Delegation to and Discretion for the Financial Stability Board and the G20: Transaction Costs or Legitimacy Concerns?

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ABSTRACT

Over the past ten years, the governance of the international financial system has been significantly expanded with the introduction of new forms of interstate cooperation. The thickening of international financial governance is probably most evident in the creation of two international bodies, the FSB and the G20, which came to occupy the sphere of activity of an existing international body, i.e. the IMF. Building on this observation, this paper investigates the motivation that led member states to delegate functions and accord discretion to the FSB and the G20. In doing so, the paper tests the validity of a number of hypotheses developed from PA models in order to assess whether they fully explanatory or whether they should be complemented with more sociological-oriented insights. Reviewing and comparing the functions delegated and the discretion allocated to the FSB and the G20, the empirical findings show that members have delegated functions to the FSB that correspond closely to the functions predicted by PA models, but that delegation to the G20 appears to be driven also by concerns over representation and legitimacy. With regard to discretion, the empirical evidence suggests that the variation in the pattern of discretion reflects the extent of control principals may exercise over the agent. The homogeneity of the principals, together with an ongoing concern about the speed and efficiency of decision-making, also help explain the pattern of discretion accorded to the FSB and the G20.

Keywords: FSB; G20; delegation; discretion; international financial governance

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Introduction

The sustained turmoil in global financial markets over the past recent months has revealed several weaknesses in the governance arrangements that preside over the stability of the international financial system. Indeed, under the favorable economic conditions that characterized the period preceding the crisis, neither regulators nor markets or international organizations were able to appreciate the systemic implications of outstanding risk exposures or to activate policy makers' response. In other words, there was a collective failure in detecting the signs of the impending crisis leading several economists and world leaders to call for new arrangements in the international institutional set-up – a sort of Bretton Woods II or a new world order (Porter, Winnett, and Harnden 2009). [1]

Current arrangements for the governance of the system are based on the collaboration among various international bodies that share responsibility for promoting the stability of the financial system. These bodies include both the international financial institutions (i.e. the IMF and the World Bank), international groupings of regulators and supervisors (BCBS, IOSCO, IAIS), and private sector bodies, whose members include representatives of accountants, service, industry, and commerce (i.e. IASB).[2] The governance of international finance is thereby distributed among multiple transnational public and private international institutions (Porter 2005). While all these international bodies contribute to the task of ensuring global financial stability, some bodies have traditionally occupied a pre-eminent position in the governance of the system. In particular, the IMF is the multilateral organization that since 1944 has been mandated to oversee the stability of the international financial system. The Fund carries out its responsibility primarily through its surveillance activity and by regularly reviewing global economic and financial developments that may affect the health of the international monetary and financial system.

Whereas the Fund has long served as something of a fulcrum of the international financial cooperation, at the end of the 1990s, policy makers saw a need for the creation of new international bodies with the responsibilities of identifying systematic financial

[1] Although the crisis unleashed several proposals to reform the regulatory framework of domestic financial systems, this paper solely focus on the regulatory framework at the international level.

[2] The World Bank, for instance, assist member countries in the design and implementation of policies that strengthen domestic financial system and help countries in identifying risks in this system. The BCBS, the IOSCO ands the IAIS, in turn, provides specialized knowledge by setting the standards in the field of banking

vulnerabilities and overseeing action needed to address these: the Financial Stability Board (FSB) and the G20. Indeed, following the financial crises that swept the emerging market countries in the 1990s, the ability of the IMF to discharge its responsibilities as a guardian of global financial stability has been increasingly called into question. In particular, two sets of criticisms have been raised at the Fund, among others. The first is that the IMF performed poorly in both crisis prevention and management. For instance, in the aftermath of both the Mexican and Asian crisis, the Fund was accused of failing to warn national authorities of the risks implied in their economic policy choices and to activate policy makers' response.[3] Some scholars have even questioned the Fund's technical capacity to understand the financial markets, and to appreciate how they interact with the real economy.[4] The second set of criticisms raised at the Fund concerns its internal governance. The argument is that the Fund's existing system of representation and decision-making no longer reflects the relative economic weight of its members. In particular, the Fund is criticized for maintaining an internal governance skewed in favor of the most industrialized countries at the expense of emerging and less developed countries (Committee on IMF Governance Reform 2009; Woods and Lombardi 2006).

Although these explanations are not mutually exclusive, each of them suggests a distinct motivation for the marginalization of the Fund in the governance of the international financial system in the late 1990s. Hence, whether one endorses one set of criticism over the other has important implications for our understanding of the creation of the FSB and the G20. Indeed, whereas the first set of criticisms implies that the delegation of powers to the FSB and the G20 can be read in light of the IMF's failure in reducing the transaction costs of international financial cooperation, such as information asymmetries, the second set of criticisms suggests that the motivation behind the creation of the two bodies lies in legitimacy considerations. That is to say, delegating powers to two new international bodies represent a way to redress the system of representation in international financial governance in favor of developing and emerging market countries (Best 2007; Porter 2000). In other words, the two set of criticisms reviewed above suggest that either the FSB and the G20 were created as a rational response

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supervision, securities and insurance supervision respectively.

[3] See, for instance, Woods 2006: 56-63. The IMF was also accused of having mismanaged the crises and particularly the Asian crisis. In this connection, IMF was blamed for having suggested the wrong policies to the crisis-hit countries, for having interfered with national sovereignty, and having nurtured moral hazard. See, among others, Radelet and Sachs 1998; Sachs 1998; Meltzer 1998; and Calomiris 1998.

[4] Bossone 2009; McDonough 2005.

to the failure of standing governance arrangements as principal-agent theory would expect or as a response to legitimacy concerns as sociological-oriented approaches would suggest.

Building on these observations, this paper raises the question of why states delegated functions to new international organizations although such a delegation had already taken place towards a functioning international body, i.e. the IMF. In other words, this paper engages with questions of how actors choose and design institutions, asking the motives that lead states to delegate authority to specific international bodies among others and to allocate them different degrees of discretion in the conduct of their operations (Pollack 2003).

In doing so, the paper takes as its starting point PA models of delegation deriving a number of empirical propositions that will be tested on the FSB and the G20. Specifically, PA models predict that principals delegate powers and discretion to an agent in order to reduce the transaction costs related to the specific issue area in which the agent operates (Epstein and O'Halloran 1999; Kiewiet and McCubbins 1991; Moe 1984). In the case under investigation, for instance, the transaction costs associated with international financial cooperation, that is, the type of cooperation that aims at avoiding financial crises, include the costs related to the collection of information, monitoring states' compliance with internationally negotiated agreement and standards. The lack of political leadership and a slow decision making process also add to the list of transaction costs that principals aim to solve with the creation of international organizations. In sum, in international financial governance, we would expect delegation to international bodies because of motivations related to the collection of policy-relevant information, credible commitments, agenda-setting, and the speed of the decision-making process.

