Centre for International
Governance Innovation

CIGI Papers No. 228 — October 2019

Emerging Countries in Global Financial Regulatory Standard Setting

What Is to Be Done?

Andrew Walter

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Acronyms and Abbreviations

ASEAN	Association of Southeast Asian Nations
BCBS	Basel Committee for Banking Supervision
BIS	Bank for International Settlement
BRICS	Brazil, Russia, India, China and South Africa
BRSA	Banking Regulation and Supervision Agency
CGD	Centre for Global Development
EMDEs	emerging market and developing economies
EME	emerging market economy
FSB	Financial Stability Board
G20	Group of Twenty
IEO	Independent Evaluation Office of the IMF
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
RBI	Reserve Bank of India
RCAP	Regulatory Consistency Assessment Programme
SSBs	standard-standing bodies

Executive Summary

This paper explores the role of emerging-country members in the Basel process, a key aspect of the global financial standard-setting process. It argues that this process has been significantly more politically resilient than adjacent aspects of global economic governance, in part because major emerging countries obtain continuing "intra-club" benefits from participation within it. The most important of these are learning benefits, but status and sometimes influence over standard-setting outcomes can also be valuable. The paper outlines how these benefits could be enhanced to secure the ongoing resilience of global financial regulatory governance. It recommends some modest reforms to further improve the position of emerging countries in the process and to bolster its perceived legitimacy among members and non-member countries.

Introduction

Much research on international financial standard setting suggests that major emerging countries should be dissatisfied with their limited influence in this important part of contemporary global financial regulatory governance (Chey 2016; Gurrea-Martínez and Remolina 2019; Jones and Knaack 2019; Newman 2017; Newman and Posner 2018; Walter 2016). Yet these emerging countries have not, so far, sought to develop alternative forums and institutions as they have done in adjacent areas of global economic governance, including trade, development finance and regional liquidity arrangements (Eichengreen, Lombardi and Malkin 2018). Indeed, as this paper briefly describes, most emerging country members of the Group of Twenty (G20) in practice appear to be relatively satisfied with processes of international financial regulatory standard setting since they joined its key institutions in 2009.[1]

This paper argues that this is because the "Basel process" provides a mix of valuable benefits to current members, including "club goods." These club goods include learning, status and (sometimes) influence benefits for members. They differ from the emulation benefits available to all countries, including non-members, most of whom adopt Basel standards to varying degrees. Basel standards are attractive for many countries because they are perceived to deliver credibility, financial stability and international competitiveness benefits, whilst retaining considerable scope for national policy discretion. These general benefits, including the scope for policy discretion, are also important for EME members of the Basel process as they provide additional reassurance to national governments of the continuing net benefits of their participation.[2]

The learning benefits provided to the Basel members listed in Table 1 are multi-faceted and probably the most important club good. They include privileged access to higher quality expertise and knowledge relevant to evolving policy challenges; forewarning of emerging financial and security risks to domestic banks and global banks operating locally; and supplemental surveillance of systemically important countries with financial systems posing spillover risks. Together, these have played an important role in sustaining relatively positive perceptions of Basel among most EME members and in diminishing the attractiveness of alternative arrangements. China's continued commitment to the Basel process has been a particularly important contributor to its

1 This empirical claim is based on observed emerging market economy (EME) policies, public documents and official speeches as well as confidential interviews of relevant public officials in some major advanced and emerging countries undertaken in the first half of 2019. All emerging market G20 countries were admitted to the Basel Committee for Banking Supervision (BCBS) and the Financial Stability Board (FSB) in early 2009. The FSB is the peak body responsible for coordinating the activities of the many specialized global standard-setting bodies (SSBs), while the BCBS is responsible for setting standards for banking regulation and supervision, an area of great importance for EMEs with their bank-dominated financial systems. The International Organization of Securities Commissions (IOSCO) also invited securities regulators from Brazil, China and India to join its important Technical Committee in February 2009. In May 2012 this was restructured into a board with 34 members including a larger number of EMEs.

2 As a point of differentiation from Basel, some Chinese officials pointed to the constraints on national policy discretion that future Trans-Pacific Partnership membership would entail (interviews, Beijing, February 2019).

