Transparency is the New Opacity: Constructing Final Regulation After the Crisis

Caroline Bradley
University of Miami School of Law, cbradley@law.miami.edu

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Many of the main actors constructing financial regulation in the wake of the global financial crisis era have a stated commitment to transparency. However, transparency in financial regulation is undermined because the information disclosed is simultaneously limited and excessive. On one hand, the communications are limited: transnational standard-setters publish their documents in a small number of languages (or only in English). Some institutions publish the full text of responses to consultations whereas others collate and condense responses (sometimes in ways that the responders regard as inaccurate). The characteristics of the bodies which respond to consultations, and their relationships with those whose interests they claim to represent may be visible or hidden.

On the other hand, the communications are overwhelming. Even partial transparency is of limited usefulness to observers of financial regulation because it is characterized by multiple complexities: financial transactions and the rules which apply to them are complex. Responsibility for financial regulation is shared among public and private bodies, and among transnational, national and sub-national entities. As a result, proposals for new rules and standards multiply among these different entities, creating an information glut.

The inadequacy of transparency mechanisms can be remedied, for example, by translating proposals into more languages or by providing and requiring improved disclosure of responses and responders. But the opacity which results from complexity is much more difficult to remedy and more fundamental. If this problem cannot be solved, transparency
alone cannot be relied on to legitimate the new financial order.

INTRODUCTION

In this article I focus on the development of standards of financial regulation, and argue that transparency in financial regulation is undermined because the information disclosed is simultaneously limited and excessive. Transparency is limited because policy-makers who develop the rules of financial regulation could do much more than they do to publicize their work. Transparency is excessive because financial regulation is complex, intersectional, multilayered, and transnational: more disclosure to more people in more effective forms about more proposals for new rules and standards adds to an information glut and undermines the ability of citizens to understand what is happening.

Transparency, conceived of as a desirable feature of government, is not new. Brandeis noted in 1914 that sunlight was the best disinfectant, and Florida is the sunshine state not only as a matter of meteorology but also because of its commitment to shining light on the workings of government. But although policies to promote transparency are not

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1 Thus I am focusing essentially on transparency with respect to the process by which standards and rules are generated. This ignores other issues of transparency with respect to financial regulation, such as transparency with respect to compliance and enforcement, and to the costs of the regulatory system; transparency about what the rules require (legal certainty), and the idea that many rules of financial regulation involve requirements of transparency. See, e.g., Christine Kaufmann & Rolf H. Weber, The Role of Transparency in Financial Regulation, 13 J. INT’L ECON. L. 779 (2010).

2 See, e.g., U.S. GOV’T ACCOUNTABILITY OFFICE, GAO-09-216, FINANCIAL REGULATION: A FRAMEWORK FOR CRAFTING AND ASSESSING PROPOSALS TO MODERNIZE THE OUTDATED U.S. FINANCIAL REGULATORY SYSTEM (2009) (noting the complexity of financial regulations). Cf. Sheila Jasanoff, Transparency in Public Science: Purposes, Reasons, Limits, 69 L. & CONTEMP. PROBS. 21, 24 (2006) ("[M]odern societies’ increasing dependence on science has proceeded hand in hand with developments that disable most citizens, even the most technically expert, from effectively addressing the larger set of questions: Is it good science; what is it good for; and is it good enough? Science has not only become infused with multiple social and political interests; it is also in danger of escaping effective critical control. Too often scientific knowledge seems to be ‘sequestered,’ concealed from those who could benefit from it or who could comment meaningfully on its quality and relevance.").


4 Louis D. Brandeis, OTHER PEOPLES’ MONEY: AND HOW THE BANKERS USE IT, 92 (1914) ("Publicity is justly commended as a remedy for social and industrial diseases. Sunlight is said to be the best of disinfectants; electric light the most efficient policeman.").

entirely novel, they are becoming more pervasive, more extensive, and even more controversial than in the past. Technological development encourages new modes of transparency as governments make more information available online via databases, web pages, and blogs. Governments promote transparency through commitments to access to information, and to consultation about policy. International organizations encourage states to adopt policies of transparency as an

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Whether the idea of transparency has any universal meaning is a complex question. Cf. Mark Bevir, Public Administration as Storytelling, 89 PUB. ADMIN. 183, 188 (2011) (“Our beliefs, concepts, actions, and practices are products of particular traditions or discourses. Social concepts (and social objects), such as ‘bureaucracy’ or ‘democracy’,

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aspect of good government, and adopt policies of transparency with respect to their own activities as a way of enhancing their own legitimacy. Courts approve of administrative transparency. Private sector organizations from Wikileaks to foundations to newspapers and individuals also contribute to transparency of public sector actions.

...
TRANSPARENCY IS THE NEW OPAKITY

During the financial crisis market participants discovered that governmental decisions about whether or not to rescue financial institutions in trouble were unpredictable. For example, commentators have criticized decisions of the US Government in September 2008 as undermining confidence in the financial markets. Whereas the US Government allowed Lehman Brothers to go into Chapter 11, it rescued AIG. Opaque financial transactions contributed to the market participants' lack of confidence in their ability to value assets. Apparent transfers of risk regulations published in the Federal Register easy to find and discuss, so that citizens can become better informed and more involved in the regulatory process.

20 See, e.g., U.S. FIN. CRISIS INQUIRY COMM'N, THE FINANCIAL CRISIS INQUIRY REPORT, xxi (2011), available at http://www.gpoaccess.gov/fcic/fcic.pdf ("[T]he government's inconsistent handling of major financial institutions during the crisis—the decision to rescue Bear Stearns and then to place Fannie Mae and Freddie Mac into conservatorship, followed by its decision not to save Lehman Brothers and then to save AIG—increased uncertainty and panic in the market."); Fin. Stability Bd., Consultative Document: Effective Resolution of Systemically Important Financial Institutions, 7 (Jul. 19, 2011) available at http://www.financialstabilityboard.org/publications/r_110719.pdf ("The disorderly collapse of Lehman Brothers in September 2008 provided a sharp and painful lesson of the costs to the financial system and the global economy of the absence of powers and tools for dealing with the failure of a SIFI. Lehman Brothers was the last SIFI allowed to fail during the last financial crisis. All other SIFIs at risk were supported by public capital injections, asset or liability guarantees, or exceptional liquidity measures undertaken by central banks. While this was necessary for economic and financial stability reasons, public bail-outs placed taxpayer funds at unacceptable risks and has increased moral hazard in a very significant way.").

