee for Global Financial Regulation*. This body would be composed of IFIs (e.g., the IMF, the World Bank, and the BIS), global regulatory groups (e.g., the BCBS and IOSCO), and key domestic regulators (e.g., the FSA or SEC), with the responsibility of setting global financial standards and ensuring compliance (Brown, 1998). Above all, this *technocratic* proposal privileged the role of domestic regulatory agencies, as these domestic bodies should have been responsible for coordinating the work of this committee. Since the UK had a single centralized regulatory agency for banking, securities, and insurance – the FSA – this core agency could have functioned as a powerful focal point within this proposed forum. Yet, this disadvantages states without a centralized regulatory agency. For instance, the fragmented systems in the USA or Germany would have made it difficult for their domestic bodies to speak with one voice at this forum. To overcome this, the USA and Germany offered very different proposals (cp. Geithner, 1998). To sum up, both the Brown proposal and the initial G22 discussions served as a foundation for further discussions on the creation of the FSF.

Later in 1998, the G7 advocated 'for the creation of a new institution to coordinate the erection of a new financial architecture of regulatory standards' (Drezner, 2007: 135). For this reason, Gordon Brown, then also chair of the G7, entrusted Hans Tietmeyer, former president of the German Bundesbank, with elaborating a balanced approach that incorporated the views of the entire group.[11] In particular, the G7 finance ministers and central bank governors issued Tietmeyer (1999a) the mandate:

> to consult with other appropriate bodies and to consider with them the arrangements for cooperation and coordination between the various international financial regulatory and supervisory bodies and the international financial institutions interested in such matters, and to put to us expeditiously recommendations for any new structures and arrangements that may be required.

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One might initially wonder why the G7 picked Tietmeyer to prepare the report. A senior Bundesbank official stated that he was chosen because of his connections within finance ministries and central banks, his seniority, as well as his repeated calls for action to overcome regulatory clashes in the international financial system.[12] His strategic position in multiple networks situated Tietmeyer to commence negotiations. Subsequently, several international bodies and G7 states provided Tietmeyer input on the creation of the FSF.

First, the G22 submitted a proposal to Tietmeyer, which already highlighted the core divergence in state preferences during the formation process – 'the extent to which national authorities should be represented' in a new forum (G22, 1998b: 4). In G22 meetings, states heatedly debated the topic and the USA made it readily clear that most suggestions, including the UK's proposal, insufficiently involved finance ministries. In light of this, the G22 suggested the establishment of a two-tier forum, leaving the aspect of 'national representation' deliberately unspecified. The forum was to be comprised of (i) a large tier of finance ministries, central banks, and national regulators of important emerging and advanced countries, IFIs, and global regulatory groups that should discuss the broader global financial agenda and give legitimacy to the entire body; (ii) and a smaller, coordinative tier of IFIs, global regulatory groups, 'perhaps' the Group of Ten (G10) central bank governors, and 'national representatives.' This proposed coordinative tier is essential since it would have had the power to coordinate the work of its members. Yet, given the discord concerning the appropriate involvement of national representatives, the G22 left the aspect of membership unspecified.

Second, the BIS – the so-called 'central bankers' bank' – posited a proposal early on in the process. The BIS proposal differed in significant ways from both the G22 proposal and Brown proposal in that it privileged a *technocratic* structure with an emphasis on international bodies. Its two-tier suggestion included (i) a coordinative tier, consisting of IFIs and global regulatory groups without any national representatives, that would coordinate the activities of its members, set financial standards, and ensure compliance with these standards; and (ii) a larger, less significant group, consisting of national representatives (i.e., finance ministers, central bankers, and regulators) from emerging and advanced economies, IFIs, and global regulators that would lead broad discussions on global financial issues. The BIS had foresight and predicted that conflicts would arise concerning the appropriate involvement of national representatives. It reckoned that a forum without finance ministries in the principal, coordinative tier would not be welcomed by the USA, as their senior policy authorities (i.e., finance ministries) could not assume a leading role in defining regulatory standards. Such a structure could, in fact, result in adjustment costs for its industries imposed by independent

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organizations (e.g., Abdelal, 2007; Barnett and Finnemore, 2004; Jabko, 2006). In sum, the BIS and G22 helped Tietmeyer identify some key concerns to be addressed when drafting the proposal.