Table 1: Current Membership of the BCBS and the FSB

Country Members	BCBS	FSB
Argentina	✓	✓
Australia	✓	✓
Belgium	✓	
Brazil	✓	✓
Canada	✓	✓
China	✓	✓
European Union	✓	✓
France	✓	✓
Germany	✓	✓
Hong Kong SAR	✓	✓
India	✓	✓
Indonesia	✓	✓
Italy	✓	✓
Japan	✓	✓
Korea, Republic of	✓	✓
Luxembourg	✓	
Mexico	✓	✓
Netherlands	✓	✓
Russia	✓	✓
Saudi Arabia	✓	✓
Singapore	✓	✓
South Africa	✓	✓
Spain	✓	✓
Sweden	✓	
Switzerland	✓	✓
Turkey	✓	✓
United Kingdom	✓	✓
United States	✓	✓

International Institutions	BCBS	FSB
Bank for International Settlements (BIS)		✓
International Monetary Fund (IMF)		✓
Organisation for Economic Co-operation and Development		✓
World Bank		✓
SSBs	**BCBS**	**FSB**
BCBS		✓
Committee on the Global Financial System		✓
Committee on Payments and Market Infrastructures		✓
International Association of Insurance Supervisors		✓
International Accounting Standards Board		✓
International Organization of Securities Commissions		✓
Country Observers (BCBS only)	**BCBS**	**FSB**
Chile	✓	
Malaysia	✓	
United Arab Emirates	✓	

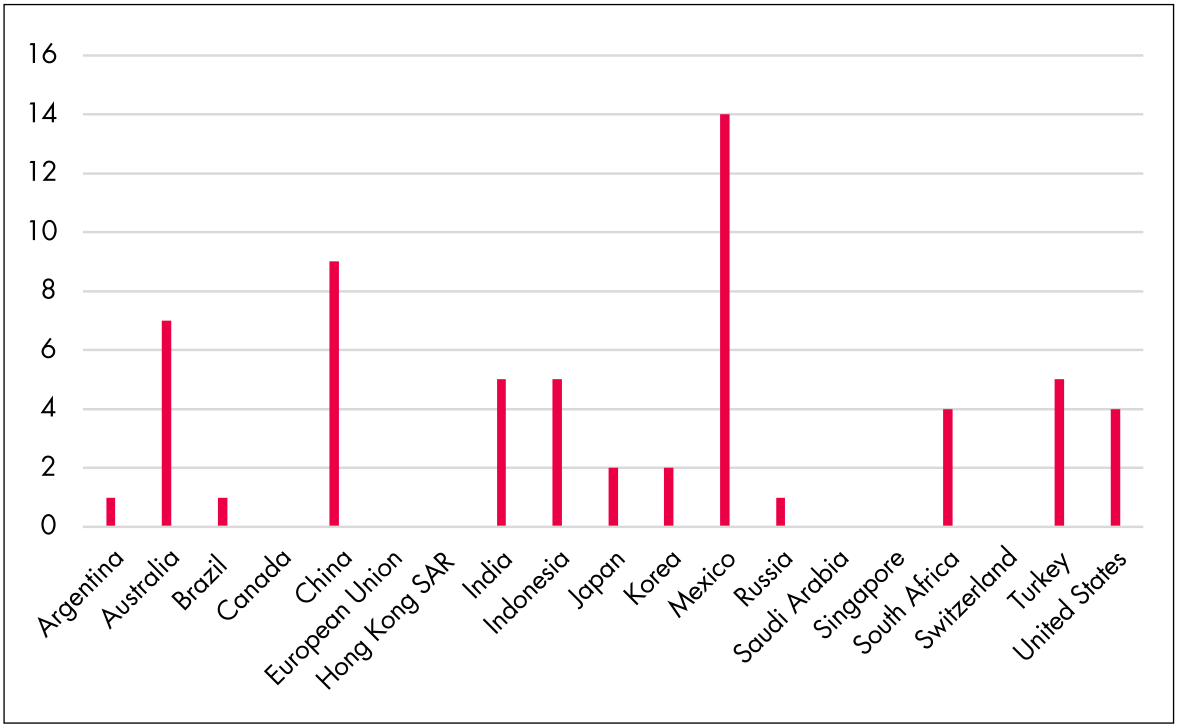
Source: BCBS and FSB websites.

Note: EMEs are highlighted in bold (those country members with GDP per capita at purchasing power parity exchange rates below US$40,000 in 2019).

comparative resilience as it has further limited the outside options available to other EMEs (see also Wang 2018). At the end of the paper, some modest reforms consistent with this relative resilience are suggested that are aimed at enhancing the learning and influence benefits to EME members.

The paper is structured as follows. The first section provides evidence for the claim that the Basel process — focusing on the BCBS and the FSB — has been a relatively resilient, centralized domain of global economic governance. The second section describes the club benefits provided to Basel members. The third section considers the wider implications of this analysis for the

Figure 1: Non-adoption Count, 19 Basel Framework Standards,* May 2019



Data source: BCBS (2019, 6-7).

