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INSIGHT

CRS Series: Introduction to Financial Services—117th Congress

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The Congressional Research Service (CRS) has created a series providing an introduction to various financial services issues in the 117th Congress. Click on any of the titles below to access an In Focus, a two-page briefing product on issues of ongoing interest to Congress. In addition, the products are published jointly here.

The CRS authors are also available to answer questions from congressional clients, research policy issues, prepare confidential memoranda, and provide in-person briefings. Their contact information may be found in each In Focus.

The Regulatory Framework

Financial activity can generally be divided into three broad categories—banking, securities markets, and insurance (**Figure 1**). The financial regulatory structure is more fragmented, involving multiple, overlapping regulators at the federal and state levels. Further, because institutions, markets, and products can be subject to regulation, an activity may fall under the purview of multiple regulators.

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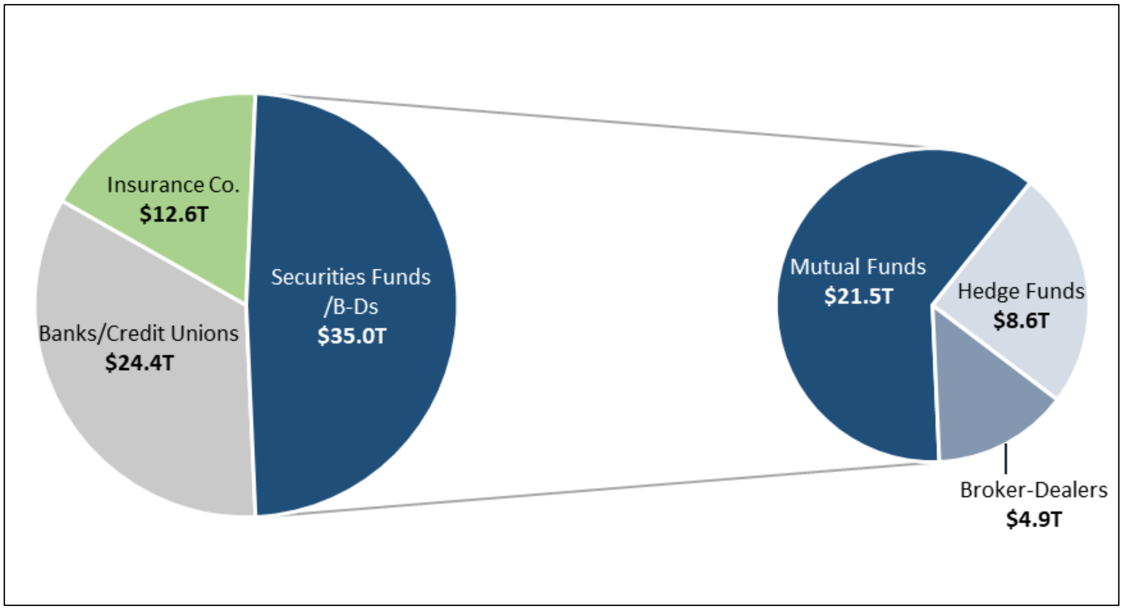
Figure 1. Assets Held by Selected Financial Institutions, 2021: Q2

($ Trillions)



Source: Federal Reserve.

Notes: Hedge funds is as of 2021: Q1.

See CRS In Focus IF11065, *Introduction to Financial Services: The Regulatory Framework*.

Banking

Traditionally, banking involves accepting deposits from customers and making loans to businesses and households. Holding $24.4 trillion in assets, banks and credit unions play a central role in the financial system by connecting borrowers to savers and allocating capital across the economy. As a result, banking is vital to the health and growth of the U.S. economy. Yet banking is an inherently risky activity involving extending credit and taking on liabilities, and banking panics and failures can create devastating losses. Bank and credit union regulation is divided among multiple federal regulators, including the Federal Reserve, the nation's central bank.

See CRS In Focus IF10035, *Introduction to Financial Services: Banking*; CRS In Focus IF11713, *Introduction to Financial Services: Credit Unions*; and CRS In Focus IF10054, *Introduction to Financial Services: The Federal Reserve*.

