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The policy-making structure of European regulatory networks and the domestic adoption of standards

Martino Maggetti and Fabrizio Gilardi

ABSTRACT European regulatory networks (ERNs) constitute the main governance instrument for the informal co-ordination of public regulation at the European Union (EU) level. They are in charge of co-ordinating national regulators and ensuring the implementation of harmonized regulatory policies across the EU, while also offering sector-specific expertise to the Commission. To this aim, ERNs develop ‘best practices’ and benchmarking procedures in the form of standards, norms and guidelines to be adopted in member states. In this paper, we focus on the Committee of European Securities Regulators and examine the consequences of the policy-making structure of ERNs on the domestic adoption of standards. We find that the regulators of countries with larger financial industries tend to occupy more central positions in the network, especially among newer member states. In turn, network centrality is associated with a more prompt domestic adoption of standards.

KEY WORDS Adoption; agencies; networks; regulation; standardization.

1. INTRODUCTION

European regulatory networks (ERNs) are transnational groups that allow national regulatory authorities to formalize, structure and co-ordinate their interactions pertaining to the governance of a number of important domains, such as banking, securities, insurance, electricity, gas, telecommunications, broadcasting and competition (Coen and Thatcher 2008; Eberlein and Newman 2008). They constitute a new crucial step towards the institutionalization of regulatory governance in Europe, which calls for an empirical investigation of its consequences. While several studies examined their origins and evolution (e.g. Thatcher and Coen 2008), the effects of ERNs on regulatory policy-making remain unclear. On the one hand, some scholars have argued that networks might enhance decision-making quality through peer pressure and reputational dynamics, improving professional standards and policy commitments (Eberlein and Grande 2005; Majone 2000). On the other hand, it has been argued that networked administrative action can lead to cooptation, clientelism and other practices hindering performance (O’Toole and Meier 2004); that dense policy networks tend to produce closure, inertia and negative

externalities (Soda and Usai 1999); and that power dynamics are not absent from transnational networks (Bach and Newman 2010). More generally, sociological theories of diffusion point out that practices can spread within networks regardless of their effectiveness (Strang and Soule 1998). Whether these diverse views correspond to actual policy-making dynamics within ERNs is an open question because, as regulatory networks gain prominence at the European Union (EU) level and beyond, evidence of their performance remains scarce (Kenis and Provan 2009).

In this paper, we investigate a specific aspect of ERNs, namely, their policy-making structure and its connection with national standardization patterns. To be precise, our research question relates to the impact of network centrality on the domestic adoption of standards developed at network level. We focus on the Committee of European Securities Regulators (CESR), which is one of the most developed networks in terms of competencies, powers and formalization of its structure. Using publicly available but previously unexploited data, we examine the network relationships among its member regulatory authorities and their connection with the extent to which the decisions taken by the CESR are adopted at the national level. We identify five patterns of adoption (full, selective, partial, selective and partial, and non-adoption) and find that the regulators of countries with larger financial industries tend to occupy more central positions within the network, especially among newer EU member states. In turn, network centrality is associated with a faster adoption of standards. However, most countries eventually catch up. These findings suggest that closer interaction among regulators is shaped by national interests and that it influences the pace of domestic adoption more than its eventual level. Because of our case selection, these results are likely to constitute a ceiling for adoption patterns within ERNs.

The paper is structured as follows. Section 2 introduces ERNs and their relevance for EU governance. Section 3 discusses the structure of ERNs and the development of transnational standards, focusing especially on the case of the CESR. Section 4 examines patterns in the domestic adoption of standards, first by identifying several types of adoption and then by analysing their determinants. The conclusion discusses the implications of the findings for policy-making within regulatory networks.

2. ERNs AND EU GOVERNANCE

ERNs operate in the shadow of European institutions, but have substantial room for manoeuvre in the conduct of their various tasks, including providing advice to the EU Commission on technical matters, co-ordinating the policy positions of domestic authorities, offering fora for discussing current issues with the representatives of regulated industries and, most importantly, developing standards and guidelines of 'best practices' to be approved at the network level and adopted by member national authorities on a voluntary basis. Some ERNs were created upon the initiative of a group of national regulators with

the aim of strengthening their connections, whereas others were established under the impulsion of the EU Commission as the outcome of a process of negotiation among member states in which the option of sectoral pan-European agencies was discarded in favour of an intergovernmental solution (Thatcher and Coen 2008). However, in both cases, they brought into being a new, distinctive, flexible and effective level of governance (Eberlein and Newman 2008: 45).

