The Perils of International Regime Complexity in Shadow Banking
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LUCIA QUAGLIA
Shadow banking is an umbrella term used to describe a variety of entities and activities outside the ‘traditional’ banking sector. Indeed, the definition of what exactly is shadow banking, which entities and activities fall within its scope, and the very use of the term— which is seen as having some negative connotations—have been contested. Shadow banking massively increased in the decades before the 2008 international financial crisis and substantially contributed to it. After a setback in the wake of that crisis, the growth of the shadow banking system gradually resumed, at least for some entities and activities, and became a significant concern in the context of the covid-related economic crisis in 2020–1. Despite its massive size, its cross-border nature, and the risks it entails for financial stability, the international post-crisis reforms concerning the governance of shadow banking were limited and regulation remained overall rather feeble. Why?

Whereas most academic research has examined post-crisis domestic regulatory changes, especially in the main jurisdictions, namely the United States, the European Union, and China, this book discusses the international governance of shadow banking by examining the post-crisis reforms that involved a multitude of organizations and committees that monitor and regulate various aspects of global shadow banking. Furthermore, several international standards (or ‘soft laws’) were jointly issued by two (or more) bodies. This resulted in an international ‘regime complex’ in which states, regulators, and private actors engaged in a ‘game of shadows’ concerning the definition, monitoring, and regulation of global shadow banking. The aim of this research is to investigate these processes and their outcomes by providing a theoretically informed and empirically grounded account of post-crisis reforms at the international level.

While writing this book, there were several challenges. First, the international governance of shadow banking is a moving target, hence the content of the book had to be updated over time and parts of it remain work in progress. Yet, most of the post-2008 crisis regulatory reforms concerning shadow banking have been set in place by now. Second, there is a trade-off between the scope of the research and the depth of analysis, including its level of detail.
I opted for a broad coverage and, therefore, I had to be selective about the material included (or not) in each chapter. Since this book is about international governance, the domestic level is examined only in so far as this is useful to shed light on the international standard-setting process. Third, I wanted to write a book that could be of interest and accessible to political scientists, political economists, and public policy scholars. Thus, I adopted a similar structure for each empirical chapter. In each chapter, I discuss the main issues at stake regarding a specific aspect (or ‘elemental regime’) of shadow banking and the international standard-setting process. I, then, assess the explanatory power of the analytical framework put forward in Chapter 2 against the empirical record. The penultimate chapter carries out a comparative assessment across shadow banking elemental regimes.

Since I started my research, several academics have generously given me their advice and commented on parts of the book, conference papers, and other academic publications in which some of the findings of my research were presented. In particular, I would like to thank, Elena Baracani, Shawn Donnelly, Sandra Eckert, Scott James, Daniela Gabor, David Howarth, Peter Knaack, Matthias Kranke, Antonio Marcacci, Giuseppe Montalbano, Manuela Moschella, Elliot Posner, Bernardo Rangoni, Aneta Spendzharova, Mark Thatcher, Matthias Thiemann, who commented on parts of my manuscript. I am also grateful to the anonymous reviewers of my book manuscript for their constructive comments. I have further benefited from a range of comments offered by participants at conferences organised by the International Studies Association (ISA) and the European Consortium for Political Research (ECPR) as well as research seminars organised by the Foundation of Law and Finance at the University of Frankfurt, the Department of Economics and Political Science at the University of St Gallen and the Department of Political Science at the University of York. Part of Chapter 5 on shadow banking entities draws on my joint article with Scott James, published in Regulation & Governance (2022) and part of Chapter 7 on securitization draws on an article I have published in the Journal of Common Market Studies (2021).

