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Epistemic contestation and interagency conflict: The challenge of regulating investment funds

Scott James

Department of Political Economy, King's College London, London, UK

Lucia Quaglia

Department of Political and Social Sciences, University of Bologna, Bologna, Italy

Abstract

Scholarship on regulating global finance emphasizes the importance of national and bureaucratic interests, but less attention has been devoted to epistemic sources of regulatory conflict. We address this by analyzing the failure of regulators to agree tougher rules for large investment funds after the 2008 crisis. The article suggests this outcome was the result of epistemic contestation between prudential regulators and securities regulators, rooted in divergent interpretive "frames." We show that US and EU prudential regulators pushed for entity-based regulation of investment funds by escalating the issue to global standard-setting bodies. But this was successfully resisted by securities regulators that exercised epistemic authority through recursive practices—appeals to expertise, jurisdictional claims, and alliance building—to defend their transaction-based approach. The article demonstrates how an interpretivist perspective can provide new insights into inter-agency conflict and regulatory disputes in other policy fields.

Keywords: epistemic contestation, interpretive frames, investment funds, prudential regulation.

1. Introduction

There is a vast and varied literature on the politics of regulating global finance (for instance, see Moschella & Tsingou, 2013). Explanations of the development (or not) of global standards frequently point to the importance of market power and the regulatory capacity of key jurisdictions (Drezner, 2007; Helleiner, 2014), the fragmented institutional architecture of international regulation (Mügge & Perry, 2014; Newman & Posner, 2018; Thiemann, 2018), and the structural and instrumental power of the transnational financial industry (Braun, 2020; Culpepper, 2011; Woll, 2014). Recent scholarship also focuses on bureaucratic politics, pointing to divergent preferences and rivalry between different regulatory agencies (Knill & Bauer, 2016; Stone & Ladi, 2015; Trondal et al., 2013).

This article suggests that a neglected explanation for global financial rules is epistemic conflict between sectoral agencies. We draw on the literature on professional knowledge and expertise (Abbott, 1988; Ban et al., 2016; Djelic & Quack, 2010; Knorr Cetina, 1999), particularly at the transnational level (Broome et al., 2018; Broome & Seabrooke, 2015; Seabrooke & Tsingou, 2014). Recent studies suggest financial regulation is often shaped by fundamental battles over ideas, cognition, and competing worldviews (Baker, 2013; Blyth, 2002; Knaack & Gruin, 2020; Thiemann et al., 2018). Our contribution to this literature is twofold. First, we propose an interpretivist perspective, which views regulators' understandings and preferences as grounded in recursive practices. These generate and affirm distinct "interpretive frames" about how financial markets work and should be regulated, and serve as an important source of epistemic contestation. Second, we delineate the specific practices through which competing agencies exercise epistemic authority—via appeals to expertise, jurisdictional claims, and alliance building—which shape regulators' cognition and response to emergent issues.

Correspondence: Scott James, Department of Political Economy, King's College London, Strand, London WC2B 4PX, UK. Email: scott.james@kcl.ac.uk

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Our argument is illustrated by analyzing the regulation of shadow banking, which refers to the system of credit intermediation outside the traditional banking system (FSB, 2011). The regulation of shadow banking is puzzling for several reasons. Despite the widely held belief that it amplified the financial crisis (Engelen, 2018), and given the continued rapid expansion of the sector since 2008 (Gabor, 2016), the regulatory response to date has been surprisingly limited (Rixen, 2013; Thiemann et al., 2018). This article sets out to explain the failure to strengthen the regulation of a critical part of the shadow banking industry: investment funds. Although previous work has focused on other parts of the sector—notably hedge funds (Fioretos, 2010), repos (Gabor, 2016), money market funds (Woyames Dreher, 2019), securitization (Braun, 2020), and macroprudential regulation (Kranke & Yarrow, 2019; Thiemann et al., 2021)—investment fund regulation has hitherto been overlooked. This is all the more surprising given regulators' mounting concerns about the threat to financial stability posed by a sector with assets under management surpassing their pre-crisis level (FSB, 2019), and with some funds now larger than global-systemically important banks. For example, Daniel Tarullo (2015), a member of the Federal Reserve Board of Governors, underscored the liquidity and leverage risks posed by the largest funds. Following turmoil in the sector triggered by the 2016 Brexit referendum, Bank of England Governor, Mark Carney, also complained that—unlike banks—the regulation of investment funds had not been substantially strengthened (Reuters, 2019).

We attribute the failure to strengthen global rules on investment funds to epistemic contestation between prudential regulators and securities regulators, rooted in divergent interpretive frames about shadow banking. Following the 2008 crisis, prudential regulators (mainly located in central banks) from the United States (US) and European Union (EU) pushed for global-level agreement on the use of entity-based prudential tools to regulate systemically important investment funds. But this was fiercely resisted by securities regulators who sought to defend their transaction-based regulatory approach, focused on investor protection and market transparency. We detail how they ultimately thwarted agreement on stringent new global standards by exercising epistemic authority at both the domestic and international levels.

The article is organized as follows. Section 2 discusses the state of the art and presents our theoretical framework and research design. Section 3 maps the distinct interpretive frames that characterize prudential and securities regulators. Sections 4 and 5 assess our explanation against the empirical record: first at the domestic level, focused on the US and the EU; and then in international standard-setting bodies—the Financial Stability Board (FSB), and the International Organization of Securities Commissions (IOSCO). Section 6 concludes on the contribution of the article and how the interpretivist approach may be deployed in other regulatory fields.

2. Theoretical perspectives and research design

There has been a burgeoning literature on the regulation of shadow banking in recent years, particularly related to its implications for financial stability (Engelen, 2018; Helgadóttir, 2016; Knaack & Gruin, 2020; Kranke & Yarrow, 2019; Thiemann et al., 2021). But there is broad agreement that post-crisis regulatory changes in the sector have been relatively limited, certainly compared to banking regulation (Ban & Gabor, 2016; Helleiner, 2014; Tsingou, 2015). Different explanations have been put forward for this.