The empirical analysis thereby applies these propositions to the FSB and the G20 in order to assess each institution's sphere of delegation and discretion as accorded by their principals in their constitutional charters, by-laws, and regulation. The empirical expectation is that of finding a pattern of delegation and discretion that fit closely with the propositions derived from PA models. Nevertheless, should a different pattern of delegation be revealed from the empirical analysis, with functions other than the ones predicted by PA models, the analysis would conclude that principals are motivated not (or not only) by the minimization of transaction costs but by other concerns – including those for legitimacy and representation as more sociological-oriented approaches suggest.

Anticipating, briefly, what the empirical analysis is going to show, PA hypotheses well support the empirical evidence on the delegation of functions to the FSB but do not closely fit evidence for the G20. Whereas the delegation to the FSB has been primarily motivated by principals' demands for policy-relevant information and credible commitments, delegation to the G20 was partly motivated by principals' demand for agenda-setting but legitimacy concerns played a primary role. In contrast, PA expectations hold well in explaining the ample discretion accorded to both the FSB and to the G20. In both cases, discretion is a function of the homogeneity of preferences among principals and of the demands for a speed and efficient decision-making.

Before proceeding, some clarifications are in order. First, building on the assumption that the IMF could already performs most if not all of the tasks delegated to the G20 and the FSB in the late 1990s, this paper does not intend to suggest that the IMF should be the only organization responsible for international financial stability. On the contrary, by showing the weaknesses of each organization if taken on its own, the paper argues in favor of cooperation among multiple organizations to govern the system. The paper therefore contributes to the research agenda that is trying to expand the focus from 'individual organizations' to their 'networking' (Biermann 2008: 153) and competitive environment (Frey 2008). Second, although this paper attempts to assess the motivations behind the delegation of powers to two international bodies in the area of global financial stability, the analysis is here confined to the powers delegated to the FSB and the G20 in the area of crisis prevention. In contrast, the activities and mechanisms related to the stage of crisis management will be left out from the picture.

The paper is organized as follows. In the next section, I specify the hypotheses that will be tested in the empirical analysis. Specifically, I develop the propositions that help explain the pattern of delegation and discretion allocated to the FSB and the G20 from a PA perspective. Section 2 and 3 analyze the functions delegated and the discretion accorded to the FSB and the G20 respectively. Specifically, I review the functions delegated to the two international bodies in order to gauge whether delegation was motivated by the demands for policy-relevant information, credible commitments and agenda-setting. Likewise, I use the provisions embedded in the constitutional charters of the two bodies to ascertain the degree of discretion accorded to them and the motivation behind each institutional design. The last section concludes by reflecting on the empirical findings.

1 Delegation and Discretion in International Financial Governance

The international financial regime created in the aftermath of WWII has been characterized by the delegation of functions to international bodies. Indeed, the regime has been virtually marked by the presence of two international organizations: the International Monetary Fund and the World Bank for Reconstruction and Development. The creation of the international financial regime has provided the stage for the intellectual confrontation among IR scholars, whereas realists have emphasized the role played by the most powerful actor in the system (Gilpin 1981; Krasner [1976] 1993) and constructivist-leaning scholars have drawn attention to the role played by domestic institutions and economic ideas (Ruggie 1982). Scholars using rationalist approaches have also devoted greatest attention to the puzzle posed by the creation of the international financial regime to facilitate inter-state cooperation. In what is probably the most well-know analysis of the Bretton Woods regime, Robert Keohane (1984) argued that the organizations around which the regime was organized survived the decline of the hegemon because of the functions they performed. Specifically, organizations are maintained over time if they are able to reduce the transaction costs of cooperation (Coase 1960; Williamson 1983). For instance, in international finance, the relevant costs that organizations help reduce are informational (i.e. the costs associated with limited or asymmetrical information) and related to the problem of enforcement (i.e. the costs of ensuring that international commitments will be credibly implemented).

This paper takes as its starting point Keohane's functional insight to analyze the pattern of delegation to two new international bodies in the international financial regime. Specifically, in what follows, the paper develops a number of propositions that draw from principal-agent models of delegation in order to identify the motivations that led to the delegation of powers to the new bodies and that contributed to their specific institutional design. In particular, I build on the two core assumptions that unite PA scholars (Hawkins et al. 2006). The first is that states delegate authority to international bodies because of the benefits deriving from it. 'States device institutions to promote cooperation and make it more resilient' (Koremenos, Lipson, and Snidal 2001a). In other words, international institutions should bear benefits for member countries. Like in a company, shareholders should profit from their participation. Hence, the ultimate test for an IO is whether it creates value for its members.

The second assumption is that states aim at minimizing agents' deviant behavior. [5] Indeed, although states create IOs to advance their interests, IOs develop their own preferences that may be different from those of their principals. Hence, they can end up pursuing goals principals did not intend to pursue or to pursue goals with modalities that principals had not approved. In other words, P-A relationships are characterized by a certain amount of agency slack that principals aim at keeping under control. This does not mean that IO bureaucrats necessarily have their won vested interests to pursue as public choice scholars claim they do (Vaubel 1991). More simply, the point is that agents have policy preferences of their own and may use their delegated powers to pursue them. Under these circumstances, principals have to design mechanisms to control possible opportunism by agents (Hawkins et al. 2006).

Building on the insights developed by PA theory, my model thereby features benefit-maximizing principals and IOs that may deviate from the pursuit of the goals set by the principals that created them. In other words, delegation is based on both transaction and control costs. Principals thereby aim at minimizing both types of costs by delegating specific functions to international agents and devising ad hoc control mechanisms tailored upon the agent (Pollack 2003). In what follows, I thereby review the most common hypotheses on the pattern of delegation and discretion developed by PA models, tailoring them on the case-studies under consideration in this paper. That is to say, I am going to single out a number of factors that may help explain the pattern of delegation and discretion allocated to the FSB and the G20 in international financial governance.

1.1 The pattern of delegation

The literature on delegation, at both the domestic and the international level, has identified several factors that may help explain principals' choice to delegate functions to an agent such as an international body. The factors that have received the most theoretical attention and empirical testing include principals' demand for policy-relevant information, credible commitment, and agenda-setting.