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<th>Full Form</th>
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<tbody>
<tr>
<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<td>BIS</td>
<td>Bank for International Settlements</td>
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<td>ECB</td>
<td>European Central Bank</td>
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<td>EBA</td>
<td>European Banking Authority</td>
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<td>ESMA</td>
<td>European Securities and Markets Authority</td>
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<td>ESRB</td>
<td>European Systemic Risk Board</td>
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<td>EU</td>
<td>European Union</td>
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<td>FSB</td>
<td>Financial Stability Board</td>
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<tr>
<td>G-SIFI</td>
<td>globally systemically important financial institution</td>
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<td>G20</td>
<td>Group of Twenty</td>
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<td>FSOC</td>
<td>Financial Stability Oversight Council</td>
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<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
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<td>IASB</td>
<td>International Accounting Standards Board</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
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<tr>
<td>MMF</td>
<td>money market fund</td>
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<tr>
<td>MUNIFI</td>
<td>Monitoring universe of non-bank financial intermediation</td>
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<tr>
<td>NAV</td>
<td>Net asset value</td>
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<tr>
<td>NBFI</td>
<td>Non-bank financial intermediation</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OFI</td>
<td>Other Financial Intermediary</td>
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<tr>
<td>OIF</td>
<td>Other Investment Fund</td>
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<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
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<td>UK</td>
<td>United Kingdom</td>
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<td>US</td>
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1 Introduction

Shadow Banking

Shadow banking, which constitutes a huge part of the global financial system, played a crucial role in the building up and amplification of the international financial crisis of 2008 because it turbo charged that sequence of events, and it was where the financial ‘weapons of mass destruction’ were mostly located (Group of Thirty 2009; De Larosière et al. 2009; Financial Services Authority 2009). Despite the acknowledgement of the risks posed by shadow banking, post-crisis regulatory reforms were feeble and piecemeal. At the international level, the political leaders of the jurisdictions of the Group of Twenty (G20) (2010) tasked financial regulators gathered in the Financial Stability Board (FSB) and other international standard-setting bodies to ‘strengthen the oversight and regulation of the shadow banking system’ and regulators worked on this matter for several years. Yet, the results were underwhelming and the international governance of shadow banking remained weak. Indeed, in the context of the Covid-19 economic crisis, there are growing concerns about this important part of the financial sector.

This book argues that the main reason for this disappointing outcome is the international architecture for shadow banking governance, which is a ‘regime complex’ characterized by the presence of multiple institutions and elemental regimes governing a set of related issues (Alter and Meunier 2009; Keohane and Victor 2011; Johnson and Urpelainen 2012; Pratt 2018, 2019). Indeed, shadow banking is a quintessential case for demonstrating the perils of international regime complexity,¹ which compounds problems that arise in ‘silos-like’ regimes, while splintering solutions. This research goes further than the existing literature in showing the negative effects of international regime complexity, explaining why it is a problem and what could be done about it. The crux of the argument is that regime complexity magnifies problems

¹ I borrowed this expression from Drezner (2009) and Alter (2022).
that are endemic in governing global finance—namely, interstate competition, disagreement between technocratic bodies, and the power of the financial industry—while splintering solutions, due to the fragmentation of regulatory authority. As illustrated in this book, the interplay of states, regulators, and private actors produced a ‘game of shadows’ concerning the definition, monitoring, and regulation of shadow banking. The playing out of such a game was facilitated by international regime complexity, which produced a multi-dimensional chessboard.

There is not a universally agreed definition of shadow banking and even the term ‘shadow banking’ is contested and is often accompanied by an explanatory footnote, as discussed in Chapter 3. By and large, shadow banking refers to the system of credit intermediation that involves entities and activities outside the traditional banking system. It includes entities that raise funding with deposit-like characteristics; perform maturity and/or liquidity transformation; engage in credit risk transfer; and use direct or indirect leverage (FSB 2011a, b). These entities include: money market funds (MMFs);² investment funds that provide credit or are leveraged, such as hedge funds³ and private equity funds;⁴ securitization⁵ vehicles, such as special purpose vehicles,⁶ structured investment vehicles,⁷ and conduits.⁸ A member of the Federal Reserve Board, Daniel Tarullo (2016a), noted that the integration of traditional bank lending and capital markets is most clearly in evidence in shadow banking, albeit in different ways.