21 See, e.g., David Zaring, Administration by Treasury, 95 MINN. L. REV. 187, 187 (2010) ("Treasury . . . issued death sentences against other financial institutions, including Lehman Brothers and Washington Mutual . . .").

22 See, e.g., CONG. OVERSIGHT PANEL, THE AIG RESCUE, ITS IMPACT ON MARKETS, AND THE GOVERNMENT'S EXIT STRATEGY, 195 (Jun. 10, 2010) ("By providing a complete bailout that called for no shared sacrifice among AIG and its creditors, FRBNY and Treasury fundamentally changed the rules of America's financial marketplace.").

turned out not to be real.\textsuperscript{24}

As a result, many changes and proposed changes to rules of financial regulation in the wake of the crisis have sought to improve transparency.\textsuperscript{25} For example, new rules require credit rating agencies to disclose characteristics of the models they use in developing ratings.\textsuperscript{26} Policy-makers have focused on establishing banking regimes that will allow banks to fail, improving market discipline, and reducing moral hazard.\textsuperscript{27}

Many of the main actors constructing financial regulation in the wake of the global financial crisis era have stated commitments to transparency. The members of the Financial Stability Board (FSB) agreed to subject themselves to peer reviews of their implementation of transnational standards of financial regulation,\textsuperscript{28} and the FSB publishes the reviews.\textsuperscript{29}


\textsuperscript{25} See Donald C. Langevoort, Global Securities Regulation after the Financial Crisis, 13 J. INT’L ECON. L. 799, 805 (2010) (pointing out that whereas transparency may be critical for securities regulation it may not be so critical for risk regulation, stating “Separation between the domains of securities regulation and substantive risk regulation also has a second, more normative value. Put simply, those two domains are inherently at odds, and whenever combined under one roof, securities regulation tends to lose. Securities regulation is about truth-telling, and under stressful conditions, risk regulators almost always prefer concealing the truth to exposing it. To be sure, it is far from clear that truth-telling is always the right course, but preserving a regulatory capacity that favors transparency is generally preferable to folding it into the risk regulator’s task with some vague mandate to value disclosure.”).

\textsuperscript{26} See, e.g., Council Regulation 1060/2009, art. 8, 2009 O.J. (L 302) 1, 12 (providing that a “credit rating agency shall disclose to the public the methodologies, models and key rating assumptions it uses in its credit rating activities”).

\textsuperscript{27} See, e.g., Commission Communication on An EU Framework for Crisis Management in the Financial Sector, at 2, COM (2010) 579 final (Oct. 20, 2010) available at http://ec.europa.eu/internal_market/bank/docs/crisis-management/framework/com2010_579_en.pdf (“Banks must be allowed to fail, like any other business. Authorities must be equipped with tools that enable them to prevent the systemic damage caused by disorderly failure of such institutions, without unnecessarily exposing taxpayer to risk of loss and causing wider economic damage. Alongside tougher regulation reducing the chances of a bank becoming distressed, a credible regime is needed to re-instill market discipline associated with the threat of failure and to reduce moral hazard—the implicit protection from failure that those in the banking sector currently enjoy.”).


The Basel Committee now publishes consultative documents online and has even published some responses to consultation. The White House has adopted a policy of transparency and open government. Open government includes moves to make government datasets, including those relating to spending, more visible. It also involves efforts to make the regulatory process more transparent. Administrative agencies have invited the public to make comments about how they should go about making rules, rather than merely responding to specific regulatory proposals. All of these initiatives are facilitated by developments in information technology.

[hereinafter Italy Peer Review].

30 See, e.g., Basel Committee on Banking Supervision, Press Release, Pillar 3 Disclosure Requirements on Remuneration - Consultative Document (Dec. 27, 2010), available at http://www.bis.org/publ/bcbs191.htm (“The Basel Committee welcomes comments on this consultative document. Comments should be submitted by Friday, 25 February 2011 by email to: baselcommittee@bis.org. Alternatively, comments may be sent by post to the Secretariat of the Basel Committee on Banking Supervision, Bank for International Settlements, CH-4002 Basel, Switzerland. All comments may be published on the Bank for International Settlements’ website unless a commenter specifically requests confidential treatment.”).


34 E.g., REGULATIONS.GOV, http://www.regulations.gov/ (last visited Sept. 9, 2011) (facilitating access to and participation in the federal regulatory process).

35 See, e.g., Press Release, SEC, SEC Chairman Schapiro Announces Open Process for Regulatory Reform Rulemaking (Jul. 27, 2010) http://www.sec.gov/news/press/2010/2010-135.htm (“Under a new process, the public will be able to comment before the agency even proposes its regulatory reform rules and amendments. . . . The new process goes well beyond what is legally required and will provide expanded opportunity for public comment and greater transparency and accountability. The SEC also expects to hold public hearings on selected topics.”).
This is a very brief and incomplete description of the ways in which governments and supranational organizations have worked towards transparency. However, it illustrates that transparency is an important element of the way in which policy-making bodies conceive of and describe their roles. Nevertheless, transparency may not achieve effective communication.\(^{36}\)

**FINANCIAL REGULATION AND TRANSPARENCY**

In many ways domestic initiatives to reform or adjust financial regulation are transparent in the same way as any other domestic changes in the law. The activities of legislative bodies are visible via the internet\(^{37}\) and television,\(^{38}\) and sometimes by video over the internet,\(^{39}\) and are also reported on by the news media. Regulators publish proposed regulations for public comment.\(^{40}\) But despite policy-makers' efforts to make information

\(^{36}\) See, e.g., Onora O'Neill, *Ethics for Communication?* 17 EUR. J. PHIL. 167, 170 (2009) ("It is all too common for material that is publicly disclosed or disseminated, thereby achieving transparency, not to be read, heard or seen by any or many audiences; even where it is read, heard or seen, it may not to be grasped or understood by those audiences. Transparency counters secrecy, but it does not ensure communication ... Sometimes it is even used to maintain secrecy: one effective way to ensure that information is not communicated is not to keep it secret, but to 'release' it with no fanfare.").


