

**Written Testimony before the House Financial Services Subcommittee on Financial Institutions and Monetary Policy, Elizabeth Jacobs, Senior Specialist, Sustainable finance, E3G**

**Hearing Titled: “Transparency in Global Governance”**

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**INTRODUCTION**

Thank you, Mr. Chairman, and Members of the Subcommittee for this opportunity to provide testimony.

My name is Elizabeth Jacobs, and I am a Senior Specialist, Sustainable Finance at E3G in Washington, D.C.

Before joining E3G in 2022, I spent my entire professional legal career as a U.S. civil servant. I worked for the U.S. Securities and Exchange Commission for over 30 years, serving in a variety of leadership positions in the SEC’s Office of International Affairs.

I also had the pleasure of working at the U.S. Treasury Department’s Office of International Affairs in its International Financial Markets Office, as well as the Office of Financial Research. At the U.S. Treasury Department, I participated in the International Monetary Fund’s (IMF) U.S. Financial Stability Assessment Program in both 2014-2015 and 2019-2020. My work brought me in frequent contact with other U.S. financial authorities, including the Commodities Futures Trading Commission, the Federal Reserve Board and Office of the Comptroller of the Currency. I collaborated with numerous foreign counterparts as well as working in the U.S. public interest in multilateral organizations such as the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB).

E3G is a non-partisan, independent think tank with a global outlook on delivering climate safety. E3G’s Washington, D.C. office staff works on sustainable finance issues, and engages with U.S. based financial authorities, as well as multilateral bodies, on climate finance related policy making. We join with other Washington, D.C. based civil society members on broader work related to climate global diplomacy and climate security. We regularly interact with the World Bank and IMF regarding ongoing efforts to improve global climate resiliency.<sup>1</sup>

My testimony emphasizes the following: the U.S.’s leadership in international regulatory cooperation; the transparency provided around international financial regulatory cooperation; and that it is in the U.S.’s interest for U.S. financial regulatory authorities to collaborate more effectively to address global challenges posed by climate change.

**The U.S.’s deep and strong financial sector is the result of its ingenuity and innovative spirit, as well as its role in developing, and adhering to, high regulatory standards.** The economic resiliency of U.S. markets has helped to underpin global growth across administrations. Most recently, this growth has been supported by policies that supported businesses hit hard by COVID-19 pandemic, domestic investments in manufacturing, clean energy and infrastructure.<sup>2</sup>

In 2021, the Securities Industry and Financial Markets Association (SIFMA) noted the following about the U.S. financial markets and global markets: “Operating in international capital markets strengthens the diversification opportunities for U.S. investors and savers, and for foreign holders of U.S. capital – U.S. investors hold almost \$13trn worth of foreign equities and bonds, and overseas investors hold almost the same in U.S. corporate securities.

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<sup>1</sup> For example, E3G participates with other U.S. civil society organizations on net zero transition plans. See, [READOUT: U.S. Department of the Treasury Senior Leadership Meets with Technical NGO Leaders to Discuss Net-Zero Transition Planning Efforts | U.S. Department of the Treasury](#)

<sup>2</sup> See [CORRECTED-Yellen says global economy remains resilient, lauds US as growth driver \(yahoo.com\)](#)

At the same time, U.S. investment overseas has been reciprocated with significant growth in foreign investment into the U.S.-based industry: \$760bn of foreign investment into the U.S. finance, banking, and insurance industry, which helps provide additional sources of capital for a wide range of businesses.”<sup>3</sup> In the years June 2004 – June 2020, U.S. fund assets more than tripled to \$25.8 trillion. At the time of former Investment Company Institute Chair Paul Schott Stevens’ departure, he noted that the fund industry’s success was due to “[f]actors like... the strict regulatory frameworks that protect investors in the United States, Europe, and beyond; the sharp scrutiny that an industry of our size and importance receives and should expect; and the highly innovative and competitive marketplace in which funds and fund investing has thrived.”<sup>4</sup>

### ***Present at birth: U.S. role initiating international collaboration of banking and securities authorities.***

The Basel Committee on Banking Supervision (BCBS) was established by the Group of Ten Countries (G10) at the end of 1974. It was created after the failure of a German entity, the Herstatt Bank, significantly disrupted worldwide currency markets.<sup>5</sup> At the time, New York creditors were far more affected than some London banks. For example, Chase Manhattan Bank in New York was caught with about \$620 m of transfers due to customers. Claimants to the account included Morgan Guarantee (\$13 m), a Swiss subsidiary of Seattle-First (\$42.5 m), and Citibank (\$10 m).