Important work inspired by comparative political economy argues that (a) preferences regarding financial regulation reflect the desire of states to defend key domestic institutional features (notably, national varieties of capitalism and regulatory frameworks); and (b) states with the greatest market power and/or regulatory capacity tend to shape the development of global standards (Drezner, 2007; Fioretos, 2010; Helleiner, 2014; Thiemann, 2018). This would lead us to expect major jurisdictions to veto tougher international rules that threatened the profitability of their sizeable and lucrative financial sectors. For certain parts of shadow banking, this explanation works well. For instance, the main obstacle to strengthening post-crisis rules on hedge funds was the opposition of the US and UK, which host the majority of hedge fund and fund managers worldwide (Fioretos, 2010; Woll, 2013). Similarly, China, together with Luxembourg and Ireland, helped to stymie efforts to regulate money market funds, to defend the competitiveness of these strategically important firms (Quaglia, 2022). France and Germany also resisted imposing higher capital requirements for exposure to shadow banking (particularly securitization) to protect their domestic banks (Howarth & Quaglia, 2013).

In the case of the investment funds, however, there is no evidence that any particular jurisdiction acted as a "foot-dragger" internationally. This is despite the fact that the US and EU are home to most investment funds,

constituting $49 trillion in assets under management in the US and $29 trillion in the EU. On the contrary, senior (bank) regulators in the US, UK, and the EU were remarkably consistent in calling for new prudential rules to curb the systemic risk posed by large funds—and yet this was not achieved. As we detail below, this was because the main divisions on the issue were along sectoral, not national, lines.

A second explanation considers the institutional framework for global financial regulation, highlighting the problematic nature of reform where regulatory authority is shared across multiple levels (Mügge & Perry, 2014; Newman & Posner, 2018; Thiemann, 2018). This is compounded by the fact that responsibility for shadow banking regulation is not the exclusive competence of any single domestic agency or international body (Knaack & Gruin, 2020). The resulting fragmented institutional architecture and weak transgovernmental networks would be expected to constitute an important constraint on the scope of regulatory reform. But this cannot provide a complete explanation, not least because it did not prove to be a barrier to agreement on tougher post-crisis rules in other areas, such as financial derivatives (Helleiner et al., 2018). In this instance, a multiplicity of international standard-setting bodies, jointly and individually, issued a range of tougher rules (Quaglia, 2020)—including margins for uncleared derivatives (BCBS-IOSCO, 2013), rules on the resilience, recovery (CPMI-IOSCO, 2017) and resolution (FSB, 2017) of central counterparties (CCPs), and capital requirements for bank exposure to CCPs (BCBS, 2014). An entirely new international system for global identifiers for legal entities, transactions, and products was also established for the reporting of derivatives trades (Quaglia & Spendzharova, 2021).

A third explanation would emphasize the power of the financial industry (Culpepper & Reinke, 2014; Macartney et al., 2020; Woll, 2014). For example, parts of the shadow banking sector—notably repo markets—wield "infrastructural power" owing to their importance for central bank monetary operations (Braun, 2020; Gabor, 2016), although this argument is less relevant to asset management. Alternatively, investment funds could assert "structural power" because they own a large and increasing proportion of non-financial companies' shares, particularly in the US and the EU. The increasing concentration of share ownership in just a few giant funds—notably, BlackRock and Vanguard, which collectively hold 10% of the total market capitalization of the FTSE 350—potentially renders these firms as "too-big-to-fail." In theory, at least, this could dissuade policy makers from imposing new regulatory burdens that threaten funds' profitability. But applying conventional structural power assumptions to the investment fund sector is problematic (Braun, 2021). Crucially, the scale and diversity of large investment portfolios render them highly illiquid. The result is that funds cannot meaningfully wield the power of "exit" without inducing market panic and eroding asset prices (Jahnke, 2019).

An alternative perspective might point to the increased political salience of financial regulation as a limit to business power in the wake of the financial crisis (Culpepper, 2011). This would lead us to predict proposals for tougher investment fund regulation at the height of the crisis as salience peaked, but that these would be significantly diluted or abandoned as political attention declined over time. Yet this explanation does not match the timing of events: regulators were slow to respond during the crisis, while the most significant reforms were developed several years later.

Finally, a bureaucratic politics approach offers important insights into the conflict between regulatory agencies at the transnational level (Knill & Bauer, 2016; Stone & Ladi, 2015; Trondal et al., 2013). It assumes that regulators are highly protective of their respective bureaucratic jurisdictions or "turf," and will seek to enhance their prestige and power by expanding competences into new areas (Dunleavy, 1991). This is compounded by the emergence of new issues where mandates and responsibilities are unclear (Bach et al., 2016; Busuioc, 2016; Ege et al., 2020). It would lead us to expect significant rivalry between competing agencies over new regulatory measures for investment funds, hindering agreement at the international level. However, we argue that conflict between bank and securities regulators, in this case, is not reducible to battles over bureaucratic turf. This is because an exclusively interest-based account would lead us to a different set of expectations: namely, that securities regulators would not resist new macroprudential ideas and powers per se, but instead try to claim exclusive competence over them. In accordance with bureaucratic incentives, this would represent a significant potential expansion of securities regulators' mandate and prestige. However, we find no evidence that securities regulators seriously entertained the possibility of doing so: on the contrary, their opposition was on the principled grounds that prudential ideas were incommensurable with the regulation of investment funds.

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2.1. Analytical framework and methodology

To address these limitations, this article argues that scholarship on financial regulation should pay greater attention to the importance of epistemic contestation between regulatory agencies. Here we draw on the literature on professional knowledge and expertise (Abbott, 1988; Ban et al., 2016; Eyal, 2013; Knorr Cetina, 1999; Seabrooke, 2014), particularly at the transnational level (Djelic & Quack, 2010; Faulconbridge & Muzio, 2012). Multiple studies highlight the importance of regulatory expertise in finance (Broome et al., 2018; Broome & Seabrooke, 2015) and in professional "linked ecologies" (Seabrooke & Tsingou, 2014). Related work analyses the role of intersubjectively constructed knowledge or "frames" in selecting and processing information, and enabling groups to act collectively around a shared narrative (Kranke, 2020; Thiemann et al., 2018). For example, Baker (2013) details how the shift toward macroprudential regulation after 2008 emerged from a new post-crisis "interpretive frame" among bank regulators. Recent studies also point to epistemic disagreements between regulators over the adoption of countercyclical measures (Thiemann, 2019) and the mitigation of systemic risk (Thiemann et al., 2021; cf. Kranke & Yarrow, 2019). Similarly, Knaack and Gruin (2020) explain how global standards in shadow banking were shaped by competition between national regulatory approaches, while Thiemann et al. (2018) finds evidence of deep-rooted divisions between microprudential and macroprudential regulators in repo markets.