The shadow banking system grew considerably in the run-up to the international financial crisis of 2008 also due to its competitive advantages over the traditional banking system. In fact, before the crisis, shadow banking was for the most part outside the perimeter of public regulation and oversight, although there was variation across countries (Thiemann 2018, 2014). The

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² MMFs are a type of mutual funds that invest in high-quality, short-term debt instruments.
³ Hedge funds are highly leveraged funds that pool investors' funds and engage in complex portfolio construction, using high risk—high return strategies.
⁴ Private equity funds resemble venture capital firms because they invest directly in companies. Once they acquire or control a company, private equity funds restructure it with the goal of selling the company for a profit.
⁵ Securitization is the process whereby certain types of assets (such as mortgages, or credit card obligations) are pooled so that they can be repackaged into interest-bearing securities (Jobst 2008; for further details see Chapter 7).
⁶ A special purpose vehicle, also referred to as special purpose entity, is a bankruptcy-remote subsidiary of a company that may be used as a holding company for the securitization of debt.
⁷ A structured investment vehicle is a pool of investment assets that seeks to profit from credit spreads between short-term debt and long-term structured finance products, such as asset-backed securities.
⁸ Conduits involve the use of special purpose vehicles by banks and other financial institutions to raise short-term funding.
shadow banking system was one of the main culprits of the crisis and some commentators considered the international financial crisis as a bank run on shadow banks (Krugman 2009), or a bank run through the back door (Engelen 2018), especially in the repo market (Gorton 2010; Gorton and Metrick 2009, 2010). Thus, from 2009 onwards, there was a concerted effort to monitor and regulate various aspects of shadow banking. At the international level, the reform of financial regulation, including shadow banking, was discussed by the political authorities (i.e. national governments) in the G20 (Viola 2014, 2015). It was followed by ‘soft laws’ (Brummer 2015; Zaring 2020), that is to say, international standards⁹ issued by various transgovernmental fora of domestic financial regulators (Bach and Newman 2010, 2014; Newman and Posner 2018). A vast array of international financial standard-setting bodies as well as non-financial standard setters, such as the International Accounting Standards Board (IASB), were involved in the post-crisis regulation of shadow banking (see Figure 1.1) and several standards were jointly issued by these bodies, as elaborated in the following chapters.

The result was an over-crowded regulatory space and an international regime complex, whereby international standards were issued concerning shadow banking entities, activities as well as traditional banks that interacted with shadow banks (see Figure 1.1). These standards were part of elemental regimes, partly ‘nested’, partly ‘parallel’, partly ‘interlinked’, which are not hierarchically ordered, as elaborated in Chapter 3. Regime complexity, which has become a prominent phenomenon in world politics and the global economy

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Fig. 1.1 Overview of the post-2008 crisis international shadow banking regime complex

⁹ According to the FSB (2018a), international standards set out ‘principles, practices, or guidelines in a given area’.
(Henning 2017; Pratt 2018), increased considerably in finance after the crisis of 2008, in particular in areas that previously were not subject to regulation and dealt with several cross-cutting issues, such as shadow banking.

**Research Questions and Research Design**

The magnitude of financial assets in the shadow banking system, its relatively loose regulation and oversight (especially if compared to the ‘traditional’ banking system), and its interconnectedness with the banking system contribute to systemic risk. Whereas other parts of the financial sector, such as banking and derivatives, were subject to significant international and domestic regulatory reforms after the international financial crisis of 2008, the governance of shadow banking remained feeble, especially at the international level, and became somewhat less stringent as time passed by, as documented in the following chapters. This is rather puzzling, given the vast size of the shadow banking system, its cross-border nature, the danger of regulatory arbitrage, and the risks it poses for financial stability. Such risk can go undetected and unmanaged in shadow banking.

Shadow banking grew dramatically in the run-up to the financial crisis of 2008—it even briefly overtook the traditional banking system in the United States (US) (Financial Crisis Inquiry Commission 2011)—and began to grow again, especially in Europe and in large emerging economies (first and foremost, China), a few years after the crisis. According to the most recent data, the ‘narrow measure’ of global shadow banking (for various definitions and measurements of shadow banking, see Chapter 4) is estimated at $51 trillion, around 75% of the gross domestic product of all jurisdictions of the G20, including the euro area as a whole (FSB 2019a). Furthermore, shadow banking, like derivatives (which also played a major role in the building up of the 2008 crisis), has a strong cross-border dimension, which would have called for robust international governance to safeguard the ‘common good’ of financial stability as well as the ‘levelled playing field’ across jurisdictions (Kapstein 1989; Singer 2007). Yet, this was not the case. Why?