\(^{39}\) E.g., Parliamentary Television of the German Bundestag, GERMAN BUNDESTAG, http://www.bundestag.de/htdocs_e/press/television.html (last visited Sept. 9, 2011) (providing access to live and recorded video of proceedings in the German Bundestag); see legislative websites cited supra note 37 (providing access to live and recorded video of legislative proceedings).

\(^{40}\) E.g., REGULATIONS.GOV, http://www.regulations.gov/#!aboutProgram (last visited Sept. 9, 2011) (noting that "Federal regulations have been available for public comment for many years, but people used to have to visit a government reading room to provide comments. Today, the public can share opinions from anywhere on Regulations.gov."); see also, e.g., Harold C. Relyea, *The Federal Register: Origins, Formulation, Realization, and Heritage*, 28 GOV'T INFO. Q. 295 (2011) (describing the introduction of the Federal Register); cf. Erwin N. Griswold, *Government in Ignorance of the Law – A Plea for Better Publication of Executive Legislation*, 48 HARV. L. REV. 198, 208 (1934) ("[A]part from the United States, it would be very difficult to find a
about what they are doing available to the public, the public is often not well-informed about the law or proposals for its reform.\textsuperscript{41}

One reason citizens may be under-informed about law and policy is that some policy issues seem, as a general matter, less salient to them than others. Scandals and crises can increase salience,\textsuperscript{42} but many areas of financial regulation are less salient for citizens, even at times of financial scandal or crisis.\textsuperscript{43} Policy networks and entrepreneurs influence the development of regulation by taking advantage of opportunities to promote their own preferred policy ideas.\textsuperscript{44}


\textsuperscript{42} Cf. Michael D. Jones & Hank C. Jenkins-Smith, \textit{Trans-Subsystem Dynamics: Policy Topography, Mass Opinion, and Policy Change}, 37 POLICY STUD. J. 37, 42 (2009) (“Salience disruption is initiated by large-scale events that focus public attention on specific subsystems (or groups of them) and thereby generates enormous effort, resources, and change in those subsystems, while simultaneously drawing attention and resources away from others.”).


\textsuperscript{44} The corporate governance community promotes changes in governance as a solution to a range of issues. For example, proposals to change banking regulation now include changes to corporate governance requirements for banks. See, e.g., European Commission, \textit{Proposal for a Directive of the Access to the Activity of Credit Institutions and the Prudential Supervision of Credit Institutions and Investment Firms and Amending Directive 2002/87/EC of the European Parliament and of the Council on the Supplementary Supervision of Credit Institutions, Insurance Undertakings and Investment Firms in a Financial Conglomerate}, at 3, COM (2011) 453 final (Jul. 20, 2011) (“The collapse of financial markets in autumn 2008 and the credit crunch that followed can be attributed to multiple, often inter-related, factors at both macro- and micro-economic levels, as identified in the Report of the High-Level Group on Financial Supervision in the EU published on 25 February 2009, and in particular to the accumulation of excessive risk in the financial system. This excessive accumulation of risk was in part due to the weaknesses in corporate governance of financial institutions, especially in banks. Whilst not all banks suffered from systemic weaknesses of governance arrangements, the Basel Committee on Banking Supervision (BCBS) referred to ‘a number of corporate governance failures and lapses.’”). Cf. Diane Stone, \textit{Private Philanthropy or Policy Transfer? The Transnational Norms of the Open Society Institute}, 38 POL’Y AND POL. 269, 272 (2010) (“[E]lite forms of associational life... professional bodies with substantial financial resources or patronage (and sometimes interlock)... are aimed at influencing policy and engaged in transferring
How policy issues are characterized may affect how salient those issues are: issue characterization is key. Policy-makers who characterize issues relating to sub-prime lending as "predatory lending" may engage more citizens in discussions about proposals to change the law than if they used some other more neutral characterization. Narratives help with characterization: different versions of sub-prime lending narratives would suggest different regulatory responses. If the sub-prime lending problems were caused by inadequate risk management at financial firms, the appropriate regulatory solution would focus on encouraging or requiring financial firms to adopt improved risk management strategies and to engage in responsible lending. If the problems were caused by borrowers who enthusiastically took on "liar loans" they could not afford, the appropriate solution would encourage responsible borrowing.

Statutes and regulations are frequently written in very technical language and one way of improving the transparency of law is to write the law, and proposals to change the law, in language citizens are able to understand. Policy-makers may draft plain language regulations and explanatory documents in simple language to improve communication with citizens. But moving from complex technical language to plainer language takes time, and even where explanations of financial rules are expressed in plain language the rules are often complex, and the activities they would

experts and policy ideas between countries and professional communities.

Cf. Anne Schneider & Mara Sidney, What Is Next for Policy Design and Social Construction Theory?, 37 POL'Y STUD. J. 103, 106 (2009) ("The policy design approach directs scholars to examine who constructs policy issues, and how they do so, such that policy actors and the public accept particular understandings as 'real,' and how constructions of groups, problems and knowledge then manifest themselves and become institutionalized into policy designs, which subsequently reinforce and disseminate these constructions.").

The EU has attempted to compromise with proposals which focus on "irresponsible lending and borrowing." See Commission Proposal for a Directive on Credit Agreements Relating to Residential Property, at 2 COM (2011) 142 final (Mar. 31, 2011).


See Andrew G. Haldane, Exec. Dir., Fin. Stability, Bank of England, Speech at the American Economic Association, Denver, Colo.: Capital Discipline (Jan. 9, 2011), available at http://www.bankofengland.co.uk/publications/speeches/2011/speech484.pdf (suggesting that simple rules might be appropriate for complex activities, stating "As a thought experiment, imagine instead we were designing a regulatory framework from scratch. Finance is a classic complex, adaptive system. What properties would a
control are also complex. This layering of complexities produces and intensifies opacity.