We contribute to this burgeoning literature on epistemic contestation in two ways. The first is to adopt an interpretivist perspective which views bureaucratic interests and regulatory ideas as mutually constitutive and grounded in a "logic of practice" (Seabrooke & Tsingou, 2009). That is, the way in which regulators understand and interpret their interests and preferences, and intersubjectively construct knowledge and ideas about financial activities, relies on recursive practices of interaction and socialization. It is through these practices that distinct "interpretive frames" about regulation are generated, affirmed, and developed over time. Frames provide a cognitive road map that helps policy makers understand their preferences in a context of uncertainty: to identify and define problems, provide a toolkit of appropriate policy responses, and legitimize certain institutional structures and market practices (Blyth, 2002). In addition, these practices provide a shared sense of belonging and are thus constitutive of institutional or professional identities (Colic-Peisker, 2010; Djelic & Quack, 2010). But frames also serve as an independent source of conflict between regulatory agencies. As new and contested issues emerge, so periodic clashes between regulatory bodies will occur as each strives to defend its respective interpretive framework. Shadow banking is particularly vulnerable to these conflicts because it occupies an epistemic space between banking and securities market regulation, thereby constraining the emergence of shared understandings (Helgadóttir, 2016).

Our second contribution is to delineate and unpack the practices through which regulatory agencies exercise epistemic authority. Sociological approaches tell us that epistemic authority is not simply a stock of information to be deployed strategically, but is situated, interactional and experiential (Broome & Seabrooke, 2015), and based on reciprocal recognition (Eyal, 2013). We identify three particular practices through which epistemic authority is exercised. First, regulators make discursive claims to expertise: that is, to hold exclusive knowledge, information, and understanding about a specific issue (Boswell, 2008). This is commonly based on appeals to historical experience and accumulated knowledge of regulating a particular sector, market, or activities over time (Broome & Seabrooke, 2015). By establishing norms of appropriate knowledge, these discursive practices shape actors' cognition and response to emergent issues.

Second, claims to expertise implicitly entail (re)drawing epistemic boundaries and "silos" (Bucher et al., 2016; Busuioc, 2016). Epistemic boundaries demarcate responsibility for issues on the basis of knowledge claims, but they can be (re)shaped by actors identifying gaps in cognitive understanding and exploiting opportunities for "epistemic arbitrage" (Seabrooke & Tsingou, 2020). In doing so, regulators can (re)define formal institutional mandates and bureaucratic competences by asserting (or denying) jurisdictional control over emergent issues (Ban et al., 2016). Third, regulators engage in alliance building with like-minded stakeholders, including other policy makers and industry groups. These alliances are not narrowly strategic: rather, they are frequently rooted in long-standing professional networks and "linked ecologies" spanning traditional public and private boundaries (Abbott, 1988; Seabrooke & Tsingou, 2009). As such, epistemic alliances are mobilized around shared cognitive understandings and normative beliefs (Tsingou, 2015), and reinforce the existence of professional logics and epistemic frames (Knorr Cetina, 1999).

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We argue that an interpretivist perspective focused on epistemic contestation provides greater explanatory leverage than existing accounts. To assess this claim, we briefly specify our empirical expectations. First, we expect investment fund regulation, as an emergent and cross-cutting issue, to generate substantial epistemic contestation between different sectoral agencies, rooted in divergent interpretive frames. Second, we expect sectoral regulators to compete to shape the issue by exercising epistemic authority through a range of recursive practices—appeals to expertise, jurisdictional claims, and alliance building—contributing to stalemate in global standard-setting bodies.

To assess these expectations, our methodology follows a two-step approach. In Section 3, we use "practice tracing" to delineate the distinctive regulatory frames that characterize prudential regulators and securities regulators. Practice tracing is an interpretive approach to mapping the socially embedded "ways of doing things" that enable situated actors to understand and shape the world around them (see Pouliot, 2014). In particular, we trace the specific objectives, instruments, strategies, and institutions that sectoral agencies deploy with respect to investment fund regulation. In Sections 4 and 5, we employ theory-guided process tracing to assess the causal influence of these interpretive frames in shaping post-crisis investment fund regulation. This involves a systematic analysis of key events and decisions over time in order to unpack the causal process (Falleti, 2016). We focus on explaining why the issue was escalated to global standard-setting bodies and how sectoral agencies exercised epistemic authority to defend their regulatory preferences.

Our analysis draws on multiple data sources. We conducted 15 in-depth interviews between September 2018 and December 2020 with prudential regulators, securities regulators, and financial industry practitioners (located in Brussels, Paris, London, Frankfurt, and Rome) at the domestic, EU, and international levels (listed in the bibliography). Our interpretivist method aims to capture the understandings, meanings, and cognition of interview participants in their own words. To minimize problems of potential bias and exaggeration by respondents, we adopted two strategies: first, we interviewed a cross-section of practitioners from different jurisdictions in order to corroborate individual claims; and second, our interview findings were triangulated with publicly available documents and a systematic survey of press coverage.

3. Prudential and securities regulation

In this section, we delineate the distinct regulatory frames that characterize investment fund regulation by tracing the objectives, instruments, strategies, and institutions of different sectoral agencies. We do so by analyzing key legal documents (see Appendix A) and using semi-structured interviews to gain a richer understanding of regulators' cognition of how financial markets operate and how they should be regulated. This involves going beyond regulators' formal institutional mandate to tease out the cognitive frames through which they interpret their role and interests, the shared ideas and professional identities these engender, and the recursive practices through which they are affirmed.

We begin with prudential regulation, the *objectives* of which fall into two main categories. The first is "macroprudential" regulation, which concerns the stability of the financial system as a whole, and usually resides in the central bank. This involves the analysis of broad financial trends over time for signs of underlying sources of systemic risk, and relies on measures of leverage, liquidity, and the size of financial institutions to assess the resilience of the financial system (Interview A, 2020; Interview G, 2018; Interview I, 2018; Interview K, 2019). Macroprudential regulation uses a variety of *instruments*, such as capital charges applied to globally systemic financial institutions (e.g. banks, insurers), countercyclical capital buffers, and sectoral capital requirements (Gadanecz & Jayaram, 2015; Osinski et al., 2013).

