



Highlights of [GAO-07-154](#), a report to congressional committees

Why GAO Did This Study

As financial institutions increasingly operate globally and diversify their businesses, entities with an interest in financial stability cite the need for supervisors to oversee the safety and soundness of these institutions on a consolidated basis. Under the Comptroller General's Authority, GAO reviewed the consolidated supervision programs at the Federal Reserve System (Federal Reserve), Office of Thrift Supervision (OTS), and Securities and Exchange Commission (SEC) to (1) describe policies and approaches that U.S. consolidated supervisors use to oversee large and small holding companies; (2) review the management of the consolidated supervision programs, including use of program objectives and performance measures; and (3) evaluate how well consolidated supervisors are collaborating with other supervisors and each other in their activities. In conducting this study, GAO reviewed agency policy documents and supervisory reports and interviewed agency and financial institution officials.

What GAO Recommends

GAO recommends that the heads of the three agencies direct their staffs to develop a set of clear and consistent objectives and related performance measures specific to consolidated supervision and collaborate more systematically with each other and with other supervisors. The agencies generally agreed with these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-154.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard J. Hillman at (202) 512-8678 or hillmanr@gao.gov.

FINANCIAL MARKET REGULATION

Agencies Engaged in Consolidated Supervision Can Strengthen Performance Measurement and Collaboration

What GAO Found

The Federal Reserve, OTS, and SEC have responded to the dramatic changes in the financial services industry, and for many of the largest financial services firms, the agencies focus on the firms' consolidated risks, controls, and capital. Reflecting in part differences in structure, traditional roles and responsibilities, and the length of time they have had to develop and refine their programs, the agencies employ somewhat differing policies and approaches for their consolidated supervision programs.

Consolidated supervision becomes more important in the face of changes in the financial services industry, particularly with respect to the increased importance of enterprise risk management by large, complex financial services firms. Consolidated supervision provides a basis for the supervisors to oversee the risks of financial services firms on the same level that the firms manage those risks. GAO found that while all of these agencies were meeting international standards for effective oversight of large, internationally active conglomerates and have broad goals for supervision, they could more clearly articulate the specific objectives and performance measures for their evolving consolidated supervision programs. Both Federal Reserve and OTS, for example, focus on the safety and soundness of the depository institution but could take steps to better measure how consolidated supervision contributes to this in ways that differ from primary supervision of the depository institution. Such objectives and measures would help the agencies ensure consistent treatment of the firms that are subject to consolidated supervision.

More effective collaboration can occur if agencies take a more systematic approach to agreeing on roles and responsibilities and establishing compatible goals, policies, and procedures on how to use available resources as efficiently as possible. While the three agencies coordinate and exchange information, they could take a more systematic approach to collaboration with respect to their consolidated supervision programs. For instance, SEC and OTS have authority for some of the same firms with no effective mechanism to prevent duplication, assign accountability, or resolve potential conflicts. Similarly, while the Federal Reserve and other federal bank supervisory agencies have taken steps to share information and examination activities when the Federal Reserve is not the primary supervisor of the lead bank in a bank holding company, some duplication and lack of accountability remain. As a result, consolidated supervision of U.S. financial institutions is not as efficient and effective as it could be if agencies collaborated more systematically. GAO has noted in the past that it is difficult to collaborate within the fragmented U.S. regulatory system and has recommended that Congress modernize or consolidate the regulatory system. However, if the current system is maintained, it is increasingly important for agencies to collaborate to ensure effective and efficient consolidated supervision, consistent treatment of financial services firms, and clear accountability of the agencies for their supervisory activities.