3.2. The great divergence: the Bundesbank proposal and the US response

The Bundesbank ultimately adopted a *technocratic* two-tier proposal, with an emphasis on international bodies. The proposal called for a chief, coordinative tier *without any* national representatives, whose membership would be composed of IFIs and global regulatory groups only (i.e., the IMF, World Bank, BIS, BCBS, IAIS, and IOSCO). This is important to emphasize, as such a coordinative tier would have had the authority to set financial standards and oversee implementation, with the overall intent of making its decisions politically binding in all countries.[13] The proposal also called for a less significant tier to discuss broad financial policy, convening advanced and emerging economies, IFIs, and global regulators, which would replace *ad hoc* groups such as the G22. Yet, state governments cannot exert much influence in such a body, as the less significant second tier was in fact a debating society intended to increase the legitimacy of the entire FSF.

Tietmeyer's proposal de-emphasized the role of national governments by instead championing the involvement of IFIs and global regulators that would have had the political authority to set global financial standards and oversee compliance. A senior Bundesbank official stated that this proposal was intended to avoid avenues that would permit states to pursue national interests, for the reason that powerful finance ministries, such as the US Treasury, often assume they can direct and delegate issues in global economic governance.[14] The reasoning behind this proposal therefore follows this article's theoretical expectation that Continental European states often try to constrain US power by championing the role of IFIs and making the work of global technocrats politically binding. Relatedly, Continental European states do not necessarily benefit from a forum that would champion either finance ministries (i.e., due to a lack of bargaining power) or domestic regulators (i.e., due to fragmented authority structures). For this reason, Italy endorsed Tietmeyer's proposal.[15]

As an alternative to the Tietmeyer proposal, the USA drafted its own proposal emphasizing the role of finance ministries. The proposal advocated a one-tier forum, consisting of G7 country representatives (i.e., finance ministers, central bankers, and domestic regulators), IFIs, and global regulatory groups, with the option of including more members over time.[16] The main rationale behind the US proposal was to privilege finance ministries, which, according to US officials, were needed for setting regulatory priorities, elaborating policy, and overseeing implementation. But

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what is the smoking gun that shows that the USA strongly favored the involvement of finance ministries?

The remainder of this section explores this question by analyzing interview evidence from US government officials. In an interview, then Deputy Treasury Secretary Lawrence Summers, noted:

> The idea was to change regulation. So we thought if we have a bunch of regulators together, they would tend to reinforce each other in the status quo. We wanted to bring political energy and change to the process of international financial regulation so as to generate more action. The Treasury wanted to be in power with respect to this forum rather than further empower independent regulatory agencies, which we thought were a bit too independent anyway.[17]

Similarly, Donald Kohn, former Vice Chairman of the Federal Reserve (Fed), stated in an interview:

> Global regulators and IFIs lacked the necessary authority to accomplish effective global financial regulation without the political support of finance ministries. If there is no input by states in the process of regulation, then states are not willing to implement the output that global regulators propose.[18]

When interviewed, then Assistant Secretary of the Treasury for International Affairs Edwin Truman, noted:

> After the financial crises in the late 1990s, the Treasury thought that global financial regulation was too important to leave it to the technocrats.[19]

He also stated that the USA greatly influenced the development of global standards:

> That was the whole point – to promote and export U.S. standards abroad. The U.S. felt good about its standards and thought that it had already done enough. The compendium of standards was directed at other countries, which would benefit the U.S. by leveling the playing field, but it would not impose any additional costs on the U.S.[20]

This suggests that the USA believed both that it already possessed superior financial standards ready to be exported and that the FSF would not impose any additional costs on the USA, but would instead target

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other states, especially emerging markets (Germain, 2001;Mosley, 2010). As William Murden (1999: 38–39), the Treasury's Director of the Office of International Banking and Securities Markets, remarked, there was a 'need for international standards in many more areas' and a need 'to convince countries to actually implement them.' In an interview, he elaborated that:

