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Highlights

Highlights of GAO-08-32, a report to congressional committees

October 2007

FINANCIAL REGULATION

Industry Trends Continue to Challenge the Federal Regulatory Structure

Why GAO Did This Study

As the financial services industry has become increasingly concentrated in a number of large, internationally active firms offering an array of products and services, the adequacy of the U.S. financial regulatory system has been questioned. GAO has identified the need to modernize the financial regulatory system as a challenge to be addressed in the 21st century. This report, mandated by the Financial Services Regulatory Relief Act of 2006, discusses (1) measurements of regulatory costs and benefits and efforts to avoid excessive regulatory burden, (2) the challenges posed to financial regulators by trends in the industry, and (3) options to enhance the efficiency and effectiveness of the federal financial regulatory structure. GAO convened a Comptroller General's Forum (Forum) with supervisors and leading industry experts, reviewed regulatory agency policies, and summarized prior reports to meet these objectives.

What GAO Recommends

GAO does not make any new recommendations in this report, but observes that the recommendations and options presented in prior reports remain relevant today in considering how best to improve the federal financial regulatory structure. The Chairman of the Federal Reserve and the Chairman of the National Credit Union Administration provided formal comments generally agreeing with the thrust of our report.

To view the full product, including the scope and methodology, click on GAO-08-32. For more information, contact Yvonne Jones at (202) 512-8678 or jonesy@gao.gov.

What GAO Found

The inherent problems of measuring the costs and benefits of regulation make it difficult to assess the extent to which regulations may be unduly burdensome to U.S. financial services firms, particularly in comparison to firms in other countries. Additionally, it is difficult to separate the costs of complying with regulation from other costs and thus determine regulatory burden. Regulatory agencies, however, have undertaken several initiatives to reduce regulatory burden; these efforts contributed to the Financial Services Regulatory Relief Act of 2006. While noting that regulation contributes to confidence in financial institutions and markets, participants in the Forum agreed regulators have opportunities to further reduce regulatory burden and suggested regulators better measure the results of implemented regulations. GAO also recently recommended regulatory agencies consider whether and how to measure the performance of regulation during the process of promulgating the regulation and improving the communication of regulatory reviews to the public.

The current regulatory structure, with multiple agencies that oversee segments of the financial services industry, is challenged by a number of industry trends. The development of large, complex, internationally active firms whose product offerings span the jurisdiction of several agencies creates the potential for inconsistent regulatory treatment of similar products, gaps in consumer and investor protection, or duplication among regulators. Regulatory agencies have made efforts to collaborate in responding to these trends and avoid inconsistencies, gaps, and duplication. However, challenges remain; until recently, the Office of Thrift Supervision and the Securities and Exchange Commission, for instance, had not sought to resolve potentially duplicative and inconsistent regulation of several financial services conglomerates for which both agencies have jurisdiction. Finally, despite the challenges posed by the industry's dynamic environment, accountability for addressing issues that span agencies' jurisdiction is not clearly assigned. These issues have led GAO to suggest in prior work that the federal regulatory structure should be modernized.

GAO and others have recommended several options to accomplish modernization of the federal financial regulatory structure; these include consolidating certain regulatory functions as well as having a single regulator for large, complex firms. There also are potential lessons that can be learned from the experience of other nations that have restructured their financial regulators. Several Forum participants, for instance, suggested that one important lesson the United States could learn from the United Kingdom's Financial Services Authority was the value of setting principles or goals for regulators. The Department of the Treasury's recently announced plan to propose a restructured regulatory system provides an opportunity to take the first step toward modernization by providing clear and consistent goals for the regulatory agencies.