Notes: Count of regulatory standards for which country/region has not commenced adoption on schedule. EU members are not listed separately due to standardized implementation across the EU. * Of these 19 standards, three are not relevant to all members.

continued engagement of emerging market and developing countries (EMDEs) with the Basel process. The fourth section suggests some modest reforms to enhance its sustainability.

Basel's Resilience

Whereas the governance of international trade, exchange rates and development finance have been controversial among G20 countries in recent years, financial regulatory policy has been a relative oasis of calm. Despite periodic battles over particular standards, G20 discussions of Basel-related issues have been comparatively pragmatic and less contentious than these other areas. Agreement on a large set of finalized Basel III standards was achieved in late 2017 (BCBS 2017a). Another indicator of resilience is that both the BCBS and the FSB have sustained a high level of productivity since 2009: they are still issuing new standards at a rate well above the pre-2009 average and are addressing new issues such as fintech and cyber resilience. All members of the BCBS and the FSB have sustained their commitment to the implementation of agreed standards and to peer surveillance of their progress (BCBS 2018). Although the nine emerging-country BCBS members identified in Table 1 lag their developed peers in implementation, the average number of standards for which *no* domestic measures have yet been taken is comparable for the former group to that of the United States and is lower than Australia's (Figure 1).[3] Progress in some areas has been difficult (for example, bank resolution and compensation), but the overall progress stands in contrast to areas such as trade, where the G20 has failed to prevent rising protection and conflict among major member countries.

3 Figure 1 does not indicate where implementation is delayed but under way or where implementation status is mixed; it therefore overestimates progress in some cases, notably the European Union (BCBS 2019).

Perhaps as a consequence, recent high-level reviews of global financial governance have devoted little attention to the Basel process, focusing instead on more controversial matters such as the provision of development finance, international liquidity and the governance of the IMF and the World Bank (Eminent Persons Group 2018). Although Western officials also continue to dominate the top leadership and key committees of the BCBS and the FSB, this has been less controversial than the continued unwillingness of the United States and Europe to cede their control of the senior management of the IMF and the World Bank.[4] Meanwhile, there have been no moves by major emerging countries to establish a "BRICS [Brazil, Russia, India, China and South Africa] Basel" or an "Asian Basel." BRICS summits have repeatedly aired criticisms of the Fund and the World Bank, but have been relatively silent on the subject of the BCBS and the FSB.

The comparative resilience of the Basel process might not have been predicted only a decade ago, when G20 leaders effectively declared that pre-crisis approaches to financial regulation had failed: "Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis" (G20 Leaders 2009). The Basel Committee in particular could then be seen as facing a potentially existential crisis, at a time when other international institutions such as the IMF were moving back to centre stage and the roles of the World Bank and World Trade Organization appeared less threatened. Yet since then, the BCBS and the FSB have demonstrated resilience by their productivity amid sudden membership expansion. By contrast, many other areas of global economic governance and the major institutions associated with them have exhibited rising conflict in recent years. The next section suggests that this has been due both to buy-in from non-members as well as additional benefits for the major emerging countries that joined these institutions in 2009.

4 In March 2019, Pablo Hernández de Cos, governor of the Bank of Spain, succeeded Stefan Ingves, governor of the Sveriges Riksbank, who chaired the Basel Committee since July 2011. Carolyn Rogers of the Canadian Office of the Superintendent of Financial Institutions was also appointed as the next BCBS Secretary General, succeeding an American, William Coen. The FSB Plenary, its governing committee, agreed in November 2018 to appoint Randal Quarles of the US Federal Reserve as its new chair and Klaas Knot, president of the Netherlands central bank, as vice chair.

Club Benefits for Basel Members and Regime Resilience

The generic benefits that the Basel process has provided to all countries has received the most attention in the scholarly literature, but it also provides various club benefits to the narrow group of member countries listed in Table 1. These club benefits can be summarized under the categories of learning, status and influence. The former two, in particular learning benefits, can work to partly offset disappointments regarding the sometimes-limited influence over standard-setting outcomes that membership delivers to major EMEs.

The learning benefits that membership of the Basel club provides to EMEs are closely related to the large policy challenges governments rightly feel they face regarding financial stabilization. This has important practical consequences both for financial regulation and for the governance of specialist global institutions that specialize in it. It places a premium on actor learning and ongoing institutional capacity building (FSB 2019). It increases the attractiveness of the expertise and capacity-rich networks associated with the BCBS and the FSB.