> It was the role of finance ministries that gave an extra push to this and elevated the importance of these standards for countries to follow. So the finance ministries bring policy perspectives to the FSF ... and they could then urge and give higher profile to these twelve key standards.
>
> If they [finance ministries] had not been included, you would have had the status quo. You would not have had a bigger picture and you would not have had the linkage to the IMF. The finance ministries are the ones, who can make the national commitment to meeting international codes and standards, for instance. It is the finance ministers that drove the work on the international standards, bringing those international standards together into a compendium ... and giving the commitment to implement them, a political-level commitment, that's where finance ministries came in.[21]

Mark Sobel, the Treasury's Deputy Assistant Secretary for International Monetary and Financial Policy, echoed several of these concerns in an interview. He felt that it was critical to have country officials, including finance ministries, at the table, as they – not the IMF nor standard setting bodies – were ultimately responsible for implementing global standards. He stated that the US Treasury felt it had to be at the table, because it was sharing costs and taking a leading role in addressing the Asia crisis through the IMF, and had to secure additional funding from Congress for the IMF as a result.[22]

Most fundamentally, the *state-centered* dimension of finance ministries was crucial for the USA in guaranteeing access to this forum in order to shape regulatory outcomes in its preferred direction, which neither domestic nor global technocrats could have guaranteed. As Clarke (2014: 198) underlines, '[t]he standards endorsed by the FSF tended to resemble the domestic regulatory status quo within the USA.' While a forum with an emphasis on domestic regulators could have disadvantaged the USA, given its fragmented authority structure, a forum led by IFIs could have budged the USA away from assuming a leading role in formulating global standards. US officials were also concerned that some of their domestic bodies, such as the Fed, would not have had the authority to supervise and oversee securities and insurance markets. As such,

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including finance ministries provided an effective way to overcome domestic regulatory fragmentation and capture control of the forum, allowing the USA to use its political energy to set regulatory policy and oversee implementation. The US position, moreover, did not solely reflect that of the US Treasury. In fact, the Treasury has corresponded closely with the US President and Fed during the negotiations, all of which appeared to be on the same page (cp. Rubin, 1998, 1999).

3.3. The clash of state preferences and the creation of the FSF

Although both Italy and Germany tried to convince the USA to adopt the Bundesbank proposal, US officials stressed that the country would not agree on the German proposal, so long as the proposal circumvented finance ministries. At this time, Germany and Italy lacked the necessary support from the remaining G7 states, including Canada, France, Japan, and the UK to pressure the USA. In the case of France, the state supported the idea of a small body, consisting of IFIs and global regulators, an 'information exchange group' similar to the coordinative tier in Tietmeyer's proposal. However, France did not support the creation of the larger tier in the Tietmeyer proposal that would bring together emerging and advanced economies. Instead, the country envisioned a strengthened Interim Committee at the IMF (or a strengthened Joint Forum). In the case of Canada, the state questioned the participation of finance ministries in a new forum and, instead, favored a different group that would be attached to the IMF. In the case of Japan, the state made clear that its view was in line with the US proposal, but remained a passive actor. In the case of the UK, the state initially emphasized the role of domestic regulators in its Brown proposal, as opposed to finance ministries, but it did not support the Bundesbank proposal, which, above all, privileged international bodies. Given that the UK lacked the bargaining power to push through its own proposal, the state then supported the US proposal. This is because UK officials feared that without *any* national representation, as presented in the German proposal, no actor would assume the responsibility to set financial standards and monitor compliance. Advancing global financial regulation would require *some* national input, as the UK did not want to provide other states the opportunity to slip away from their preferred standards. The divergence in state preferences among European states furthermore decreased the leverage of these states vis-à-vis the USA in international negotiations (cp. Fioretos, 2010b).

