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Emerging Countries and Basel III

Why Is Engagement Still Low?

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67 Erb Street West
Waterloo, Ontario N2L 6C2
Canada
tel +1 519 885 2444 fax +1 519 885 5450
www.cigionline.org

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About the New Thinking and the New G20 Project

The project aims to promote policy and institutional innovation in global economic governance in two key areas: governance of international monetary and financial relations and international collaboration in financial regulation. Sponsored by CIGI and the Institute for New Economic Thinking, the project taps new research and next-generation scholars in the emerging economies, linking them to established networks of researchers in the industrialized world. The objective over the longer run is to create a more permanent and self-sustaining research network that will provide a continuing stream of new ideas, sustain international collaboration and integrate researchers from the emerging economies into global policy discussions.

Miles Kahler and Barry Eichengreen (principals in the original project) recruited C. Randall Henning (new principal, American University) and Andrew Walter (University of Melbourne) to lead two research teams devoted to macroeconomic and financial cooperation and to international financial regulation. Gathering authors from eight countries, the project consists of 11 CIGI papers that add to existing knowledge and offer original recommendations for international policy cooperation and institutional innovation. CIGI will also publish the final papers as an edited volume that addresses the global agenda in these issue-areas.

About the Author

Andrew Walter is professor of international relations in the School of Social and Political Sciences at the University of Melbourne and a senior fellow in the Melbourne School of Government. He has published widely on the political economy of monetary and financial issues, and is the author of *East Asian Capitalism: Diversity, Change, and Continuity* (Oxford University Press, 2012, edited with Xiaoke Zhang), *China, the United States, and Global Order* (Cambridge University Press, 2011, with Rosemary Foot), *Analyzing the Global Political Economy* (Princeton University Press, 2009, with Gautam Sen), *Governing Finance: East Asia's Adoption of Global Standards* (Cornell University Press, 2008), and *World Power and World Money* (St Martin's Press, 1993). Until September 2012 he was reader in international political economy at the London School of Economics. Prior to this he was university lecturer in international relations at the University of Oxford. His current research is concerned with the political consequences of financial crises, the politics of financial regulation and emerging Asia in global governance.

Acronyms

BIS	Bank for International Settlements
BCBS	Basel Committee on Banking Supervision
BCG	Basel Consultative Group
CBRC	China Banking Regulatory Commission
CCB	countercyclical capital buffer
CCF	credit conversion factor
D-SIB	domestic systemically important bank
EMDE	emerging market and developing economy
EU	European Union
FSF	Financial Stability Forum
FSB	Financial Stability Board
G20	Group of Twenty
GFC	Global Financial Crisis
GFCI	Global Financial Centres Index
G-SIB	global systemically important bank
G-SIFI	global systemically important financial institution
ICC	International Chamber of Commerce
IIF	Institute for International Finance
IMF	International Monetary Fund
NSFR	net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
RCAP	Regulatory Consistency Assessment Programme
SSB	standard-setting body
UNSC	United Nations Security Council
WTO	World Trade Organization

Executive Summary

One important effect of the recent global financial crisis (GFC) is that the membership of key institutions for international standard setting, notably the Basel Committee on Banking Supervision (BCBS), expanded to include emerging countries. However, with some exceptions, official and private sector actors from these countries still exhibit low levels of engagement with international financial standard setting. This is due to a combination of related factors: the continued focus of the Basel process on the ability and desire of an elite network of developed country regulators to set the agenda; a relative paucity of regulatory knowledge and resources in emerging countries; and low mobilization by emerging country private actors on BCBS proposals. It requires a set of measures to improve emerging country engagement, including bringing more development finance expertise into the Basel process, addressing the overrepresentation of European countries, further investments in regulatory knowledge and capacity, and actions in emerging and developing countries to improve transparency and public consultation in regulation.

Introduction

In November 2008, Group of Twenty (G20) leaders met in Washington, DC, and agreed that a select group of the largest emerging economies should become full members of the international organizations that negotiate and coordinate international financial regulatory standards: "The Financial Stability Forum (FSF) must expand urgently to a broader membership of emerging economies, and other major standard setting bodies should promptly review their membership" (G20 2008). The GFC had accentuated the perceived legitimacy deficit in key institutions of global economic governance, a deficit that had been widening before 2008. Now, in a variety of hitherto developed-country-dominated international institutions, there was a promise of an enhanced voice for emerging countries — and for developing countries more generally.

As of late 2014, this promise has not been entirely fulfilled. In its report to the G20 leaders' summit in Brisbane in November 2014, the Financial Stability Board (FSB)[1] — in response to a G20 request of 2013 — outlined various reforms to the structure of its representation. These measures "seek in particular to strengthen the voice of emerging market and developing economies [EMDEs] in the FSB while also preserving the effectiveness of its decision making process" (FSB 2014, 1). The proposed measures involve allocating more EMDE seats in the FSB's plenary meetings, and to allow more flexibility in allocating officials to its standing committees and working groups.

The paper argues that these kinds of measures, while helpful, are unlikely to enhance dramatically the voice and influence of EMDEs in international financial standard-setting bodies (SSBs). The experience of the BCBS since 2009 suggests that the reasons for the still low EMDE voice and engagement in the processes of global financial governance are more

1 The FSF was rebranded as the FSB in 2009. It was tasked with the coordination of international financial regulatory reform and ensuring that groups such as the BCBS achieved their tasks in a timely fashion.

structural, going well beyond matters of formal representation. One reason for this is that there is a continuing mismatch between the focus of BCBS deliberation on the regulation of the highly internationalized and sophisticated banks that caused most damage in the recent crisis and the current needs of EMDE authorities, which often face different challenges in financial regulation and development. The second and related reason is that many EMDE regulatory agencies currently lack the resources, knowledge and experience to exercise a voice in forums dominated by developed country officials. The latter form a relatively well-resourced elite network that has developed shared trust, knowledge and experience over decades. The narrowness of this network is reinforced by the still heavy European presence in these international bodies, and by the substantial overlap between the deliberations of the BCBS and the FSB with those in regional European institutions. Third, the persisting dominance of developed country officials in the BCBS is also linked to the far higher engagement of sophisticated private sector firms and associations with BCBS discussions and proposals, and with regulatory officials in the major international financial centres. Together, these factors place emerging market delegates at a substantial disadvantage, limiting their voice and influence in these crucial processes of global financial governance.

The first section of this paper discusses the continuing gap between the focus of the BCBS and the interests of EMDEs. The second section considers the impact of lower knowledge, expertise and resources on the ability of EMDE officials to exercise a voice in BCBS decision making. The third section explores the still low level of private sector EMDE engagement with BCBS proposals and its impact on official voice and influence. The final section concludes by considering what might be done to promote EMDE voice in global financial governance.

The BCBS Agenda and EMDE Interests

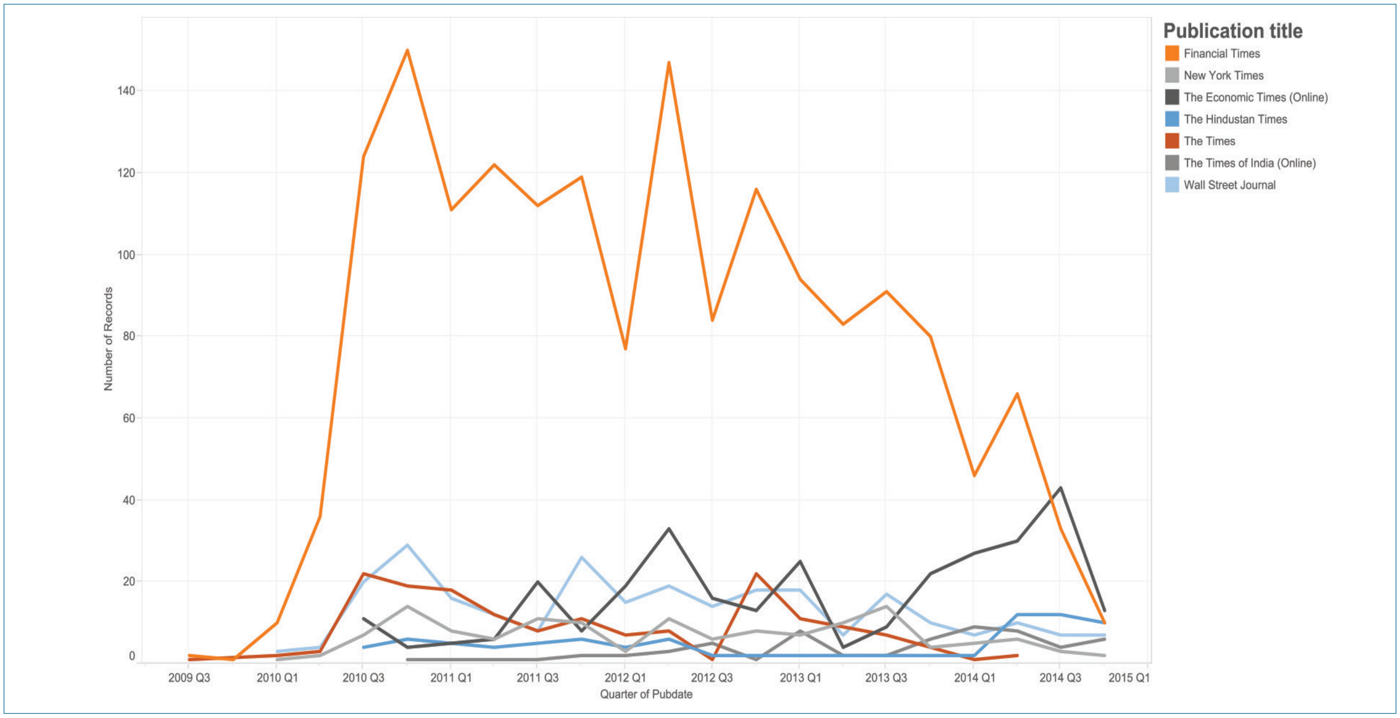
Until 2009, emerging and developing countries generally had been excluded from substantive participation in BCBS negotiations, which the Group of Ten countries had dominated almost exclusively since the mid-1970s. Even within this narrow grouping, a small number of developed countries with large financial centres were especially influential, including the United States, the United Kingdom, Japan, Germany and France (Goodhart 2011; Singer 2007). In spite of the narrowness of this grouping and the voluntary status of the standards it issued, the BCBS increasingly set the global framework for the regulation of "internationally active" banks, even if there were national variations on specific aspects. One important effect of this process was that it also promoted global convergence in the regulation of non-internationally active banks. By the mid-1990s, over 90 percent of countries in the world claimed to have adopted the "Basel I" capital adequacy framework of 1988 and most of these signalled that they would also adopt the "Basel II" revised framework of 2004 (Čihák et al. 2012). The official and market pressure on emerging economies experiencing deep banking crises — countries whose regulatory credibility was most in doubt — to adopt Basel and related standards increased substantially over the 1990s and early 2000s (Walter 2008). Analogous to the way in which countries with low monetary policy credibility sought to "tie their hands" by pegging their exchange rate to a high credibility country (Giavazzi and Pagano 1988), visible adoption of Basel standards in many EMDEs was attractive precisely because they were set by a small committee of advanced country authorities associated with regulatory best practice.