These benefits are, in principle, separable from those available to any country that adopts Basel standards. They accrue most directly to the officials who participate in the Basel process and who could use their enhanced expertise to improve domestic regulatory and supervisory capacity. Since financial instability can be a threat to incumbent governments, this also provides important domestic political advantages. These benefits will potentially be largest for EMEs in which regulators lag substantially behind the collective regulatory expertise and capacity embodied in the Basel network, although the dynamic challenges of financial stabilization mean that they are likely to remain positive for all participants. As a prominent example of this ongoing policy challenge and the perceived benefits of participation, Zhou Xiaochuan, former governor of the People's Bank of China, remarked in 2017 that: "China is still focusing very much on the domestic agenda, including further promoting economic development and regulatory reforms so as to keep pace with global development… Although China has strengthened cooperation with the international organizations, such as IMF, BIS and FSB, and participated, we still have a long way to go in order to play a more significant role [in standard setting and rulemaking]" (Zhou 2017, 3).

Even those G20 countries that have been most critical of Western dominance of global financial institutions have recognized the value of the learning opportunities Basel membership provides. For example, Russian assessments of their BCBS and FSB activities are consistently pragmatic, uncontroversial and broadly positive. Russia's ongoing financial instability challenges have also reinforced the domestic influence of internationalist technocrats in shaping the government's financial reform policies, as the government has sought to reduce Russia's vulnerability to external financial and macroeconomic shocks, including sanctions (Roberts, Armijo and Katada 2017: 130–36). Most EME members have, for example, taken a positive attitude toward BCBS and FSB peer reviews of their national regulatory frameworks (see Table 2).

Besides contributing to the enhancement of national financial stabilization capacity, Basel membership provides other learning benefits. Even though continuing large differences in financial development and structures mean that Basel discussions and the standards that are agreed can be weakly aligned with current EME concerns, EME officials often emphasized that they still found these discussions useful for bringing them up to speed in areas that were currently peripheral but of future potential domestic significance.[5] Such officials also pointed to their better understanding of challenges in advanced countries and the potential for financial spillover, including via local operations of global banks. This supplements other forms of global financial surveillance, notably the IMF's, where there has been improvement, but for which perceived weaknesses and trust deficits persist (Independent Evaluation Office of the IMF [IEO] 2011, 2019). Regulation also has consequences for financial sector competitiveness, so participation provides a means of monitoring and mitigating such effects. Membership in SSBs can even provide national security benefits. This is most relevant in activities aimed at tackling money laundering and terrorist financing associated with the Financial Action Task Force, but it may also apply to BCBS and FSB discussions regarding cyber resilience in the financial sector. The Bank of Russia, for example, notes that Basel participation has assisted it in its "efforts aimed at financial sector protection against threats associated with cyber risks" (Bank of Russia 2017, 136).

These learning benefits are widely seen as important and, as Zhou Xiaochuan's remarks cited above suggest, even the largest EME members of the BCBS and the FSB appear to accept that they can compensate for perceived limits on the influence benefits provided by Basel membership. Nevertheless, influence matters to EME members because international financial standard setting often has significant distributional implications (Drezner 2007; Mattli and Woods 2009; Newman and Posner 2018; Oatley and Nabors 1998). Yet their influence capacity depends not just on financial market development and size, but also on the domestic agency expertise and policy capacity that EMEs are seeking to develop. Influence capacity, therefore, is something that can be developed by investing in learning and the development of bureaucratic as well as private sector expertise (Walter 2016). China, notably, has invested in building influence in its regulatory agencies and in the Basel process. It has been increasingly keen to ensure that its major banks, and their internationalization strategies, are not disadvantaged by Basel standards.[6] It also appears to have become more confident in recent years about its capacity to shape Basel standards in emerging areas of strength (for example, in fintech) (People's Daily 2009, 2016).

To be sure, there have been some vocal complaints about low EME influence over Basel standard-setting outcomes, notably from former Indian officials. For example, Duvvuri Subbarao, RBI governor in 2008–2013, argues that emerging country voices at Basel have too often been ignored, with negative consequences for growth and development: "Typically, the advanced economies would stitch up a deal at a conclave ahead of the meeting, and present that at the formal meeting for approval, almost as a fait accompli. In other words, emerging markets have a vote but not a voice" (Subbarao 2017, 290).[7] This

5 Interviews with senior regulatory and financial officials, G20 EME countries, February and May 2019.

6 G20 official's comments to author, February 2019.

7 See also the similar view of then deputy RBI governor, Anand Sinha (BIS 2012, 45–84).

Table 2: National Authority Responses to BCBS Regulatory Consistency Assessment Programme (RCAP) Jurisdictional Consistency Reviews in Nine Emerging-country Members

