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# Congressional Oversight Panel Examines the International Reach of the TARP

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For Immediate Release

## TARP's International Impact Greater Than Impact of Other Nations' Rescues on America Panel Recommends Further Stress Testing and International Financial Crisis "War Games"

**WASHINGTON, D.C.** - The Congressional Oversight Panel today released its August oversight report, "The Global Context and International Effects of the TARP." The report recommends that Treasury collect data on cross-border flows of funds, increase the scope and frequency of stress testing on financial institutions, and collaborate with foreign policymakers on a cross-border resolution regime and for regular crisis planning and financial "war games."

The financial crisis that began in 2007 exposed the interconnectedness of the global financial system. Although the crisis began with subprime mortgage defaults in the U.S., its damage spread rapidly overseas. The Panel found that policymakers were ill-prepared for such a worldwide crisis and that "the internationalization of the financial system has outpaced the ability of national regulators to respond."

Despite the limits of international coordination, most countries ultimately intervened in markets using the same basic set of policy tools: capital injections to financial institutions, guarantees of debt or troubled assets, asset purchases, and expanded deposit insurance. The U.S., however, targeted its rescue very differently than other countries. While most nations targeted their funds to save individual institutions, America simply flooded the markets with money to stabilize the system. Since much of this money accrued to U.S. institutions with extensive international operations, it appears that America's rescue had much greater impact internationally than other nations' rescues had on the U.S.

The Panel made several recommendations, including:

**Policymakers need strong, clear data to measure the success of their rescue efforts and to respond effectively to future crises.** Treasury gathered very little data on how bailout funds flowed overseas, which makes pinpointing the exact amounts and sources of the flow of cross-border rescue funds impossible. In the interests of transparency and to help inform regulators' actions in an increasingly integrated world, the Panel urges Treasury to collect and report more data about the international flow of TARP funds and to document the TARP's impact overseas.

**The Panel believes financial "war gaming" and "stress tests" should be used much more widely.** One of America's most powerful tools in the financial crisis, and one that was emulated by other countries, was the Supervisory Capital Assessment Program

(SCAP), or "stress tests." On the international level, vigorous stress tests could identify the weakest points of the international financial system and allow policymakers to plan an emergency response. U.S. officials should encourage regular international crisis planning and financial "war gaming."

**The crisis revealed the need for an international plan to handle the collapse of major, globally significant financial institutions.** A cross-border resolution regime could establish rules that would permit the orderly resolution of large international institutions, while also encouraging contingency planning and the development of resolution and recovery plans. Such a regime could help to avoid the chaos that followed the Lehman bankruptcy and the struggles that preceded the AIG rescue.

The full report is available at [cop.senate.gov](http://cop.senate.gov).

*The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are: J. Mark McWatters; Richard H. Neiman, Superintendent of Banks for the State of New York; Damon Silvers, Policy Director and Special Counsel for the AFL-CIO; Kenneth Troske, William B. Sturgill Professor of Economics at the University of Kentucky; and Elizabeth Warren, Leo Gottlieb Professor of Law at Harvard Law School.*

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