The problem with this strategy of importing regulatory credibility was twofold. First, because the standards set by the BCBS were often of a general nature there was considerable scope for national discretion in implementation, which reduced the credibility gains of adoption for EMDEs. However, as more countries adopted Basel standards it was still worse to be seen as a laggard, so the incentives to converge remained strong. Second, in regulation it is perhaps even less likely than in monetary policy that "one size will fit all." The focus of BCBS discussions from the beginning was on internationally active banks, the great majority of which are from developed countries. Over time, the Basel capital adequacy regime was modified to take increasing account of trading-related activities and securities markets, which were of primary interest to the largest and most sophisticated international banks. This began in the Market Risk Amendment of 1996 and culminated in Basel II. In its "standardized approach" to the measurement of risk-weighted assets, Basel II offered a different set of standards for less sophisticated banks and jurisdictions, but by providing advantages to banks adopting the more advanced internal risk-based approaches it signalled where its priorities lay.

This gap between the interests of EMDEs and the priorities of the BCBS was only sustainable while the latter's standards enjoyed the reputation of reflecting regulatory best practice. When the GFC undermined this reputation, the implicit bargain between EMDEs and the BCBS looked more like regulation without representation (to paraphrase the American revolutionaries). Policy makers in major emerging countries now understood that they had placed far too much confidence in advanced country technocrats and policy makers. China's vice-premier, Wang Qishan, is said to have asked in mid-2008 whether he should continue to take his Wall Street teachers' lessons seriously now that their own authority and credibility was in doubt (Davies 2008). In his first BCBS meeting in 2009, Liu Mingkang, then China's long-standing chairman of the China Banking Regulatory Commission (CBRC), apparently made a robust and vocal statement of the shortcomings of existing Basel standards and the need for reform.[2]

2 Author discussion, developed country regulator, September 2014.

Figure 1: Mentions of "Basel III" and "Liquidity" in Selected Newspapers in Britain, India and the United States since 2009



Data source: Proquest Historical Newspapers. Search terms: "Basel (OR Basle) III (OR 3) AND liquidity."

Such voices were given support by senior figures from authorities hitherto associated with regulatory best practice. Adair Turner, then chairman of the UK's Financial Services Authority, was blunt about the extent of the failure of the Basel framework: "In retrospect, Basel 2...completely failed to address the fundamental issues" (Maddox 2012). G20 leaders broadly accepted this analysis and directed the Basel Committee to address the regulatory and supervisory failures promptly. At the Washington summit these leaders promised: "intensified international cooperation among regulators and strengthening of international standards, where necessary, and their consistent implementation…to protect against adverse cross-border, regional and global developments affecting international financial stability" (G20 2008). With the G20 displacing the Group of Seven as the locus of global economic governance, the BCBS also had little choice but to agree to expand its membership to include the G20 non-member countries, which it did in March 2009. It now has 27 country members plus the European Union (EU). Of these 27 countries, there are 11 that can be classified as full "emerging" members and another three with observer status.[3] There are 12 members from Europe, eight from Asia, six from the Americas, three from the Middle East and Africa, and one from Oceania.[4] The FSB's membership was also similarly expanded to include all the full emerging country members of the G20 and the BCBS and three fewer European members, to make 24 country members in total.

The stakes for new emerging country members of the BCBS and FSB were high and remain so. First, the GFC and its aftermath underlined the considerable vulnerability of EMDEs to financial instability in advanced countries, and the interest of the former in ensuring better regulatory outcomes in the United States and the EU in particular. Second, given the agreed need to focus on improving the regulation of the largest and most sophisticated banks at the centre of the crisis, it was important to ensure that the revised Basel standards were also appropriate to the circumstances of EMDEs. Membership of the BCBS and the potential implications of new Basel standards was a matter of public discussion in some major emerging countries from 2009. For example, Figure 1 shows that in one of the key areas of identified EMDE concern, the new Basel III standards on liquidity, newspaper coverage in some major English-language Indian newspapers was comparable to and often exceeded that of some major US and British newspapers (with the exception of *The Financial Times*, which is an outlier).

The importance for all members of the negotiation phase of standard setting was also emphasized by the increased attention given to ensuring the effective implementation of agreed standards, as this reduced the scope for discretionary national implementation. Greater attention to implementation came in a number of forms: G20 countries all committed for the first time to undertake International Monetary Fund (IMF)-World Bank

3 The 11 full emerging country members are Argentina, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa and Turkey. The three observers are Chile, Malaysia and the United Arab Emirates.

4 From Asia, Hong Kong, Japan and Singapore are also members and they are classified as "developed" countries in this paper.

financial sector stability assessments; the BCBS agreed to a new Regulatory Consistency Assessment Programme (RCAP) that reviews national implementation; the BCBS now also conducts additional peer reviews of national supervision; and the FSB undertakes peer reviews of member jurisdictions. The increased focus on, and transparency regarding, implementation may also increase market pressure on countries to adopt agreed international standards.[5]

Has the gap between BCBS standards and EMDE interests narrowed since 2009? There is evidence that in some important respects, Basel III standards impose higher costs on some developed economies than on EMDEs. In the only two regulatory implementation reports done by the BCBS for emerging country members to date, for China and Brazil respectively, the review committees found capital compliance costs to be low to moderate, and banks were largely positive about Basel III implementation (BCBS 2013a, 6–7, 13; 2013b, 5–7, 59). An IMF financial system stability assessment for Brazil in 2012 reached similar findings (IMF 2012, 19). Another for India in 2013 (IMF 2013, 19) found that Basel III capital compliance costs for state-owned banks in India are likely to be more significant.

Compared to many banks in the United States and Europe, those in the major emerging countries were much less affected by the GFC. For most emerging market banks, non-performing assets are comparatively low, internationalization and trading activities are small, domestic deposits are high, and leverage ratios and reliance on wholesale finance are relatively low. The opposite is true for many large, advanced country banks, especially those in Europe (McKinsey & Company 2010).

This may imply that Basel III is a relatively good deal for at least some emerging countries. The Chinese authorities chose to exceed Basel III standards in stringency in several respects, suggesting that the perceived costs of compliance for its banks and economy were acceptable (BCBS 2013a, Annex 11). This contrasts with the position of many Asian emerging countries in the wake of the crises of the late 1990s, when Basel compliance costs were high and resistance to full implementation was substantial (Walter 2008).

However, EMDEs have indicated to both the FSB and the BCBS that there is general concern about the potentially adverse implications of particular new Basel III standards, including those on capital, liquidity, over-the-counter derivatives markets and global systemically important financial institutions (G-SIFIs).[6] There is particular concern in EMDEs about Basel III liquidity standards because of the relative shortage of high-quality liquid assets in such countries and because of the difficulty of applying these standards to smaller banks and countries (FSB 2013). Among other things, the BCG added to this list concerns regarding the implementation costs of the countercyclical capital buffer (CCB) and standards for domestic systemically important banks (D-SIBs) (BCBS 2014c, 6, 15).

None of this is very surprising since all these areas relate to new or revised standards devised to address regulatory weaknesses in developed countries and risk management failures in large and relatively sophisticated banks. What we know of Basel Committee negotiations also suggests that new emerging members were not central participants in the negotiations over most of the key standards. Sheila Bair, former chair of the US Federal Deposit Insurance Corporation, provides one of the few published accounts we have of the negotiations. She portrays the negotiations over new capital standards as a pitched battle between developed country representatives favouring significantly higher capital requirements (the UK, Switzerlandand some of the US delegation) and those opposed (France, Germany, Japan and others in the US delegation). Other members are rarely mentioned and appear to have been relative bystanders; in the end they seem to have aligned with the former camp but favoured compromise (Bair 2012, chapter 22).[7] The final result reflected a compromise between hawks and doves: minimum core capital requirements have increased substantially and a variety of other new standards have been added, but heavy reliance on the previous risk-weighting approach and the use of internal models persists and the indicated new minimum simple leverage ratio of three percent of tangible assets is permissive.[8]

Thus, in terms of the dominant players and outcomes, there appear to be strong elements of continuity with the pre-existing Basel regime (see Lall 2012). The gap between (greater) representation of emerging countries in international financial standard setting and their voice and influence remain considerable: emerging country members of BCBS do not seem yet to have become central players in the process of standard setting. To some extent this may be because their governments saw Basel III as primarily relevant to developed country authorities and banks, and shared an interest in stabilizing the financial sectors in Europe and the United States. The single market for financial services and regulation in Europe means that the European members of BCBS, along with the United States, share a strong interest in using Basel to coordinate the

5 For a discussion of the relative importance of market and institutional compliance pressure, see Walter (2008, chapter 2).

6 See FSB (2013). The BCBS conducts monitoring through the Basel Consultative Group (BCG). The BCG includes regulatory authorities from countries that are not G20 members, such as Bulgaria, the Czech Republic, Dubai, Georgia, Hungary, Kazakhstan, Malaysia, Peru, the Philippines, Poland, Qatar, Thailand, Tunisia and the West African monetary union.

7 See also King (2010).

8 For a brief summary of the nature and negotiation of Basel III and predecessor agreements, see www.bis.org/bcbs/history.htm. Lall (2012) and Wolf (2014) argue that advanced country financial sector interests successfully watered down the impact of earlier proposals for greater regulatory stringency. If this view is correct, emerging country representatives may not have achieved their objective of ensuring greater financial stability in the largest advanced country economies. The jury is still out on this question.

regulation and supervision of international banking. Emerging country governments, by contrast, are mainly focused on the regulation of domestic banks. However, as noted above, the pressure for EMDEs to adopt Basel III is substantial and some of the most important new standards raise serious concerns for these countries. Given the considerable uncertainties involved, the potential for unintended consequences to emerge also remains significant.