ERNs are regarded as a fundamental layer of the multi-level political system of the EU. They should permit to manage the new European economic regimes by enacting a distinctive framework wherein political power and public authority are increasingly dispersed within a system of task-driven governance. Because they are permeated by academic experts and non-state actors, they convey new actors and new structures into the policy process beyond the nation-state. In addition, ERNs are deemed to constitute organizational devices for the promotion of norms through a mechanism of socialization and peer pressures, and they should contribute to the implementation of international standards, which are initiated and developed by a variety of unelected actors.

ERNs possess a number of peculiar features that distinguish them both from other instruments of 'new' governance, such as politics forum and platforms for policy transfer, and from other types of policy networks that are relevant for policy-making, which are generally defined as quite informal and non-hierarchical 'webs of relatively stable and ongoing relationships which mobilize and pool dispersed resources so that collective (or parallel) action can be orchestrated towards the solution of a common policy' (Kenis and Schneider 1991: 36). In general terms, policy networks are expected to exert the most effective peer pressures only under a specific set of circumstances, such as the existence of durable relations among members, the development of co-operative interactions, the existence of a state of mutual interdependence and network representativeness, all of which are the basic elements of a co-operative and deliberative decision-making process (Papadopoulos 2007) and which seem exceptionally prominent in the case of ERNs.

From the point of view of the structure of interaction, one can observe that network ties are, by design, particularly strong in ERNs. Unlike the case of ordinary policy networks, which can be conceptualized as relatively blurry, permeable and nebulous advocacy coalitions or epistemic communities, ERNs have an official, well-defined structure, also possessing resources and competences directly and indirectly derived from the European level. This state of affairs produces stable, durable, resourceful arenas, which might promote constructive horizontal interactions among the participating actors. In this framework, actors interact frequently, and the boundaries of the network are clearly specified, favouring a situation wherein information spreads rapidly, and there are more opportunities for 'diffuse reciprocity' (Elgström and Jönsson 2000). In addition, long-term and repeated interactions within small groups encourage, through a socialization process, the development of an 'esprit de corps' that is

likely to generate co-operative behaviour and problem-solving attitudes (Boyt *et al.* 2005). Therefore, these networks were established with the expectation that they might create the appropriate peer pressures and reputational incentives for regulators to act professionally and thus co-produce higher-quality regulatory outcomes (Majone 2000).

Concerning the actor-level strategies of regulators embedded in ERNs, two points deserve attention. On the one hand, the units that constitute the nodes of the network – that is, domestic agencies – are distinct organizations with uneven resources, but they constitute a relatively uniform type of actor. ERNs federate authorities that display approximately the same organizational model and have comparable competencies. Above all, they also share common goals as regards regulatory policies. In this sense, the policy interests of domestic regulators do not conflict *a priori*, and they are confronted with similar challenges *vis-à-vis* elected politicians and regulated industries. Collaboration within networks should then be perceived as a win–win option, favouring co-operative, deliberative interactions, which might produce, in the ideal case, Pareto-optimal solutions (Papadopoulos 2007). On the other hand, as regulatory agencies are unelected and isolated from the electoral cycle, the interaction among their members is expected to follow a less strategic and short-term game than negotiations among other types of political actors, such as representatives of political parties and interest groups. In fact, ERNs are to be considered as knowledge-based arenas that promote the exchange of ideas and information – in contrast to power-based arenas, which rely on the asymmetry of political resources – raising again the probability of a virtuous, problem-solving form of interaction (Elgström and Jönsson 2000).