The second category is "microprudential" regulation, which focuses on the soundness of individual financial institutions, and is often delegated to a separate bank regulator (Eijffinger & Masciandaro, 2011). This involves day-to-day supervision of individual banks to ensure their solvency and resilience in the face of adverse economic conditions, and monitoring interconnections between banks and the shadow banking sector. Microprudential regulators use a range of *instruments*, such as capital and liquidity requirements, balance-sheet analysis, and stress-testing, which can be tailored to specific institutions (Osinski et al., 2013). The *strategy* of both macroprudential and microprudential regulators is to assess the resilience of the financial system, and individual institutions, for the "worst case scenario" (Interview C, 2018; Interview J, 2018; Interview L, 2018). As one testified, prudential

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regulators "always think about the 'what if' scenario – they like to think about the impossible. At the back of their mind, there is always some residual worry, or a nagging doubt that something has been missed" (Interview N, 2020).

Securities regulators oversee markets for trading financial securities, such as equity, debt, and derivatives, as well as the non-bank entities that operate in those markets. Their *objectives* relate less to financial stability issues, and more to investor protection, market transparency, and integrity. Securities regulators use *instruments* that tend to focus on regulating transactions, and the markets in which transactions take place, rather than specific entities (Interview B, 2020; Interview E, 2018; Interview H, 2020). Instead of undertaking a forensic analysis of institutional balance sheets, regulators rely on developing general rules on information disclosure for investors and safeguards against market abuse, as well as specific standards on financial reporting and benchmarks (Collins, 2011; Moloney, 2014). The *strategy* of securities markets regulators is therefore to "monitor conduct, governance, and investor treatment … by engaging in back-and-forth discussions with the supervisees, and, in case, resorting to litigation" (Interview B, 2020).

We argue that these features are grounded in distinct regulatory "frames" for interpreting emergent or cross-cutting issues in financial markets (summarized in Table 1). This led to divergent regulatory preferences among sectoral agencies about the risk posed by large investment funds and how they should be regulated. Before the financial crisis, asset management was considered a "greenfield area" compared to banks because prior regulation

Table 1 Prudential and securities markets regulatory frames

Sectoral regulator	Objectives	Instruments	Strategies	Institutions
Prudential	Systemic financial stability (*macroprudential*)	Capital-based, system-wide: e.g., countercyclical capital requirements; sectoral capital requirements, capital requirements for G-SIB Liquidity-based: countercyclical liquidity requirements	Collecting and analyzing system-wide data Assessing vulnerabilities, interconnectedness, too big to fail Stress testing, including worst-case scenario	US: FSOC, Federal Reserve EU: ESRB, ECB, national central banks International: FSB
	Resilience of individual entities (*microprudential*)	Entity-based: e.g., capital and liquidity requirements	Balance sheet analysis Stress testing, including worst-case scenario	US: Federal Reserve, FDIC, OCC EU: ECB, EBA, national bank regulators International: BCBS
Securities markets	Investor protection Market transparency and integrity	Transaction-based: financial reporting, benchmarks Market-wide: information disclosure Rules of conduct	Monitor conduct, governance, investor treatment Dialogue with supervisees Litigation	US: SEC EU: ESMA, national securities regulators International: IOSCO

Abbreviations: BCBS, Basel Committee on Banking Supervision; ECB, European Central Bank; ESMA, European Securities and Markets Authority; ESRB, European Systemic Risk Board; FSOC, Financial Stability Oversight Council; G-SIB, global-systemically important bank; IOSCO, International Organization of Securities Commissions; SEC, Securities and Exchange Commission.

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and supervision had focused on consumer protection, not system-wide financial stability (Woyames Dreher, 2019). Prudential regulators increasingly challenged this approach after 2008, arguing that the sector constituted a potential source of financial instability for two reasons. First, regulators claimed that the largest funds had become "too-big-to-fail," pointing to the increasingly concentrated nature of the sector in which the top 10 asset managers accounted for approximately 30% of the sector. Second, prudential regulators argued that investment funds are pushed to act "pro-cyclically" due to the mandate from investors, which risked causing a "run" on funds (Interview H, 2020).

These concerns led regulators in central banks to conclude that new prudential tools were essential to ameliorate systemic risk. As one noted, "investment funds are no longer small parts of the financial sector, and their business model is also changing - they pose systemic risks" (interview A). Another complained that securities regulators "do not pay enough attention" to the issue of how to manage the risk posed by "spill-over effects" resulting from a run on a fund, similar to that caused by the failure of a large bank (Interview H, 2020). This was blamed in part on "gaps" in the existing supervisory architecture which meant that non-bank financial entities largely escaped prudential oversight (Interview O, 2020).

Securities regulators pushed back against this framing of the investment fund sector, arguing that it differs fundamentally from banking in several respects. Notably, fund managers typically act in an agency (rather than principal) capacity, are "insolvency remote," and do not enjoy an official backstop (Adrian & Jones, 2018). It was further claimed that funds are "more multifaceted and complicated" because they are not leveraged like banks, and hence comparisons based on the size of their balance sheets are misleading. This is because funds manage (rather than own) assets: hence, the risk is (in theory) borne by third-party investors and, in the event of liquidity problems, they can conduct an "orderly wind down" (Interview H, 2020).

Securities regulators were particularly scathing about the approach adopted by prudential regulators: "They do not understand asset management. They see investment funds as big and scary and quote a long list of non-banking numbers, but it's not clear what these are or where they come from" (Interview Q, 2018). One interviewee suggested that prudential regulators tend to get "nervous" and "frustrated" about the relative absence of hard empirical data about the sector (compared to banking), leading them to "fall back on speculation and hypothetical scenarios about potential risk" (Interview N, 2020). The application of prudential tools like higher capital requirements to investment funds was viewed as wholly inappropriate (Interview H, 2020), and instead maintained that effective regulation "is about good management, more an art than a science" (Interview B, 2020). Importantly, the interviewees confirmed that these divergent approaches to investment funds were shared by regulators across jurisdictions, generating a "constant tension" between prudential and securities regulators (Interview A, 2020; Interview C, 2018; Interview I, 2018).

Finally, some regulators acknowledged the importance of professional backgrounds—in terms of education, training, and career trajectory—as an important source of divergent cognitive understandings about regulation, but also as a basis for structuring the ongoing interaction and recursive practices through which frames are affirmed over time. For example, one interviewee noted "Prudential regulators generally have an economics background, whereas securities regulators come from a law and/or accountancy background. Prudential agencies need economists to undertake economic analyses of markets, stats reports, etc. In securities markets agencies, there are more lawyers because they deal with compliance and investor protection" (Interview B, 2020). Another interviewee noted that "Securities regulators are often chartered financial analysts or lawyers, they do not do macroeconomic stuff, they do not pay attention to the economic cycle and do not do in depth analysis of balance sheets, which is all prudential regulators argue about. Securities regulators are involved in monitoring conduct, governance, investor treatment, litigation, but also back and forth discussions with the supervisees" (Interview H, 2020) (see also Quaglia, 2020).