Knowledge and Resource Constraints

The continuing focus of the Basel Committee on the regulation and supervision of global banks is also linked to the limited knowledge and resources available to emerging country regulatory agencies. This constrains their ability to exercise voice in international financial governance and compounds the tendency of developed country officials to focus on their own problems.

There is a self-reinforcing relationship between the low presence of emerging countries in international banking and the knowledge and experience of their regulatory officials. China, by many measures the most important emerging country member of the BCBS and FSB, is a case in point. China became the world's most important merchandise exporter by 2009 and is now deeply integrated in the international trade network. Since the mid-1990s it has also consistently been among the top three recipients of foreign investment globally, and in recent years has emerged as a major source of outward foreign investment flows. By comparison to its centrality in networks of global trade and investment, however, China remains a small player in international banking. On various measures collected in the World Bank's dataset on financial development and structure, including international debt issues, loans from non-resident banks and offshore deposits, China's financial system remains fairly closed (Beck et al. 2013). Foreign-owned banks enjoy a very limited presence in China, controlling less than two percent of domestic bank assets.

Calculations by the McKinsey Global Institute (2014, 12) also emphasize the limited role of China and other emerging countries in the network of international finance compared to the much more symmetrical network of international trade. On these measures, the United States and Western Europe (particularly London, still the world's most important international finance centre) remain the two most important nodes in global finance, with Japan still by far the most important country in Asia. India and Brazil also have relatively closed domestic banking and financial markets and although, like China, their banks have begun moving abroad, they are far less internationalized than were Japan's by the late 1980s. Table 1 indicates the comparative level of connectedness of G20 and BCBS members in international trade and finance. It supports the claim that a number of major BCBS emerging country members are less financially connected than some small developed countries.[9]

Table 1: Connectedness Indices in Goods Trade and Finance for Selected Countries (2012), and GFCI Ranking in 2010 of the Most Important National Financial Centre

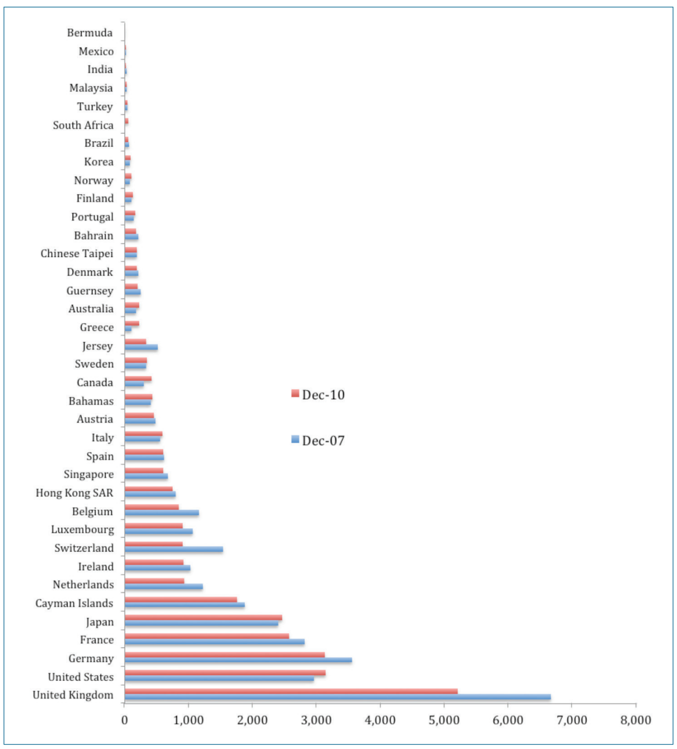
Country	Goods	Finance	GFCI Rank 2010
Argentina	55	53	52
Australia	32	14	10
Austria	24	62	47
Belgium	4	30	40
Brazil	39	18	44
Canada	16	13	12
Chile	42	20	
China	5	6	6
France	9	36	18
Germany	3	7	11
Hong Kong	1	3	3
India	27	26	57
Indonesia	31	33	62
Ireland	29	23	29
Italy	11	31	43
Japan	14	10	5
Latvia	66	39	
Luxembourg	63	1	20
Malaysia	10	34	48
Mexico	17	22	50
Netherlands	6	15	33
Poland	22	28	67
Russia	19	16	68
Saudi Arabia	20	19	69
Singapore	2	4	4
South Korea	7	25	24
South Africa	43	74	54
Spain	21	35	39
Sweden	28	17	37
Switzerland	23	11	8
Thailand	12	27	60
Turkey	30	32	70
United Kingdom	13	9	1
United States	8	5	2
Emerging BCBS Average:	27	29	51
Developed BCBS Average:	16	15	18

Source: McKinsey Global Institute 2014, 7; Z/Yen Group 2010. G20 members are in **bold**; BCBS members are in *italics*; emerging countries are highlighted.

9 Note also that these indices from McKinsey Global Institute give a strong weight to current account surpluses, which boosts the indices of countries such as China and South Korea and reduces those for the United Kingdom and the United States. This underestimates the importance of the latter in global financial markets. The Global Financial Centres Index (GFCI) ranking gives one indication of the importance of London and New York.

Figure 2 provides another measure of banking internationalization, the stock of external assets of banks in Bank for International Settlements (BIS) reporting countries at the end of 2007 and 2010. Despite the rapid growth in aggregate economic size of a number of major emerging countries in recent decades, banks from countries such as Brazil and India are on this measure negligible players in cross-border banking. Data for China are not collected, but international lending by Chinese banks is also thought to be very low compared to domestic lending.

Figure 2: External Assets of Banks in BIS Reporting Countries, US$ billion, 2007 and 2010



Data source: BIS international banking statistics. Note that data is not yet collected from some new BCBS members. Countries ranked in ascending order by external asset positions in 2010.

The low internationalization of banking among major emerging countries means that regulatory agencies in these countries generally lack the experience in regulating international banks that regulators in highly open financial systems gain. This knowledge problem is often compounded by resource constraints in regulatory agencies in emerging countries. The resource capacity problem is less one of numbers of employees in regulatory agencies and more to do with limited experience with international banking and finance. For example, as of mid-2009, the Reserve Bank of India, which like the US Federal Reserve has both monetary policy and regulatory responsibilities, had 20,572 employees. Of these, 84 percent were located in regional offices, often dealing with local issues. By way of comparison, the Federal Reserve Bank of New York, the largest of 12 regional US reserve banks, has primary responsibility for regulating and supervising major US banks and bank holding companies as well as many of the operations of foreign banks; it employed about 2,700 staff. Some senior officials in the regulatory agencies of emerging countries may possess relevant experience but it can otherwise be in short supply. In China, senior officials are more likely to have worked in one of the major state-owned commercial banks than in an international bank. This shortage of relevant knowledge and experience can in turn reduce the ability of regulators from emerging countries to exercise voice in forums such as BCBS and FSB.

Existing members of the Basel Committee consistently made this point before the crisis, defending their narrow membership of 13 advanced countries on the basis that these countries accounted for the great majority of international financial activity and were home or host jurisdictions for most major global banks, giving them special expertise in the regulation and supervision of these firms. The expansion of the membership of the BCBS and related bodies in 2009 had much more to do with politics than with any changes in the degree of inequality in financial activity and associated expertise.

New emerging country members are now in a difficult position. Although they had a direct interest in ensuring that Basel III and associated new agreements did not impose serious costs on them, the knowledge and resource constraints they face, combined with uncertainty, means that these costs can be difficult to assess a priori and might only become apparent in the longer term (Sheng and Li 2013). The relatively low level of international banking activity in many emerging countries also means that they cannot easily draw on substantive private sector expertise to assist in the formulation of regulatory preferences.

The increasing complexity of the reform agenda and the speed with which key decisions have been made further disadvantages emerging country members. Since 2009, when there were two (very complex) proposed revisions, there has been a steady increase in the number of proposed standards — in 2013 there were 11. Complex, multi-issue agendas with short decision periods favour those actors with high resource and expertise endowments (see Lall 2012). As in many other walks of life, actors that lack these things tend to be less vocal, less consulted, and find it more difficult to enhance their reputation among better-qualified peers.

Evidence from different but related organizations supports the argument that knowledge and resource constraints are important factors in explaining still low levels of emerging country actor voice in international financial standard setting. Within private sector financial associations that include both developed and emerging country members, the same phenomena seem to be at work. The Institute for International Finance (IIF), the most important of these associations with a privileged relationship as an industry interlocutor with the Basel Committee, has dozens of working groups on a variety of financial regulatory issues. In the experience of one participant in a number of these committees, emerging country bank participants rarely participate and appear to be "on a very steep learning curve" on most of these issues.[10] Another indication of this imbalance of expertise — and of reputation — is that the chairs of IIF committees and working groups (for those where such information is disclosed) are consistently from banks or associated firms based in developed countries. The number of chairs from US firms significantly exceeds that of others.[11] Meeting times for such committees (usually held by conference call) are another indicator: they are typically set for the convenience of US and European participants, often in the middle of the night in East Asia and Australasia.[12] As noted above, low private sector expertise tends to be directly related to low official expertise.

This is not to suggest that major emerging countries lacked any ability to exercise voice and influence in the BCBS after they entered in 2009. There is evidence that the expanded membership of the BCBS led to greater attention to the potential impact of new standards on emerging economies. For example, in its guidance on the implementation of the CCB, one area of EMDE concern, the BCBS emphasized a "credit-to-GDP gap" indicator — the gap between the aggregate private sector credit-to-GDP ratio and its long-term trend — rather than simple above-trend credit growth as a key indicator of a potential buildup of systemic risk. In its 2010 guidance, it noted that "particular consideration was given to the question of how to take account of jurisdictions with financial systems at different stages of development" (BCBS 2010a, 25; 2010b, 10).

EMDE concerns were also raised in 2009 by Basel proposals to increase risk weightings for on- and off-balance-sheet commitments and to disallow exceptions to a 100 percent "credit conversion factor" (CCF) for contingent liability trade finance in the calculation of banks' minimum leverage ratios. They believed that these proposals failed to take sufficient account of the low risks entailed by most trade finance[13] and that it could have a significant negative impact on the provision of such finance and thus on their economies. South Korea raised the issue with other Asian countries and the European Union in the months before the Seoul Summit of the G20 in November 2010. A cross-industry coalition of private sector actors from developing, emerging and developed countries also mobilized to lobby regulators on this issue. The ICC played a central coordination role in this mobilization and in ensuring that sufficient resources were devoted to providing an effective response. This prompted the BCBS to undertake an evaluation exercise with the ICC, the World Bank and the World Trade Organization (WTO). An ICC survey of banks and firms in many countries revealed extensive concern in a variety of industries and countries (ICC 2009). In October 2011, the BCBS issued a revised proposal on *The Treatment of Trade Finance under the Basel Capital Framework*, which proposed two technical changes to the earlier proposals and explicitly took into account the potential impact on low-income countries (Buckley, Arner and Stanley 2014). In early 2014, the BCBS also moved earlier than it had previously indicated to modify its leverage ratio proposal to apply the same CCFs as in the standardized approach to credit risk, which will permit CCFs lower than 100 percent for contingent commitments in trade finance (BCBS 2014a).