Despite these arguments pointing to the virtues of ERNs, it would be wrong to believe that networks have univocally positive consequences on policy-making. Some authors have emphasized that politics is not absent from networks, which may even reinforce existing power structures (Bach and Newman 2010; O’Toole and Meier 2004). Furthermore, many sociological studies have shown that practices can spread within networks in virtue of their symbolic and socially constructed properties, regardless of their actual consequences, and even despite their ineffectiveness (Strang and Soule 1998). Thus, we consider the possibility that, in spite of the characteristics that seem to make them conducive to effective policy-making, ERNs may be unable to fulfil the high hopes that they have engendered. Furthermore, in this paper, we are agnostic as to the specific contours of decision-making processes within networks, also because the interactions among member regulators are usually surrounded by a high level of confidentiality. Instead, we argue that the unfolding of particular decision-making processes should have observable implications for their outcomes, that is, the patterns of standards approval and adoption. In line with the literature on interlocking directorates (Mizruchi 1996), we expect these patterns to be shaped by the position of actors within the network, as defined by the communication and informational structure emerging from co-participation linkages in the network’s official subgroups. Therefore, we offer an empirical

exploration of the dynamics of standards adoption for a selected network – the CESR – and examine the connection between the regulators' structural positions within the network and the domestic adoption of standards approved at network level. While adoption *per se* does not allow us to assess the consequences of policy-making within ERNs in detail, it does constitute a minimal criterion of effectiveness (Bach and Newman 2010). If an ERN is not able to promote successfully the adoption of the standards it develops, then its effectiveness would be called into question. However, we emphasize that we see the examination of adoption patterns as a first step towards a more comprehensive study of the consequences of regulatory networks.

3. THE STRUCTURE OF ERNs AND THE DEVELOPMENT OF TRANSNATIONAL STANDARDS

All ERNs function as federations of the regulatory authorities of EU member states as well as some non-member states, such as Iceland, Norway and Switzerland. The EU Commission is usually represented at ERN meetings too. The ERNs' organizational model normally comprises a secretariat; a management board, which is ultimately responsible for decision-making; and a number of permanent committees and *ad-hoc* working groups, whose members convene on a regular basis. Committees and working groups frequently involve academic experts and business representatives, and are in charge of preparatory meetings and day-to-day meta-regulatory functions, such as reports, standard setting and peer review assessments. Despite these common organizational features, the degree of institutionalization of ERNs, like their resources and assignments, varies across sectors, following functional rationales engaging the EU level and cross-national path-dependent trajectories.

The Council of European Energy Regulators/European Regulators' Group for Electricity and Gas (CEER/ERGEG) and Independent Regulators Group/Body of European Regulators for Electronic Communications (IRG/BEREC) are networks of utilities regulators, presenting a hybrid structure. They bring together bottom-up and top-down groups of national regulators of electricity and gas, and, respectively, telecommunications, which largely overlap. Bottom-up groups, such as the CEER and IRG, are voluntary associations of national regulatory authorities, with the aim of facilitating consultation, co-ordination, co-operation, information exchange and assistance amongst regulators. Top-down groups, such as ERGEG and BEREC (which recently replaced the ERG), were established through EU directives and Commission decisions, in order to function as advisory bodies and to foster harmonization of national regulations, thanks to the enactment of 'soft law' prerequisites (Coen and Thatcher 2008). The European Competition Network also consists of national competition authorities and the EU Commission, but has the distinctive feature of enjoying closer support from the Commission and of not being organized by committees drawn from member states (Wilks 2005). This network is mostly dedicated to the effective enforcement of EC competition

rules across Europe by acting as a powerful system that favours the spread of information and the co-ordination of national authorities. It is considered a uniquely independent transnational network promoting the first real supranational policy in the EU – that is, competition policy – with unexpected smoothness (Wilks 2007). Finally, the European Platform of Regulatory Authorities is the least institutionalized network. It operates externally, somewhat parallel to European institutions, and functions essentially as an open forum for information exchange and informal discussions among regulatory authorities in Europe and beyond.