Theoretically, this book brings together the literatures on the regulation of finance in international political economy and regime complexity in international relations. From the literature on international standard-setting in finance, this research teases out three sets of actors—states, regulators, and private actors—and several pathways through which they influenced the
governance of shadow banking after the 2008 crisis. From the literature on regime complexity, this research takes the perspective of analysing the making of several international standards concerning various aspects of shadow banking at the same time, examining how they interact with one another, rather than looking at each of them in isolation, and spelling out the governance challenges in a regime complex.

Methodologically, this research is operationalized, first, by distinguishing various elemental regimes concerning different aspects of shadow banking, namely: international standards for defining, measuring, and monitoring global shadow banking; international standards for shadow banking entities, including MMFs, hedge funds, and investment funds; international standards for shadow banking activities, such as securitization, securities lending, and repos; international standards for bank capital exposures to shadow banking.

For each elemental regime, this book investigates the international standard-setting processes, teasing out the key issues at stake, the preferences of states, regulators, and private actors as well as the pathways through which they exerted influence. Furthermore, the elemental regimes and their dynamics are compared and contrasted in the penultimate chapter. Overall, the book discusses the making of more than a dozen standards (principles, guidelines, etc.) from the peak of the international financial crisis in late 2008 to the present (see Figure 3.1). To do so, it relies on a variety of sources, including a systematic survey of press coverage, policy documents, responses to consultations, and confidential semi-structured elite interviews.

**Overall Argument**

This book identifies a ‘game of shadows’, which unfolded in consecutive and recursive steps concerning the definition, monitoring, and regulation of shadow banking internationally (see Figure 1.2). In a real-life game of shadows, the casting of selective light in different directions also moves the shadows in different ways, failing to illuminate the entire picture. Likewise, states, regulators, and private actors tended to cast light away from various parts of the shadow banking system—which was portrayed as ‘something else’, ‘somewhere else’ (Palan and Nesvetailova 2014). Thus, shadow banking was (re)fined.

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10 In one of her novels, the science-fiction writer Ursula K. Le Guin wrote that ‘When you light a candle, you also cast a shadow’, a metaphor used by Greene and Broomfield (2013) with reference to shadow banking.
over time, its measurement was narrowed down, lessening the (perceived) need for regulation.

The first step in the game of shadow concerned the *definition* of shadow banking, which was narrowed down over time, several entities and activities fell outside its scope, and eventually, the very term disappeared and was replaced by non-bank financial intermediation and market-based finance (which had fewer negative connotations). This had implications for the second step in the game of shadow, namely, the *measuring* and *monitoring* of global shadow banking, whereby the broad measure was complemented and, eventually, supplanted by a narrow measure. Whereas the broad measure increased considerably over time in the post-crisis period, the narrow measure did not increase to the same extent, underestimating the potential risks that shadow banking entailed and, thus, the need for regulation. In turn, the definition and monitoring had implications for the third step, the *regulation* of shadow banking, which was selective—international rules did not focus on entities and activities that were considered outside the scope or at the margins of shadow banking; and remained rather ‘thin’—international rules were partly hollowed out or watered down over time, whereas important issues remained off the agenda. Overall, the post-crisis international governance of shadow banking was rather feeble because international standards for shadow banking entities and activities had limited precision, stringency, and consistency, even though there was variation across elemental regimes.