Financial regulation is increasingly a transnational, rather than a merely domestic, phenomenon. For many years, regulators have worked with their counterparts in other jurisdictions to develop standards for financial regulation. Securities regulators have worked together in the International Organisation of Securities Commissions (IOSCO), insurance supervisors work through the International Association of Insurance Supervisors (IAIS), and central banks and bank regulators form the Basel Committee on Banking Supervision. These groups are essentially collaborative, technocratic networks of regulators with the power to develop recommendations, principles and standards which are not, as a formal matter, legally binding. However, although the principles and standards are not legally binding as such, states whose regulators participate in their articulation may feel obliged to implement them domestically. And states which depend on the IMF’s financial resources will be subject to the IMF’s examination of their economies, including their bank regulatory systems. The global financial crisis has increased demand for funds from the IMF. The IMF’s interest in monitoring the financial soundness of its complex, adaptive system such as finance ideally exhibit to best insure about future crises? Simplicity is one. There is a key lesson, here, from the literature on complex systems. Faced with complexity, the temptation is to seek complex control devices. In fact, complex systems typically call for simple control rules. To do otherwise simply compounds system complexity with control complexity.”).

See, e.g., ANNE-MARIE SLAUGHTER, A NEW WORLD ORDER, 36 (2004) (describing regulators as “the new diplomats.”).


See generally, IMF, Articles of Agreement of the International Monetary Fund, http://www.imf.org/external/pubs/ft/aa/index.htm (last visited Sept. 9, 2011) (explaining that the IMF is a treaty-based international organization which was founded in 1944 to govern the international monetary system to assure exchange rate stability and encourage IMF members to do away with exchange restrictions).


See, e.g., Christine Lagarde, Managing Dir., IMF, Speech at the Council on Foreign Relations: Challenges and Opportunities for the World Economy and the IMF (Jul. 26, 2011), available at http://www.imf.org/external/np/speeches/2011/072611.htm (“Over the last few years, the IMF’s role has grown tremendously. It was an intellectual leader during the crisis, with its early call for coordinated policy stimulus. It has been a flexible financial partner, reforming its lending instruments and making available a record amount of support, totaling about $330 billion. And it is helping build a stronger
members, especially of its borrowers, gives it an interest in regulation as a mechanism for promoting financial stability.\(^{57}\) In response to criticism, the IMF has recently been working to address some of the concerns about its role by emphasizing transparency as an accountability mechanism.\(^{58}\)

Transnational standard-setters have incentives to be transparent about their work partly because regulated firms wish to express their views on proposed standards, and partly in order to legitimize their work to critics. Although the Basel Committee has not clearly articulated its views about transparency and consultation, IOSCO has done so. In 2005 IOSCO published a document describing its policies with respect to public consultation.\(^ {59}\) The document described IOSCO's objectives in carrying out public consultations as including benefiting from "the expertise of the international financial community," promoting "understanding of IOSCO's mission as the international standard setter for securities markets" and continuing to increase transparency about IOSCO's work.\(^ {60}\)

The Basel Committee and IOSCO, as networks of regulators, co-operate across territorial boundaries to address systemic problems and to be more effective domestically. But their activities have an impact on the competitiveness of financial firms. Financial firms which are subject to relaxed regulation in their home state may benefit from a competitive advantage with respect to firms based in jurisdictions with more demanding regulatory regimes. Governmental support for financial firms may function as a subsidy. The original Basel Accord which was introduced in 1988 provided for states to impose capital adequacy requirements on international banks, even if those states addressed risks to financial stability in other ways (such as through governmental guarantees). The Accord was agreed to after the US and the UK announced they would apply stringent capital adequacy requirements to foreign banks doing business in their global economy, through its policy advice and technical assistance efforts.

\(^{57}\) See, e.g., José Viñals et al., IMF Staff Position Note: Shaping the New Financial System, 6 (2010) available at http://www.imf.org/external/pubs/ft/spn/2010/spn1015.pdf ("The IMF, for its part, also has a unique role to play, given its universal membership, its macro-financial mandate, and its well-established roles in the area of bilateral and multilateral surveillance and technical assistance.").

\(^{58}\) See, e.g., IMF, Transparency is Key to Accountability, supra note 15.


\(^{60}\) Id.
The story of the genesis of the original Basel Accord illustrates that the interests of private firms have an impact on regulation at the transnational level as well as at the domestic level. The multi-level governance model of regulation focuses on the idea of levels of regulation, but financial regulation involves not just levels of regulation but multiple intersections between different spheres of regulation: intersections between governmental and non-governmental or private spheres; between the spheres of expertise and of politics; and between the domestic and foreign or international spheres. These spheres are interconnected. Governmental authorities work together across territorial borders. There is some overlap between the private sphere and the sphere of expertise, and the market-based sphere of expertise is transnational, rather than being entirely domestic. The intricacies of the interconnections between the different spheres of financial regulation form an additional layer of opacity over the complexities of the markets and transactions which occur on those markets. Thus financial regulation involves complex activities and markets, intricate and diffuse processes for assessing and deciding on rules and standards, and many complicated rules.

Before the crisis, financial firms had considerable success in persuading governments and the networks of regulators to defer to a large extent to the expertise of the private sector. IOSCO said that the “regulatory regime should make appropriate use of Self-Regulatory Organizations.” When the crisis hit, the idea of self-regulation seemed suddenly less attractive. For example, in late 2008 Christopher Cox, then Chairman of the SEC, said that it had become “abundantly clear that voluntary regulation does not work.” The language of the IOSCO Objectives and Principles was

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amended to reflect this new nervousness about self-regulation—the 2010 version backtracks from the earlier exhortation to make appropriate use of self-regulation and merely refers to the possibility that the regulatory system will involve self-regulation.  

In another example of public reliance on private regulation, Basel II allowed regulators to permit sophisticated banks to use their own models for credit risk. Adair Turner has argued forcefully since the crisis began that everyone put too much faith in these models: “Mathematical sophistication ended up not containing risk, but providing false assurance that other prima facie indicators of increasing risk (e.g. rapid credit extension and balance sheet growth) could be safely ignored.”  