The trade finance case could suggest that on issues of greatest immediate relevance for emerging countries, they exercise voice and influence without difficulty. However, there were factors specific to this case that reduced the negative effects of generally low knowledge and resources. First, although the issues involved in risk-weighting trade finance commitments and in applying appropriate CCFs for contingencies are not straightforward, most emerging country officials, banks and firms could easily understand that they had a strong interest in ensuring that the supply and cost of trade finance did not worsen. Second, major international organizations including the World Bank, WTO and the ADB assisted by devoting resources and expertise to understanding the potential implications of Basel III for trade finance and in suggesting revisions to Basel proposals. For the private sector, the ICC played a pivotal role in coordinating the cross-industry, cross-country coalition. Third, more developed trade-dependent countries in Europe joined this coalition and lobbied the Basel Committee from the inside to modify its proposals. Thus, this case is revealing because emerging and developing countries were able to make common cause with highly knowledgeable and well-resourced private and official actors.

How Much Do Emerging Country Actors Mobilize on BCBS Proposals?

In fact, the trade finance case is fairly exceptional for the degree of interest and mobilization of private sector and official actors in EMDEs. There has been significant private sector mobilization on most Basel proposals, but this has predominantly been from firms and associations originating in developed countries.[14] As noted above, private sector mobilization is related to the ability of emerging country officials to exercise voice and influence in international financial standard setting. In this section, we see

10 Comments to author from IIF working group participant, October 2014.

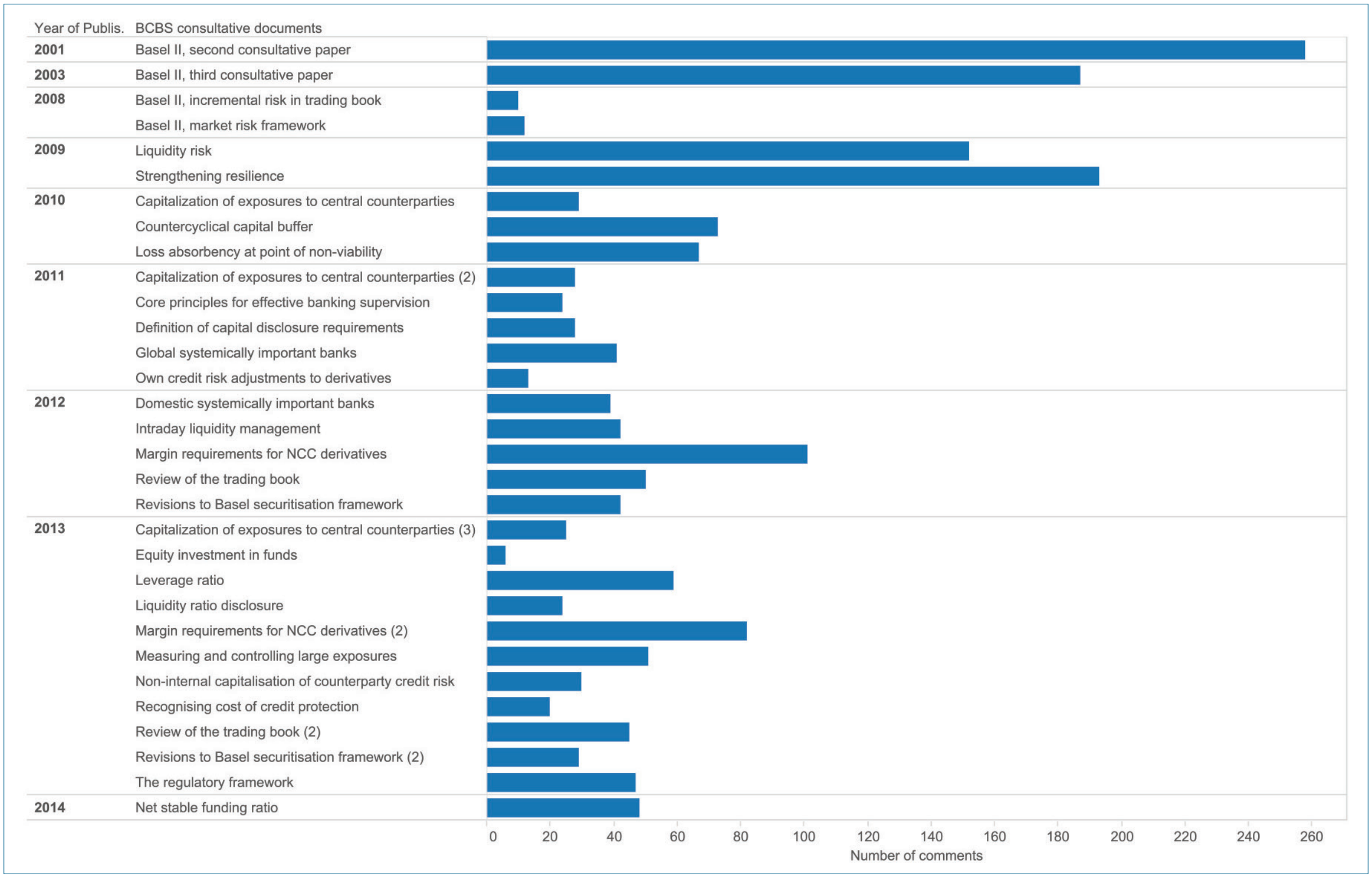
11 www.iif.com/advocacy/committees, accessed December 15, 2014.

12 Comments to author from IIF committee participant, December 2014.

13 International Chamber of Commerce (ICC) and Asian Development Bank (ADB) data showed that even in the sharp global downturn in trade and output over 2008–2009, default rates on trade finance remained exceptionally low (and recovery rates given default were relatively high).

14 For one of the most well-publicized critiques of Basel III along these lines by an international financial lobby group, see IIF (2011).

Figure 3: BCBS Consultative Papers Ranked by Date of Publication, Indicating Total Published Comments per Paper



Data source: BCBS website.

that even in areas of identified concern for EMDEs, private sector mobilization on Basel III proposals still tends to be low.

Measuring mobilization systematically across different kinds of actors and issues is not easy. This paper uses public commentary on BCBS consultative proposals as a proxy for actor mobilization (for a similar approach, see Pagliari and Young 2014). These proposals, which are announced by English press releases, outline draft standards agreed by the committee and invite comments from interested parties, including from non-BCBS jurisdictions. Both the consultative papers and the comments received have been published increasingly frequently on the BCBS website since the early 2000s.[15] Published proposals are only in English; most comments are also provided in English with some exceptions (non-English commentary is mostly from emerging country actors). In the following analysis, commentary information is used where this is available, including four Basel II and 27 Basel III consultation exercises.

Commentary in 2001 and 2003 was predominantly related to the "omnibus" second and third Basel II consultative papers. Since 2008, most consultative papers have been concerned with specific components of the Basel regime and these have received fewer comments per paper, with the exception of the major Basel III papers of 2009 on liquidity risk and strengthening resilience. Figure 3 shows total commentary on individual BCBS consultative papers by date of publication.[16]

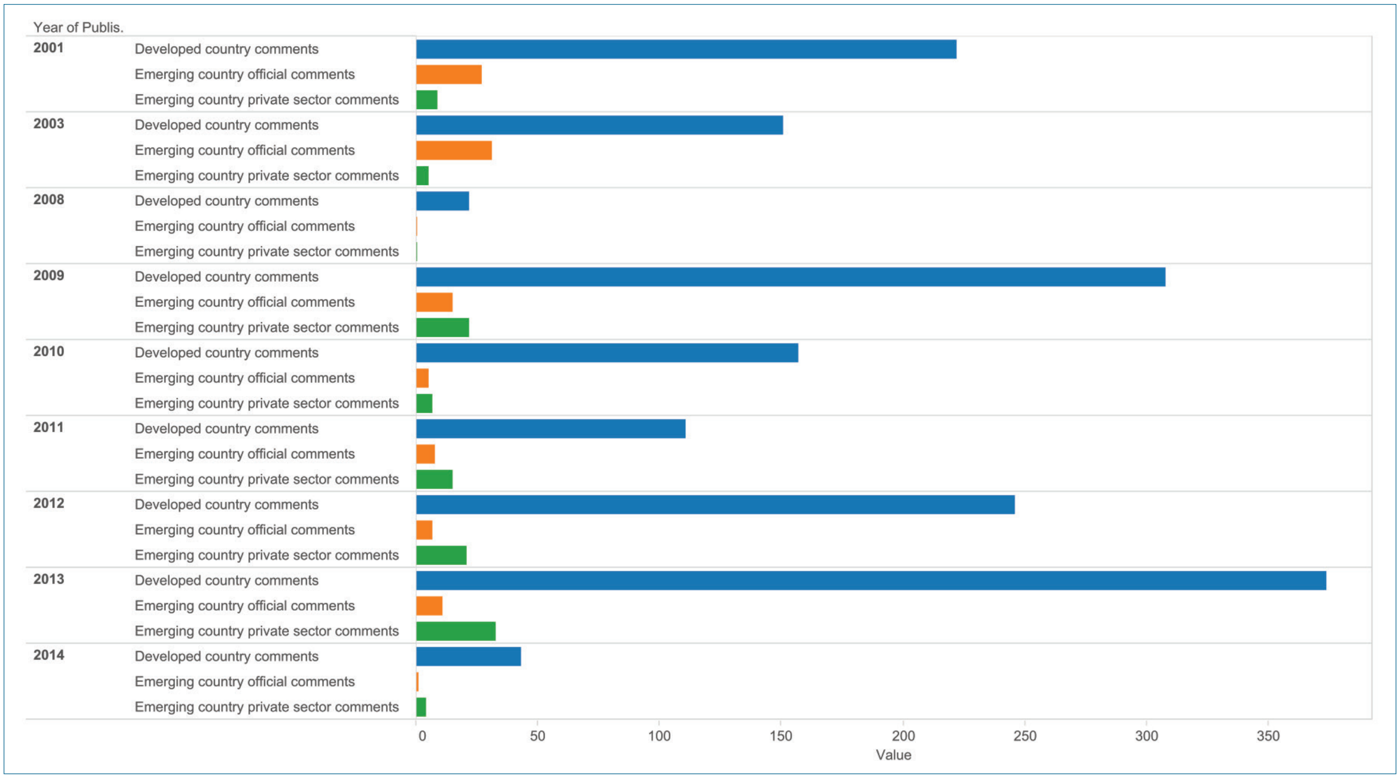
Historically, most of this commentary has come from advanced countries, predominantly from the private sector. Major international banks and their lobby groups, including associations such as the American Bankers Association, the British Bankers' Association and the IIF, have played prominent roles in these commentary processes. However, as Stefano Pagliari and Kevin L. Young (2014) have shown in the context of Basel and elsewhere, a surprising amount of commentary has also come from non-financial business groups.