The playing out of the game of shadow by states, regulators, and private actors was facilitated by international regime complexity, which produced a multi-dimensional chessboard. Regime complexity compounded problems that are endemic in regulating global finance: interstate competition (that is, conflicts among jurisdictions); competition between financial regulatory bodies (that is, conflicts among technocrats), and the power of the financial industry, which mobilizes across multiple levels and venues. At the same time, it hindered problem-solving and the quest for policy solutions due to the fragmentation of regulatory authority across elemental regimes, meaning that no
actor was in the driving seat, several of them worked at cross purposes, whereas a focal coordinating institution was missing in the complex. The analysis of the international governance of shadow banking through the prism of regime complexity has considerable value-added because it allows us to consider the interplay of a variety of actors in an international institutional architecture characterized by the lack of hierarchy, the multiplicity of regulatory venues, combined with gaps, overlaps, and interlinkages across elemental regimes. Moreover, since the key players—states, regulators, private actors—participate in all the elemental regimes of the complex at the same time, their influence can be gauged only by looking at the complex as a whole, as well as its individual components.

Structure and Content of the Book

The structure of the book is as follows. Chapter 2 discusses the state of the art, the research design, and the methodology, outlining the scope of the research, the timeframe, and the empirical coverage. Chapter 3 examines the international shadow banking regime complex, delineating the institutional architecture for the governance of shadow banking and the elemental regimes of the complex. Chapter 4 provides several definitions and measurements of shadow banking and maps the evolution of its global monitoring after the international financial crisis of 2008.

Chapters 5, 6, 7, and 8 examine the post-crisis regulation of shadow banking entities and activities, as well as the link between traditional banking and shadow banking. These chapters follow a similar structure, whereby each chapter begins by discussing the key issues at stake in the regulation of a given aspect of shadow banking (e.g. investment funds, securities financing, securitization) and then explains the influence of states, regulators, and private actors in the international standard-setting process and the regulatory outcomes. Specifically, Chapter 5 examines the international standards for shadow banking entities: MMFs, hedge funds, and investment funds. Chapter 6 examines international standards for securities lending and repos. Chapter 7 examines international standards for securitization. Chapter 8 examines international standards for bank exposures to shadow banking. The penultimate chapter engages in a comparative cross-cutting assessment of various elemental regimes in the shadow banking complex, spelling out the perils of regime complexity and putting forward some policy recommendations. The concluding chapter summarizes the main findings, discusses how they contribute to the literature, and teases out some open issues concerning shadow banking.
The empirical chapters offer a complete picture of the post-crisis regime complex on shadow banking, rather than examining only certain parts, which would only provide a piecemeal view of the regulatory reforms undertaken. However, there is a trade-off between the broad scope of the research and the limited amount of detail that can be examined on specific issues. For this reason, although international standards produce domestic changes, feedback effects (Newman and Posner 2018, 2016a, b) and compliance problems (Chey 2006, 2007, 2014; Mosley 2003, 2010; Quaglia 2019; Walter 2008), these are beyond the scope of this research.
2
Understanding the Politics of Regulating Global Finance

The first part of this chapter reviews several bodies of scholarly works that are relevant to this research, which brings together the international political economy literature on regulating global finance, and the international relations literature on regime complexity. Building on the first body of works, this chapter discusses the main actors—states, regulators, and private actors—that affect the governance of global finance, teasing out the pathways through which they exert their influence. Then, building on the second body of works, regime complexity is considered as a contextual factor that affects global governance in a given policy area, in this case, shadow banking, by compounding problems, while splintering solutions. The second part of the chapter spells out the research design, the methodology, and the sources used. It also clarifies the scope of the research, the empirical coverage, and the timeframe.