The following sections analyze how these divergent interpretive frames shaped a critically important aspect of post-crisis investment fund regulation: the identification and regulation of "systemically important" funds.

4. Regulating investment funds in the US and the EU

The US and Europe dominate the global investment fund industry, collectively holding around 80% of assets. Following the crisis, the US Federal Reserve became increasingly concerned about the macroprudential risks posed

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by large funds, which had increased significantly in terms of assets under management and concentration in a handful of large firms (Tarullo, 2015). In response, prudential regulators came to interpret and frame the activities of the industry through a new prudential lens, borrowing heavily from the macroprudential ideas being developing in banking (Baker, 2013). As a leading exponent explained, this was a "policy framework that builds on the traditional investor protection and market functioning aims of securities regulation by incorporating a system-wide perspective. Like the reforms to banking regulation that followed the crisis, this new form of regulation might start by strengthening some of the firm- or fund-specific measures associated with those traditional regulatory aims" (Tarullo, 2016).

By contrast, regulators in the Securities and Exchange Commission (SEC), which directly regulated investment funds in the US, framed the risk posed by the sector very differently. In a non-subtle intervention, Commissioner Daniel Gallagher (2015) gave a speech titled "Bank Regulators at the Gates: The Misguided Quest for Prudential Regulation of Asset Managers," arguing that the industry had become a "target of both the prudential regulators who performed so poorly" and central bankers "who kept their foot on the credit bubble gas pedal" in the run up to the crisis. Similarly, another senior regulator, Kara Stein (2014), complained about bank regulators' use of the term "shadow banking": "It paints a picture of shady activities taking place under cover of darkness and outside of view. This is a misnomer."

This clash of regulatory frames was compounded by post-crisis reforms which sought to promote coordination between the main US regulatory agencies on macroprudential matters (Lombardi & Moschella, 2017). The Dodd-Frank Act (2010) empowered a new Financial Stability Oversight Council (FSOC) to designate any financial institution as "systemically important" (SIFIs), and hence subject to higher capital, liquidity and reporting requirements, and direct supervision by the Federal Reserve. The question of whether non-banks should be designated as systemic led to considerable "squabbling" between regulatory agencies (Stein, 2014), and generated "enormous resistance" from those that risked losing their highly prized supervisory role (Interview A, 2020; Interview P, 2018).

In 2014, the FSOC, under the impulse of the Federal Reserve, examined whether asset managers contributed to systemic risk and asked the competent regulatory agency, the SEC, to take action concerning the designation of individual investment firms as systemically important. The SEC refused to do so, insisting that investment funds could not be subject to the same prudential regulatory tools as large banks and that the designation of a fund as SIFI could have a negative impact (Schoeffer, 2014). A standoff ensued between the two agencies, rooted in conflicting interpretations about the perceived risks posed by the industry. Moreover, regulators sought to exercise epistemic authority through appeals to exclusive expertise, and arguments about the importance of defending existing jurisdictional boundaries. For instance, SEC Chair Mary Jo White (2016) testified before Congress that only the SEC had the authority and expertise to regulate the asset management industry, and that there were fundamental differences between banks and asset managers.

Securities regulators also sought to forge an alliance with the investment fund industry. The sector was regarded as a "friend" because it supported the SEC's opposition to the possibility of SIFI designation, and resisted the idea of being supervised by the Federal Reserve (Interview N, 2020). Echoing arguments about the SEC's unique epistemic authority, one of the largest investment fund associations argued that "the FSOC should listen to its esteemed colleague at the SEC – the only regulator with significant capital-markets expertise and extensive experience regulating mutual funds – when it comes to the discussion of asset management issues" (ICI, 2014). It also accused the FSOC of seeking "pretexts to subject regulated funds and their managers to unprecedented Federal Reserve oversight" (Interview P, 2018; Interview Q, 2018).

To circumvent this opposition, the Federal Reserve and the FSOC sought to escalate the issue to the international level. Together they launched a series of shadow banking workstreams at the FSB, chaired by the Federal Reserve, aimed at designating asset managers as systemically important. In doing so, US prudential regulators sought to strengthen their position at home by leveraging international-level discussions and the authority of global standard-setting bodies (Interview G, 2018; Interview P, 2018). As a result, however, divisions between the main US agencies were increasingly mirrored at the international level, with the FSB supporting the "strong prudential regulation" of investment funds, and the IOSCO "completely opposed" (Interview G, 2018).

As an interviewee explained, "The Federal Reserve is a heavyweight in the FSB, where it can count on the support of central bankers that are a majority there, whereas the SEC is a heavyweight in IOSCO. Thus, the tug

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of war that unfolded between the FSB and IOSCO was an extension to Basel [the location of the BCBS] and Madrid [the location of IOSCO] of the tug of war in Washington" (Interview A, 2020). From the perspective of the SEC, the Fed's efforts were viewed "As nothing more than a ploy to wrest control of a hugely important sector of the capital markets from the SEC. For prudential regulators, this is about regulatory power and jurisdiction" (Gallagher, 2015).

By contrast, the EU was slow to respond to the rapid expansion of the investment fund industry, the assets of which totaled 42% of total banking sector assets by 2017 (de Guindos, 2018). Although the sector was subject to some existing EU regulation, this focused on microprudential risk and investor protection. Moreover, although the new European Systemic Risk Board (ESRB) was granted macroprudential responsibility, it lacked direct regulatory tools (Lombardi & Moschella, 2017). Nonetheless, prominent national regulators became increasingly vocal about their financial stability concerns regarding asset management.

In 2014, Andrew Haldane, Executive Director at the Bank of England, raised the prospect that the asset management industry "had spawned similar behemoths" to too-big-to-fail banks (Haldane, 2014). While acknowledging that their risk profile differed from banks, Haldane argued that they were "special both for the financial system and the wider economy" and called for new macroprudential tools to prevent big asset managers from amplifying financial instability by limiting their capacity to reallocate investments en masse. In a particularly robust intervention, the Governor of the Bank of England, Mark Carney (2019), claimed that open-end investment funds holding illiquid assets and offering immediate redemptions to investors were "built on a lie," warning that liquidity mismatches could transmit stress to other parts of the financial system.