Eventually, Tietmeyer reached an agreement with the USA that satisfied all US demands, which was then presented to the other G7 states. Both Italian and German officials concluded that a coordinative tier *without* any national representatives would have been preferable to the US

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proposal; however, they had to submit to US pressure, which led all other G7 states to agree on the proposal. As the largest and strongest economy, the USA was able to project a great deal of power and influence in the 1990s. This dynamic therefore suggests a 'go it alone' outcome (Gruber, 2000), as opposed to the publicized broad consensus. This agreement also highlights that the USA was able to both dictate the structure of and later influence this forum *despite* the state's fragmented regulatory structure. In fact, the USA exerted more influence than countries with unified structures such as the UK. As Sobel observed:

> Basically, when you get down to the work that has to be done in the FSB, or in a standard-setting body, the U.S. plays a very key role. It is important that we do so, given that the U.S. is the world's largest financial market and our strong interest in high quality global standards. In that regard, it would not be feasible to promulgate global standards without having the U.S. on board. As a result, U.S. regulators and officials heavily engage with the international community, be it in standard setting bodies, bilaterally or in multilateral fora, and in this way the U.S. exerts a lot of influence, including behind the scenes.[23]

Similarly, Elke König, the former President of the German Federal Financial Supervisory Authority (BaFin), noted in an interview that '[t]he FSB hosts broad membership among which the U.S. as the largest financial market almost naturally is a powerful player.'[24] The counterfactual helps explore what might have been. If either IFIs or domestic regulators led the FSF, one might expect the adoption of financial standards that are not necessarily favorable to the USA. Such a structure could have resulted in relative losses in competitiveness of US financial industries. For this reason, the USA met proposals advancing such structures with considerable resistance. Including finance ministries in such a forum ensures that the USA can exert significant influence in setting standards and securing compliance.

Given that all G7 members agreed on the US proposal, Tietmeyer (1999a) prepared a final report, which proposed a forum that:

> should meet regularly to assess issues and vulnerabilities affecting the global financial system and to identify and oversee the actions needed to address them. The Forum would report to the G-7 Ministers and Central Bank Governors. It would replace the series of ad hoc groups that have been convened by the G-7 over the past few years with a view to strengthening the international financial system.

The G7 finance ministers and central bankers adopted this final proposal in 1999 (G7, 1999). Initially, the FSF consisted of the finance

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ministries, central banks, and national supervisors of the G7 (i.e., deputy-level), a number of representatives drawn from IFIs and global regulatory groups (i.e., deputy heads or chairs), with the option of extending membership to non-G7 members (Tietmeyer, 1999b).[25] The architects of the FSF intended the institutional structure to be small and informal, with biannual meetings of the group and a small permanent secretariat at the BIS with 'staff drawn from the BIS and the participating international financial institutions' (Tietmeyer, 1999b: 23). The FSF furthermore established three main working groups focused upon highly leveraged institutions, offshore financial centers, and capital flows, as well as two additional groups, an implementation task force and a deposit insurance study group, 'with the particular goal of promoting the harmonization of standards among international financial organizations and institutions' (Carrasco, 2010: 207; Liberi, 2003). One of the FSF's main achievements was the elaboration of a 'compendium of standards' of twelve core cross-sector standards in areas such as banking, securities, insurance, and financial reporting by its implementation task force (FSF, 2000). Yet, despite market pressures emerging countries, in particular, often did not comply with these standards (Mosley, 2010). This reality highlights some limitations of the FSF prior to its 2009 institutional reform (Blustein, 2012; Donnelly, 2012; Helleiner, 2010). Still, as the FSF has driven the work of the international standard setting bodies, it is often perceived as a 'rule maker' in the global financial system (Schinasi and Truman, 2010).

Some might argue that the FSF's final design does not really constitute a *state-centered* network, for the reason that domestic regulatory agencies and international bodies are also represented at the FSF. Yet, both the empirical evidence above and scholarship on the FSF overwhelmingly demonstrate that the political clout of finance ministries – including their links to national leaders and the G7 and G20 – adds a strong political dimension and agenda to the FSF. As König observed:

> By their very nature and mandate finance ministries always – and rightly so – have a political agenda ... The FSB as a forum where finance ministries, central banks and supervisory authorities discuss and align their work adheres in its regulatory measures to the G20 political agenda.[26]

Scholarship on the FSF takes this view even further. As Walker (2001b: 130) notes:

> it could be argued that it [the FSF] was simply set up to allow the finance ministers to be able to follow and exercise more substantial control over developments in the financial market area.