The International Political Economy Literature on Financial Regulation

The political science and political economy literatures have discussed extensively the regulatory reforms undertaken after the international financial crisis of 2008 at the international, regional (EU), and national levels. However, relatively few works have focused on shadow banking (for some notable exceptions, see Ban and Gabor 2016; Nesvatalova 2018). Those that have done so have either discussed the reforms undertaken in the main jurisdictions, notably, the US (Ziegler and Woolley 2016; Ryan and Ziegler 2015), the EU (Gabor 2016b; Gabor and Vestergaard 2018), and China (Gruin and Knaack 2020; Knaack and Gruin 2020), or they have examined specific international standards (for example, those on the repo market, see Gabor 2016a, or MMFs, see Woyames Dreher 2019). Relatively recently, scholarship has
paid attention to shifting alliances between central bankers and academic economists (Thiemann et al. 2020) and the ‘performative understanding’ of systemic risk by international institutions (Kranke and Yarrow 2019). By and large, these studies have regarded the post-crisis changes in shadow banking regulation as rather incremental (Rixen 2013; Engelen 2018; Gabor and Ban 2016; Gabor 2016a), feeding into a broader stream of literature that has stressed the persistence of the status quo in finance (Bieling 2014; Engelen et al. 2011; Helleiner 2014; Underhill 2015; Tsingou 2015b).

Particularly intriguing is the game of shadows that involves three consecutive and recursive steps concerning the definition, monitoring, and regulation of global shadow banking. The first step concerns the definition of shadow banking, which has implications for the second step, namely, the measuring and monitoring of global shadow banking—the narrower the definition, the smaller the size of the shadow banking sector and, hence, the ‘scale’ of the potential problem to be tackled. In turn, definition and monitoring have implications for the third step, the regulation of shadow banking, because entities and activities that are excluded from the definition of shadow banking fall outside the perimeter of the potential regulation of shadow banking. Moreover, the smaller the (measured) size of the sub-sectors of specific shadow banking entities and activities (e.g. MMFs, hedge funds, securities financing transactions), the lesser the (potential) problem to address via regulation. Finally, even for entities and activities that fall squarely within the definition, there is a tendency to downplay the financial stability risks they pose.

The literature on the politics and political economy of regulating global finance has pointed out several actors and pathways1 that can account for the playing out of the game of shadow in shadow banking. A first strand of literature has focused on the interests and power of states in regulating global finance. These works examined the market power (Simmons 2001; Drezner 2007; Helleiner 2014), regulatory capacity (Posner 2009, 2010; Quaglia 2014a), and domestic politics (Singer 2007; Gravelle and Pagliari 2018) of the main jurisdictions, first and foremost, the US (Oatley 2015). The argument, in brief, is that the great powers (Drezner 2007) have the ability to set international standards due to the size of their domestic market and advanced regulatory capacity. These jurisdictions engage in pace-setting by promoting international rules, if it is in their interest to do so to limit negative externalities (such financial instability or international competitive disadvantages), or balance

1 For the purpose of this research, pathways are conceptualized as links between the explanatory factors and the outcomes of interest—they are ‘processes by which a certain effect is produced or a purpose is accomplished’ (Gerring 2008: 178; see also Falleti and Lynch 2009).
business and electoral pressures at home (Singer 2004, 2007; Rixen 2013; James and Quaglia 2020). Instead, states engage in foot-dragging by resisting international rules if these rules produce high domestic adjustment costs and negative externalities are limited (Quaglia and Spendzharova 2017). In a regime complex, states can be pace-setters and foot-draggers at the same time in different parts of the complex, working at cross purposes and weakening their influence.

Furthermore, states sometimes engage in issue-linkage by simultaneously discussing two or more matters for joint settlement to avoid protracted deadlocks in international negotiations (Davis 2004; Farrell and Newman 2018). They can also adopt the opposite strategy, that is, issue de-linkage by separating the more controversial issues from the less controversial ones to further agreement (Quaglia and Spendzharova 2021a). Yet, both these strategies assume that states have an overall view of the issues at stake and act as unitary actors in international negotiations that take place in various venues. This is less likely in a regime complex, where different domestic authorities are involved in different elemental regimes. The absence of pace-setting jurisdictions, the presence of foot-dragging jurisdictions, and the limited opportunities for issue-linkage (or de-linkage) are likely to result in ‘thin’ international standards.