The European Central Bank (ECB) began echoing these concerns after it was granted responsibility for prudential supervision of Eurozone banks in 2015. In a revealing speech titled "Coming to the forefront: the rising role of the investment fund sector for financial stability in the euro area," Luis de Guindos (2018), Vice-President of the ECB, argued that investors in an open-end fund could cause a "run" by redeeming their investment at once, resembling a run by bank depositors. In both cases, the institution would be forced to sell assets in a fire sale in order to meet its short-dated liabilities. The ECB strongly encouraged the FSB's work on shadow banking, insisting that once the methodology for identifying non-bank global-SIFIs (G-SIFIs) was agreed, stricter regulation was needed to "ensure that these entities internalise the potential costs they impose on the financial system, and provide for incentives to reduce their systemic footprint" (Constâncio, 2014).

EU securities regulators, based in the European Securities and Markets Authority (ESMA), were notably less combative in public than their US counterparts, acknowledging the potential financial stability risks posed by asset management (Maijoor, 2014, 2019). This was in part because epistemic sources of conflict were significantly weaker at the EU level. On the one hand, ESMA was only established in 2010. Importantly, this meant that it was not only institutionally weaker than the long-standing ECB, but also that the collective understanding of ESMA regulators about securities markets had not been shaped by direct pre-crisis experience (Interview C, 2018). ESMA was consequently "late to the issue" and "kept out of the fray, decided to stay quiet, and chose not to be vociferous, while the ECB was running around" (Interview D, 2018). On the other hand, the issue of G-SIFI designation was less important as a source of epistemic contestation between EU regulators. Not least because the largest global investment funds tend to be based in the US, so there was less immediate concern that EU-based funds would be captured by new global rules (Interview A, 2020).

Nonetheless, behind the scenes, ESMA privately shared many of the concerns of the SEC. For example, one official echoed the view that securities regulators had "a lot more understanding of how asset management works," and it was their role to educate central banks about the "specificities" of the sector (Interview B, 2020). In particular, ESMA warned prudential regulators against drawing a false equivalence between banks and investment funds, arguing that it was better to regulate activities rather than entities. To this end, the EU investment fund industry was "very vocal" in lobbying national and EU securities regulators to "pass the message on to central banks" (Interview B, 2020). One interviewee also complained that prudential regulators were too eager to change the rules at the first sign of trouble: "I am very concerned that rules should not be made more stringent. Failures are due to national competent authorities not applying the rules correctly, not because existing rules are too lax" (Interview B, 2020). In a rare moment of candor, the ESMA Chair even acknowledged that they lacked the experience to scan for systemic risk in securities markets (Maijoor, cited in *Financial Times*, 18 June 2014). By this point, however, attention had shifted to the international level.

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5. International regulation of investment funds

We argue that epistemic contestation between prudential and securities regulators was subsequently projected to the international level. This was manifest in increasing tensions between the FSB and IOSCO, rooted in competing interpretive frames about how to regulate investment funds. Fearing that large investment funds could pose similar systemic risks to global banks, the FSB, where prudential regulators are the majority, sponsored work on non-bank, non-insurer G-SIFIs. By contrast, securities regulators, gathered in IOSCO, were less concerned about the systemic risk posed by asset management, and argued that attempts to extend prudential tools to investment funds were based on a flawed logic. Importantly, IOSCO and several of its members (including the SEC) also sat on the FSB (although they were outnumbered by prudential regulators), so their opposition had direct implications for the FSB's work. As a result, the early negotiations were described as "fraught" as they were hampered by "disjointed agendas" and "rigid regulatory frameworks" that regulators struggled to adapt to the non-bank financial sector (Interview F, 2018; Interview G, 2018).

Securities regulators sought to resist the push for prudential regulation through direct appeals to epistemic authority. First, they made repeated claims to wielding exclusive expertise about the investment fund industry, based on their direct experience and accumulated knowledge of regulating the sector. The chairman of IOSCO, Greg Medcraft (2015), criticized the proposed adoption of regulatory tools from banking and insurance as "inappropriate" because they were "developed to deal with firms which have different risk profiles to asset managers. It is like creating a square peg for a round hole." Instead, Medcraft (2015) insisted that as day-to-day "frontline regulators," securities regulators had a better understanding of the industry. This gave them regulatory toolkits, based on conduct supervision and enforcement, that "have been effective in managing disruptions in these markets in many jurisdictions." Another regulator suggested that "bank regulators do not understand asset management … [or] how good asset managers manage a fund" (Interview H, 2020). Significantly, this cognitive failure was attributed to the absence of everyday practices of interaction: that is, "because they are not close enough to the industry."

Second, securities regulators sought to defend existing jurisdictional boundaries. For example, SEC Commissioner Martin Gallagher (2015) implied that attempts to strengthen international standards on asset management were an exercise in epistemic encroachment by prudential regulators. In particular, he argued that the FSB's efforts to "force a prudential, bank regulatory construct" onto investment funds was deliberately "tailored to legitimize the FSOC's efforts to import prudential regulation to the US capital markets through the designation of non-banking entities as SIFIs." In a stinging rebuke, Gallagher (2015) also claimed that the FSB and FSOC were acting in tandem: "It is plain to see that the FSOC has entered into an insidiously symbiotic relationship with the FSB, supporting its actions on the international stage while using those actions to justify regulation at home."

Third, securities regulators mobilized alliances with like-minded stakeholders from the investment fund industry itself. Hence, long-standing relationships and recursive practices became an important source of sector-specific knowledge and expertise which could be leveraged to push back against the claims of prudential regulators. Indeed, IOSCO regulators felt that industry was "on their side," that working together "strengthened" their hand, and enabled them to form a "pincer movement" against the FSB (Interview M, 2020; Interview N, 2020). In response, the industry engaged in a concerted push to prevent rules that would label them as systemically important, mounting ferocious lobbying against the FSB-IOSCO's (2015) proposal for assessment methodologies for non-bank, non-insurer G-SIFIs.