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Similarly, Kenen et al. (2004: 70–71) argue that through the inclusion of finance ministers the FSF brings 'political input into the setting of the agenda for international cooperation in the financial area.' As Germain (2011: 52–53) notes, 'the FSF . . . is able to move no farther or faster than its powerful member states' (cp. Blustein, 2012; Donnelly, 2012). According to UK officials, the USA prevented the FSF from doing work on its own by acting as a power of veto over the FSF (Baker, 2011; Davies and Green, 2008). All this underlines that while the FSF shares the soft-law characteristics of other regulatory networks (e.g., informality, non-treaty cooperation, etc.), the distinguishing feature of this network is its *state-centered* political dimension.

Others might argue that it is not entirely surprising that the G7, a body consisting of finance ministers, created a forum that included and privileged finance ministries. Yet, such criticisms overlook the fact that several states, including Germany, Italy and the UK, intended to create a *technocratic* forum without much participation of finance ministries. Strikingly, Gordon Brown, then a finance minister, favored a *technocratic* forum that emphasized the role of domestic regulatory agencies and global regulators in his proposal, but not that of finance ministries. Similarly, the Bundesbank proposal, supported by the German and Italian finance ministries, championed the role of international bodies, but not finance ministries. This shows that government officials in finance ministries did not necessarily favor *state-centered* structures.

There is also little evidence to conclude that national legislatures constrained actors involved in the negotiation process (cp. Oatley and Nabors, 1998; Singer, 2007). Rather, the negotiations required a high level of technical expertise and did not touch upon issues of high electoral salience; for this reason, the negotiations could occur behind closed doors. Moreover, the FSF was not merely the result of the powerful global financial industry demanding harmonized standards, as there were not only considerable divisions within these industries reducing the sector's influence (Helleiner and Pagliari, 2011), but also opposition from G7 states to the inclusion of business representatives in such a forum.[27] While states tried to foster the interests of their domestic industries, the FSF was not simply the foreordained product of global business. Finally, an alternative explanation for the *state-centered* dimension of the FSF might be that governments became more concerned about global financial regulation and assumed more direct political management after experiencing the financial crises of the 1990s. Yet, this cannot explain why several G7 members still favored *technocratic* structures over *state-centered* ones at the FSF.

The creation of the FSF was also part of a larger effort to reform the global financial architecture in the late 1990s. Shortly after the creation of the FSF, the G7 established the Group of Twenty (G20), a *state-centered*

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group of advanced and emerging economies, to steer global financial policy.[28] The G20 succeeded the *ad hoc* G22 and G33, which had convened to discuss ways of improving and reforming the global financial architecture as a result of the financial crises of the late 1990s (G20, 2008; Kirton, 2013; Porter, 2003). Interestingly, some early proposals for the FSF envisioned emerging market participation as part of a 'policy tier,' which somewhat resembled what would eventually become the G20. However, emerging markets were initially not included in the FSF, despite their growing systemic importance in global finance. This left many emerging economies dissatisfied, as the global financial architecture did not properly represent them. The G20 was then designed to remedy some of these weaknesses. The FSF and the G20 are therefore linked as part of larger global financial reforms in the late 1990s.

4. CONCLUSION

This article has larger implications for how to think about comparative and international political economy. First, this study provides one of the most comprehensive accounts of how the FSF was established, with an in-depth analysis of primary archival material and interviews with key policymakers. Given the opaque nature of regulatory networks, it provides insights for scholars and practitioners interested in the ways in which states create and utilize these networks. Concomitantly, this study contributes to a growing body of work in historical institutionalism that examines incremental institutional changes in the global financial system (Fioretos, 2011b), of which the FSF is a quintessential example.

Second, this article introduces a new dimension of variation in regulatory networks – *technocratic* and *state-centered* structures – that contributes to several lines of research in political economy and global governance on the policy dynamics of regulatory networks (Bach and Newman, 2014). This variation in network designs is important, as each design empowers certain actors over others in shaping regulatory outcomes that go on to benefit or disadvantage states' financial industries. This study finds that, for this reason, states were bargaining over competing *technocratic* and *state-centered* designs for the FSF, in order to secure favorable distributive consequences.