Country	Responding Agency	Publication Date	Agency Response (Selected Remarks)
Argentina	Central Bank of Argentina	September 21, 2016	"The RCAP test has been a great opportunity to deepen our understanding of the Basel framework and enhance the effectiveness of our regulation."
Brazil	Banco Central do Brasil	December 10, 2013	"The BCB supports the RCAP assessment methodology, which is regarded as fair and comprehensive, and largely agrees with its results. In particular, the dialogue with the Assessment Team was an important mechanism to reach a clear understanding about the Basel text and to identify areas where the Basel framework would benefit from further clarification."
China	China Banking Regulatory Commission	September 27, 2013	"As can be seen from this assessment and previous ones, it is useful in many ways for the authorities to take the necessary steps to refine their domestic regulations in line with the Basel framework... We welcome the detailed assessment of capital regulations in China and highly appreciate the professionalism of the Assessment Team, whose comments and recommendations have therefore been well received and carefully considered by the CBRC."
India	Reserve Bank of India (RBI)	June 15, 2015	"Based on its self-assessment and, as identified by the RCAP Team, the RBI has carried out a number of modifications in the existing guidelines concerning domestic implementation of Basel capital framework."
Indonesia	Otoritas Jasa Keuangan and Bank Indonesia	December 9, 2016	"This assessment has allowed us to improve the consistency of our capital framework with international standards and, accordingly, enhance the strength of the framework."
Mexico	Cómision Nacional Bancaria y de Valores and Banco de México	March 16, 2015	"This evaluation allowed us to improve the consistency of our capital framework with international standards and to enhance the strength of the Mexican capital framework."
Russia	Central Bank of Russia	March 15, 2016	"The RCAP exercise has offered a valuable opportunity to complement and refine the Russian regulatory framework."
South Africa	South African Reserve Bank	June 15, 2015	"The team's input was a key driver for the improvements effected to the South African regulatory framework."
Turkey	Banking Regulation and Supervision Agency (BRSA) and Central Bank of Turkey	March 15, 2016	"Based on its self-assessment and as identified by the RCAP Assessment Team, the BRSA has carried out a number of modifications in the existing regulations before the cut-off date of 20 January 2016."

Source: BCBS RCAP jurisdictional consistency reviews of "Risk based capital standards" for nine emerging country members, available at www.bis.org/bcbs/implementation/rcapjurisdictional.htm.

can also mean that the learning benefits provided by Basel are less than they could be. However, other Indian officials have claimed more recently that "slowly these (conditions) are changing and the EMEs' views are also being heard to an extent" (Vishwanathan 2017). It is also evident that India has persisted with Basel membership and standards implementation despite lingering disappointments over its level of influence.

Moreover, this view was not consistently held or commonly expressed by other EME officials, including those from countries we would expect to be less influential than India.[8] Indonesian officials, for example, are generally positive about their experiences in the Basel process and their influence in areas of importance to them (for example, regarding the calibration of advanced and standardized approaches to risk weighting). The nature of the Basel process gives most members a plausible expectation that their interests will not consistently be ignored. Its relatively flat hierarchy, and the consensual and technocratic approach to decision making, provide a degree of collective veto power to EME members, even if they usually lack the capacity to control the agenda and to shape most outcomes. They can form alliances with advanced country members with similar interests. As one early example, EME concerns about the negative impact of new capital risk-weighting proposals for the cost and supply of trade finance in 2009–2011 were also effectively supported by major development banks and European members of the BCBS (Walter 2016, 191-92). Another example is the fate of the post-global financial crisis proposal to adopt non-zero risk weightings for banks' sovereign exposures, which was most threatening to EMEs. The BCBS acknowledged in December 2017 that there was no consensus on this proposal and that national authorities could continue to assign a weight of zero for capital requirements for domestic currency sovereign debt (BCBS 2017b). Thus, while some participants do believe that emerging-country members deserve greater influence over Basel outcomes, levels of dissatisfaction in this regard do not generally appear to be high.