With regard to official sector commentary, there is a strong tendency for comments to come from public organizations that are not represented on BCBS. There appears to be a norm

15 Before 2001, the BCBS only summarized commentary received on their proposals rather than publishing individual comments. After 2001, there was a trend toward full publication of comments, though not consistently so until 2009. Commentary on a number of Basel II proposals was not published.

16 For closed consultations on papers where commentary has been published.

Figure 4: Total Comments Received by Developed Country and Emerging Country (Official and Private Sector) Actors, 2001–2014



Data source: BCBS website. Only BCBS proposals for which comments are published are counted. Author classifications of respondent origin.[17]

that represented organizations should voice any concerns or objections in the BCBS process rather than via public commentary. [18]

There are some potential shortcomings of relying on such comments as a proxy for measuring actor mobilization regarding Basel standards. Banks and other private actors may have access to domestic level processes that feed into international policy making. However, since national regulatory proposals tend to follow the standards issued by the BCBS, national mechanisms are unlikely to be good substitutes for attempts to influence Basel processes directly. Informal mechanisms of influence are difficult to measure, but even when informal influence is widely thought to be substantial (for example, in the cases of the financial sectors of the United States and Britain), private sector actors still tend to mobilize in formal consultation processes, including those conducted by the BCBS.

A growing number of countries within the Organisation for Economic Co-operation and Development (OECD) have adopted formal public notice and comment procedures (OECD 2010, chapter 9). The diffusion of this policy trend is also apparent in emerging countries, where it is increasingly common practice to issue draft regulations and to request commentary. For example, in Brazil it is not mandatory but it has become standard practice for securities and insurance regulators; banking regulators increasingly do so but less consistently. The same is true in China and India, although, as elsewhere, there is uncertainty about how responsive authorities are to public commentary. Publication of comments on national consultations is generally less common in emerging than in developed countries.[19]

17 Comments from international associations that include actors from emerging countries are not classified as emerging country submissions unless it is the primary objective of the association to represent such actors (thus the ICC, IIF, International Organization of Securities Commissions and Asia-Pacific Economic Cooperation are not classified as emerging country commenters). The general rule is that institutions, including those of a "transnational" nature, are classified according to the location of their headquarters. Individuals writing explicitly on behalf of organizations are classified according to their institutional affiliation rather than their nationality. Multiple submissions by the same entity are counted only once. State-controlled banks are classified as "official" commenters. HSBC definitions of emerging markets are used, with the addition of Malta and Saudi Arabia to that category.

18 This was confirmed to the author by one BCBS participant (interview, October 2014). Nevertheless, there are a few cases in which new members (for example, the CBRC) continued to provide public comments on proposals after they had joined.

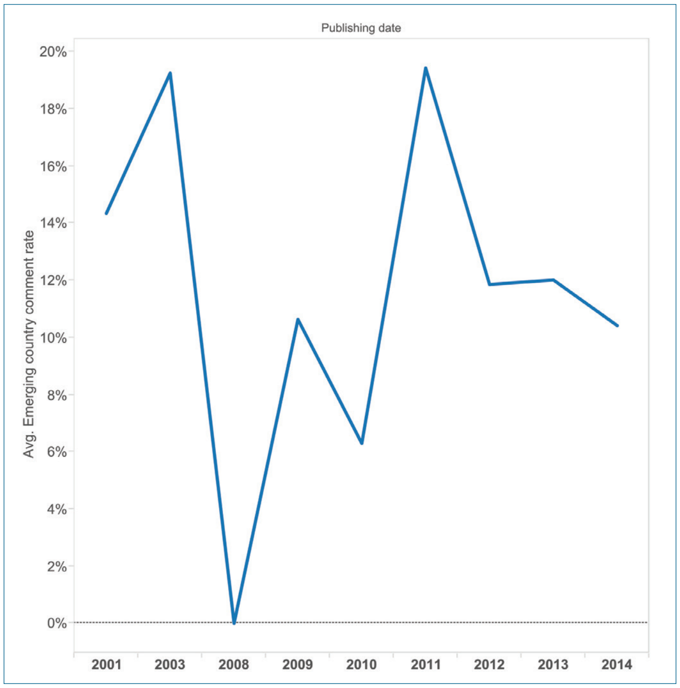
19 Author correspondence with officials and analysts in Brazil, China, India and Korea.

This suggests that public commentary on Basel proposals is a reasonable proxy for the level of actor mobilization in international banking regulation. There is a bias in this commentary toward criticism of BCBS proposals: generally, individuals or organizations are motivated to provide comments when they wish to criticize rather than to praise or support draft standards. Still, comparative counts of commentary do not inform of the nature and intensity of such criticism. Nor do they tell us whether any influence attempts by emerging market actors, whether inside or outside the Basel process, are successful or not.

With these caveats in mind, Figure 4 shows that the great majority of commentary on BCBS proposals is from actors based in developed countries and that this remained true after major emerging countries joined the BCBS and FSB in 2009. Developing country actors provide very few comments.

The rate of emerging country commentary (as a proportion of all commentary) is variable, but there is no clear upward trend despite the change in their membership status over the period (see Figure 5). The 2003 and 2011 peaks in Basel II and Basel III commentary by emerging country actors are similar, at nearly 20 percent of all commentary.

Figure 5: Emerging Country Commentary on Basel Consultative Papers, 2001–2014 (Basel II and III), as Percentage of All Published Commentary



Data source: BCBS website. For classification method, see Footnote 17.

There is, however, a shift in the nature of emerging market commentary over time. Such commentary was predominantly by official (governmental) organizations in the earlier period when Basel II was being negotiated. In contrast, about 90 percent of all developed country commentary on the second consultative paper on Basel II came from non-official sector actors. During the Basel III era, there has been a clear shift toward increasing private sector commentary from emerging countries, to the point where private actors are now providing the majority of all emerging market commentary (see Figure 6). The fall in emerging market commentary probably reflects the new membership status of major emerging countries and the norm for official BCBS actors not to engage in public commentary. The rising incidence of private sector commentary from emerging countries — a trend of convergence toward the general pattern of developed country commentary — could reflect the growing sophistication of these actors over the past decade. However, commentary by non-official developed country actors continues to dominate total commentary.

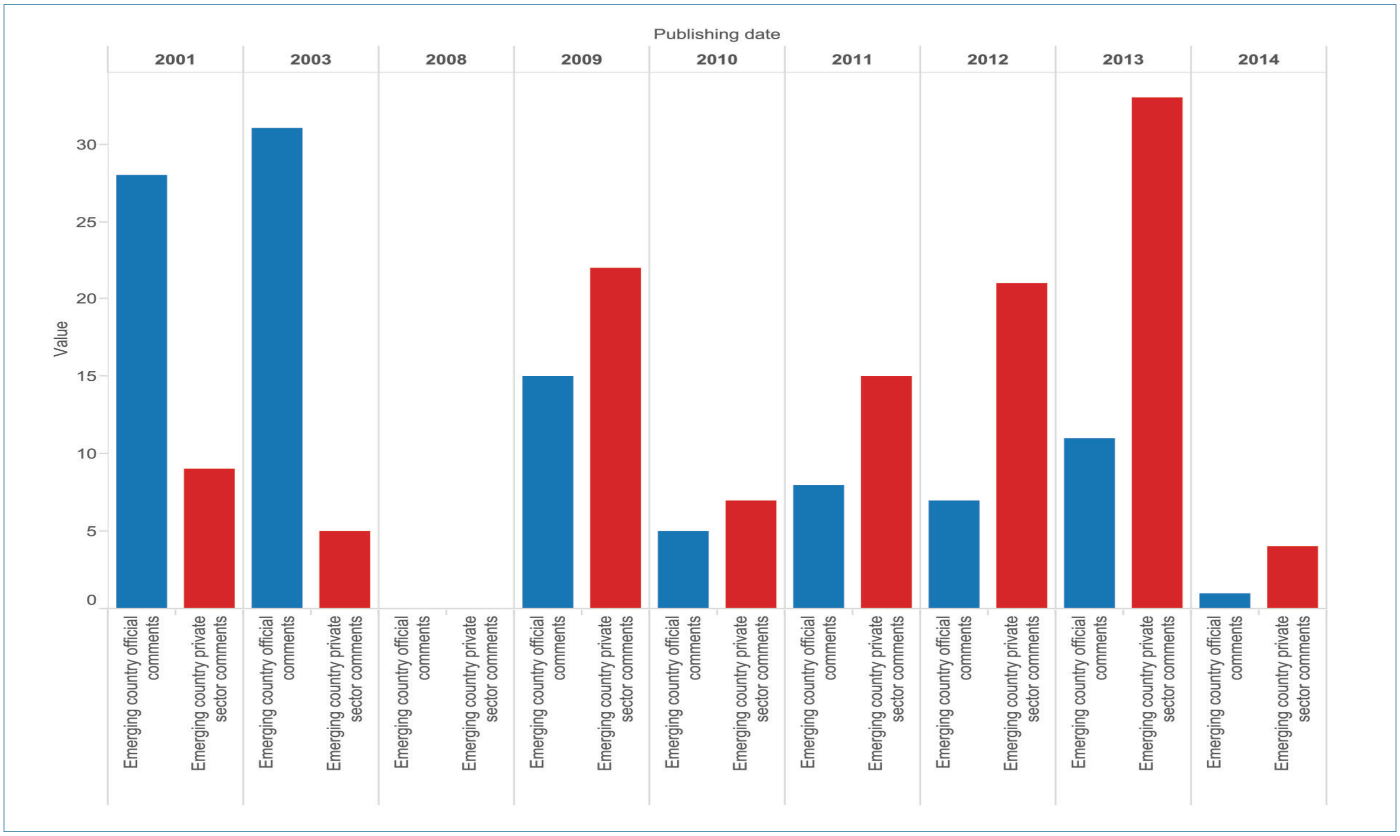
Rising private sector commentary from emerging countries is not, of course, the same thing as rising influence. But such mobilization may assist national representatives in BCBS in articulating their preferences in negotiations, especially when — in contrast to the trade finance case — they lack international institutional and developed country allies. In addition, as Robert D. Putnam (1988) argues, the mobilization of domestic interests can shape the "win-set" of national representatives.[21] If this mobilization shrinks the size of this national win-set, it will (other things being equal) increase the international bargaining power of national negotiators.[22] For example, in the Basel I negotiations, Japanese banks mobilized domestically and internationally to register their concerns about American and British proposals to raise capital requirements, and to suggest modifications. This gave Japanese negotiators a source of leverage underestimated by authors such as Thomas Oatley and Robert Nabors (1998), reflected in a series of significant concessions gained by Japan (Chey 2013).