Additional impetus for the BCBS’s creation was the collapse of Franklin National Bank of New York amid allegations of mismanagement and fraud in what was the largest bank failure in United States history at that time. In the wake of these incidents, the central bank governors of the G10 countries established the BCBS to provide a forum for cooperation on banking supervisory matters.

It is simply incorrect to claim that other countries use international fora to impose global standards on the United States or that U.S. involvement represents an abdication of U.S. sovereignty. A more accurate description is that the U.S. agencies represent U.S. interests in these fora and attempt to ensure that global financial regulatory frameworks support stability of financial institutions and the broader financial system to enable prosperity at home and abroad. U.S. agencies take an active role in international financial regulatory reforms.

IOSCO’s roots are firmly in the Americas, as it was formed out of a network of U.S., Canadian, and Latin American securities regulators.<sup>6</sup> I’m most familiar with IOSCO’s work, where SEC contributions to disclosure and enforcement work carry a distinct American flavor. For example, SEC staff was a major

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<sup>3</sup> Financial Services and Main Street Supporting American Economic Growth and U.S. Competitiveness - SIFMA - Financial Services and Main Street Supporting American Economic Growth and U.S. Competitiveness - SIFMA

<sup>4</sup> [Closing Remarks, FT Future of Asset Management Summit: Strategies for the Next Decade | Investment Company Institute \(ici.org\)](#)

<sup>5</sup> See, e.g., Tarullo, [Banking on Basel: The Future of International Financial Regulation. By Daniel K. Tarullo, Washington, DC: Peterson Institute for International Economics, 2008. Pp. xiii, 310. Index. \\$26.95. | American Journal of International Law | Cambridge Core.](#)

In more recent commentary, former Treasury official Graham Steele recently noted that “There has been a narrative among some US politicians that the Basel Committee for Banking Supervision (BCBS), the multilateral body formed to coordinate international rules governing the banking system, is a place where European officials lead their US counterparts around by the nose. In reality, the US played an instrumental role in establishing the original Basel capital accords [after US banks invested](#) in too much risky sovereign debt. Since then, the US has often played a leading role in setting minimum but non-binding global standards for financial regulation and then implemented those agreements consistent with US law. This was particularly true after the global financial crisis of 2007-09. In [testimony](#) given to the Senate banking committee in 2013, then-Federal Reserve chair Ben Bernanke noted that the US occupies a ‘leadership position’ at the BCBS. ‘[O]ther countries may or may not follow,’ he continued. ‘But whether they do or not... we should do whatever we need to do to make sure that the US financial system is safe.’ See [US block on Basel risks derailing global measures on climate risk - Green Central Banking.](#)

<sup>6</sup> See [About IOSCO](#) “IOSCO was created in 1983, when 11 securities regulatory agencies from North and South America agreed to build their inter-American regional association into an international cooperative body.

contributor to IOSCO projects related to non-financial disclosures on cross-border offerings, as follows: <sup>7</sup> “In issuing the International Equity Disclosure Standards, IOSCO took an important step in enhancing the comparability of information provided by multinational issuers when conducting a cross-border public offering or listing, while also ensuring a high level of investor protection.” The same was later done for debt offerings.<sup>8</sup> These steps helped improve disclosures by non-U.S. companies, providing opportunities for greater diversification of U.S. investor’s portfolios, among other things.

Congress provided the SEC with cutting edge cross border enforcement cooperation tools. Section 21(a)(2) of the Securities Exchange Act of 1934 empowered the SEC to use its full investigative toolkit, including subpoenas to third parties for testimony and/or documents, on behalf of foreign authorities. Those authorities had to be generally able to reciprocate and provide assurances about confidentiality. This approach was multilateralized, and the ability to provide such assistance is now a precondition to IOSCO membership. In 2022, IOSCO celebrated the 20<sup>th</sup> anniversary of its Multilateral Memorandum of Understanding.<sup>9</sup>

**The benefits of the U.S.’s leadership role in international financial standard setting bodies entities are holistic, often underestimated, and should be preserved and protected.**

U.S. financial regulators across the political spectrum have worked tirelessly in international bodies supported by democratic ideals to ensure that international regulatory standards remain high, that economic growth and prosperity is not threatened by financial stability risks, and that U.S. companies and financial firms can fairly compete on level playing fields.