The CESR, Committee of European Banking Supervisors and Committee of European Insurance and Occupational Pensions Supervisors constitute the so-called level-three committees of the Lamfalussy process – namely, the stage devoted to the implementation of the new system of regulation of the European financial markets (Chaher 2005). These three networks were designed to cooperate closely, but, a decade after their creation, evidence indicates that the CESR holds a distinctive leading role, mostly because the European policy of securities regulation is more coherent and consensual than the other issues to be co-ordinated at the transnational level (De Visscher *et al.* 2008; Lütz 2004). To examine patterns of standards adoption and for the effect of networks' structures, we focus on the CESR, which was set up in 2001 with the aim of harmonizing securities regulation in Europe. In particular, it is in charge of improving co-ordination among securities regulators, acting as an advisory group to assist the EU Commission, and ensuring consistent and timely implementation of community legislation in the member states. These tasks are accomplished through the dissemination of standards, guidelines and recommendations (Baker *et al.* 2005). Each EU member state is represented by the head of the national regulator authority in the field of securities. The Director General of the DG Market participates as the representative of the European commission. Furthermore, the securities authorities of Norway and Iceland are represented. The observed time period is 10 years (2001–2010) – that is, from its establishment to the present time. We focus on the CESR for two reasons. First, this network is of the 'harder' type, in terms of competencies, powers and formalization of its structure (Coen and Thatcher 2008), representing thus a 'most-likely' case of consistent domestic adoption. Second, it is the most transparent network and discloses a considerable amount of information, especially data on standard adoption, which are crucial for our research goals.

CESR standards consist of sector-specific corporate governance measures to promote harmonized pro-competition rules in member (and non-member) states securities markets. They seek to improve transparency and investor protection while eliminating market barriers and to reduce costs for investors and fund management companies. The standards and guidelines are not mandatory because they do not have Community law status, which means that CESR members introduce them in their day-to-day regulatory practices on a voluntary basis (Chaher 2005). However, the review panel of the CESR assesses

the overall process of implementation and offers recommendations about specific problems in the implementation process encountered by individual members. It encourages self-assessment procedures to obtain a first picture of the practice of supervision in a given area. Most importantly, it exercises group pressure through peer reviews, which are carried out by other members on the implementation in all jurisdictions concerned, by setting so-called benchmarks that are used to evaluate the levels of compliance, not unlike in the open method of co-ordination (Heidenreich and Bischoff 2008).

We selected three standards and a set of guidelines developed autonomously by the CESR and for which there is consistent information on the adoption process:

- The *standard for investor protection* (2002) provides a harmonized conduct of business rules for retail investors in the following areas: standards and rules of general application, information to be provided to customers, the ‘know your customer’ standards and the duty of care, customers’ agreements, dealing requirements (including the ‘best execution’ standards) and individual discretionary portfolio management.
- *Standard 1 on financial information* (2003) represents a contribution to the task of developing and implementing a common approach to the enforcement of International Financial Reporting Standards in Europe. It provides for principles by which harmonization on the institutional oversight systems in Europe may be achieved.
- *Standard 2 on financial information* (2004–2005) aims to contribute to the consistent enforcement of International Accounting Standards Board standards within Europe, implemented in 2005, namely by providing a formalized structure and a number of common principles to national supervisors.
- *UCITS guidelines* (2006) aim to simplify the notification procedure of UCITS (undertakings for collective investments in transferable securities) – that is, the use of passports for facilitating the cross-border activities of investment funds. In particular, this document offers a common approach to domestic authorities in order to bring greater simplicity, transparency and certainty to the notification process.

4. THE DOMESTIC ADOPTION OF STANDARDS

4.1 Patterns of adoption

According to CESR terminology, ‘implementation’ means the adoption of a given standard at domestic level in the form of a compulsory regulation. These standards are coded item by item by the review panel of the CESR as ‘implemented’ (1), ‘partially implemented’ (0.5) or ‘not implemented’ (0). Using these data, we can examine the patterns of standard adoption in member states. Each item for any given standard was preliminarily aggregated by calculating its overall average value, but the analysis leads to essentially the same conclusions if it is carried out using the individual items.