The crisis disturbed the complacency with which policy-makers viewed self-regulation in the financial markets. But the private sector reacted by developing new self-regulatory principles and practices. Industry groups have focused on the securitization process, for example by developing guidelines for limiting reliance on credit ratings, and addressing issues of transparency. The International Swaps and Derivatives Association (ISDA), has developed protocols for novations of credit derivatives and interest rate transactions to address backlogs.  

Industry groups have actively negotiated and lobbied over changes to the financial regulatory structure and rules. They have done so with the knowledge that circumstances have changed, and earlier habits of deference to industry views have been disrupted. For example, the

69 Cf. Nout Wellink, Chairman, Basel Comm. on Banking Supervision, President, De Nederlandsche Bank, Remarks at the FSI High-Level Meeting on the New Framework to Strengthen Financial Stability and Regulatory Priorities: Basel III: a Roadmap to Better Banking Regulation and Supervision, 3, (May 24, 2011), http://www.bis.org/speeches/sp110524.pdf (“We have come a long way from light touch regulation to what some like to call ‘intrusive’ supervision. And this means that
Securities Industry and Financial Markets Association (SIFMA), a trade group formed after the merger of the Securities Industry Association and the Bond Market Association, submitted a 71-page response to the SEC’s proposals for new regulations on issues of asset backed securities. The response included this passage: “SIFMA’s members have directly experienced the pain of the recent financial crisis and the collapse of the structured finance markets, and are acutely sensitive to what is at stake as both government and the private sector work to rebuild these vital markets. There is a long way to go.”

The development of financial regulation involves conversations and negotiations between market participants and the networks of regulators which develop standards for their behavior. These processes of conversation and negotiation take place across territorial borders, and are reasonably transparent to regulators and market participants, but they are much less transparent to citizens. Many believe that it is entirely appropriate for business regulation to be constructed within expert policy networks, and it is difficult to imagine how financial regulation (complex as it is) could be made entirely transparent to non-expert citizens. But politicians and regulators do make grand claims to be transparent, and these grand claims make deficits in transparency problematic. Politicians and regulators do not tend to make fine distinctions in their discussions of the role and modalities of transparency in different policy contexts. Perhaps they should.

supervisors sometimes need to take actions that are unpopular with individual banks or with prevailing public opinions.”.

d. at 1.


Cf. Fenster, supra note 7, at 889 (“[T]ransparency is not merely a political norm; candidates, partisans, and activists utilize it as a rhetorical weapon to promise full-scale political and social redemption.”).

Cf. Robert Hoppe, Institutional Constraints and Practical Problems in
The financial markets and the regulations that apply to them are impenetrable for most citizens who are not involved in activities related to the financial markets. Citizens’ lack of understanding of financial matters leads governments and international organizations to work to improve financial literacy. Although citizens may need to make decisions about their own mortgages and investment for retirement they do not need to participate in developing rules of financial regulation. This activity remains in the hands of the experts. But the experts are not always right about what needs to be done, and when they are wrong it is others, including the taxpaying citizens, who pick up the pieces.

The following sections of the article examine ways in which the processes for development of transnational standards of financial regulation are both insufficiently and excessively transparent.

**CRITIQUE PART 1: INSUFFICIENT TRANSPARENCY**

The Basel Committee and IOSCO both publish documents denominated consultation documents. But such publication is an example of formal rather than real transparency (or of transparency as opposed to communication). Publication of a document on the standard-setter’s web pages does not ensure that anyone reads it. Financial crises may be front

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77 E.g., Toby Helm & Daniel Boffey, Ministers Admit Family Debt Burden Is Set to Soar, THE GUARDIAN (Apr. 2, 2011), http://www.guardian.co.uk/politics/2011/apr/02/family-debt-burden-government-figures/print/. The effects of financial crises may be felt far away from the markets where they occur. See, e.g., Sophie Chauvin & André Geis, Who Has Been Affected, How and Why? The Spillover of The Global Financial Crisis To Sub-Saharan Africa And Ways to Recovery, Eur. Central Bank Occasional Paper Ser. No. 124, 8 (Mar. 2011) http://www.ecb.int/pub/pdf/scpops/ecbocp124.pdf (“the first wave of the crisis, characterised by the rapid spread of financial turmoil in the United States to other developed economies and some emerging markets via their closely interconnected financial systems, left Sub-Saharan Africa, with the exception of South Africa, comparatively unscathed. . . . However, the second wave of the turmoil, when the disorder in the financial sector began to have an impact on the real economy, had profound consequences for the continent.”).


79 Cf. Onora O’Neill, supra note 36, at 173 (“The activity by which information is made transparent places it in the public domain, but does not guarantee that anybody will find it, understand it or grasp its relevance.”).
page news, but the technical details of rules and standards are not. Online newspapers do not consistently provide links to government reports and consultation documents on transnational standards. Individuals, firms, and organizations of firms do respond to the consultation documents, although the responses of firms and organizations are more numerous than those of individuals.\(^8^0\) Trade associations draw their members’ attention to consultations on issues about which those members might have views.\(^8^1\) When trade associations publicize consultations to their members they draw attention to the consultations and they also show that they are working on behalf of their members. Such publicity does help to increase the number of people who are aware of the proposals in consultation documents, but the people who learn about consultations from trade associations are within the zone of expertise. Those who do are not members of trade associations or who do not subscribe to newsletters which track proposed new standards are less likely to find out about the proposals. The proposals may be transparent in the sense that they are available, but this transparency has limited impact in terms of informing non-expert citizens about standards which may affect them.