[5] PA models usually distinguish agents' deviant behaviour between agents' slippage and shirking. The first occurs when agents takes positions different from those of their principals. The second occurs when agents do not competently carry out their principals' wishes.

Indeed, transaction-costs models of delegation have long emphasized the cost associated with limited information as one of the primary motivation behind the act of delegation. That is to say, the argument is that what motivates principals to delegate powers to an agent is the potential informational advantage that the agent can provide principals with. Several studies on delegation in domestic settings, for instance, have shown agents are created and delegated powers largely in order to provide expert information to legislators (Epstein and O'Halloran 1994; 1999; Huber 1998).

Applying these considerations to the case under investigation, one of the most important transaction cost impeding international financial cooperation concerns the lack of sufficient information about domestic and international financial risks. Hence, we should expect that member states would delegate specific powers to an international agent in order to increase their stock of information on financial risks and vulnerabilities. Specifically, principals will delegate functions related to the provision of financial stability-relevant information. This function comprises two distinct activities. The first is the collection of information that may be signaling developments in financial intermediaries and markets that could give rise to crisis manifestations. Specifically, agents will delegate the function to collect information on multiple sources of financial instabilities, including macroeconomic policies, the type of financial systems, and corporate and financial governance. The second activity relates to the pooling of the information collected about individual financial actor or market and the analysis of the aggregated data. This activity may also entail the creation of a warning system in order to draw principals' attention to emerging risks. In sum, setting aside the difficulties of collecting information that can prevent financial crises from occurring (Masciandaro and Quintyn 2009), the expectation is that principals will delegate specific powers to international agents in order to increase their informational base.

In addition to the demand for policy-relevant information, PA studies have singled out another important factor behind the decision to delegate functions to an agent: the demand for credible commitments. Since principals face the problem of credibly committing to their agreements because of the costs associated with it, they delegate powers to an agent on the assumption that it will enforce the commitment across the board. Take, for instance, a domestic policy that creates external negative externalities, such as pollution. Should an international commitment be in place in order to reduce carbon emission, adjusting national policy to the international agreement would impose costs on the domestic industry. States have thereby an incentive not to comply, especially if cheating is unlikely to be discovered. Under this cost-opportunity structure, delegation to an international agent is likely to increase the chance of regulating members' behavior impartially (Majone 1996; Majone 2001; Moravcsik 1998), thereby representing a mechanism through which to establish the credibility of an agreement. In the European Union, for instance, Mark Pollack (2003, 86-87) has shown that the Commission's delegated power to bring infringements proceedings against member governments before the European Court of Justice represents the utmost example of principals' demand for credible commitments.

Applying the credible commitment motivation to the case under investigation, the empirical expectation is that principals have delegated to the FSB and to the G20 a number of functions in order to ensure that their commitment to following policies that are not destructive of international financial stability will be credibly implemented. Specifically, the expectation is that principals have delegated to the FSB and the G20 the functions of monitoring members' behavior and of enforcing changes in principals' behavior, should the information collected reveal risks to global financial stability. Indeed, after information is collected and risks are identified, effective crisis prevention requires that policy-relevant information is transformed into policy actions. That is to say, early warnings are only worthwhile when they affect the domestic policy debate of members and activate policy makers' response. As has been noted (Bossone, 2009), 'even good surveillance is not enough if countries do not follow up with good policies'. In light of the credible commitment motivation, we should therefore expect to find that the FSB and the G20 have been delegated functions of monitoring and enforcing the recommendations elaborated as a result of their collection of information.

Finally, PA models have identified in principals' demand for agenda-setting another motivation to explain delegation to an agent. The 'agenda' is the set of issues that receive serious attention in a polity (Cobb, Ross, and Ross 1976; Kingdon 1995). Setting the agenda is thereby a crucial stage of the policy process because it revolves around the 'conflict of conflicts' (Green-Pedersen 2007) in which political actors determine which issues are to be dealt with and in what terms. In light of the importance of agenda-setting for policy-making, interested actors have thereby an incentive to advance legislative proposals with the result that there could be an endless series of proposals and cycling among alternative proposals (McKelvy 1979; Riker 1980). Under these circumstances, delegating agenda-setting powers may be of help in overcoming the shortcomings of policy-making (Shepsle 1979).

The problems associated with setting the agenda are also relevant in the case under investigation here. Indeed, as the regulatory debate that have followed the subprime crisis reveals, the flood of proposals and counter-proposals to regulate the broken financial system may slow down the same process of reform. There is therefore a need for international bodies able to set the international agenda, helping states to prioritize their actions. In other words, in international financial governance, setting the agenda means solving a leadership problem. In this connection, the expectation is that members have delegated to the FSB and the G20 those functions that would help set the agenda in international financial cooperation, including the coordination of macroeconomic policies and domestic financial regulation.

1.2 The pattern of discretion

In addition to delegation, PA scholars have also unveiled a number of motivations that may help explain the range of discretion allocated to agents. Borrowing from studies on delegation in the American context, discretion here refers 'not to the behavior of the agency but rather to the characteristics of the act of delegation – that is, a constitution, treaty, legislation, or other type of contract – that establishes the parameters of acceptable agent behavior'. In other words, discretion refers to the structure of the control mechanisms set down in the act of delegation to make them accountable to the principals (Pollack 2003: 28).

Andreas Schedler (1999: 15) has suggested a way to think about accountability within the framework of control mechanisms that may be applied to PA relationship. Indeed, Schedler sees accountability as the synthesis of two concepts: 'answerability—"the right to receive information and the corresponding obligations to release details"—and enforcement—"the idea that accounting actors do not just 'call into question' but also 'eventually punish' improper behavior."' In light of the above, it is possible to identify control mechanisms through which principals 1) know about agent's behavior, and 2) exert pressures on agents to influence that behavior. These control mechanisms include ex ante control mechanisms, such as procedural requirements and appointment procedures for the agent, and ex post mechanisms, such as oversight mechanisms, transparency and disclosure requirements.

Similarly to what has been argued for delegation, PA models have developed a number of propositions to explain the variation in the degree of discretion accorded to agents. Indeed, the design and workings of control mechanisms vary according to their extent and intensity.

As Pollack put it, in PA models, 'one size doe not fit all'. In particular, PA studies usually treat discretion as motivated either by a desire to secure credible commitments or by a desire for expert information (Epstein and O'Halloran 1994; 1996; 1999; Huber and Shipan 2000). That is to say, the higher the technicality of an issue and the higher principals' demand for credible commitment, the larger the pattern of discretion allocated to an international agent will be. Applying these insights to the case under investigation, the empirical expectation is that of finding a similar logic at play in the institutional design of the FSB and the G20.