We assess the adoption of the four standards taken as a whole, using the latest ‘implementation’ data: investor protection (2010), Financial 1 (2010), Financial 2 (2009) and UCITS guidelines (2010). We use cluster analysis, which is a simple procedure to identify groups of individuals that are similar to each other but different from individuals in other groups (Kaufman and Rousseeuw 2005). Hierarchical clustering is a technique that does not need prior assumptions about the distribution of data nor does it predetermine the number of clusters. Before running the analysis, ‘squared Euclidean distance’ was chosen as the appropriate measure of distance between groups, and ‘between-group linkage’ as the procedure for forming the groups. Accordingly, the software (Stata 11) computes the smallest average distance between all group pairs and combines the two groups that are closest. In the first step, the two cases with the smallest distance between them are clustered. Then, the software computes distances again and combines the two that are next closest. The process continues until all cases are grouped into one large cluster. Therefore, the last analytical step is to determine how many clusters one shall use to represent the data, with the help of the agglomeration schedule and the clustering tree elaborated by the statistical package. The tree should be cut at a stage representing a big leap in the values of the index, and offering a good balance between the homogeneity of the groups and their number. Here, these conditions were met after five agglomerations.

Table 1 displays the results. The analysis produced five clusters and one isolated case (Hungary). As this process of categorization is inductive, we labelled each group *ex-post*, according to the distinctive pattern they represent: full, selective, partial, selective-and-partial or non-adoption. Accordingly, besides the first group of ‘good pupils’, we identify countries that adopted the four standards very selectively, that adopted most standards but only partially, and also a small number that presents both of these limitations. Finally, two countries did not adopt any proper standard yet, except from the less demanding UCITS guidelines.

Table 1 Patterns of adoption of three standards and a set of guidelines

<i>Full</i>	<i>Selective</i>	<i>Partial</i>	<i>Selective and partial</i>	<i>Non-adoption</i>
Finland	Belgium	Estonia	Czech Republic	Austria
Portugal	Germany	Slovakia	Slovenia	Iceland
Ireland	Norway	Latvia		
Greece	Romania	Lithuania		
Great Britain	Denmark	Malta		
Cyprus	France	Bulgaria		
Italy	Spain	Sweden		
	Poland			
	Netherlands			
	Luxembourg			

How can we explain this pattern? The classic ‘veto players’ argument – namely, that law-making will be particularly difficult in countries where the agreement of numerous actors is constitutionally and politically required – appears limited for characterizing the profile of the best domestic adopters of CESR standards, given the good performance of some countries whose political system are punctuated by several institutional and partisan veto players, such as Italy and Portugal. Another frequently cited condition for domestic change is a ‘manageable misfit’ between domestic and EU-level regulations producing adaptational pressures, whereas there is no need for adaptation when EU rules fit well with domestic policies, and ‘Europeanization’ hardly occurs when a high level of incompatibility leads to conflicts, resistance and blocking (Börzel and Risse 2002; Knill and Lehmkuhl 2002). Again, the existing ‘misfit’ seems hardly useful in this case, since the group of the smoothest adopters comprise countries whose corporate governance rules are the most in line with the CESR standards, such as the UK and Ireland, together with some of the least compatible jurisdictions (Greece, Cyprus). Finally, the politico-administrative culture of compliance with EU law can be dismissed as not suitable for portraying these patterns, because the clusters of adopters do not match at all with the typology of the three ‘worlds of compliance’, respectively dominated by ‘law observance’, ‘domestic politics’ and ‘neglect’ (Falkner *et al.* 2005).

These findings are not exceedingly surprising *per se*, because voluntary standards should not be equated to community law, for which the aforementioned literature was developed. Nonetheless, they are interesting because they reinforce the plausibility of an endogenous explanation. In other words, we might expect patterns of domestic adoption to be shaped by the characteristics of the structure of interaction within networks, and, in particular, by the varying positions of participating actors as defined by their institutional linkages, which represent their organizational communication potential (Mizruchi 1996). However, our expectations are mixed. On the one hand, actors in central positions hold a considerable amount of structural power and are likely to influence the approval of standards at network level (Burt 1995; Knoke 1990). Therefore, they should be eager to adopt them. On the other hand, these actors should have the material and symbolic resources to resist the peer pressure exerted within the network, and not feel compelled to adopt any standards in their country with which they do not fully agree or which are no longer in their best interest.