Insurance

Insurance involves collecting premiums from and making payouts to policyholders triggered by a predetermined event. Holding $12.6 trillion in assets, the insurance industry is often separated into two parts: *life and health insurance*, which also includes annuity products, and *property and casualty insurance*, which includes most other lines of insurance, such as homeowner's insurance, automobile insurance, and various commercial lines of insurance purchased by businesses. Insurance is primarily regulated at the state level.

See CRS In Focus IF10043, *Introduction to Financial Services: Insurance*.

Securities

Securities, which are often traded in financial markets, take the form of debt (a borrower and creditor relationship), such as corporate bonds ($8.3 trillion outstanding) and equity (an ownership relationship, $54.8 trillion outstanding). Financial firms that operate in capital markets hold $35.0 trillion in assets (see **Figure 1**). Federal securities laws overseen by the Securities and Exchange Commission (SEC) are broadly aimed at protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation.

See CRS In Focus IF11714, *Introduction to Financial Services: The Securities and Exchange Commission (SEC)*; and CRS In Focus IF11062, *Introduction to Financial Services: Capital Markets*.

ESG Issues

Environmental, social, and governance (ESG) issues generate policy debate over what is material in these areas, which ESG factors a firm should consider and disclose to investors, and the appropriate role of the SEC.

See CRS In Focus IF11716, *Introduction to Financial Services: Environmental, Social, and Governance (ESG) Issues*.

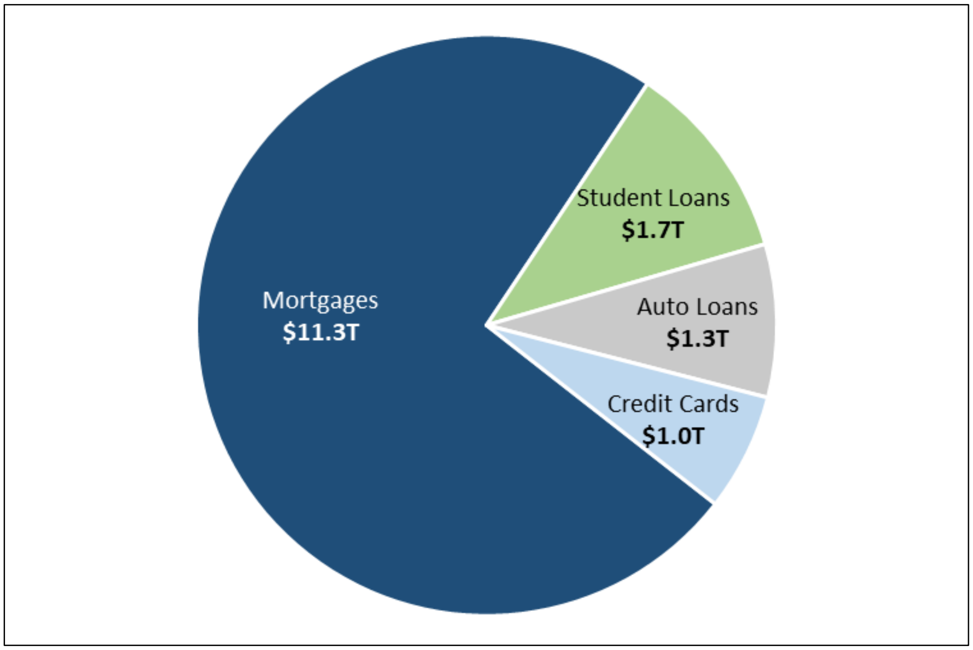
Consumer Protection

Trillions of dollars of credit is extended to consumers from banks and nonbank financial institutions (**Figure 2**). These financial decisions can be complex and can affect financial well-being both now and in the future. The Consumer Financial Protection Bureau (CFPB) was established by P.L. 111-203 (Dodd-Frank Act) to implement and enforce federal consumer financial protection law while ensuring consumers can access credit. The CFPB also aims to ensure consumer financial markets are fair, transparent, and competitive.