Echoing the arguments of securities regulators, EFAMA (2014) argued that asset managers were not a source of systemic risk. Like the ICI (2014), and the Institute of International Finance (IIF) (2014), EFAMA did not believe that size alone was an appropriate criterion to assess the systemic relevance of investment funds. The ICI (2014) criticized the FSB-IOSCO proposal for attempting "to paint the entire canvas of the financial system with a single broad brush" and trying to apply bank regulatory standards "that are entirely out of keeping with the way in which other types of financial institutions are structured, operated and currently regulated." Significantly, the ICI also repeated claims from securities regulators about jurisdictional encroachment, suggesting that the process was designed to "dramatically expand the authority of bank regulators" by enabling the FSB to "exercise maximum discretion over matters with very serious potential consequences for regulated funds and other affected entities."

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In 2015, the FSB-IOSCO (2015) revised their proposal and opted for a "dual" approach focused on two categories of actors—investment funds and asset managers—which provoked a further industry backlash. The ICI (2015) noted that the second consultation paper added criteria to include large asset managers into the designation of non-bank non-insurer G-SIFIs, again appearing to target large US firms. Significantly, it also explicitly criticized the epistemic framing of investment funds by prudential regulators: "We have strenuously objected to the characterization of all portions of the financial system other than banks as mere 'shadow banks' – a term that describes this FSB workstream and that betrays the kind of bank regulatory 'group think' that pervades the current consultation," adding that the FSB's proposed methodologies for G-SIFI designation remained "stubbornly rooted in the banking mindset." Similarly, EFAMA (2015) questioned the epistemic authority of prudential regulators, noting that the "bank centric" view of asset management was led by multilateral institutions (such as the IMF or the BIS) and central bankers (e.g. the Bank of England, the US Federal Reserve, and the ECB) that had no mandate to directly supervise these entities.

The alliance of securities regulators and industry lobbyists proved to be a potent force. IOSCO Chairman Greg Medcraft (2015), and the head of the UK's Financial Conduct Authority, Martin Wheatley, both acknowledged that IOSCO had been influenced by the critical response of the industry (*Financial Planning*, 22 June 2015). Prudential regulators also complained at the time about the influence of investment fund lobbyists over securities regulators as "Cartesian proof that a problem exists" (Interview A, 2020). By exercising epistemic authority through a range of recursive practices, securities regulators were able to stall and ultimately weaken efforts to subject large investment funds to prudential regulation. Prudential regulators subsequently signaled a retreat, as the FSB and IOSCO decided to postpone the finalization of the assessment methodologies for non-bank non-insurer G-SIFIs.

There has been little progress since then, with IOSCO continuing to reject the suggestion that a global approach is needed to regulate fund liquidity, arguing that a "one-size-fits-all prescriptive approach" is "impractical" for such a diverse sector (*Financial Times*, 18 July 2019). The frustrated efforts of prudential regulators even led Bank of England Governor, Mark Carney, to take the unusual step of publicly criticizing IOSCO's approach to regulating investment funds (*Financial Times*, 22 July 2019). In recent years, however, renewed financial turmoil has re-ignited the concerns of prudential regulators about the fragility of funds, problems of liquidity, and their procyclical behavior (Cunliffe, 2020). In March 2020, the outbreak of the Covid-19 pandemic triggered fire sales of Covid-affected assets, confronting investment funds with huge redemptions and forcing central banks to intervene through renewed asset purchases—this time in the shadow banking system (Tooze, 2021). We, therefore, expect the issue of investment fund regulation to return to the top of the agenda, triggering renewed clashes between bank and securities regulators.

6. Conclusion

This article set out to explain why the regulation of investment funds was not substantially strengthened after the 2008 crisis. Our interpretivist perspective focused on epistemic contestation between regulatory agencies, rooted in fundamentally divergent interpretive frames about how the sector should be regulated. In accordance with our empirical expectations, US and EU bank regulators pushed for the extension of prudential regulatory tools to large investment funds, triggering the fierce opposition of securities regulators. To defend their transaction-based regulatory approach, securities regulators exercised epistemic authority—via appeals to expertise, jurisdictional claims, and alliance-building—to successfully thwart agreement on tougher global standards.

The main contribution of the article is to demonstrate the value of applying an interpretivist perspective to regulatory disputes. We would tentatively claim that our emphasis on the practices and experiences of regulators helps to bridge the divide between interest-based and ideational explanations. Here we briefly review how the article speaks to both literatures, starting with work on bureaucratic politics (Knill & Bauer, 2016; Stone & Ladi, 2015; Trondal et al., 2013). Our interpretivist approach suggests that rivalry among regulators is often epistemic, not just material: namely, rooted in the incompatibility of institutionally embedded interpretive frames in a given policy area. The article demonstrates how these frames can be unpacked and operationalized through the systematic tracing of the objectives, tools and strategies that regulators hold about specific issues. In the case of investment fund regulation, we argue that epistemic contestation therefore cannot be reduced to a simple bureaucratic

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battle. This is because we find no evidence that securities regulators sought to enhance their powers, mandate, or prestige by claiming ownership over new macroprudential tools for themselves. On the contrary, securities regulators opposed prudential ideas on the principled grounds that they were incommensurable with their cognitive understanding of how investment funds work, and their interpretation of what constituted appropriate knowledge about regulation.

The article also contributes to work on knowledge and expertise in regulation (Ban et al., 2016; Broome & Seabrooke, 2015; Knorr Cetina, 1999; Seabrooke, 2014) and professional identities (Colic-Peisker, 2010; Djelic & Quack, 2010). Our approach does not read off the preferences and actions of regulators from institutionally embedded ideas or professional identities. Instead, we view these as grounded in a "logic of practice" constituted by recursive practices of interaction and socialization, and through which distinct interpretive frames about regulation are generated and affirmed over time. As evidence, we would point to long-standing engagement between securities regulators and investment fund practitioners as being instrumental to the development of a shared understanding of how large funds should be regulated. These practices also underpin the development of a shared sense of belonging and common identity (Abbott, 1988), facilitating the mobilization of a formidable alliance in opposition to jurisdictional encroachment by macroprudential regulators.

To end, we briefly reflect on how our approach could be usefully deployed in other policy areas. For instance, epistemic disagreements were evident in the post-crisis regulation of derivatives markets, notably with respect to clearing through central counterparties (anonymized reference). Mirroring developments in investment fund regulation, bank regulators pushed for the imposition of additional capital requirements for banks trading non-centrally cleared derivatives, while securities markets regulators preferred the use of margins to be imposed on non-centrally cleared derivatives transactions. Moreover, analyzing divergent interpretive frames could also shed new light on more difficult cases, such as repo markets—specifically, the failure of regulators to agree on the imposition of haircuts on repo transactions. In this case, macroprudential regulators supported the introduction of haircuts, while securities regulators were circumspect about the use of these tools (Thiemann et al., 2018). Intriguingly, however, central banks and finance ministries were also cautious about tougher rules, albeit for different reasons: central bankers worried about the impact of haircuts for the conduct of monetary policy, whereas treasury officials feared the impact this would have on the refinancing of public debt (Gabor, 2016). Further research might explore how other highly complex markets with far-reaching implications for the wider financial system generate a more fragmented pattern of understandings about these markets work, and the appropriateness of different regulatory instruments.