4.2 Determinants of adoption

We analyse the determinants of adoption for the ‘Financial 1’ standard, one of the oldest, and the only one for which all the relevant information is available, especially longitudinal data for domestic adoption. Furthermore, the approval of this standard at CESR level constituted a pivotal issue for network members (interview with a CESR executive, 28 September 2010), while its domestic adoption ‘represents a major change’ in financial regulation (Brown and Tarca 2005), which is expected to have a sensible impact on the regulated

firms (Lantto and Sahlström 2009). Data were extracted from the annual reports of the CESR (1999–2010) and from a number of CESR official documents and working papers. Our analysis consists of three steps. First, we examine the determinants of network centrality: which regulators have a more central position within the network? Second, we consider whether countries whose regulators are more central tend to adopt the standard more promptly. Third, we inspect to what extent, and why, the standard is widely adopted by the end of the observation period.

Our main hypothesis concerns the position of agencies within networks, a variable which is expected to be related to their willingness to adopt at the domestic level the standards developed and approved at the transnational level. In relational terms, their position corresponds to the centrality determined by the structure of interaction within the network (Carrington *et al.* 2005). If ERNs are conceptualized as social networks, this structure of interaction consists of the social ties that derive from different types of linkages among agencies. In that regard, this paper focuses on the formal structure of ERNs. From an organizational perspective, formal rules and institutional design are expected to have crucial effects on actors' behaviour, as the structure of the organization constrains choices, but at the same time, it creates and enhances capacity in certain directions (Egeberg 1999). Thus, this social network, based on linkages of co-participation in networks subgroups, represents the framework of the institutionalized structure of communication and potential influence among agencies within the ERN (Mizruchi 1996). It can be mapped and explored with the application of some simple measures of social network analysis (Scott 2000).

Concretely, national regulatory authorities constitute the nodes of the social network, while ties represent instances of co-participation between given pairs of member regulators. We distinguish four types of linkages, following co-participation in (1) the network, (2) the board, (3) permanent groups, (4) working groups. We first computed a two-mode matrix (actors/years) for each subgroup, to be transformed in one-mode with the standard procedure (called 'affiliations') in the social network analysis software UCINET (Borgatti *et al.* 1999). The resulting matrices are then aggregated by computing the sum of values cell-by-cell. For instance, if two agencies co-participate for 3 years in one subgroup and for 1 year in another, their relation for the time-period will receive a (symmetric) value of 4. Finally (by excluding the diagonal in the subsequent analysis), we calculate the degree centrality and the Eigenvector centrality of actors for three distinct cumulative measures: 2001–2006, 2001–2008, and the whole observation period (2001–2010).¹ The first measure of centrality refers to the number of ties for any given nodes – that is, local connectivity – while the second assesses the relative importance of a node in the network. In the rest of this paper, we refer to actors' network centrality as their degree, because this measure is more straightforward. However, as a robustness check, we repeated all calculations using Eigenvector centrality and found that there is little change in the results.

In addition to network centrality, other explanatory variables could be related to the adoption of standards at the domestic level. First, we expect systematic differences between older and newer member states, as well as the two non-EU members in the CESR (Norway and Iceland). We operationalize this factor simply by taking the log of the number of years since EU-accession.² Second, the regulators' resources might play an important role, as it may be easier for larger agencies to send staff to permanent and working groups, and generally to be more strongly involved in the network's activities. We operationalize this factor with the log of the number of employees.³ Third, it could be expected that countries with larger financial industries have stronger interests at stake and may be more involved at the network level. We operationalize this factor with the market capitalization of the financial industry as a percentage of the GDP, which reflects the relative importance of the financial sector for the political economy of the various countries and, therefore, the level of priority that a reform of the regulations of the financial sector should have on the political agenda of the regulatory authorities. The World Bank (2010) database can be used to construct an average value for 2001–2008. Another important variable is the number of actors involved in enforcement at the domestic level, a measure which is more pertinent than the typical veto player scheme when studying the domestic adoption of transnational voluntary standards (Mattli and Büthe 2003). The higher the number and the more diverse the actors, such as regulatory authorities in charge, other agencies, central banks, the parliament, the governments and other actors like courts, the more difficult the implementation of standards is expected to be. Information on this variable is derived from official documentation of the CESR review panel (CESR 2009), completed with the results of our own survey.