Third, this study provides a fresh power perspective that goes beyond the common wisdom in IR theory. Conventional approaches in IR tend to explain the creation of regulatory networks, such as the FSF, as a function of either state power (Drezner, 2007) or efficiency (Slaughter, 2004). Yet, these accounts do not *a priori* specify testable and observable implications that might account for the variation in network structures. This article goes beyond these approaches in that it highlights the conditions under which states choose between network designs, *state-centered* or

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technocratic, contingent upon states' power positions in finance and their domestic regulatory institutions.

Fourth, this article also contributes to our understanding of how domestic politics shapes state preferences in the global economy. While there has been a growing body of work on the importance of centralized domestic agencies and their influence in regulatory networks (Büthe and Mattli, 2011), states often face conditions of domestic regulatory fragmentation. The case of the FSF demonstrates that, under such conditions, the USA can champion the creation of a *state-centered* regulatory network, in order to secure control of the network, whereas weaker states can privilege a *technocratic* network, in order to constrain US power. Moreover, this study highlights some limitations of the prominent varieties of capitalism framework (Fioretos, 2011a). It reveals, for instance, that there is counterintuitive, and often overlooked, variation in state preferences *among* liberal economies. While the USA favored a *state-centered* FSF, the UK initially favored a *technocratic* structure for the FSF. This is because both states have varying domestic institutional regulatory structures. This article therefore joins an important body of work that has long emphasized different regulatory traditions between the USA and the UK, such as a 'rules-based' regulatory tradition in the USA and a 'principles-based' approach in the UK (Wood, 2005). In sum, state preferences in the global economy are more dynamic than previously assumed and depend on states' power positions in finance and their domestic institutions.

Finally, this article seeks to explain representative variation that mirrors a larger population of regulatory networks beyond the FSF (cp. Slater and Ziblatt, 2013). It therefore engages in a short traveling exercise, in order to evaluate whether the argument extends to other regulatory networks, such as the Financial Action Task Force (FATF). In 1989, the G7 leaders created FATF as an effort to fight money laundering. According to Drezner (2007: 145), FATF – like the FSF – is an excellent example of G7 power politics, because the creation of FATF allowed the great powers 'to cajole, coerce, and enforce a global anti-money-laundering standard.' Yet this does not tell us much about the specific design of FATF. In fact, FATF is a *state-centered* network that privileges the lead role of finance ministries (Helleiner, 2002;Tsingou, 2010).[29] This is in line with this article's theoretical expectations. Since money laundering spans all sectors of finance in addition to criminal justice and law enforcement, states can hardly pick a single domestic regulatory agency to represent their interests at FATF. A *state-centered* network, with an emphasis on finance ministries, then provides key advantages for the USA – avoiding losses in sovereignty, providing a key position within the network, and overcoming regulatory fragmentation. An alternative design for FATF might have conceivably been a *technocratic* network, championing the role of the IMF and the OECD. Yet, more research is needed to test these

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propositions by tracing the historical record of state preferences and bargaining capabilities of G7 states during the formation of FATF.[30]

Future research might profitably explore to what extent this argument travels to other regulatory networks within and outside finance, including the reformed 'Financial Stability Board.' This study develops testable implications that can be applied to the formation of regulatory networks in other areas such as data privacy or the environment, as power dynamics between states and varying domestic regulatory structures are not unique to finance. Finally, this article advocates an approach to political economy that links its comparative and international components, as both levels are increasingly inseparable in the global economy (Deeg and O'Sullivan, 2009).

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NOTES

1. Following the research traditions of Keohane and Nye (1974) and Slaughter (2004), this article defines 'regulatory networks' as regular and institutionalized transnational interactions between public or private domestic or international actors, who are engaged in regulating market activities.
2. The FSF comprised the finance ministries, central banks, and domestic regulatory agencies of the G7; international organizations such as the International Monetary Fund (IMF), World Bank, the Bank for International Settlements (BIS), and the Organization for Economic Co-Operation and Development (OECD); and global regulatory groups such as the BCBS, IOSCO, the International Association of Insurance Supervisors (IAIS), the IASB, the Committee on the Global Financial System (CGFS), and the Committee on Payment and Settlement Systems (CPSS). For its mandate, see G7 (1999).