A second strand of literature has focused on the role of transgovernmental networks of domestic regulators (Ahdieh 2015; Bach and Newman 2010, 2014; Bach, De Francesco, Maggetti and Ruffing 2016a, b; Coen and Thatcher 2008; Jordana 2017; Turk 2014; Verdier 2009), arguing that international standard-setting no longer belongs to the realm of intergovernmental negotiations, but falls within the responsibility of a ‘transnational policy community of experts actors’ (Tsingou 2008, 2015a) that have common professional and educational backgrounds and share similar epistemological views (Chwieroth 2015; Kapstein 1992). Of particular interest are transgovernmental networks of regulators that have the following core features: they meet in multilateral bodies that are not established pursuant to treaties; their membership consists of domestic regulatory agencies; they work by consensus; and they issue (non-legally binding) soft law (Barr and Miller 2006; Brummer 2015, 2010a,b; Pauwelyn, Wessel and Wouters 2012; Verdier 2009).

The autonomous role of transgovernmental networks that are gathered in international standard-setting bodies is often downplayed by state-centric accounts because these bodies are considered as ‘empty vessels,’ where national interests play out and negotiations among different jurisdictions take place. Alternatively, these fora are considered by business power accounts as targets for the lobbying activity of the financial industry, which might result in
regulatory capture (Lall 2012; cf. Young 2012). On the one hand, transgovernmental networks of regulators are more than the sum of their members because the sharing of the same body of technical knowledge and similar epistemic views are important ‘glues’ for transgovernmental networks (Ban, Seabrooke, and Freitas 2016; Djelic and Quack 2010; Seabrooke and Henriksen 2017; Tsingou 2015a). On the other hand, the development of consensual knowledge is more difficult if there is a considerable level of uncertainty concerning a certain policy area, which, in turn, is more likely if a variety of sectoral regulators with distinct mandates, competences, and regulatory outlooks are involved (Broome and Seabrooke 2015; Mügge and Stellinga 2015; Broome, Homolar, and Kranke 2018; Mügge and Perry 2014), as it is often the case in a regime complex. In these instances, there can be considerable puzzling about problem-definition and problem-solving (Thiermann, Birk, and Friedrich 2018) as well as turf fighting among regulators seeking to fulfil their mandates and protect their competences (Busuioc 2016; Woyames Dreher 2019).

A third strand of literature has focused on the role of the business community, arguing that international standards tend to reflect the interests of private actors (Baker 2010; Baker and Wigan 2017; Bell and Hindmoor 2014, 2015, 2016; Macartney, Howarth, and James 2020; Mügge 2010; Underhill and Zhang 2008), that is to say, the rules that the financial industry finds more advantageous (or less burdensome), on the basis of the distributional implications of the new rules. This literature has examined the structural and instrumental power of the financial industry (Culpepper and Reinke 2014; James, Pagliari, and Young 2021; Pagliari 2012; Woll 2013, 2014, 2016), which, sometimes, also has infrastructural power because central banks operate in and through the financial markets (Braun 2020; Braun and Gabor 2020; Gabor and Ban 2016).

To limit adverse regulatory changes, private financial actors engage in lobbying as well as venue shopping by targeting a variety of regulatory venues at multiple levels of governance (James, Pagliari, and Young 2021; Lall 2012, 2014; Young 2014). Venue shopping is the idea that in seeking to maximize their influence over policy, actors—like financial industry lobbyists—seek out policy venues that are the most amenable to their preferences and goals (Baumgartner and Jones 2009; Beyers and Kerremans 2012; Mahoney and Baumgartner 2008). Regime complexes offer several opportunities to deploy this strategy because they encompass multiple venues. The private financial

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2 A related scholarship has highlighted the origins of financial regulation in professional ‘ecologies’ (Seabrooke and Tsingou 2014), as well as ‘boundary work’, whereby international organizations claim specific expertise in certain domains (Kranke 2020).
actors that are better placed to engage in venue shopping are transnational associations (Cerny 2010; McKeen-Edwards and Porter 2013), such as the Institute of International Finance (IIF) (Newman and Posner 2016b), or the International Swaps and Derivatives Association (ISDA) (Newman and Bach 2014), as well as the largest domestic players. At times, the financial industry is also able to form broad coalitions with actors in the real economy (see Pagliari and Young 2014; Young and Pagliari 2015).