The results of the ordinary least squares (OLS) regressions are displayed in Table 2. In Models 1–3, the dependent variable is network centrality in the 2001–2006 period. Model 1 shows that regulators with more employees tend to occupy a more central position within the CESR, but the relationship is by far not statistically significant, even when no other variables are included. Model 2 indicates that the more central regulators are those of older EU member states and of countries that have large financial industries. Although the coefficient of financial size does not achieve statistical significance in Model 2, Model 3 shows that the relationship between financial industry capitalization and network centrality varies with years of EU membership and is stronger among newer memberstates.⁴ These results are shown graphically in Figure 1, which plots the marginal effect of financial services capitalization as a function of years of EU membership, based on Model 3. We see that a sizeable financial industry is associated with a more central position only for younger member states – namely, those who joined the EU in the last 20 years. To give an idea of the size of the effect, a standard deviation increase in financial industry capitalization is associated with a 0.85 standard deviation increase in network centrality for countries that joined the EU in 2007. More concretely, this means that if the size of the Bulgarian financial sector were to increase to the

Table 2 OLS estimates

	(1)	(2)	(3)	(4)	(5)	(6)
Number of employees (log)	8.11 (6.42)					
Financial industry capitaliz		0.17 (0.11)	1.13*** (0.30)			
Years of EU membership (log)		27.54*** (4.11)	41.04*** (6.18)			
Capitalization × EU			-0.31*** (0.09)			
Number of actors				0.23** (0.11)	0.14 (0.11)	
Network centrality (2001–2006)					0.41** (0.18)	
Adoption (2006)						-0.65*** (0.12)
Constant	89.51** (36.56)	50.39*** (9.36)	13.90 (13.31)	0.20 (0.15)	-0.23 (0.23)	0.70*** (0.07)
Adjusted R2	0.02	0.78	0.84	0.12	0.24	0.50
N	29	29	29	29	29	29

Notes: The dependent variables are network centrality (2001–2006) (Models 1–3), adoption until 2006 (Models 4 and 5) and the difference in adoption between 2010 and 2006 (Model 6).

Standard errors in parentheses; **significant at 5%; ***significant at 1%.

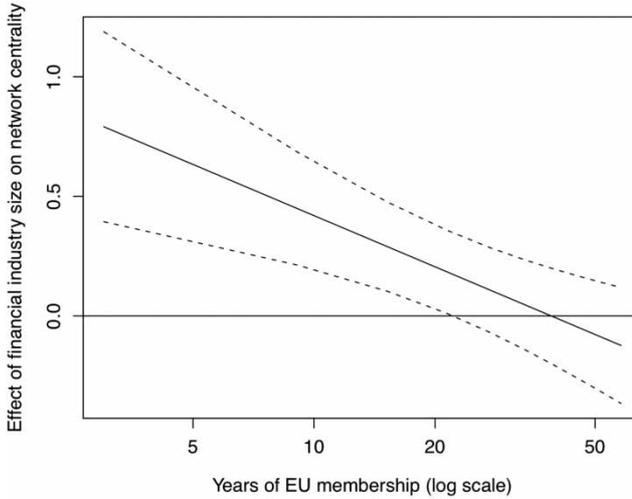


Figure 1 Effect of financial industry capitalization on centrality in the CESR network, conditional on years of EU membership, with a 95 per cent confidence interval. The figure is based on Model 3 in Table 2.

level of Greece, the position of the Bulgarian regulator in the CESR network would be expected to be similar to that of Poland, which joined the EU 3 years before Bulgaria. More generally, Model 3 suggests that, for countries that joined the EU in the Eastern enlargement phase, the effect of a standard deviation increase in financial services capitalization is roughly equivalent to that of joining the EU 3 years earlier. Thus, the effect of the financial industry's size is not sweeping, but certainly not trivial.

Models 4–5 in Table 2 examine the determinants of adoption in 2006. In Model 4, we see that there is a positive relationship between the number of actors involved in enforcement and the degree of adoption, which is unexpected. However, Model 5 shows that this relationship becomes smaller and statistically insignificant when network centrality is included. The interesting result, however, is that domestic adoption up to 2006 tends to be higher in countries that had a more central position in the CESR. The plausibility of the connection between network centrality and domestic adoption is reinforced by additional pieces of information. On the one hand, according to a CESR executive,⁵ the Financial 1 standard was fully developed within a working group of the CESR itself, composed by representatives of each member authority, which are also in charge of domestic adoption, without the participation of external actors. On the other hand, a survey carried out by the CESR shows that 75 per cent of national regulators consider network influence on national regulation as 'quite high' or 'very high', and none as 'quite low' or 'very low' (CESR 2007). Finally, Model 6 shows that while central countries tend to be early adopters, most other countries caught up between 2006 and 2010. The

dependent variable is the difference in adoption in this period, and the explanatory variable is the level of adoption in 2006. The strongly negative and statistically significant coefficient indicates the presence of β -convergence (Heichel *et al.* 2005), whereby countries with lower levels of adoption in 2006 increased it more subsequently.