The Basel process also provides participants with status benefits. These benefits are probably valued most by the officials delegated to these organizations and by the national regulatory agencies that are members. The formal equality of Basel members and the absence of weighted voting of the kind found in the IMF and the World Bank enhance these perceived status benefits. Externally, however, it is difficult to separate and measure the status value pertaining to BCBS and FSB membership from the general prestige provided by G20 membership. There is little evidence that investors and other market actors such as credit rating agencies take more positive views of countries simply because of their membership in these bodies. Indeed, G20 peer review commitments could expose them to higher levels of disclosure and market scrutiny.[9] However, EME officials do report some benefits associated with member status. Some argue, for example, that Basel membership provides them with additional leverage in domestic financial reform debates. Others mentioned that advanced country peers now see them as points of reference and contact in their region — a form of networking benefit associated with member status. One possible indicator of the status value placed on Basel membership is that EME officials were generally not supportive of a further expansion of BCBS and FSB membership to more emerging countries[10] — although this could also be driven by a concern that expansion would dilute the learning benefits of membership.

The club benefits Basel provides to its membership are not the only reason for the comparative resilience of this domain of global economic governance. As noted earlier, the flexibility of Basel standards and the scope they provide for national discretion is another attractive feature for all EMDEs, including major emerging countries. For example, participation in the Basel process has been consistent with the Chinese leadership's understanding that the country continues to face major financial stability challenges, as reflected in the designation of financial risk as one of the "three battles" addressed by new policy initiatives in 2017 (Naughton 2018). China has borrowed from *and* adapted Basel standards to domestic circumstances, creating what can be called "Basel with Chinese characteristics."

8 Interviews with regulatory and financial officials, G20 EME countries, February and May 2019.

9 G20 peer reviews (as opposed to review by independent experts) may be subject to a positive assessment bias (Cecchetti 2018, 11), but it is difficult to believe that credit rating agencies and institutional investors would be systematically deceived.

10 Interviews with senior regulatory and financial officials, G20 EME countries, February and May 2019.

This flexibility of the Basel regime has allowed the Chinese government sufficient policy space to manage its own process of domestic financial reform, including flexibility in the pace and stringency of domestic implementation. As another example, Russian authorities have also embraced this flexibility, applying Basel standards more extensively to the larger "universal" rather than to smaller "basic" banks (Bank of Russia 2017, 72).

Implications for the Sustainability of the Basel Process

China's broad, pragmatic acceptance of the usefulness of the Basel process has wider consequences. Its status as the most important EME country by far also shapes the set of choices available to other emerging countries, in particular in the Asian region and the BRICS grouping. Its commitment to the BCBS and the FSB is another factor reducing the viability of alternative institutional arrangements for more skeptical EME members. Thus, although Basel has historically reflected the pre-eminent position of more advanced countries in global financial regulatory governance, it may now also reflect the growing influence of China.

That said, there is little evidence that officials in any major EME country would welcome the creation of additional international bodies in this area. Such alternative forums would offer clearly inferior learning opportunities and status benefits for EME members, while any potential gains in influence over standard-setting outcomes would probably be elusive. For members and non-members alike, few would also currently see BRICS- or EME-dominated regional alternatives as more credible mechanisms for meeting the dynamic challenges of financial system stabilization, for sending positive signals to international investors, for promoting the internationalization of their domestic banks or for reducing international regulatory divergence. The seeming unattractiveness of such alternatives for Basel non-members further reduces their attractiveness to the major emerging countries who would need to lead their establishment and attract other countries to them.

If the Basel process is working sufficiently well for EME members, especially for some of the most important countries among them, is there no need for reform? It has been argued in this paper that the learning benefits Basel participation provides to its EME members can partly compensate them for limited influence over international financial standard-setting outcomes. But influence remains an important objective for most members and will likely become more so as their financial firms internationalize (McKinsey Global Institute 2017). This creates a potential for growing frustration over time, if EME member influence is not perceived as increasing.

Whether the Basel process is working well for the majority of EMDEs who lack similar privileged access to its club goods should also be considered. The normative case for enhancing the role and influence of EMDEs generally in global financial governance is strong. The argument that the advanced countries whose firms still dominate many aspects of global finance should continue to occupy a privileged position in global standard-setting — often deployed by the Basel Committee before 2009 to justify a very narrow membership — is no longer convincing. This dominance is a legacy of earlier financial development in advanced economies, but some emerging countries, in particular China, are catching up rapidly.[11] This argument also underplays the potential impact of financial regulation on economic development, wealth distribution and poverty reduction in the majority of countries that represent the bulk of the world's population (Beck and Rojas-Suarez 2019; Jones and Knaack 2019). As we have seen, Basel standards are still soft international law and thus somewhat adaptable to national circumstances, but they set the overall shape of financial regulation and the constraints facing most global financial firms wherever they operate.

11 See the annual "GFCI 25" ranking of financial centres by the Global Financial Centres Index: www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/. China now has two centres, Shanghai and Beijing, ranked in the top 10.

What Reforms Are Needed?