Last week, General Manager of the Bank for International Settlements, Augustín Carstens, urged members to complete the Basel III implementation processes. In doing so, Carstens noted the critical role that international standards play: “Jurisdictions globally face common challenges, which require common solutions...The growth of international trade in the 20th century hastened the growth of international banking and finance... necessitat[ing] the development of international standards to govern these activities and to reduce [associated] risks... [international standards] provide a common language and signaling device for market participants. In doing so, they improve efficiency by reducing regulatory fragmentation and associated compliance costs. This facilitates cross-border banking activities and a more integrated international financial system, helping to support global prosperity.”<sup>10</sup>

U.S. markets and U.S. financial services sector providers are amongst the most competitive in the world. Carstens highlighted the benefits that international standards provide when it comes to competition: “[M]any jurisdictions set their standards above the global minimum, reflecting the intrinsic benefits of a sound regulatory environment. Nonetheless, it could still be the case that individual regulators may not internalize the positive spillovers of banking regulation, or they have the incentive to lower requirements for domestic banks to provide them with a competitive advantage, at least in the short term. Global cooperation prevents a ‘race to the bottom.’”<sup>11</sup>

International financial sector cooperation has been critical to a wide variety of U.S. public policy interests, well beyond the Basel III debates. One of the most critical issues currently faced by the global community is climate change, and it is further discussed below. Both past and present U.S. Administrations, however, have driven strategies and mechanisms for international cooperation needed to combat money laundering, particularly with respect to the rise of digital assets and to combat corruption.<sup>12</sup>

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<sup>7</sup> [International Disclosure Standards for Cross-Border Offerings and Initial Listings by Foreign Issuers \(iosco.org\)](https://www.iosco.org/publications/standards/Pages/International-Disclosure-Standards-for-Cross-Border-Offerings-and-Initial-Listings-by-Foreign-Issuers.aspx)

<sup>8</sup> See, e.g., [International Disclosure Principles for Cross-Border Offerings and Listings of Debt Securities by Foreign Issuers \(iosco.org\)](https://www.iosco.org/publications/standards/Pages/International-Disclosure-Principles-for-Cross-Border-Offerings-and-Listings-of-Debt-Securities-by-Foreign-Issuers.aspx)

<sup>9</sup> [The IOSCO MMOU: 20 Years of Facilitating Cross-Border Enforcement Cooperation](https://www.iosco.org/publications/standards/Pages/The-IOSCO-MMOU-20-Years-of-Facilitating-Cross-Border-Enforcement-Cooperation.aspx)

<sup>10</sup> [Strong together: the benefits of international cooperation \(bis.org\)](https://www.bis.org/press/pr180301.htm).

<sup>11</sup> [Strong together: the benefits of international cooperation \(bis.org\)](https://www.bis.org/press/pr180301.htm)

<sup>12</sup> [Financial Action Task Force \(FATF\) | U.S. Department of the Treasury](https://www.fatf-gafi.org/en/about-us/press-releases/2022/04/2022-04-20-fatf-releases-its-2022-annual-report) and [FACT SHEET: U.S. Leadership in the Fight Against Global Corruption | The White House](https://www.whitehouse.gov/briefing-room/statements-releases/2022/04/20/2022-04-20-fact-sheet-u-s-leadership-in-the-fight-against-global-corruption/)

It is unlikely that international buy-in to U.S. led financial sector initiatives would have occurred in the absence of ample transparency in their development. International standard setters provide public consultations, similar to notices of proposed rulemakings that U.S. agencies issue pursuant to the Administrative Procedure Act (APA). These public consultations allow anyone from any jurisdiction to provide comments on proposed standards. They provide an important opportunity for stakeholders of all types - businesses, NGOs, etc. - to explain why they support or oppose the proposed standards, offer adjustments they would make, and provide data and research to inform the standard setting body's work. International standard setters do consider these comments in determining final standards.<sup>13</sup> They also often offer opportunities for public education and engagement through webinars and outreach sessions. These opportunities are common in the development of international standards. With respect to climate change, for example, other avenues for exchanges of data, views and expertise include the Network for Greening the Financial System (NGFS). The NGFS, for example, recently sought public feedback on its climate scenarios.<sup>14</sup>

It is important to remember that international standards on financial regulation are not law and are non-binding. In order for any standard to take effect in the United States, the appropriate agency must issue regulations in accordance with the APA's rulemaking requirements. Except in unusual circumstances, the APA requires an opportunity for notice and comment and consideration of those comments by the issuing agency before finalizing a rule. The APA's requirements and case law have established safeguards that prevent agencies from acting in an arbitrary and capricious manner.