Recent data breaches at large financial institutions have also increased concerns about the privacy and security of consumer financial information. Financial institutions seek to prevent electronic theft of money and other assets, as cybersecurity threats could interrupt or shut down their businesses.

Figure 2. Selected Household Credit, 2021: Q2

($ Trillions)



Source: Federal Reserve.

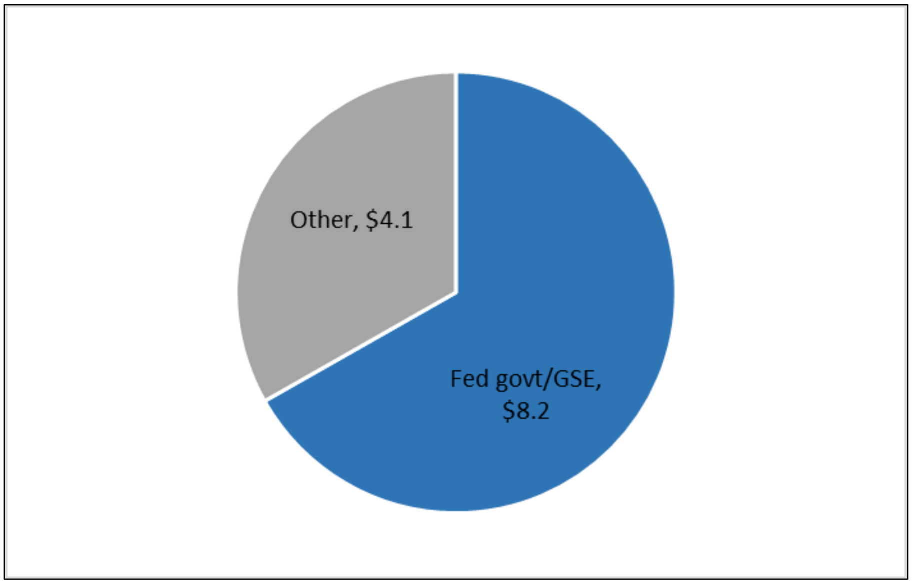
See CRS In Focus IF11682, *Introduction to Financial Services: Consumer Finance*; CRS In Focus IF10031, *Introduction to Financial Services: The Consumer Financial Protection Bureau (CFPB)*; and CRS In Focus IF11717, *Introduction to Financial Services: Financial Cybersecurity*.

Housing Finance

A *mortgage* is a loan that uses real estate as collateral. The U.S. residential mortgage market—approximately $11.3 trillion in debt outstanding (of which $10.8 trillion is owed by households)—constitutes the largest share of household credit. The mortgage market has two major components—the *primary market* in which mortgages are originated and the *secondary market* in which existing mortgages are bought and sold. Fannie Mae and Freddie Mac, government-sponsored enterprises (GSEs), play a crucial role in the mortgage market and are regulated by the Federal Housing Finance Agency (**Figure 3**).

Figure 3. Residential Mortgage Holders/Guarantors, 2021: Q3

($ Trillions)



Source: CRS calculations based on Federal Reserve.

Notes: Includes mortgage pools backed by entities.

See CRS In Focus IF11715, *Introduction to Financial Services: The Housing Finance System*.

Systemic Risk

Systemic risk is a risk posed by financial firms, market structure, or activities that could lead to a breakdown in financial stability, such as the 2007 to 2009 financial crisis. The Financial Stability Oversight Council, chaired by the Treasury Secretary, was created by the Dodd-Frank Act to identify and respond to risks to financial stability.

See CRS In Focus IF10700, *Introduction to Financial Services: Systemic Risk*.

Accounting and Auditing

Accounting is considered the language of finance. A common set of principles and rules help establish accounting standards. Accountants who audit financial statements (auditors) also adhere to a common set of audit principles and rules. Accounting and auditing standards in the United States are promulgated and regulated by various federal, state, and self-regulatory organizations (SROs). Congress has allowed financial accounting and auditing practitioners to remain largely self-regulated, while retaining oversight responsibility.

See CRS In Focus IF10701, *Introduction to Financial Services: Accounting and Auditing Regulatory Structure, U.S. and International*.

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