Another motivation that can explain the variation in the pattern of discretion from a PA perspective is the desire for speed and efficient decision-making. Indeed, some scholars have drawn attention to this motivation for explaining delegation to international bodies. Pollack, for instance, shows that delegation to the Commission in areas such as fisheries has been mainly motivated by the desire of increasing the efficiency of EU decision making. In particular, in light of the time-consuming EU decision-making process requiring a qualified majority or unanimous agreement in the Council of Ministers and, in certain issue areas, a majority in the European Parliament, 'delegation of executive powers to the Commission offers the prospect not only of credible commitment and Brussels-based expertise but also of speedy and efficient decision-making that would otherwise be impossible to achieve through the complex and supermajoritarian legislative procedures in place at the EU level' (Pollack 2003: 107).

Applying a similar line of reasoning to the cases under investigation, we can expect discretion to be a function of principals' demand for speed and efficient decision-making. In particular, the greatest degree of discretion will be allocated when international cooperation requires speed action to be effective. For instance, this could be the case of crisis management when rapid and coordinated action is necessary to stem the effects of a crisis. Under these circumstances, principals may devise light-touch control mechanisms to gain the benefits of such a speed.

The concerns about speed and efficiency of the decision-making should be read in conjunction with the political environment in which delegation takes place. Indeed, some PA studies have explained variation in the willingness of principals to delegate powers and discretion to an agent by reference to the extent of conflicting preferences either among multiple principals or between principals and agents (Epstein and O'Halloran 1996; 1999;

McCubbins and Page 1987). Indeed, should conflicting preferences among principals exist, principals have a limited incentive to delegate in anticipation of the potential difficulties in reaching an agreement among principals when the necessity to rein in the agent materializes. Likewise, large conflicting preferences between principals and agents reduce principals' incentive to delegate in anticipation of future agency costs (Cortell and Peterson 2006). Putting it in slightly different terms, the homogeneity of preferences among principals and between principals and agents help explain the variation in the pattern of discretion. In the case-studies analyzed here, where such a homogeneity is elevated, because of the restricted number of actors involved and because of their common professional background, the empirical expectation is that of finding extensive discretion.

In what follows, I turn to the empirical study of delegation and discretion to the FSB and the G20 reviewing the functions performed by the two bodies and the control mechanisms that constrain their activities. I will start by assessing the extent to which the creation of the FSB and the G20 can be explained using PA hypotheses. Should PA hypotheses fare not satisfactorily, the expectation is that more sociological-orientated explanation, based on the notion of legitimacy, can better explain the creation of the two bodies.

2 The Financial Stability Board

The Financial Stability Board (FSB) was first convened in April 1999 in the form of the Financial Stability Forum (FSF) at the initiative of G7 Finance Ministers and Central Bank Governors. Indeed, the G7 mandated Hans Tietmeyer, President of the Deutsche Bundesbank, to 'consult the relevant international bodies' in order to develop a set of recommendations for developing policies to foster stability and reduce systemic risk in the international financial system (G7 1998). One of the main conclusions of the Tietmeyer report, released in February 1999, was that a new body – i.e. the FSF – was needed in order to improve international financial cooperation.[6] As the FSF's website put it, the Forum was created 'to promote international financial stability, improve the functioning of financial markets and reduce the tendency for financial shocks to propagate from country to country, thus destabilizing the world economy.'[7] The body brings together national authorities

[6] Tietmeyer Report 1999

[7] Financial Stability Forum, Mandate, http://www.financialstabilityboard.org/about/mandate.htm Accessed 3 May 2009

responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts. In April 2009, in the aftermath of the subprime crisis, the Forum was transformed into a 'Board' in order to emphasize its institutionalization in the governance of the international financial system. In this connection, the FSB has been provided with a full-time Secretary General and an enlarged Secretary.

The shift from being a Forum to being a Board has also been marked by the extension of its competences while the discretion accorded to it in carrying out its functions has been clarified.[8] Specifically, member countries have delegated a number of tasks to the FSB in order to get policy-relevant information on the sources of financial instability and to activate policy-makers' response. In doing so, they have accorded the FSB a wide range of discretion. In what follows, I analyze the pattern of delegation and discretion allocated to the FSB in its constitutional charter and regulations.

2.1 The Pattern of Delegation

Article 2 of its Charter begins with non-exhaustive list of functions delegated to the FSB.[9] Indeed, the FSB is responsible to

(a) assess vulnerabilities affecting the global financial system and identify and review on a timely and ongoing basis the regulatory, supervisory and related actions needed to address them, and their outcomes;
(b) promote coordination and information exchange among authorities responsible for financial stability;
(c) monitor and advise on market developments and their implications for regulatory policy;
(d) advise on and monitor best practice in meeting regulatory standards;

[8] The transformation from FSF to FSB was also accompanied by an expansion of the membership. In March 2009, The Financial Stability Forum (FSF) to invite as new members Argentina, Brazil, China, India, Indonesia, Korea, Mexico,
Russia, Saudi Arabia, South Africa and Turkey. In addition, Spain and the European Commission also became members.
[9] The list is non-exhaustive because, beyond the explicit functions listed bellows, Article 2 provides that the FSB can undertake 'any other tasks agreed by its Members in the course of its activities and within the framework of this Charter.' Financial Stability Board Charter

(e) undertake joint strategic reviews of the policy development work of the international standard setting bodies to ensure their work is timely, coordinated, focused on priorities and addressing gaps;
(f) set guidelines for and support the establishment of supervisory colleges;
(g) support contingency planning for cross-border crisis management, particularly with respect to systemically important firms;
(h) collaborate with the International Monetary Fund (IMF) to conduct Early Warning Exercises.

Clearly, these provisions lay out a broad role for the FSB that is called to collect information on financial vulnerabilities and monitor states' behavior, that is to say, two functions that fall within the predictions of PA models. Indeed, as its official website put it, the FSB has the responsibility 'to address vulnerabilities and to develop and implement strong regulatory, supervisory and other policies in the interest of financial stability.'[10] Let us consider each of these broad functions in turn.

To start with, the FSB collects information about vulnerabilities affecting the international financial system by providing a forum for information exchange among national supervisors. As the disclaimer present in all FSB documents put it, the Board promotes international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance. Such an exchange of views takes place primarily in the Plenary, which is the Board's main decision-making body, but the FSB also fosters regional meetings with representatives of financial regulators and supervisors that do not belong to its membership.