In short, patterns of mobilization can influence whose interests matter. Greater diversity of interest group mobilization and preferences can reduce the influence of particular interests (Dahl 1961; Mattli and Woods 2009; Pagliari and Young 2014). Given that the mobilization of financial sector interests from developed countries is often very high in this area, the mobilization of private interests from EMDEs could provide an important countervailing influence. As we have seen, however, private sector mobilization from EMDE actors has remained low, with the exception of the trade finance case.

21 This is particularly so in the presence of formal ratification procedures in which organized domestic interests might be able to block implementation. BCBS standards as soft international law do not generally require formal ratification, but in many cases domestic implementation requires changes to national legislation.

22 Bargaining power will also be related to market size and position (Drezner 2007, 55).

Figure 6: Total Public Comments by Official and Private Sector Actors from Emerging Countries



Source: BCBS website. For classification method, see Footnote 17.

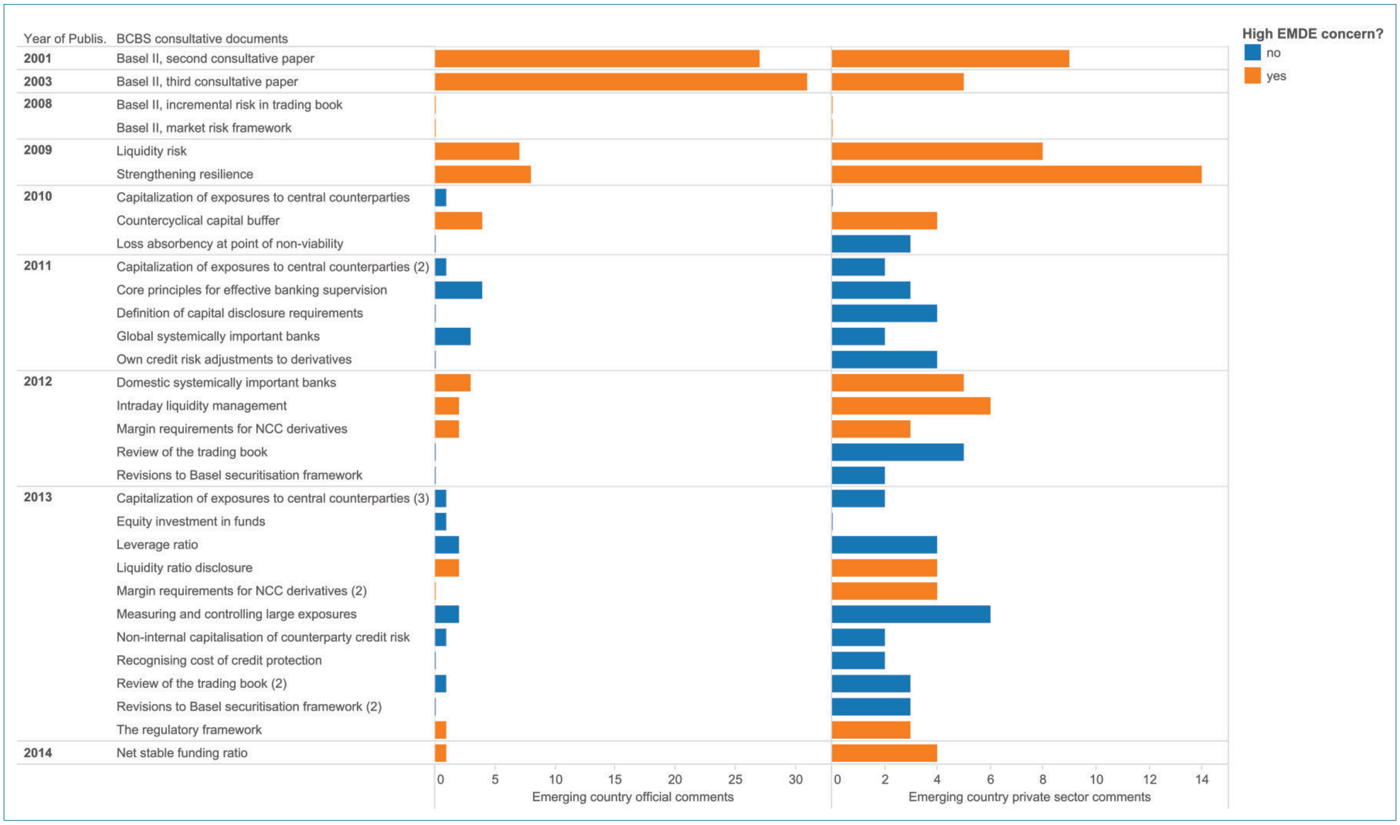
Could it be that the limited resources available to EMDE actors means that mobilization is concentrated in areas of greatest concern? If we look at aggregate commentary by emerging country actors in such areas, we find that this is not the case (see Figure 7). The exceptions are the two 2009 Basel consultative papers on liquidity and strengthening resilience (which focused on increased capital requirements). In these two cases, both official and private sector commentary peaked. But so did private sector commentary by developed country actors. Even in these areas, the total level of official and private sector commentary by emerging country actors remains strikingly small. In the peak case, strengthening resilience (see Figure 7, 2009), there are only eight emerging official and 14 emerging private actor comments in total. After 2009, the total aggregate commentary by EMDE actors on Basel III proposals is actually lower in areas of indicated EMDE concern than in other areas.

The lack of a close relationship between EMDE concerns about Basel III standards and actor mobilization supports the view that relatively low knowledge and resources significantly constrain emerging country engagement with BCBS negotiations. As noted earlier, the increasing complexity and density of the agenda is likely to compound these constraints. The BCBS has required comments to be submitted within a range of three weeks to four months, but even the latter period can be short for actors facing serious shortages of resources and expertise. In areas of greatest concern for EMDEs, the average comment period of 82 days is only slightly longer than the 75-day average for other areas.

To provide more granularity, we can consider levels of mobilization on three Basel III consultative papers that Basel Core Principles consultations suggest raise significant issues for EMDEs: the CCB (published July 16, 2010), D-SIBs (published June 29, 2012) and the net stable funding ratio (NSFR) (published January 12, 2014).

The CCB is part of the new macroprudential focus of regulation in Basel III, intended to counteract the perceived pro-cyclical bias of existing bank capital regulation by raising capital requirements during periods of excessive credit growth (BCBS 2011, 7). The BCBS, in agreeing to the principle of a variable CCB that would be additional to minimum bank capital requirements, has also provided guidance on implementation. This includes its size (0–2.5 percent of risk-weighted assets) and the way in which national authorities might identify triggers for increasing the size of the buffer, with above-trend credit growth seen as a key indicator (BCBS 2010b). Measuring what constitutes above-trend credit growth is especially challenging in emerging economies in which financial development and liberalization may be occurring simultaneously. Given that bank lending dominates financing in most emerging economies, the potential for the CCB to constrain economic growth is

Figure 7: Aggregate Official and Private Comments from Emerging Country Actors, Ranked by Date of Publication of Consultative Document. Areas of Greatest EMDE Concern Are in Orange



Data source: BCBS website. For classification method, see Footnote 17.

significant. A number of emerging country banks have also indicated concern with the CCB.[23]

Surprisingly, emerging country commentary on the CCB paper was slightly lower than average and equally dispersed between public and private sector actors (at only five percent of total comments each). Commentary provided by actors from emerging country BCBS members was also strikingly low: only actors from Argentina, China and South Korea submitted comments (see Figure 8). Of these, South Korean banks were the most prominent commentators, with only one set of comments each from an Argentine bank association and a Chinese individual.[24] In all three cases, as with emerging market commentary in general, comments were also shorter than average and critical of only some of the detail of the CCB.[25] By contrast, criticism by developed country private sector actors tended to be much more detailed and extensive (for example, from the IIF). The majority of private sector commentary on the CCB came from financial associations and firms in G20 countries, especially from the United Kingdom, the United States and Belgium.

The BCBS (2012) paper on D-SIBs complemented the 2011 proposals on the application of more stringent regulatory standards to global systemically important banks (G-SIBs). This strategy was in line with the committee's general concern to address the negative externalities associated with systemically large financial institutions, including competitive distortions, increased financial fragility and the systemic impact of their failure or impairment. As in the case of G-SIBs, the D-SIBs paper proposed more stringent capital requirements but it was less prescriptive, emphasizing the need for national discretion depending on the circumstances of particular countries, including the recommendation that D-SIBs be subject to higher loss absorbency requirements (BCBS 2012, 2). This greater level of allowed national discretion could have reduced the concerns of large emerging market banks and their clients, making it less likely for these actors to mobilize on the proposal. However, the proposal allowed national authorities to impose higher additional capital requirements than those to be levied on G-SIBs and required that they be met in full by common equity capital (ibid., 3–4).