3. Please note that the author had extensive access to previously undisclosed, official government documents for this research, without the permission to directly reference these documents. Please also note that the views expressed by US Treasury officials in the interviews do not necessarily represent the views of the US Department of the Treasury. Finally, some US government documents cited in this article are available through the William J. Clinton Presidential Library.
4. For a notable exception, see Bach and Newman (2014).
5. For somewhat similar 'two-step' approaches, see Moravcsik (1998) and Drezner (2007).
6. Indeed, Germany created a consolidated regulator in 2002, the *Bundesanstalt für Finanzdienstleistungsaufsicht* (BaFin), overseeing securities, banking, and insurance industries (Lütz, 2004).
7. The FSA was split up into the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) as part of the Financial Services Act 2012.
8. Buck cites an internal policy paper authored by the European Commission.
9. While the UK did not parallel US global financial power, it was more powerful than Continental European states (e.g., Kapstein, 1989).
10. Some scholars have pointed to potential shifts in financial power since the mid-2000s, due to the growing influence of the EU and emerging economies, as well as the global financial crisis of 2007−2009 (Drezner, 2007; Posner, 2009; Helleiner and Pagliari, 2011).
11. Author interview, senior Bundesbank official I (15 August 2011).
12. Author interview, senior Bundesbank official I (15 August 2011). In the 1980s, Tietmeyer was G7 Sherpa under Chancellor Kohl and state secretary in the finance ministry. He was also Group of Ten (G10) chairman and the President of the Bundesbank in the late 1990s.
13. Author interview, senior Bundesbank official I (15 August 2011).
14. Author interview, senior Bundesbank official II (9 November 2012).
15. While Italy first attempted to strengthen the IMF's Interim Committee or the Joint Forum, a group consisting of the BCBS, IOSCO, and the IAIS, instead of creating a new forum, the state later favored Tietmeyer's proposal.
16. The USA initially suggested the inclusion of emerging markets into the forum in an early draft of the proposal, but later concluded that a smaller forum based on G7 membership would be more effective and meaningful.
17. Author interview, Lawrence Summers (7 November 2012). Summers was US Deputy Treasury Secretary from 1995-1999, and later US Treasury Secretary from 1999 to 2001.
18. Author interview, Donald Kohn (Washington, DC; 16 October 2012). Kohn was Vice Chairman of the Board of Governors of the US Federal Reserve System from 2006 to 2010 and held numerous positions in the Fed prior to this appointment.
19. Author interview, Edwin Truman (Washington, DC; 26 October 2012). Truman held this position from 1998-2001.
20. Author interview, Edwin Truman (Washington, DC; 26 October 2012).
21. Author interview, William Murden (Washington, DC; 18 December 2013). Murden has led the Treasury's Office of International Banking and Securities Markets for almost two decades.
22. Author interview, Mark Sobel (Washington, DC; 25 November 2013). Sobel has worked on international financial affairs at the US Treasury for over 30 years.
23. Author interview, Mark Sobel (Washington, DC; 25 November 2013).

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24. Author interview, Elke König (23 April 2014).
25. Shortly after its creation, the G7 expanded membership in the FSF to Hong Kong, Australia, Singapore, and the Netherlands.
26. Author interview, Elke König (23 April 2014).
27. For example, the USA, Germany, and France agreed that financial sector representatives should not be included permanently.
28. It consists of the finance ministers and central bankers of the G7, key emerging countries, as well as the Managing Director of the IMF, the President of the World Bank, the IMF's International Monetary and Financial Committee − a body that replaced the IMF's Interim Committee as part of global financial reform in September 1999 − and the World Bank's Development Committee.
29. For a list of all members, see FATF (2014). At: http://www.fatf-gafi.org/pages/aboutus/membersandobservers/ (last accessed: 1 March 2014)
30. Future research might also explore why in the case of other regulatory networks, such as the IAIS and the BCBS, the USA did not push for the creation of *state-centered* regulatory networks, despite its fragmented regulatory structure in the banking and insurance industries.

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