An important task in collecting information about financial vulnerabilities relates to the FSB activity in the international standardization initiative, that is to say, the elaboration and diffusion of internationally-recognized standards that should help national authorities in the conduct of economic and financial policies (Singer 2007; Walter 2008). The FSB has been playing a crucial role in the international standards initiative since its launch in the late 1990s. Indeed, the Board prepared the compendium of 12 key standards regarded as deserving

[10] Financial Stability Board, Overview, http://www.financialstabilityboard.org/about/overview Accessed 4 November 2009

priority in implementation.[11] The Board also contributes to the exercise of information collection by carrying out strategic reviews of the work undertaken by the international standard setter bodies. In doing this, the FSB aims at identifying gaps in existing international standards in order to anticipate problems in domestic financial systems and thereby preventing crises. The role played by the FSB in reviewing the international standards initiative is further reinforced by the provision that call on the standard setter bodies, which have their own representative in the FSB, to report to the FSB on their work_'without prejudice to their existing reporting arrangements or their independence' (Art. 5 par. 2 FSB Charter).[12] In sum, as the current Chairman of the FSB Mario Draghi put it, 'a primary role of the Board is to undertake the diagnosis of regulatory, supervisory and financial policy changes needed to maintain financial stability' (Draghi 2009: 3).

The FSB also collects and analyses information relevant to global financial stability via the activities of its technical working groups. Specifically, the agreement reached among members in April 2009 allows the FSB to set up a number of committees that may help contribute detecting growing vulnerabilities in the financial system at both the domestic and the international level. While members gave the FSB the autonomy to decide whether to establish standing committees and ad hoc working groups, they nonetheless mandated the creation of two specific committees: the standing Committee for Vulnerabilities Assessment, and the Committee for Supervisory and the Regulatory Co-operation. According to the guidelines made public last April, the former Committee will assess vulnerabilities affecting the financial system and its findings will provide the basis for the FSB's deliberations. The Committee will also issue recommendations for action. The Committee for Supervisory and Regulatory Cooperation, in turn, will develop guidelines for the establishment of supervisory colleges and cross-border crisis management.

Finally, one of the most important activities carried out by FSB in order to provide members with policy-relevant information is the Early Warning Exercise, which is carried out in conjunction with the IMF. While most of the Board's delegated functions reviewed thus far deal with detecting vulnerabilities in domestic financial systems, the early warning exercise

[11] FSB, About the Compendium of Standards, http://www.financialstabilityboard.org/cos/index.htm Accessed April 30 2009.
[12] The standard setting bodies represented in the FSB are the Basel Committee on Banking Supervision (BCBS), Committee on the Global Financial System (CGFS), Committee on Payment and Settlement Systems (CPSS), International Association of Insurance Supervisors (IAIS), International Accounting Standards Board (IASB),

focuses on external vulnerabilities. In other words, it aims at identifying the extent to which domestic financial systems are able to withstand shocks originated outside them. While the details of the scenarios and stress tests used in the early warning exercise are not public yet, it has been known that the early warnings will be based on the findings of the Vulnerabilities Assessment Committee.[13]

Next to the powers delegated to raise the information stock on financial vulnerabilities, member states have also delegated a number of functions to the FSB in order to make sure that the identification of risks does not remain at the conceptual level but is translated into policy actions. In other words, principals have delegated to the FSB the functions necessary to make credible members' commitment to maintain financial stability.

In this connection, the most important provision in the Charter is Article 2 paragraph 1 in which the FSB is delegated the function to monitor on market developments and their implications for regulatory policy. The monitoring function is then reinforced by the provision that the FSB can 'advice' members on how to tackle market developments. This function is performed by issuing recommendations and providing warnings to its members, including to the International Monetary Financial Committee (IFMC). Specifically, the FSB may issue recommendations on topics relevant to regulation and oversight, including prudential and systemic risk, market integrity and consumer protection, infrastructure, and accounting and auditing.[14] The warning power to the IMFC is particularly relevant. Indeed, the IMFC is the body responsible of advising, and reporting to, the IMF Board of Governors as it manages and shapes the international monetary and financial system   Because of its functions, the IMFC is often regarded as the potential governing body for the international system (Lombardi 2009).

Hence, giving the FSB the power to 'make a joint presentation to the IMFC on financial risks and vulnerabilities and policy recommendations to mitigate such risks and vulnerabilities' reflects members' desire to secure their collective commitment to global financial stability. Indeed, principals have delegated this monitoring and advising function on the assumption that bringing recommendations on how to address vulnerabilities to the highest level of

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and International Organization of Securities Commissions (IOSCO).

[13] Financial Stability Board, *Financial Stability Board holds inaugural meeting in Basel*, Press Release, 27 June 2009.

policy-making in the international financial system would help implementation of the commitment to global financial stability. A further evidence of credible commitment as a driver behind the delegation to the FSB can be found in the preparatory documents that led to its creation. Indeed, although the FSB's is not intended to create any legal obligations (Art. 16), the political guidelines prepared for transforming the FSF into the FSB refer to 'obligations of membership, member countries and territories commit to pursue the maintenance of financial stability, maintain the openness and transparency of the financial sector, [and] implement international financial standards'. In other words, members have committed to the goal of stability by delegating monitoring powers to an international agent. Although the contours of such an obligation are far from clear, the motivation of credible commitment is further reinforced by the prescription that 'the FSB will elaborate and report on these commitments and the evaluation process.'[15] Article 5 of the FSB Charter has than endorsed the proposed obligations whereas it states that 'member jurisdictions commit to pursue the maintenance of financial stability'.

Furthermore, the Board has been entrusted with the responsibility of monitoring application of internationally recognized standards and promoting coordination with other international bodies involved in the standard initiative. By giving the Board the power of oversight and coordination, member countries have thereby provided the FSB with an instrument to make credible the commitment to financial stability. Indeed, the underlying logic is that by exposing each members' weaknesses in implementing international standards may help activate policy makers' response. For instance, in explaining how the Board contributes to the diffusion of standards among members, the FSB website stresses that diffusion takes place 'through the example set by its members' as well as through the sharing of 'best practices'. Still, principals have decided to accept to 'undergo periodic peer reviews … which will encourage greater compliance by members with international financial standards.'[16] The peer reviews will be of two kinds: country on country reviews, and thematic reviews which examine implementation of agreed policies in a given area across the membership (Draghi 2009).

[14] Financial Stability Board, FSF Re-Established as FSB, *Press release*, 2 April 2009.
[15] Financial Stability Board, FSF Re-Established as FSB, *Press release*, 2 April 2009.
[16] Financial Stability Board, Charter, Article 5.