Perhaps understandably, the global financial reform debate has devoted much less attention to these issues than to others, such as IMF governance reform. The Eminent Persons' Group report for the G20 in 2018 makes some relevant recommendations, including the need to deepen domestic financial markets; to integrate better risk assessment and systemic surveillance between the IMF, the FSB and the BIS; and to integrate contrarian views, including from the non-official sector (Eminent Persons Group 2018, 20-21). This agenda is likely to be acceptable to most EMEs and is consistent with the recommendations of the recent IEO assessment of IMF financial surveillance (IEO 2019).

The Centre for Global Development (CGD) Task Force report addresses the ongoing problem of the under-representation of EMDE interests and perspectives in the Basel process. As noted above, proposals to expand BCBS and FSB membership run up against the preferences of at least some important existing members, including some EMEs, in retaining the mix of club benefits they currently enjoy. The CGD report tries to sidestep this problem by proposing greater inclusion of non-G20 countries in the Basel process on a temporary, rotational basis (Beck and Rojas-Suarez 2019, 7). This would avoid the substantial dilution effects of membership expansion while providing non-members with periodic access to club benefits. Some officials from major EME members support this proposal.[12] Yet it may not satisfy many non-members, who could reasonably point out that the main benefits will continue to accrue to permanent members. If this is all that is on offer, it would still be a step in the right direction.

The argument in this paper also qualifies the plausibility of proposals for greater regional diversity in financial regulation (The Warwick Commission on International Financial Reform 2009, 32). This would be contingent on longer run convergence of regulatory capacity among EMEs and advanced jurisdictions. For the foreseeable future, potential regional alternatives to Basel are likely to continue to be seen as inferior to the status quo by most countries, including major EMEs. Some EME officials were skeptical of regional alternatives for the related reason that they would offer a less credible source of political leverage in domestic financial reform debates. The Basel institutions have also been relatively adept at engaging with EMDE concerns, notably by establishing regional consultative forums that feed into the Basel process (while retaining valuable club benefits for full members).

This need not mean that complementary regional coordination of financial regulatory policy among EMDEs lacks merit. As noted by the CGD report, the desirable adaptation of Basel standards to national circumstances by EMDEs raises the potential for undesirable regulatory arbitrage among financially integrated economies. To mitigate this risk, this report recommended that "regulators across each EMDE region…agree on a set of proportional rules [i.e., adapted Basel standards] for their region…[including] agreement on which Basel III approaches to apply, as well as how to adapt specific regulations" (Beck and Rojas-Suarez 2019, 5). A recent BIS report makes a similar argument, noting that the Basel process has not set prudential standards for non-internationally active banks, which "has led national authorities to implement a range of proportionality approaches." This gap "is more critical in non-BCBS member jurisdictions," where such banks usually predominate (Hohl et al. 2018, 1).

But it is not obvious that achieving agreement on proportionality rules in some large regions would be any easier than doing so at a global level. Asia, for example, contains national financial systems with a higher level of diversity in levels of development and structure than does the BCBS membership. Possibly reflecting this, Asian G20 country officials noted that regional coordination on financial regulatory issues in non-Basel groups such as EMEAP was only occasional and that the BCBS regional consultative groups were the primary regional forums for discussing Basel-related concerns.[13] If agreement on proportionality rules was achievable within regions such as Asia,

12 Interviews with senior financial officials, G20 EME country, May 2019.

13 EMEAP is the Executives' Meeting of East Asia-Pacific Central Banks, a regional group of 11 central banks that discuss monetary and financial issues of common interest. The Association of Southeast Asian Nations (ASEAN) has also established the ASEAN Banking Integration Framework, which focuses on regional financial integration but also occasionally discusses cooperation in banking regulation and supervision.

it ought also to be achievable in the Basel process. Since it would be undesirable for very different proportionality rules to be adopted in different regions, it would make sense for the major global institutions first to provide general guidance on how this might be done. Stamps of approval by the BCBS, FSB and other institutions such as the IMF and the World Bank would then help to bolster the credibility of regional proportionality rules consistent with a global framework. It is important that these global institutions clarify that the proportionality principle is not intended to justify lower quality regulation that jeopardizes domestic financial stability in EMDEs. Instead, proportionality should mean relief from inappropriate or overly complex regulation that is an unnecessary burden on smaller, less complex banks and financial intermediation more generally. Over the longer term, such agreements might also allow regional groupings to build credibility and perhaps greater autonomy from the Basel process.