Both U.S. regulatory authorities and the international bodies themselves frequently issue updates and progress reports, hold stakeholder meetings, and seek comment on strategic plans, as well as standards.<sup>15</sup> The Financial Stability Board (FSB) regularly provides progress reports to the G20 that are posted on the FSB's website.<sup>16</sup> More can always be done to enhance cooperation. And external observers have expressed interest in using financial sector cooperation models for addressing other global policy challenges, such as public health.<sup>17</sup>

### ***Exception: climate change***

This is why it is disconcerting see U.S. financial regulators out of step with international counterparts on addressing the existential challenge posed by climate change. Nations that take steps to ensure resiliency to climate related financial risks will be the stronger for it. In the U.S., the physical risks of climate change are threatening insurance markets. The interconnections between the insurance and banking markets could accelerate and amplify financial instability, and carry over to the real economy. These risks have been acknowledged by U.S. Treasury Secretary Yellen.<sup>18</sup> More needs to be done to help ensure that financial

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<sup>13</sup>To provide one example, the International Association of Insurance Supervisors (IAIS) has published documents addressing substantive comments and noting how it resolved them in the final standards. <https://www.iaisweb.org/uploads/2023/06/Resolution-of-comments-from-public-consultation-on-review-of-IIM-assessment-methodology.pdf>.

<sup>14</sup> [NGFS seeks public feedback on climate scenarios | NGFS](#)

<sup>15</sup> See, e.g., FSOC 2023 Annual Report; IAIS Public background session on the Draft Application Paper on Operational Resilience Objectives [and Toolkit]; Agencies Announce Public Outreach Meeting As Part of Their Review of Regulations; BCBS Consultative Document: Principles for the effective management and supervision of climate-related financial risks; FRB Notice and Request for Comment: Principles for Climate-Related Financial Risk management for Large Institutions;

<sup>16</sup> [FSB Chair's letter to G20 Finance Ministers and Central Bank Governors: July 2024 - Financial Stability Board Reports to the G20](#).

<sup>17</sup> See [We need a Financial Stability Board for health \(ft.com\) COVID-19 and the financial system: a tale of two crises | Oxford Review of Economic Policy | Oxford Academic \(oup.com\)](#)

<sup>18</sup> See [BetterMarkets Report Unseen Banking Crisis Behind Climate Crisis 08-23-2023.pdf](#). But see, Federal Reserve Board Chair Powell's testimony [Hearing Entitled: The Federal Reserve's Semi-Annual Monetary Policy Report | Financial Services Committee \(house.gov\)](#), where criticism on the issues were rebuffed [Elyse Schupak and Anne Perrault, Author at Climate and Capital Media](#).

instability does not crystallize, and the U.S. is in the position to drive innovation and harness the economic opportunities that come with a transition to net zero.

It should be acknowledged that there is significant U.S. inter-agency work underway that will contribute to efforts to ensure that risks are managed. The Financial Stability Oversight Council (FSOC) issued a 2021 report that recognized both the physical and transition components of climate are emerging risks to financial stability. U.S. banking agencies have issued guidance to financial institutions on managing the financial risks of climate change.<sup>19</sup> Last year, at this time the U.S. Treasury Department released principles to guide financial institutions' net-zero financing and investment and reported on the implications of climate change for household finances.

These efforts are not sufficiently robust to meet the impacts of climate change, and compounds the extent to which U.S. is out of step with critical international developments. This is particularly the case with respect to climate related financial disclosures and audit and assurance standards. It includes mandates for transition plans for real economies and the financial sector, such as in the EU and Singapore. And internationally, thought is turning to the need for macroprudential tool kits to address climate change.<sup>20</sup>

### *Conclusion*

In today's practice, U.S. shaped transparency mechanisms apply to the development of non-binding international standards and best practices for the global financial sector. Legal steps required to make these standards binding under U.S. law provides another round of transparency for stakeholders, and is subject to Administrative Procedure Act.

U.S. public interests are best served when the U.S. exercises leadership in international forums. The U.S. has an enviable track record of successfully leading international financial cooperation, and the global financial sector is stronger as a result. In this regard, more work is needed by the U.S., domestically and internationally, to both better manage the risks posed by climate change, as well as realize the opportunities posed by the transition to net zero.

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<sup>19</sup> The [Risk Management: Principles for Climate-Related Financial Risk Management for Large Financial Institutions | OCC](#) identified climate risk as a priority but the agencies' most meaningful measure to date, the joint guidance on climate-related financial risk management, is purposefully "high-level" and "flexible" and fails to incorporate transition plans as a tool for managing financial institutions' transition risk.

<sup>20</sup> See Financial Stability Institute paper: [Macroprudential policies for addressing climate-related financial risks: challenges and trade-offs \(bis.org\)](#). See also climate and macroprudential context here: [The Bank of England's climate-related financial disclosure 2024 | Bank of England](#)