Transnational consultations on proposed standards suffer from a further lack of effective transparency in that they are usually conducted in a limited number of languages, and sometimes only in English. In contrast to the EU’s commitment to multilingualism, international organizations and standard-setters which focus on financial regulation have not been committed from the outset to publicizing their work in multiple language versions. This fact suggests some limits to those organizations’ commitment to effective, rather than to formal, transparency. Successful trade associations can operate across borders and communicate in many languages, but processes for the development of transnational standards which are carried out solely in English, or in a limited number of other languages, have the effect of excluding some people from participation. This issue is being identified, if not resolved: for example, commentators on the IMF’s transparency policy suggested that the IMF should translate more of its documents into languages other than English.\(^8^2\) The Bank for

\(^8^0\) See Comments Received on the Consultative Document “Capitalisation of Bank Exposures to Central Counterparties,” BANK FOR INT’L SETTLEMENTS, (Dec. 2010), http://www.bis.org/publ/bcbs190/cacomments.htm (showing that the Basel Committee’s listing of responses to its consultative document includes responses from two individuals, both knowledgeable about finance and the financial markets).


\(^8^2\) Consultation Roundtable on IMF Transparency: Summary of Comments from Civil
International Settlements (BIS) publishes all of its documents in English and some in German, Spanish, French, and Italian. IOSCO relies more on publication in English. At the same time, some trade associations communicate with domestic regulators in the regulators’ own languages. ISDA has written comment letters in a range of languages from Romanian to Japanese.

Trade associations are frequent commentators on proposed standards of financial regulation, but, unsurprisingly their comments are designed more to further their own institutional interests and those of their members than to divine truth. They seek to shape the standards, even if their comments do not promote much in the way of public debate about the standards. Frequently trade associations submit comments at the last minute, limiting the ability of others to respond to assertions in their comment letters. Trade associations may submit their comments on proposed rules and standards late because of the pressure of work and the need to solicit and incorporate feedback from their members rather than to make it difficult for others to counter the content of their submissions. But late submission of comments by influential trade associations effectively limits public discussion. Trade associations co-ordinate their responses with each other and with their members, but the behavior of trade associations is often not fully transparent to outside observers.

The relationships between trade associations and those they represent or

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87 For example, trade associations establish committees to focus on particular regulatory issues. E.g., Committees, SEC. INDUS. AND FIN. MKT. ASS’N, http://www.sifma.org/about/committees/ (last visited Oct. 17, 2011) (listing committees).
claim to represent are not always transparent. Other sophisticated organizations such as law firms may also offer expert comment on regulatory proposals without explaining to what extent their comments are designed to further their clients’ interests.\textsuperscript{88} Policy-makers have begun to focus on this issue and ask organizations that respond to consultations to explain how they decided to adopt the positions they take in their responses.\textsuperscript{89}

Another aspect of transparency with respect to the development of standards involves the publication of responses to consultations. Different organizations have adopted different approaches to this issue. Until recently the Basel Committee did not publish individual comment letters on its website.\textsuperscript{90} IOSCO tends to characterize rather than to publish the full text of comments it receives,\textsuperscript{91} although it does sometimes refer to commentators by name\textsuperscript{92} (which means that those who are interested may

\textsuperscript{88} For example, Jennifer Marshall et al., \textit{Technical details of a possible EU framework for bank recovery and resolution: Response to the European Commission's January 2011 consultation}, \textsc{Allen and Overy}, (Mar. 3, 2011), http://elink.allenovery.com/getFile.aspx?ItemType=Bulletin&id=f9ca8a1f-2199-4e27-8cee-57e0d3b02370 is one such document. It also includes comments on the economic cost of the proposals. Id. at 6.

\textsuperscript{89} See, e.g., \textit{Call for Evidence: Convention on International Interests in Mobile Equipment and Protocol thereto on Matters Specific to Aircraft 4 (U.K.)}, \textsc{Dep't for Bus. Innovation and Skills}, (July 2010), http://www.bis.gov.uk/assets/biscore/corporate/docs/c/10-1032-call-for-evidence-mobile-aircraft-equipment.pdf (“When responding please state whether you are responding as an individual or representing the views of an organisation. If you are responding on behalf of an organisation, please make it clear who the organisation represents, and how the views of your members were assembled. It would also be useful to know whether you are a small, medium or large size enterprise.”).


\textsuperscript{91} See, e.g., \textit{Technical Comm. of the Int’l Org. of Sec. Comm’n, Hedge Funds Oversight Final Report}, 8 (Jun. 2009), http://www.iosco.org/library/pubdocs/pdf/IOSCOPD293.pdf (“Having considered the public comments received on the Consultation Report, the IOSCO Technical Committee has developed the six high level principles below which should be applied to the regulation of hedge funds.”). In addition, the document has an annex reporting on the results of the consultation and conclusions in light of responses. Id. at 17-23. In some cases the Report refers to the responses of specific entities with attribution. See, e.g., id. at 19 (“Considering the international dimension of the hedge funds activities, all respondents supported the need for more convergence on the regulation of hedge fund managers in order to minimise the risk of regulatory arbitrage and ensure better level playing field.”) (citing \textit{Init. Council of Sec. Asn’s Pub. Response to the IOSCO Consultation Report on Hedge Funds Oversight}). But see, e.g., id. at 20 (“One respondent challenged that the wider publication of details on business plan and fees charged could create commercial problems for the managers.”) (showing that comments are not always attributed to particular respondents).

\textsuperscript{92} See, e.g., \textit{Technical Comm. of the Int’l Org. of Sec. Commissions, Hedge
be able to read the comments on the commentators' own web pages). Collation and condensation of responses may make the results of a consultation more accessible than making the full text of all responses available, but it also risks eliding some of the subtleties in individual responses.

In domestic regulatory regimes, the choices agencies make about how to characterize public comments on proposed rule-makings and about what facts revealed in comments justify regulatory action are subject to review by courts. Transparency in the domestic context facilitates judicial review. Courts may police the requirement that reasons be given for administrative or legislative action in order to ensure effective judicial review. Transparency of domestic governmental activity may not be perfect, but it is supported by binding legal rules enforced by courts. Transnational standard-setters such as the Basel Committee and IOSCO are subject to no such rules. They are as transparent as they choose to be, and there is no reliable coercive mechanism to force greater transparency upon them. For example, whereas citizens can force governmental agencies to disclose some information under freedom of information laws, the Basel Committee and IOSCO are subject to no such laws. When the Basel Committee publishes standards documents following consultations, the documents do not clearly demonstrate reasoned connections between the consultation process and the resulting standards. The transnational

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93 See, e.g., Cass Sunstein, Factions, Self-Interest, and the APA: Four Lessons since 1946, 72 Va. L. Rev. 271, 281-82 (1986) ("Of central importance here is the task of ensuring that the relevant considerations, including the actual value judgments by the agency, are disclosed to the public and subjected to general scrutiny and review. Administrative and judicial efforts to solve this problem have come in the form of a deliberative conception of administration, a conception that amounts to a significant reformulation of previous understandings.").