Members have also requested the Board to create a specific standing committee, i.e. the Standards Implementation Committee, with the mandate to 'prepare the FSB's planned peer reviews of its members, which are an obligation of membership; and [to] report on members' commitments and progress in implementing international financial standards and other initiative'.[17] Likewise, the FSB is expected to oversee over the implementation of action needed to address the vulnerabilities brought to the surface by the Early Warning Exercise.

In sum, this review of the functions delegated to the FSB reveals that the pattern of delegation fits closely the expectations of PA models. Indeed, the FSB has been delegated the powers of both collecting information on financial vulnerabilities and monitoring and advising member countries on how to address these vulnerabilities. In doing so, members were motivated by the desire to increase the information available on financial risks and by the demand for credible commitment, which, as already specified in the theoretical section, characterizes international financial cooperation.

2.2 The Pattern of Discretion

Moving from the pattern of delegation to the one of discretion, the control mechanisms imposed on the FSB by its principals are not particularly onerous, leaving the Board with a large room of maneuver in conducting its day-to-day operations. In particular, both appointment and dismissal procedures and oversight procedures do not impose severe constraints on the organization. Indeed, the Board has a general responsibility to ensure 'effective information flow to the full membership' about its activities with no special reporting or transparency requirement. As far as concerns appointment procedures, the Chair, which is appointed by the Plenary from members for a term of three years renewable once, has to satisfy the criterion of 'recognized expertise and standing in the international financial policy arena.' Besides that, the Chair enjoys a high degree of discretion in convening and chairing the meetings of the Plenary and of the Steering Committee as well as representing externally the Board. Likewise, the chairs of Standing Committees are selected from and appointed by the Plenary at the Chair's recommendation. The only control mechanisms imposed on them is that of reporting to the Plenary on their work programs. Each Chair is then assigned the liberty of choosing the membership in Standing Committees and working

[17] Financial Stability Board, *Financial Stability Board holds inaugural meeting in Basel*, Press Release, 27 June

groups as well as of extending invitations to non-members to attend the whole or part of their meetings (FSB Charter, Article 11). Still, the FSB is not as dependent on members' financial resources for running its activities as the IMF is, for instance, granting the Board a significant discretion.

The light pattern of discretion accorded to the FSB could be justified in light of the technical nature of the FSB's domain or of principals' desire to credible commitment. For instance, the fact that 'the Chair, in the discharge of the functions as the Chair, shall owe the duty entirely to the FSB and to no other authorities or institutions' (FSB Charter, Article 14) is a typical provision that reflects members' demand for credible commitment. That is to say, the autonomy attributed to an agent is a guarantee that commitments will be neutrally applied across the membership. Beyond these motivations, however, another factor seems crucial in explaining the pattern of discretion allocated to the FSB: the homogeneity of preferences among principals and between principals and the agent.

Indeed, the fact that the FSB is made up of a limited group of financial regulators and supervisors and that the staff of the FSB share the same background of members' representatives facilitate the flow of information between the agent and its principals even in the absence of stricter transparency and reporting requirements. To maintain this situation, the FSB Charter specifies the criteria for the composition of the Steering Committee. Specifically, it is agreed that membership of the Steering Committee will be decided by the membership 'in a manner that ensures maximum effectiveness in taking forward the FSB's work.' Although Article 12 also suggests that the composition of the committee responsible has to take into account the balanced geographical representation criterion,[18] the fact that membership has 'common aims and collective responsibilities' (Draghi 2009: 3) points to the importance of the structure of the principals as a factor behind the FSB institutional design. Indeed, the common professional background of members' representatives, which include senior level representatives (heads or deputies) from regulatory authorities, central banks and finance ministries, is presented as the 'strength' of the organization (Draghi 2009: 3).

2009.

[18] That is to say, the Steering Committed must represent all the geographical regions of FSB members and regulators and supervisors of the different segments of financial markets.

The attention devoted to the composition of the Steering Committee as well as the homogeneity among principals also speaks to the speed of decision-making. Indeed, the light pattern of discretion accorded to the FSB in the conduct of its activities seems to respond to principals' demand for speed and efficient decision-making. Indeed, as already anticipated, the emphasis put on 'effectiveness' in devising the composition of the Steering Board suggests that members has attached particular importance to the rapidity of the decision-making and the formation of consensus within the Board. True, the Tietmeyer report, which provided the intellectual justification for the creation of the FSB, suggested that participation to the new body should be extended to include 'non G-7' representative**s.** Nevertheless, the same report also clearly stressed that 'the forum should be limited to a size that permits an effective exchange of views and the achievement of action-oriented results within a reasonable time-frame.'[19] In other words, legitimacy concerns certainly played a role in the design of discretionary mechanisms but they do not seem to have provided a distinct motivation. That is to say, legitimacy has been couched in terms of effective decision-making with the consequence that the former motivation has been diluted into the second.

In sum, in delegating the powers of collecting information on members' financial vulnerabilities and monitoring their financial behavior, member states have also granted the FSB a significant amount of discretion in carrying out its activities. Indeed, the reporting requirements as well as the other control mechanisms that characterize the workings of the FSB are not particularly onerous. The motivation behind this pattern of discretion appeared motivated by principals' demands for speed and efficient decision-making. Still, the homogeneity among the principals is another crucial factor that help explain the large room of maneuver attributed to the FSB. In contrast, legitimacy concerns related to a more appropriate representation in international financial governance does not figure out as an independent explanatory variable.

[19] Titmeyer Report 1999.

3 The G20

The G20 was created in November 1997 at the initiative of US President Bill Clinton. Originally called as the G22,[20] the group was transformed in the G33 in early 1999 before been named G20 later in the year.[21] The group brings together the finance ministers and central bank governors of both industrial and emerging market countries with the aim to identify and discuss systematic financial vulnerabilities. Along with member representatives, the President of the World Bank, the Managing Director of the IMF and the chairs of the International Monetary and Financial Committee and the Development Committee in the G-20 meetings also participate to the workings of the G20.