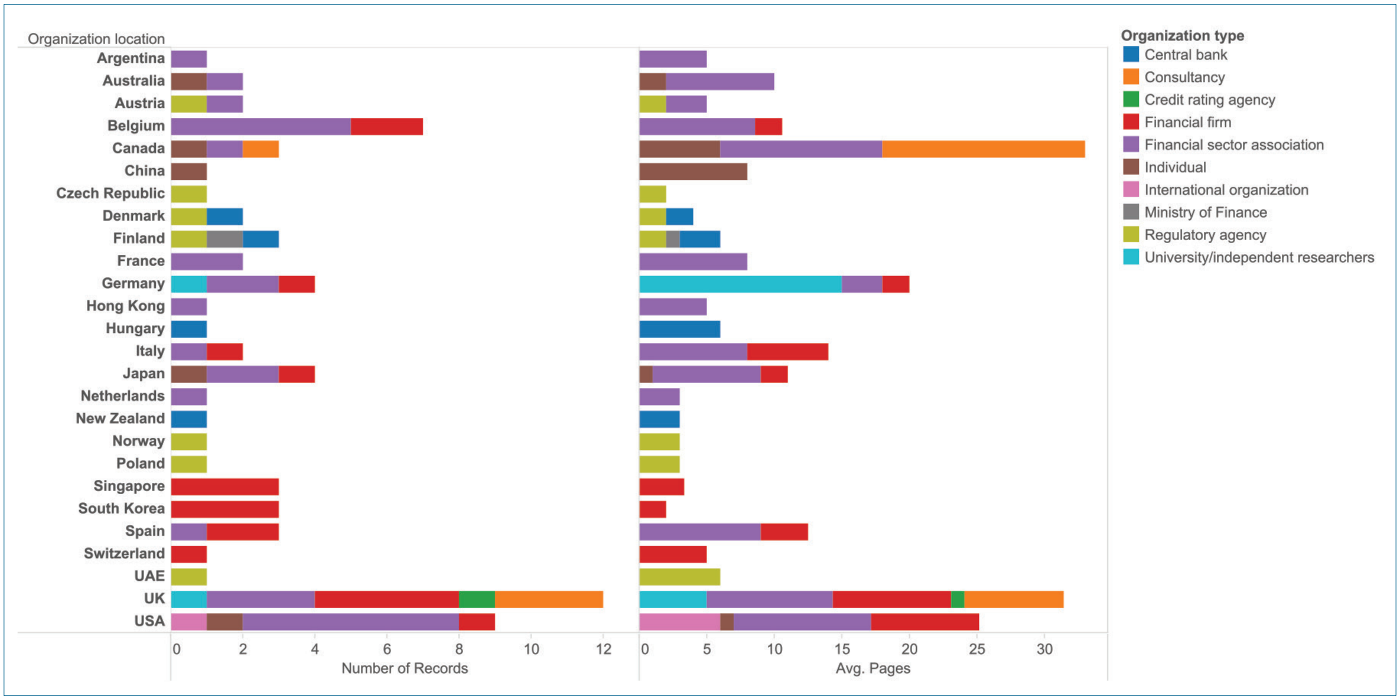
Despite this potential concern, Figure 9 reveals a similar pattern to the commentary on the CCB paper. Most comments are

23 See, for example, "Asian Bankers Reject Counter-cyclical Capital Buffer as Effective Tool for Supervision," Risk.net, June 8, 2012.

24 This individual was employed in a regional branch of the CBRC but wrote in a personal capacity.

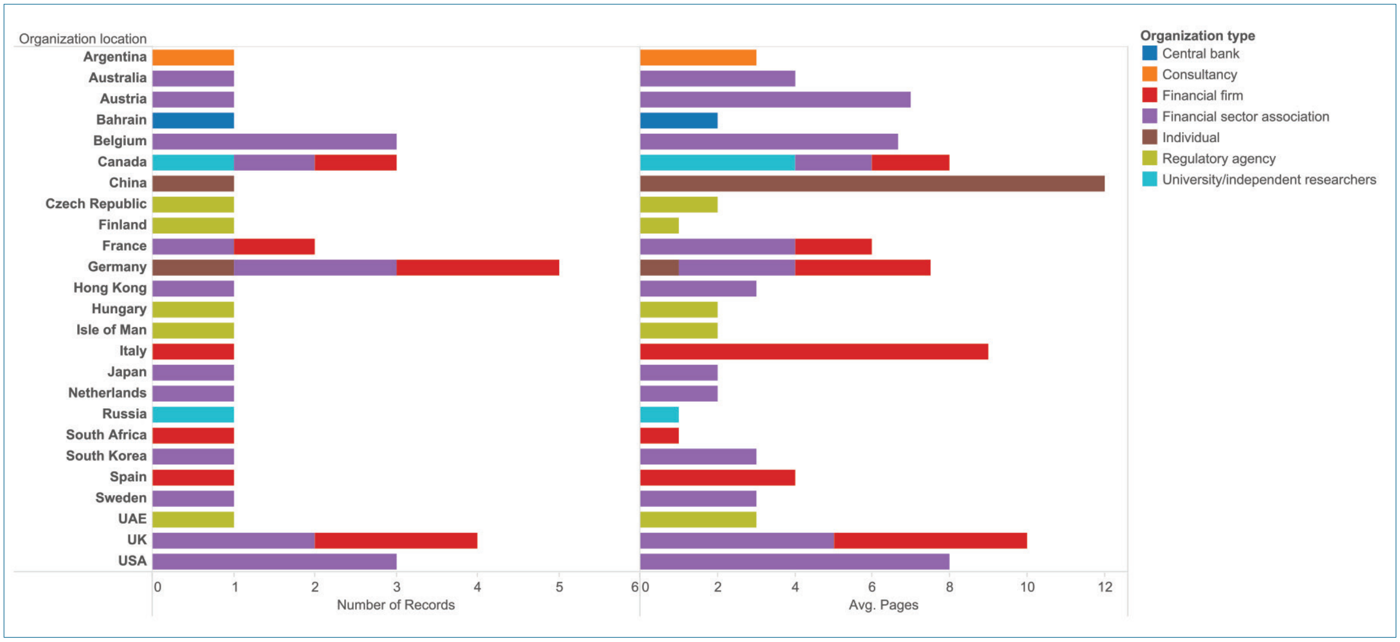
25 The Industrial Bank of Korea's comments came close to general objection.

Figure 8: Total Comments and Average Page Length of Comments on the July 2010 CCB Paper, by Origin Country and Organization Type



Data source: BCBS website. See Footnote 17 for classification method. For page length, notes, references and biographical data are counted but cover and blank pages are not.

Figure 9: Total Comments and Average Page Length of Comments on the June 2012 D-SIBs Paper, by Origin Country and Organization Type



Data source: BCBS website. See notes to Figure 8.

from private sector actors in developed economies, with only one submission from each of nine emerging economies, of which five are BCBS members. Emerging market commentary came from a variety of actors, mostly private financial firms and associations (BCBS members) and regulators (non-BCBS members). The main patterns are a low overall level of emerging country commentary, particularly from private sector actors.

The limited commentary by private sector actors from emerging countries on this proposal did not for the most part adopt a principled objection. Once again, Korean banks were among the better organized of emerging private sector actors. The Korean Federation of Banks argued that the BCBS should be more prescriptive, setting a maximum level of additional loss-absorbing capital requirements for D-SIBs so as to reduce the scope for national discretion, and for the additional capital charge not to exceed that applied to G-SIBs (2.5 percent of risk-weighted assets and 3.5 percent in exceptional cases). They also suggested the BCBS substantially relax the requirement that all additional capital be in the form of common equity. This suggests some concern among Korean banks that domestic regulators might be tempted to adopt relatively punitive capital requirements for D-SIBs.

Finally, the NSFR paper of January 2014 (BCBS 2014b) was a major update of the original proposals on liquidity risk standards of December 2009 and one of the most important components of Basel III proposals to improve financial sector resilience. The NSFR standards complement the short-term liquidity risk ratio proposals, aiming to reduce reliance on short-term wholesale funding and to ensure more stable long-term funding for bank commitments. Once again, it is evident from Figure 10 that commentary from financial sector firms and associations from developed countries dominate the commentary on these proposals. Despite the fact that the liquidity proposals continue to be at the top of the list of indicated EMDE concerns, emerging country actors rarely mobilize to comment on these proposals.

Financial sector associations also dominate EMDE commentary, providing four of the five sets of comments from emerging country actors (from Poland, Russia, Saudi Arabia and South Africa). Of these, the comments from the Banking Association of South Africa were the most detailed and complained that the revised proposals would still leave South African banks with a significant funding gap. The association argued that a variety of factors meant the NSFR proposals were less suited to South Africa than to more advanced G20 countries, including its capital controls regime and its less developed financial system (Banking Association of South Africa 2014). It was the only actor to voice concerns in this phase of consultation regarding the potentially damaging consequences of the liquidity proposals for emerging countries.

In summary, even in areas of self-identified EMDE concern, advanced country private sector actors continue to play a dominant role in commentary on proposed BCBS regulatory standards. The level of emerging country actor commentary has not substantially increased since the early 2000s, despite emerging country participation in BCBS and the enhanced focus on enforcement of agreed standards since 2009. This paucity of EMDE actor input into BCBS consultations is likely to reinforce the impact of the knowledge and resource gaps faced by emerging country members. It also means that there are relatively few external influences on the Basel process to counterbalance the dominant voice of the largest financial firms and associations from the major developed jurisdictions. (Consumer groups and firms/associations not directly connected with the financial sector are also notably absent in the public commentary on BCBS proposals.)

What Might Be Done?

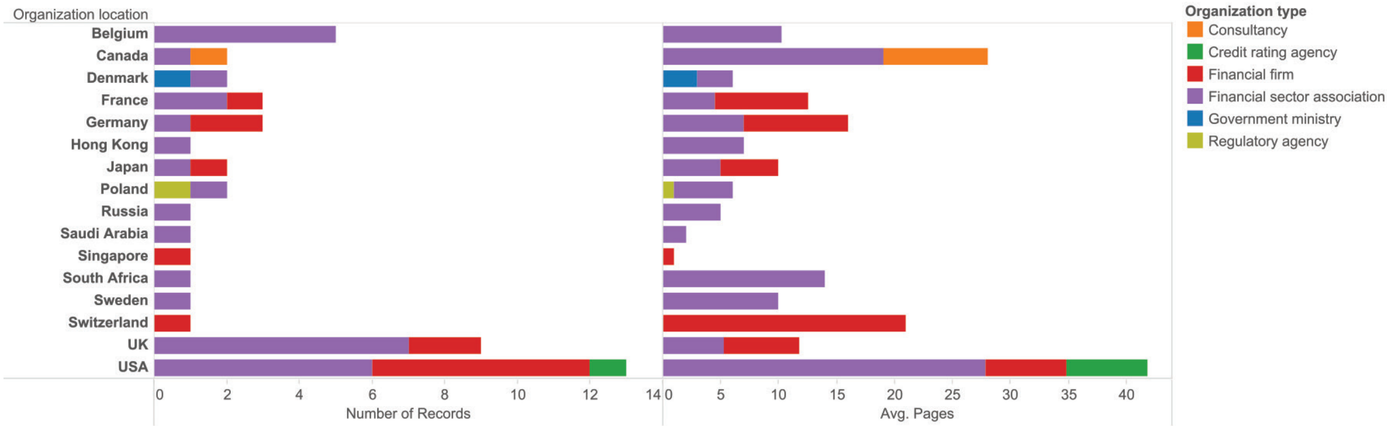
Despite some examples of increased sensitivity of the Basel process to emerging members, the overall picture is one of persisting low levels of mobilization and engagement of emerging country actors in international financial standard setting. This is due to a combination of related factors: the continued focus of BCBS and FSB deliberations on the regulation and supervision of the largest global banks; the ability and desire of an elite network of developed country regulators to set the agenda; a relative paucity of regulatory knowledge and resources in emerging countries; and low mobilization by emerging country private actors on BCBS proposals.