A number of officials from EME members agreed that greater EME representation in senior leadership positions in the BCBS and the FSB would be desirable. The BIS has recently moved in this direction in appointing Agustín Carstens of the Central Bank of Mexico as general manager and Luiz Awazu Pereira da Silva of the Central Bank of Brazil as deputy general manager. These appointees are well known to Western financial elites and, perhaps reassuringly for them, both also have economics Ph.D.s from major Western universities. There is less sign of a dilution of European-American dominance of the BCBS and the FSB and their key committees. Hong Kong officials currently chair two and South Africa's central bank governor one (see Table 3), although Hong Kong is not in the "emerging" category. There are also many related technical working committees that can be important determinants of country learning from and influence in the standard-setting process. For example, the Policy Development Group of the BCBS currently has 12 working groups and task forces that discuss and make recommendations in specific areas of the Basel framework; the Supervision and Implementation Group has eight. The leadership and membership composition of these groups is not publicly disclosed, but some emerging country officials indicated that they are not currently members of groups that were discussing matters of importance for EMEs.[14] This reduces the learning benefits that these officials indicated were important to their participation in Basel.

This continued Western dominance of key positions and of technical committees reflects the large variation in perceived expertise and capacity among member countries. But this does not justify a near monopoly of advanced country officials over key leadership positions. One desirable innovation would be to appoint EME co-chairs to these committees. This could send a positive signal that EME interests have equal importance; it could also enhance the learning and status benefits obtained by EME members. In a later step, this might include rotating non-G20 country chairs as recommended by the CGD report — although it should be noted that this proposal is not strongly supported by at least some existing emerging-country members.[15] The BCBS and FSB could also establish committees dedicated specifically to topics of central concern to EMDEs, such as the developmental impact of financial regulation, financial inclusion and proportionality rules for EMDEs.

The FSB working group established in 2018 to study the impact of post-crisis financial regulatory reforms on infrastructure finance, an issue of high importance for EMDEs, was useful in this regard (FSB 2018). But it was dominated by participants from advanced countries and thus may not be a model for how the FSB and BCBS should establish other committees of this kind. Ongoing discussion of rule proportionality in the Basel process is a welcome development for emerging-country members and seen as an indication of its flexibility and growing attention to inclusiveness. This could be further enhanced by adopting a more inclusive approach to committee composition and leadership.

These suggestions for achieving greater inclusion of EME officials in key leadership positions in the Basel process would impose few costs but usefully signal to major emerging countries that the major institutions of global financial regulatory governance can be more progressive and flexible than the Bretton Woods institutions. This would be welcome at a time when there is considerable pessimism about the prospects for cooperative global governance generally. This

14 Interviews with senior regulatory officials, G20 EME country, May 2019.

15 Interviews with senior regulatory officials, G20 EME countries, February and May 2019.

Table 3: Chairs and Co-chairs of BCBS and FSB Committees

Institution	Chair (unless otherwise indicated)	Co-chair (unless otherwise indicated)
BCBS	Pablo Hernández de Cos (Governor of the Bank of Spain)	Carolyn Rogers (Secretary General, formerly of the Canadian Office of the Superintendent of Financial Institutions)
BCBS: Policy Development Group	William Coen (formerly of the US Federal Reserve and US Office of the Comptroller of the Currency)*	
BCBS: Supervision and Implementation Group	Arthur Yuen (Hong Kong Monetary Authority)	
BCBS: Macroprudential Supervision Group	Dianne Dobbeck (Federal Reserve Board of New York)	Sergio Nicoletti-Altimari (ECB)
BCBS: Accounting Experts Group	Fernando Vargas (Bank of Spain)	
BCBS: Basel Consultative Group	Neil Esho, Deputy Secretary General of the Basel Committee (formerly of the Australian Prudential Regulation Authority)	Bryan Stirewalt (Dubai Financial Services Authority)
FSB	Randall Quarles (US Federal Reserve Board)	Klaas Knot (Vice-Chair, De Nederlandsche Bank)
FSB: Standing Committee on Assessment of Vulnerabilities	Klaas Knot (De Nederlandsche Bank)	
FSB: Standing Committee on Supervisory and Regulatory Cooperation	Norman Chan (Hong Kong Monetary Authority)	
FSB: Standing Committee on Standards Implementation	Lesetja Kganyago (South African Reserve Bank)	

Data source: BCBS and FSB websites. * William Coen may be replaced as he stepped down as BCBS Secretary General in June 2019.

need not mean, however, that little needs to be done by emerging countries themselves. As China has shown, these countries would benefit from further investment in national regulatory and supervisory capacity, as well as in their own engagement with other member countries and the relevant international institutions.

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