The G-20 chair rotates annually among members, and is selected from a different regional grouping of countries each year. The incumbent chair, which is supported by the past and future chair (i.e. Troika), establishes a temporary secretariat for the duration of its term in order to coordinate the group's work and organizes its meetings. As the G20 website put it 'the role of the Troika is to ensure continuity in the G-20's work and management across host years.'[22]

As has been done for the FSB, in what follows, I am going to analyze the pattern of delegation and discretion accorded to the G20 in the conduct of its activities to ensure global financial stability.[23] In contrast to what emerged for the FSB, the review of the G20's activities reveals that the pattern of delegation to the G20 does not fully fit with the expectations of PA theory. Indeed, delegation was not motivated by principals' demand for policy relevant information and credible commitment. The G20 has only a limited staff that cannot really much add to the technical expertise that members already possess. Likewise, it

[20] The Group of 22 comprised finance ministers and central bank governors from the G-7 industrial countries and 15 other countries (Argentina, Australia, Brazil, China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, Mexico, Poland, Russia, Singapore, South Africa, and Thailand).
[21] The membership of the G20 is made up of the finance ministers and central bank governors of 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States of America and The European Union.
[22] G20 website, About the G20. http://www.g20.org/about_what_is_g20.aspx Accessed April 30 2009.
[23] The G20 does not solely work in area of financial stability. Its mandate I set in broader terms, giving the G20 the responsibility to promote cooperation 'on key issues related to global economic stability.' In this connection, the G20 is involved also on the international negotiations on terrorism and climate change, among others. For the purposes of this study, however, the attention is exclusively focused on its activity in financial stability.

is poorly equipped to enforce compliance among its members. Against this background, delegation appears to have been motivated by agenda-setting and legitimacy concerns.

3.1 The Pattern of Delegation

Member states have delegated to the G20 wide-ranging responsibilities including the elaboration of analyses and insights on financial stability issues and multilateral review of economic policies. In short, similarly to what has been brought to the surface for the FSB, the G20 has been delegated tasks such as collecting information and monitoring behavior, in line with PA expectations. Although at first blush such delegation could be attributable to principals' demand for policy-relevant information and credible commitments, the institutional design of the G20 does not support this view.

As far as concerns the task of collecting information, although the G20 meetings are preceded by extensive preparatory works, which take the form of workshops, reports and case studies on specific subjects, such a technical work is not properly in-house. Unlike the IMF and even the FSB, the G-20 operates without a permanent secretariat or staff, making it difficult for the body to develop its distinctive analysis on technical topics. Under these circumstances, technical information remains firmly in the hands of members. Furthermore, the G20's close relationship with the international financial institutions allows the G20 to draw from their expertise and not to develop it on its own. In short, the G20 heavily outsources the collection and development of information on financial stability issues. This is further attested by G20's attempt to reach out to experts from private-sector institutions and non-governmental organizations 'in order to exploit synergies in analyzing selected topics'.

Likewise, the G20's task of monitoring members' behavior appears as dependent from outside actors and expertise as its responsibility in collecting information is. For instance, the G20 is responsible to foster the adoption of internationally recognized standards through the example set by its members in areas such as the transparency of fiscal policy and combating money laundering and the financing of terrorism.[24] Nevertheless, it is ultimately up to each national authority to implement the measures they agreed upon within the G20 whereas responsibility for the surveillance of the actual implementation belongs to the IMF.

[24] G20 website, About the G20. http://www.g20.org/about_what_is_g20.aspx Accessed 2 May 2009.

In light of the G20 limitations in developing technical expertise and monitoring behavior, principals' delegation of the function to promote international cooperation thereby seems to respond to motivations other than that of gaining policy-relevant information or satisfying the demand for credible commitment. In particular, such a delegation appears to be motivated by members' need for agenda-setting functions. That is to say, members have delegated the G20 the tasks of promoting discussion and seeking agreement on economic issues in order to set the terms of the debate and provide guidelines for needed regulatory reforms. For instance, in response to the subprime crisis, the G-20 Finance Ministers were tasked from the November 2008 Washington summit to take forward work in the following five areas, including strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets, reinforcing international cooperation, and reforming the international financial institutions.

The 2009 Pittsburg G20 meeting has further reaffirmed the agenda-setting motivation that lies behind the delegation to the G20. Indeed, with the communiqué released at the end of the meeting, members designated the G-20 to be the premier forum for international economic cooperation.[25] That is to say, it will be up to the G20 to set the agenda for international economic and financial cooperation. In particular, the G20 is expected to provide guidelines on what reforms are needed to fix the broken regulatory system and to reduce the risk that financial excesses will again destabilize the global economy.

Although members were motivated by the need for agenda in typical PA fashion, another motivation figures prominently in the delegation to the G20 as evidenced in its institutional design. Specifically, legitimacy concerns appear to have played a crucial role in the delegation of functions to the G20. As the G20 website put it in explaining what the G20 is, the group has been constituted 'to bring together systemically important industrialized and developing economies to discuss key issues in the global economy.' In other words, the inclusion of developing countries in the governance of the international financial system figures prominently in the motivations that led to the creation of the body. This is further reinforced by the narrative on the G20 creation. Indeed, the G20 official website describes the origins of the group 'as a response both to the financial crises of the late 1990s and to a growing recognition that key emerging-market countries were not adequately included in the

[25] G20, *The Leaders Statement*: The Pittsburgh Summit, 25 September 2009.

core of global economic discussion and governance.'[26] Besides, the potential benefits of a regular international consultative forum that embraces emerging-market countries is often present in the G20 documents.

That legitimacy considerations played a crucial role in the creation of the G20 are also revealed by way of comparison with the G7. Indeed, the G20 website takes care in distinguishing between the two bodies. In its words, the G20 'has a high degree of representativeness and legitimacy on account of its geographical composition (members are drawn from all continents) and its large share of global population (two-thirds) and world GNP (around 90 per cent).' Building on this broad representation, the expectation is that the G20s' consensus outcomes will have greater impact than those of the G-7.[27]

In sum, delegation to the G20 dos not seem to have been motivated by members' desire for policy relevant information and credible commitment. Indeed, there is little evidence to suggest that the member states delegated powers to the G20 in order to secure policy-relevant information of credible commitment, which remain primarily in the hands of member states and other international organizations. Rather, delegation was motivated by the principals' need of coordination among multiple bodies, that is to say, the G20 well responds to members' demand for political leadership in the international financial system. In contrast to the FSB, then, legitimacy played a much more fundamental role in shaping the role of the G20 as a primary mechanism to ensure international financial cooperation.

3.2 The Pattern of Discretion

Similarly to what has been found out for the FSB, the pattern of discretion accorded to the G20 is considerably ample: principals have set up few ex ante and ex post control mechanisms to check on the group's activities. The G20 is not subject to oversight or specific institutional checks. Again, in line with the findings on the FSB, the pattern of discretion reflects the homogeneity of the G20 principals and the demand for speed and efficient decision-making more than demands for policy-relevant information and credible commitment.

[26] G20 website. Origins. http://www.g20.org/about_what_is_g20.aspx Accessed 2 May 2009.