95 E.g., Fenster, supra note 7, at 889-91 (noting Governmental invocations of exceptions to transparency).


97 But see Fenster, supra note 7 (noting some of the deficiencies of such laws).

standards process may be formally transparent in some ways, but in important ways it is neither reliably nor effectively transparent.

CRITIQUE PART 2: EXCESSIVE TRANSPARENCY

Although in some ways citizens may find it difficult to know when standard setters are proposing new standards and what those standards and their implications are, at the same time, the volume of information about standard setting published by different organizations is overwhelming. Consumer advocates recognize that consumers’ ability to make good financial choices may be hampered by information overload, and consumers are far more likely to feel they need to make personal financial choices than that they need to wrestle with the details of financial regulation. Information overload tends to impede real communication about standards.

The previous section of this article focused on transparency deficits in transnational standard-setters, but, as noted earlier, financial regulation is developed in multiple fora: responsibility for financial regulation is shared among public and private bodies, and among transnational, national and sub-national entities. Proposals for new rules and standards multiply among these different entities, together with the responses of trade associations and their members, creating an information glut. The financial crisis has increased this glut, by prompting the development of new complex standards at the transnational level as well as legislative and regulatory action around the globe. Even organizations which represent consumer interests have noted the volume of work caused by financial regulatory reform.

Since the middle of 2010, in addition to publishing peer reviews of regulation, the Financial Stability Board has published short background


99 See, e.g., FIN. SERVS. CONSUMER PANEL, RESPONSE TO INTERIM REP. AND CONSULTATION ON REFORM OPTIONS, 5 (Jul. 4, 2011), http://www.fs-cp.org.uk/publications/pdf/response_icb_report.pdf (“Transparency in charging and costs is essential in providing customers with a basis on which to make a choice, but this transparency will simply result in information overload if the complexity of charging, costs and contingent fees continue to prevail.”).

100 See, e.g., Adam Phillips, Foreword to FIN. SERV. CONSUMER PANEL ANNUAL REPORT 2010/2011, at 4 (2011) available at http://www.fs-cp.org.uk/publications/pdf/annual_report11.pdf (last visited Oct. 18, 2011) (“Given the scope and size of the reforms to UK regulation it has been an arduous process to ensure that the FCA will be an effective body that has the consumer interest at heart.”).

101 See, e.g., FIN. STABILITY BD. supra note 28, at 2.
notes on shadow banking and exchange traded funds, four progress reports on the development of financial regulation since the crisis, and a consultation document on systemically important financial institutions.

In the same period the Basel Committee published consultation papers on a countercyclical capital buffer, on loss absorbency of regulatory capital, on the alignment of risk and remuneration, on deposit insurance, on operational risk, on capitalization of bank exposures to

110 BASEL COMM. ON BANKING SUPERVISION, BANK FOR INT’L SETTLEMENTS, CONSULTATIVE DOCUMENT: SOUND PRACTICES FOR THE MGMT. AND SUPERVISION OF OPERATIONAL RISK (Dec. 2010), http://www.bis.org/publ/bcbs183.pdf; BASEL COMM. ON BANKING SUPERVISION, BANK FOR INT’L SETTLEMENTS, CONSULTATIVE DOCUMENT,
TRANSPARENCY IS THE NEW OPAcity

central counterparties, \(^{111}\) and on systemically important banks. \(^{112}\) During the same period, IOSCO issued a number of publications that included documents relating to credit rating agencies, \(^{113}\) securitization, \(^{114}\) and systemic risk and securities regulation. \(^{115}\) The EU has been busy generating new rules and proposed rules on these topics, as have domestic legislators and regulators. The US Congress enacted the Dodd-Frank Act, which was more voluminous than the statutes which preceded it, \(^{116}\) and mandated a number of different regulatory agencies to develop many complex sets of new rules. \(^{117}\) In the EU and the US policy-makers have focused on issues identified by transnational bodies, such as remuneration of financial services employees, \(^{118}\) and problems of crisis management in financial firms. \(^{119}\) Trade associations have argued that rules in force in different jurisdictions should be consistent in order to ensure a level playing field


\(^{111}\) BASEL COMM. ON BANKING SUPERVISION, BANK FOR INT’L SETTLEMENTS, CONSULTATIVE DOCUMENT, CAPITALISATION OF BANK EXPOSURES TO CENT. COUNTERPARTIES (Dec. 2010), http://www.bis.org/publ/bcbs190.pdf.

\(^{112}\) BASEL COMM. ON BANKING SUPERVISION, supra note 105.


\(^{117}\) See id. at 52-54 (describing the enlarging financial regulatory structure under Dodd-Frank).


and/or limit regulatory arbitrage. But private sector initiatives add to the information overload.

Added to the difficulties associated with multiple differing proposals emanating from different organizations is the underlying complexity of the financial activity and of existing regulation. Complex transactions lead to complex rules and standards and this complexity impedes transparency. But efforts to make transnational standard-setting processes more transparent risk making the information overload problem worse rather than better.

Some of the participants in transnational standard-setting may have an interest in opacity similar to the interest of lawyers who engage in discovery abuse, but part of the excessive transparency problem derives from the reality of different institutional actors carrying out their own institutional missions without considering that better coordination might improve the transparency of the process as a whole. Conceptualizing the transparency issue as the need to make everything visible to those who choose to look can lead to practices which are counter-productive viewed from the perspective that useful transparency enables citizens to understand, and not merely to find when they look.