In sum, the Financial 1 standard developed by the CESR was adopted in most countries by 2010, but the regulators that were more central within the network adopted it more quickly. In turn, network centrality is associated with the size of the financial industry, especially among newer EU member states.

5. CONCLUSION

In this paper, we examined the domestic adoption of standards developed by the CESR, the European network of national agencies regulating the financial markets. Our analysis highlighted a number of points related to the policy-making structure of the CESR and its consequences for domestic adoption, which permit us to corroborate and refine claims that transnational regulatory networks influence policy convergence and that lead regulators shape domestic regulatory agendas (Bach and Newman 2010).

First, it is interesting to note that these standards, although on a voluntary basis, are adopted quite consistently as compulsory regulations by member states. Therefore, decision-making within ERNs matters. More precisely, using a cluster analysis of the four existing standards, we identified five patterns of adoption ('full', 'selective', 'partial', 'selective and partial', and 'non-adoption') that do not match with those expected following the '(mis)fit', 'veto players' and 'cultural' arguments developed in the literature on Europeanization. This result is intriguing because it shows that the effect of European networks on domestic regulations is mediated by different factors than those evoked for traditional European-level processes, policies and institutions. In particular, it reinforces the plausibility of network structures as distinctive filters for national interests.

Second, the diachronic analysis of adoption of Standard 1 on financial information shows that the regulators of countries with larger financial industries tend to occupy more central positions in the network, and that the relationship is stronger among newer Member States. This finding suggests that agencies representing countries with higher stakes in financial market regulation have both the incentives and the legitimacy to join the network and to engage themselves more actively in the network board, permanent groups and working groups. The fact that this dynamic is particularly strong for newcomers might suggest that, given their weaker integration within EU structures, they are even more relying on this peculiar type of horizontal arena to support their points of view and protect their national interests.

What is more, network centrality is associated with a more prompt domestic adoption of standards. The fact that this form of structural power is apparently influencing the timing of adoption, but not necessarily its extent, leads us to

think that this effect is less owing to the influence of central actors on standard approval at network level than to their increased resources in terms of communication and information flows, which enhances their willingness and capacity to adopt the standards. In this regard, it is worth noting that not only does the Financial 1 standard represent a major change in financial regulation, but that it is also the most consistently adopted standard of the most institutionalized network. Therefore, these results are likely to constitute a ceiling for adoption patterns within ERNs and, thus, to be relevant especially for cases of successful transnational standard-setting.

In conclusion, the CESR seems to be effective in performing its main task, namely the promotion of harmonized rules. The Lamfalussy system of EU financial regulation was purposely limited to the regulation of markets and business conduct, while the prevention and reduction of systemic risks ('prudential regulation') is beyond its competencies (Posner 2010). In this context, the current reform of the regulatory regime implying the creation of an European agency for financial markets could be interpreted less as a recognition of regulatory failures than as an expansion of EU authority through the application of a pre-formatted, socially valued organizational model – an integrated independent regulator (Gilardi 2005) – thanks to a windows of opportunity triggered by the 2008 financial crisis.

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NOTES

- 1 2006, 2008 and 2010 are the 3 years for which data on domestic adoption is available.
- 2 Using the simple (unlogged) number of years does not change the results. The main analysis uses the year of European economic area-accession (1994) for Norway and

Iceland. Setting this variable to 0 for these two countries, or dropping them altogether, does not alter the results substantively.

- 3 Using the unlogged values does not affect the results.
- 4 As noted earlier, these results are robust to various alternative operationalizations of EU membership.
- 5 Telephone interview, October 2010.

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