Finally, an interpretivist approach might also be usefully extended to regulatory fields beyond finance: particularly those characterized by emergent or cross-cutting issues—such as data protection, and cybersecurity—and/or which involve multiple regulatory agencies—for example, public health, energy, and the environment. For example, analyzing the role of different public and private bodies during the Covid-19 pandemic—including civil servants, health professionals, epidemiologists, the pharmaceutical industry, and economists—could yield novel insights into how the policy response was shaped by epistemic conflict rooted in divergent cognitive understandings of public health.

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Endnotes

[1] Other relevant legislation is the Employment Act of 1946 and the Balanced Growth Act of 1978.

[2] https://www.federalreserve.gov/publications/2020-ar-supervision-and-regulation.htm

[3] Haltom, R. and Weinberg J. (2017) "Does the Fed Have a Financial Stability Mandate?", Federal Reserve Bank of Richmond, Economic Brief No. 17.

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[4] Other relevant legislation is the Securities Act of 1933 and the Investment Company Act of 1940.

[5] https://www.sec.gov/our-goals

[6] https://www.sec.gov/about/what-we-do

[7] https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/about-fsoc

[8] Stupak, J. M. (2018). *Financial Stability Oversight Council (FSOC): Structure and Activities*. Congressional Research Service.

[9] Council Regulation No 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1024

[10] https://www.bankingsupervision.europa.eu/about/thessm/html/index.en.html

[11] Regulation No 1095/2010 of the European Parliament and the Council establishing a European Supervisory Authority (European Securities and Markets Authority), https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32010R1095

[12] https://europa.eu/european-union/about-eu/agencies/esma_en

[13] Regulation No 1092/2010 of the European Parliament and the Council on European Union macroprudential oversight of the financial system and establishing a European Systemic Risk Board, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32010R1092

DATA AVAILABILITY STATEMENT

All publicly sourced data in the article (public documents, media coverage, etc.) are publicly accessible and can be found using the references in the article. However, the article draws to a large extent on 15 anonymized interviews conducted under the Chatham House Rule. Regrettably, the raw data from these interviews—in the form of interview transcripts—cannot be shared due to ethical and privacy restrictions.

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Interview C (ECB official) 20-11- 2018.
Interview D (DG FISMA official) 27-11- 2018.
Interviews E–F (IOSCO officials) 9-11- 2018.
Interview G (FSB official) 23-11- 2018.
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APPENDIX

Key legal provisions concerning objectives and instruments of financial regulatory agencies in the US and the EU

The Federal Reserve

The Federal Reserve, which was established by the Federal Reserve Act of 1913, is responsible for the prudential supervision of the banking system, together with other banking supervisory agencies.[1] The objectives of prudential supervision are to assess and ensure the overall safety and soundness of individual banks. The instruments at the Fed's disposal are the granting and withdrawal of banking license, the monitoring of capital requirements, the conduct of stress-tests, off-site supervisory reviews, and on-site inspections.[2]

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 did not create an explicit financial stability objective for the Federal Reserve, but since the Fed's primary mandated functions – monetary policy, payments system operations, and banking supervision – play a role in financial stability, the Board of Governors formally acknowledged a role in overall financial stability.[3]

The Securities and Exchange Commission (SEC)

The SEC, which was established by the Securities Exchange Act of 1934,[4] is responsible for the registration, regulation, and oversight of brokerage firms, stock exchanges, and certain types of clearing houses. The objectives of the SEC are: to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.[5] The main instruments available to the SEC are the oversight of key market participants, including exchanges, brokers—dealers, investment advisers; disclosure to investors of relevant information; enforcement powers to protect against market abuse and fraud.[6]

The Financial Stability Oversight Council (FSOC)

The FSOC, which was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, is responsible for identifying risks to financial stability, promoting market discipline by reducing the expectation of government bailouts, and responding to emerging threats to the financial system.[7] It does not have direct regulatory authority or instruments at its disposal; its role is to make policy recommendations to member agencies.[8]

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The FSOC must also identify "systemically important financial institutions" (SIFIs), whose failure or distress could threaten the financial system. SIFIs and bank holding companies with total assets of $50 billion or more are subject to regulation by the Federal Reserve (see also Lombardi & Moschella, 2017).

The European Central Bank (ECB)–Single supervisory mechanism (SSM)

The ECB-SSM, which was established by the Regulation conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (2013),[9] is responsible for banking supervision in the euro area. The main objectives of ECB-SSM supervision are to ensure the safety and soundness of the European banking system. The instruments at the disposal of the ECB are granting and withdrawal of banking licenses, monitoring bank capital requirements, conducting stress-testing, off-site supervisory reviews, and on-site inspections.[10]

The European Securities and Markets Authority (ESMA)

The objectives of the ESMA, which was established by the regulation of the European Parliament and the Council establishing a European Supervisory Authority (European Securities and Markets Authority) (2010),[11] are to ensure market transparency and investor protection.[12] In addition, being an EU agency, the ESMA has the task of promoting the completion of the single rulebook for EU financial markets by developing technical standards and advising EU institutions on developing new laws and promoting the standardization of supervision practices. The instruments at ESMA disposal to promote transparency and investor protection are the power to make information available to investors via ESMA public registers and databases, and issuing warnings to investors. National securities regulators are responsible for day-to-day supervision and enforcement actions.

The European Systemic Risk Board (ESRB)

The ESRB, which was established by the Regulation on European Union macroprudential oversight of the financial system and establishing a European Systemic Risk Board (2010),[13] is responsible for the macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risk to financial stability that arises from developments within the financial system as well as macroeconomic developments. The ESRB monitors and assesses systemic risks also by collecting relevant data and, where appropriate, it issues warnings and recommendations, but does not have direct instruments at its disposal. The ECB and national central banks make up the majority of voting members in the ESRB (see also Lombardi & Moschella, 2017).

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