What are the implications? The default solution is to allow the steady accumulation of experience inside and outside the SSBs to increase EMDE voice and influence over time. The difficulty is that this may take years to achieve a more balanced process of global standard setting, but in the meantime new regulatory frameworks are agreed that will have lasting consequences for these countries. A greater focus on the interests of EMDEs is required in these bodies. The FSB recently recognized this and has proposed to increase the representation of EMDE officials on its plenary and in its committees and working groups (FSB 2014). These are steps in the right direction and could be taken further by the BCBS.

However, if the analysis here is correct, improving EMDE representation on committees is unlikely to be sufficient. Representation in itself will not overcome the structural constraints facing emerging country actors due to knowledge and resource gaps. This suggests that a more proactive approach may be needed. The following is a list of suggestions, in no particular order of importance.

One measure would be to enhance the relevant expertise on standard-setting committees by involving officials from international organizations with direct knowledge of development finance. Besides the IMF, which is already represented in the BCBS, the World Bank and the regional

Figure 10: Total Comments and Average Page Length of Comments on the January 2014 NSFR Paper, by Origin Country and Organization Type



Data source: BCBS website. See notes to Figure 8.

development banks are potential candidates given their knowledge of and stakes in EMDE finance.

Second, as in recent proposals to reform the IMF executive board, active steps may also need to be taken to reduce the overrepresentation of European actors on the BCBS. Besides the 10 European country members of the BCBS, the European Central Bank and the European Central Bank Single Supervisory Mechanism are both full members; in addition, the European Banking Authority and the European Commission have observer status. There are good reasons for this to do with systemic importance, but it promotes a heavy European bias. Europeans have also traditionally held the position of Basel Committee chairmen, with the exception of two former presidents of the Federal Reserve Bank of New York. It would be appropriate, as with the Bretton Woods, to end this tradition of Euro-American dominance and to appoint the next chair from an emerging country.

The BCBS could also do more to assist its newest and least well-equipped members. The contrast with the way in which the United Nations Security Council (UNSC) assists non-permanent members new to the workings of the council may be instructive. The UNSC provides the *Working Methods Handbook* (106 pages) and an extensive published *Repertoire* of practice that provides new members with detailed information on its role, procedures and instruments. The UNSC is a hard-law body with a much longer case history and a much larger staff, so the contrast is understandable, but it is indicative of the possibilities.

More could also be done in EMDEs themselves to educate private actors about the role, workings and relevance of the SSBs. In a number of countries a more transparent practice of domestic regulatory notices with invitations to comment could be established, with obligations on the part of regulatory agencies to respond to public comments. International agencies could also help to build analytical expertise in private sector associations in EMDEs. Both EMDE and developed country governments could also more directly encourage private sector commentary on the proposals of international SSBs. Comments on regulatory proposals could also be solicited directly from sophisticated private sector actors with interests in emerging economies, such as institutional investors.[26]

The need to increase EMDE stakes in the international SSBs is urgent. If knowledge and resource constraints are substantial, there is a danger that the longer-term interests of EMDEs will be compromised in spite of their improved representation. This should be of concern to all countries, since it could undermine the legitimacy of this crucial aspect of global economic governance.

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26 McKinsey Global Institute (2013, 5) estimated that capital inflows to emerging markets in 2012 were $1.5 trillion, about a third of global inflows.

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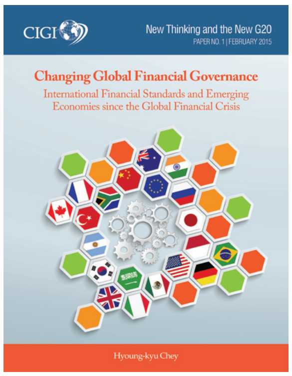

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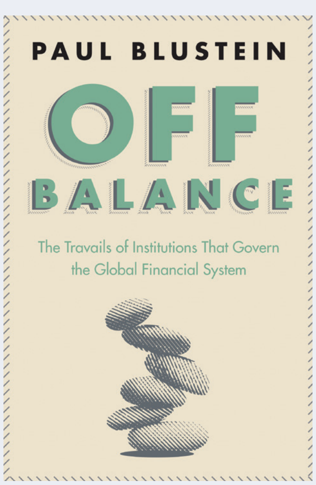

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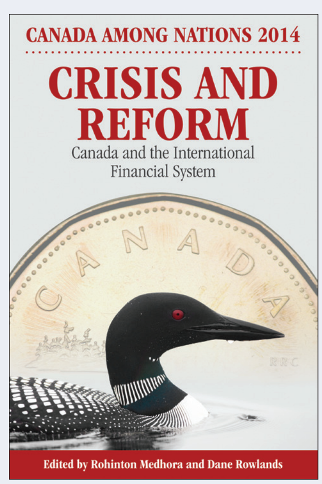

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Edited by Rohinton Medhora and Dane Rowlands

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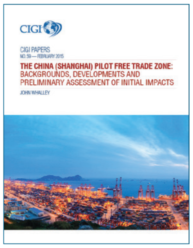
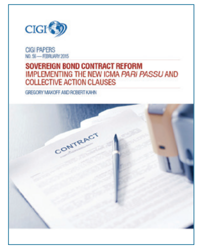


The China (Shanghai) Pilot Free Trade Zone: Backgrounds, Developments and Preliminary Assessment of Initial Impacts

CIGI Papers No. 59
John Whalley

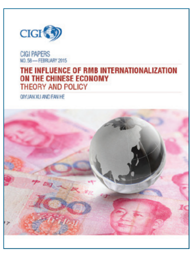
The China (Shanghai) Pilot Free Trade Zone (SPFTZ), founded in September 2013, has promised liberalization on capital account and trade facilitation as its main objectives. This paper discusses reasons why China needs such a pilot zone after three decades of economic development, examines the differences between the SPFTZ and other free trade zones and highlights the developments of the SPFTZ since its inception. The hope is that the success of the SPFTZ will give rise to a more balanced Chinese economy in the following decade.



Sovereign Bond Contract Reform: Implementing the New ICMA *Pari Passu* and Collective Action Clauses

CIGI Papers No. 56
Gregory D. Makoff and Robert Kahn

The International Capital Market Association (ICMA) has recently published proposed standard terms for new, aggregated collective action clauses. Concurrently, the ICMA released new model wording for the pari passu clause typically included in international sovereign bond contracts. These announcements and the commencement of issuance of bonds with these clauses are an important turning point in the evolution of sovereign bond markets.



The Influence of RMB Internationalization on the Chinese Economy

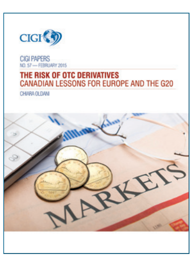
CIGI Papers No. 58
Qiyuan Xu and Fan He

Since China's pilot scheme for RMB cross-border settlement was launched in 2009, it has become increasingly important for monetary authorities in terms of macroeconomic policy frameworks. The authors use an analytical model that includes monetary supply and demand to examine the influences of RMB cross-border settlement on China's domestic interest rate, asset price and foreign exchange reserves. They also look at how RMB settlement behaves in different ways with the various items in China's balance of payments.

Completing the G20's Program to Reform Global Financial Regulation

CIGI Papers No. 55
Malcolm D. Knight

The measures regulators have largely agreed on for a strengthened and internationally harmonized financial regulatory regime, which were endorsed at the 2014 G20 leaders summit in Brisbane, are a major step toward achieving a robust and less crisis-prone global financial system. There are, however, a number of specific measures that need to receive closer attention in order for the G20 leaders to declare their reform program a success. This paper discusses what policy makers and regulators should focus on in 2015 and why closer international cooperation in implementing regulatory reforms will be essential for success.



The Risk of OTC Derivatives: Canadian Lessons for Europe and the G20

CIGI Papers No. 57
Chiara Oldani

Over-the-counter (OTC) derivatives played an important role in the buildup of systemic risk in financial markets before 2007 and in spreading volatility throughout global financial markets during the crisis. In recognition of the financial and economic benefits of derivatives products, the G20 moved to regulate the use of OTC derivatives. Attention has been drawn to the detrimental effects of the United States and the European Union to coordinate OTC reform, but this overlooks an important aspect of the post-crisis process: the exemption of non-financial operators from OTC derivative regulatory requirements.

The Trade in Services Agreement: Plurilateral Progress or Game-changing Gamble?

CIGI Papers No. 53
Patricia M. Goff

Trade analysis in the current moment is understandably focused on mega-regional negotiations, but plurilateral talks also deserve our attention. Plurilateral negotiations leading to a Trade in Services Agreement (TiSA) is the focus of this paper. Barriers to trade in services are distinct and their removal consequential; thus inviting careful consideration and, ideally, public debate. This paper seeks to illuminate developments in negotiations toward the plurilateral TiSA. Just as it has become commonplace to ask whether regional agreements advance economic and political agendas, so is it useful to explore the promise and peril of plurilateral agreements such as TiSA.

About CIGI

The Centre for International Governance Innovation is an independent, non-partisan think tank on international governance. Led by experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events and publications, CIGI's interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI's current research programs focus on three themes: the global economy; global security & politics; and international law.

CIGI was founded in 2001 by Jim Balsillie, then co-CEO of Research In Motion (BlackBerry), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario.

Le CIGI a été fondé en 2001 par Jim Balsillie, qui était alors co-chef de la direction de Research In Motion (BlackBerry). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario.

For more information, please visit www.cigionline.org.

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67 Erb Street West
Waterloo, Ontario N2L 6C2, Canada
tel +1 519 885 2444 fax +1 519 885 5450
www.cigionline.org