Consider, for instance, the lack of formal requirements for the conduct of the day-to day operations of the G20. Contrary to the formal mechanisms that characterize negotiations within the Fund, the G20 discussions are more informal. The G20 promotes 'open and constructive discussion' among its members. In particular, the G20 fosters dialogue on issues related to international financial stability and the international financial architecture. The sole constraints imposed on the conduct of such a dialogue is that of ensuring that it is 'regular', carried out 'with a constant set of partners', and in close cooperation with other IOs – in particular, the IMF and the World Bank. The G-20 also works with, and encourages, other international groups and organizations, such as the Financial Stability Forum. [28]

The lack of formal and constraining control mechanisms is all the more striking as compared to the traditional act of delegation to international bodies. Indeed, as already pointed out, agents tend to depart from principals' preferences forcing the latter to devise control mechanisms. Nevertheless, such an anomaly tends to disappear in light of the strict intergovernmental nature of the G20 and thereby in light of the homogeneity of its members. Indeed, principals have felt no need to design an institutional framework including control mechanisms because of their grip on the workings of the group. Still, there are no formal criteria for G-20 membership leaving to current members the discretion to decide on the conditions for membership. The lack of conditions for formal membership has prevented an unwanted expansion of the group with the consequence that the composition of the group has remained unchanged since it was established. The direct control of members is also well illustrated by the voting procedures through which the G20 decides upon the crisis prevention policies among others. Indeed, there are no formal votes or resolutions based on voting shares or economic criteria. Every G-20 member has one 'voice' with which it can take an active part in G-20 activity. This provides a crucial reassurance to members against potential agency slack.

The light-touch pattern of discretion accorded to the G20 is also evident in the transparency and disclosure requirements imposed on the organization. Indeed, according to the operational guidelines available on the G20 website, the country currently chairing the G-20 is simply expected to post details of the group's meetings and work program on a dedicated website. In this connection, the meeting of ministers and governors are followed by the

[27] G20 website. FAQ. http://www.g20.org/about_faq.aspx Accessed 2 May 2009.

publication a communiqué, which summarizes the agreement reached and details the recommended policy actions. Nevertheless, it bears noting that such disclosure requirements are not compulsory and there is no formal sanctioning had the G20 not publish its records. This can be explained in light of the highest level of representation of members in the G20 and limited participation that make it unlikely for members to not know about the groups' activities.

Beyond the intergovernmental nature of the G20 and the strict control of members on its activities, the limited transparent and disclosure requirements are also motivated by the desire to facilitate agreement among members and thereby by the desire of speeding up the decision-making process. In this connection, the secrecy requested for negotiations appears crucial in fostering consensus among the membership limiting the applicability of transparency requirements.

In sum, the transparency requirements as well as the other control mechanisms that characterize the workings the G20 are feebler than those available principals in most international organizations, thereby suggesting the existence of a greater degree of discretion. This discretion is then motivated by the homogenous nature of the G20's principals and their demand for speed decision-making.

Conclusions

Over the past ten years, the creation of the FSB and the G20 have contributed to the thickening of international economic and financial governance significantly altering the landscape of a system that had been long dominated by the two international financial institutions – the IMF and the World Bank. This paper has investigated the motivations that led members to delegate powers to new international bodies as well as the motivations that help justify the extent of the control mechanisms that characterize the institutional design of the FSB and the G20. Specifically, the paper tested a number of hypotheses drawn from principal-agent models in order to assess whether the patterns of delegation and discretion were respondent to principals' demand for policy-relevant information, credible commitment, agenda-setting, and rapid decision-making among others.

[28] G20 website, About the G20. http://www.g20.org/about_what_is_g20.aspx Accessed 2 May 2009.

Reviewing and comparing the functions delegated to the FSB and the G20, the paper showed that members have delegated functions to the FSB that correspond closely to the functions predicted by PA models, but that delegation to the G20 fits only in part with the predictions of the model and appears to be driven by concerns over representation and legitimacy. With regard to discretion, the empirical evidence presented in the paper and, in particular, the comparison between the two case-studies, confirms PA hypotheses according to which principals will not select identical degrees of discretion for all agents (Pollack 2003). Rather, the variation in the pattern of discretion reflects the control capacity that principals may exercise over the agent. In this connection, the strict intergovernmental nature of the G20 help explains the feebler control mechanisms imposed on the G20 than those imposed on the FSB. Furthermore, in both cases, the homogeneity of principals' preferences, which share a common professional background, together with an ongoing concern about the speed and efficiency of decision-making help explain the pattern of discretion accorded to the FSB and the G20. The empirical findings are summarized in Table 1.

Table 1. Motivations behind the pattern of delegation and discretion to the FSB and the G20

	Delegation	**Discretion**
Financial Stability Board	Policy-relevant information Credible commitments	Speed of decision-making Homogeneity among principals
G20	Legitimacy Agenda-setting	Speed of decision-making Homogeneity among principals

In sum, although PA expectations are largely confirmed by the empirical analysis, there area areas in which PA expectations offer only a limited theoretical guidance in predicting the pattern of delegation and need to be complemented by more sociological-oriented explanations that emphasize the role played by legitimacy concerns. The evidence provided in this paper thereby offers only a starting point for a more systematic analysis of the role that legitimacy plays in explaining delegation and of the conditions under which legitimacy matters more than the traditional motivations identified in PA models. In other words, by identifying the possible application of sociological approaches to the problem of delegation, this paper has intended to suggest the importance of developing a research agenda that incorporates a broader range of independent variables for explaining delegation than the ones traditionally available in PA models. In this connection, sociological insights on the importance of legitimacy suggest a set of variables that needs further testing. In particular, a rigorous empirical testing is required for the claim that legitimate decision-making and fair representation are crucial drivers of delegation processes.

There is a final issue that this paper has only implicitly raised by not addressed and that requires further analysis. This issue is the continuing presence of the IMF in the governance of the international financial system. Indeed, both PA and sociological models would lead us to expect the disappearance of the age-old organization. From a PA perspective, the continuous failure of the IMF would have led to its replacement. Indeed, such a failure represents a shortcoming in the institutional design equilibrium thereby calling for its adjustment (Koremenos, Lipson, and Snidal 2001b). Similarly, from a sociological perspective, the IMF's lack of legitimation would have led to its replacement (Cottrell 2009). These expectations, however, have been systematically disappointed. Indeed, not only has the IMF survived the creation of competing international bodies, its competences have also been expanded as a response to the subprime crisis, as attested by the increasing role of its reverse currency, the SDR, in the international monetary system. The persistence of the IMF is thereby a puzzle for both PA and sociological models that will require the scrutiny of scholars interested in questions of institutional design.

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