The International Relations Literature on Regime Complexity

In the international relations literature, the presence of multiple institutions governing a single issue or a set of related issues is referred to as an international regime complex (Alter and Meunier 2009, 2006; Alter and Raustiala 2018; Breen, Hodson, and Moschella 2020; Heldt and Schmidtke 2019; Hennig 2017; Keohane and Victor 2011; Raustiala and Victor 2004). Regime complexes are marked by the existence of several sets of rules—also referred to as ‘elemental regimes’—that are created and maintained in distinct fora with the participation of different sets of actors (Orsini, Morin, and Young 2013; Morin and Orsini 2014). Thus, there can be ‘nested’ regimes, where institutions are embedded within each other in concentric circles, like Russian dolls; ‘overlapping’ regimes, where multiple institutions have authority over an issue, but agreements are not mutually exclusive or subsidiary to another; and ‘parallel’ regimes, where there is no formal or direct substantive overlap (Alter and Meunier 2009; Orsini, Morin, and Young 2013). Besides, elemental regimes can be ‘interlinked’, whereby the rules in a given elemental regime have direct implications for other regimes (Quaglia 2020).

In the literature, there are two contrasting views about the effects of regime complexity on the international governance of a given policy area.3 Some scholars argue that it brings distinct advantages over ‘traditional’ silos-like regimes. Thus, regime complexes are more flexible and adaptable (Keohane and Victor 2011); they can foster a sensible division of work among international standard-setting bodies (Gehring and Faude 2014), which allows the efficient use of their respective expertise (Quaglia and Spendzharova 2021a,b), for example, via institutional deference (Pratt 2018); they can reinforce the comparative advantage of individual institutions (Lesage and Van de

3 The literature on regime complexity in international relations has several points in common with the third wave theorizing in international political economy (Oatley 2011), in particular, the concept of complex interdependence (Oatley 2011, 2019).
A handful of authors emphasize the role of states in managing effectively regime complexity, arguing that countries that are multiple members of various elemental regimes value the collective goods produced by these regimes and operate as rational actors, whereby, when determining their actions in one regime, they take into account the implications that this will have on other elemental regimes within the complex (Gehring and Faude 2014). This is more likely if there are negative spillovers across elemental regimes, whereby ‘co-operation in one issue area undermines the pursuit of objectives in another issue area’ (Johnson and Urpelainen 2012). On the one hand, these scholars assume that states act as rational unitary actors with complete information. On the other hand, that is often not the case, especially in finance, where a variety of semi-independent domestic regulatory agencies are involved and uncertainty looms large. Other authors argue that a focal institution might emerge (e.g. the OECD on taxation, see Lesage and Van de Graaf 2013), taking the lead in promoting coordination in the international regime complex, or that like-minded professional networks might perform this function, for instance, in global tax policy (Seabrooke and Wigan 2016, 2017). Yet, it is difficult for technocratic actors and professional networks to play a coordinating role in a regime complex that includes different, often competing, sectoral regulators and their networks (Mügge and Perry 2014), as in the case of shadow banking.

In contrast to the positive view on international regime complexity just outlined, other scholars consider it as a ‘pathology’ (cf Abbott, Genschel, Snidal, and Zangl 2015: 7) that undermines governance effectiveness for three reasons. First, there is an inefficient duplication of rules and institutions (Pratt 2019), which is costly for states as well as for private actors. More generally, regime complexes are laden with legal inconsistencies because the rules in one regime are rarely coordinated closely with overlapping rules in related regimes (Breen, Hodson, and Moschella 2020). Second, there can be negative spillovers, if cooperation in one area of the complex undermines the pursuit of objectives in another area (Johnson and Urpelainen 2012). Third, regime complexity can foster regulatory arbitrage, whereby interested parties (mainly states, but also interest groups) engage in forum shopping (Busch 2007), regime shifting (Helfer 2009), or competitive multilateralism (Morse and Keohane 2014).

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4 Thus, countries that are members of multiple elemental regimes are likely to promote institutional adaptation via ‘complementary processes’, even if their interests diverge (Gehring and Faude 2014).