**Final Thoughts: Resolving Transparency**

Transparency in standard-setting suffers from two weaknesses: at the

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120 See, e.g., EUR. COMM’N, OVERVIEW OF THE RESULTS OF THE PUBLIC CONSULTATION ON TECHNICAL DETAILS OF A POSSIBLE EU FRAMEWORK FOR BANK RESOLUTION AND RECOVERY 20 (May 5, 2011), http://ec.europa.eu/internal_market/consultations/docs/2011/crisis_management/consultation_overview_en.pdf ("Respondents have a range of ideas on how to avoid regulatory arbitrage and restructuring of debt: the power and circumstances under which authorities could write down debt and the classes of bail-inable debt should be clearly defined to prevent regulatory arbitrage; the consistency at global level to avoid geographical relocation of debt; the interaction with the new capital rules, buffers and capital surcharges for SIFIs should be further considered.").

121 E.g. The Conference Bd., Conference Board Task Force on Executive Compensation 26-27 (2009), http://www.conference-board.org/pdf_free/ExecCompensation2009.pdf (describing a private sector initiative which was developed while regulators were discussing domestic regulatory measures, rather than a citation to a place where someone else says that private sector initiatives add to the information overload).


123 Cf. Schneider & Sidney, supra note 45, at 111 ("Policy designs need to be transparent rather than opaque, straightforward rather than deceptive, contain positive constructions of all social groups and points of view even of those who are ‘losing,’ logical connections between means and ends, implementation processes that grant equal access to information and subsequent points of contestation, and arenas for discourse that engage multiple ‘ways of knowing’ the issue.").
same time there is insufficient transparency and too much. A radical (perhaps even an essential) solution would be to focus on eliminating some unnecessary complexities from standards of financial regulation.\textsuperscript{124} Complexity in standards and in regulation promotes opacity, and privileges those who have the time and resources to build expertise with respect to the complexities.\textsuperscript{125} But fixing the complexity of financial regulation is not at the top of the agenda. If anything, recent initiatives in standards and regulation only increase complexity.

Complexity is one aspect of the information overload problem. Smart uses of technology could ameliorate other aspects of this problem.\textsuperscript{126} The US government has worked to improve the accessibility and manageability of the data in the federal register system, and transnational standard-setters (whose members are after all based in domestic systems of governance) could learn from this and similar work. At the same time the standard-setters should recognize this problem of excessive transparency and try to co-ordinate with other standard-setters working on similar issues. A third possible solution may be to try to tap into the wisdom of the crowd.\textsuperscript{127} Crowd-sourcing has been used to track radiation levels in Japan after the earthquake and tsunami,\textsuperscript{128} and to pore over the details of expense claims by Members of Parliament in the UK,\textsuperscript{129} and academics propose crowd-sourcing to improve machine translation.\textsuperscript{130} It is one thing to note that

\begin{itemize}
\item \textsuperscript{124} Cf. Haldane, supra note 49, at 3.
\item \textsuperscript{125} Cf. Underhill & Zhang, supra note 73, at 553 (“[T]he influence of private actors on the input side has not only rendered public authorities dependent on the information and expertise provided by these actors but also consistently aligned public policy objectives with private sector preferences. This has raised fears that the enhanced rule-setting power of private interests may have severely undermined the authority of public actors to formulate financial and regulatory policies in line with the broader public interest, a situation approximating policy capture.”).
\item \textsuperscript{126} But cf. Robin Gauld, Shaun Goldfinch & Simon Horsburgh, Do they want it? Do they use it? The ‘Demand-Side’ of e-Government in Australia and New Zealand, 27 GOV'T INFO. Q. 177, 184 (2010) (“Much of the literature on e-government suffers from an overly technological focus. It is assumed that once the correct technology is developed and in place, and citizens given access, benefits will be delivered in terms of reduced costs and technical efficiency, greater access and greater accountability and transparency, the transformation of government operations, and even greater ‘e-participation’ and ‘e-democracy’. . . The downsides and limitations of e-government are often downplayed or ignored altogether.”).
\item \textsuperscript{128} E.g., Steve Lohr, Online Mapping Shows Potential to Transform Relief Efforts, N.Y. TIMES (Mar. 28, 2011) at B3.
\item \textsuperscript{129} E.g., Andersen supra note 18.
\item \textsuperscript{130} Vamshi Ambati, et al., Active Learning and Crowd-Sourcing for Machine Translation, INT’L CONF. ON LANGUAGE RESOURCES AND EVALUATION 2010 PROCEEDINGS (2010), http://www.lrec
crowd-sourcing can effectively address some collective action issues and another to conclude that we can rely on crowd-sourcing to manage excess information about proposed financial standards. Making crowd-sourcing work requires some effort to motivate and manage the crowds.\textsuperscript{131}

There are some possible remedies for the insufficiencies in transparency identified above, although they would be expensive. The article focuses on three aspects of transparency insufficiency: limited translation of consultation documents; limited information about the identity and agendas of participants in the process; and limited information about the results of consultations.

With respect to the first issue, the EU has half a century of experience in managing the costs and benefits of multilingualism, although in a space where the number of relevant languages is limited. The United Nations, which has six official languages—Arabic, Chinese, English, French, Russian, and Spanish\textsuperscript{132}—has recently been discussing multilingualism as an aspect of its work.\textsuperscript{133} Resolving the tensions between allowing for full participation by the world’s citizens through multilingualism and making decision-making affordable and efficient by limiting the number of languages of decision is one of the critical problems of global governance, and is an issue which implicates all areas of policy, not merely the setting of standards of financial regulation.

The second and third sets of limitations to transparency could be resolved by requiring improved disclosure about those who respond to consultations and what they say. But the opacity which results from complexity is much more difficult to remedy and more fundamental. All of the methods this article suggests to address the insufficiencies of transparency exacerbate problems of excessive transparency. Making more information available to more people worsens problems of information glut. If this problem cannot be solved, transparency alone cannot be relied on to legitimate the new financial order.


\textsuperscript{132} Not all aspects of the UN’s work involve all of these languages. E.g., U.N. Secretary-General, Multilingualism: Rep. of the Secretary-General, UN Doc. A/65/488 (Oct. 4, 2010), http://daccess-dds-ny.un.org/doc/UNDOC/GEN/N10/566/15/PDF/N1056615.pdf?OpenElement.