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Global Monitor

The Bank for International Settlements

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GLOBAL MONITOR

The Bank for International Settlements

LEONARD SEABROOKE

The Bank for International Settlements (BIS) is the proverbial 'IT staff' of the global economy. While other international economic institutions are highly visible, the BIS remains mostly out of the public eye while it weaves a set of rules, norms and decision-making procedures that establish governance structures for both public and private international banks. Without the BIS, information sharing among central banks and private financial institutions would be seriously troubled. These institutions would face severe information asymmetries, their assessments of creditworthiness would be harder to establish, and the effective management of currency crises would be more difficult to achieve. In an environment where average daily turnover in foreign exchange markets is now US\$1.9 trillion, and the market for investment risk protection alone is worth US\$4.5 trillion per year, the BIS's 'firewalls' are important to prevent the global financial system from being, as it were, 'spammed'.1 Yet, like our lack of understanding of how the IT staff is (most of the time) able to prevent the e-mail system from crashing or our files being wiped, most of us don't know exactly what the BIS does to provide us with the networks that allow global finance to run smoothly (at least



Acknow

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Notes

- 1. Bank for International Settlements (BIS), 75th Annual Report (BIS, 2005), pp. 80, 116. Foreign exchange turnover has increased 36 per cent since 2001. The investor protection figure is for 'credit default swaps', which is an agreement between two parties to mitigate credit risks on investments. This market has increased sixfold since 2001. It works like this: David lent Linda some money and he worries about her capacity to repay. Anna, the cunning devil, then offers to cover any losses David may incur if he agrees to give her 2 per cent of the value of the loan every three months for five years.
- 2. Article 3 of BIS Statutes (1930).
- 3. Gianni Toniolo with Piet Clement, Central Bank Cooperation at the Bank for International Settlements, 1930–1973 (Cambridge University Press, 2005), pp. 50–1.

4. While this term normally refers to local government operations, it also works

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8. Ibid., pp. 155-7.

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- 9. The BIS directly collects economic data from 34 of its member central banks and reports on the domestic issuance of securities in 47 countries. Its international financial statistics cover 95 per cent of all banking transactions, a service the BIS has provided since 1983. See Toniolo, Central Bank Cooperation, p. 685.
- 10. Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the UK and the USA.
- 11. See Beth A. Simmons, 'Why Innovate? Founding the Bank for International Settlements', World Politics, Vol. 45, No. 3 (1993), pp. 361–401.
- 12. BIS, 46th Annual Report (BIS, 1976), p. 76.
- 13. See Leonard Seabrooke, US Power in International Finance (Palgrave, 2001), pp. 95-8, 119-20.
- 14. Kenneth Rogoff, 'International Institutions for Reducing Global Financial Instability', Journal of Economic Perspectives, Vol. 13, No. 4. (1999), p. 32.
- 15. See, for general detail, Duncan Wood, Governing Global Banking: The Basel Committee and the Politics of Financial Globalisation (Ashgate, 2005).

16. Bank of England, 'Major International Banks' Performance: 1980-91', Bank of **England** X 17. BIS, 18. Seak vere only able to i Margaret Miller & **Implicati** aper 3437, Octo 19. BIS, e way to consider ans, banks er short increasii Martin term or **Politics** Griffiths (Routled

- 20. Andre Lucas, 'Evaluating the Basle Guidelines for Backtesting Banks' Internal Risk Management Models', Journal of Money, Credit and Banking, Vol. 33, No. 3 (2001), pp. 826–46.
- 21. BIS, 67th Annual Report (BIS, 1997), p. 138.
- 22. BIS, 69th Annual Report (BIS, 1999), p. 153.
- 23. 'Basel II: Blip on the radar screen or major event?', Bank News, 1 April 2003.
- 24. On rating methodologies, see Layna Mosley, Global Capital and National Governments (Cambridge University Press, 2003), pp. 139–45.
- 25. BIS, 75th Annual Report, p. 166.

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26. On the importance of small banks to the US economy, and how the Bush administration is actively undermining them, see Leonard Seabrooke, The Social Sources of Financial Power: Domestic Legitimacy and International Financial Orders (Cornell University Press, forthcoming 2006).

27. Stijn Claessens, Geoffrey R. D. Underhill & Xiaoke Zhang, 'Basle II Capital Requirements and Developing Countries: A Political Economy Perspective', paper presented to the Annual Convention of the International Studies Association, Montréal, Canada, X 28. BIS, 29. See ory of Internati 30. Rand clusion', Globa inance mini a, China, , Saudi France, Arabia, atives from the EU,

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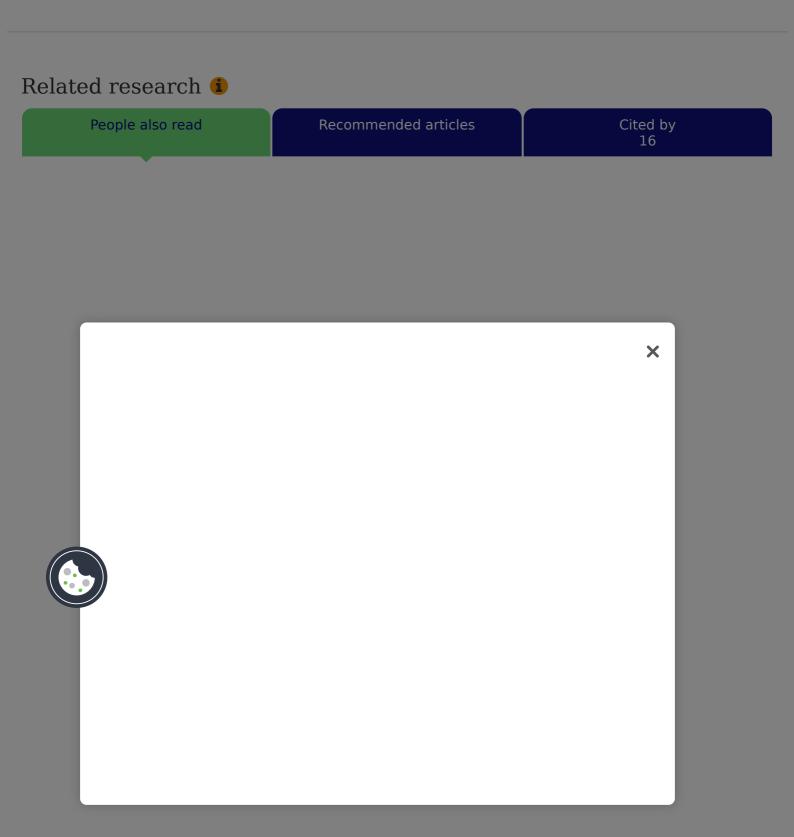
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- 32. The most recent publication of these statistics, in August 2005, included data on 176 countries.
- 33. Seven Central European, eight East Asian and four Western Hemisphere central banks became shareholding members between 1993 and 2003. Toniolo, Central Bank Cooperation, pp. 667–96.
- 34. For example, in 2004 BIS representatives attended five regional central bank associations in Africa.
- 35. 'BIS launches Asian Bond Fund', The Asian Banker, 15 June 2003.
- 36. Timothy J. Sinclair, The New Masters of Capital: American Bond Ratings Agencies and the Politics of Creditworthiness (Cornell University Press, 2005), pp. 15–16.
- 37. BIS, 72nd Annual Report (BIS, 2002), p. 152.
- 38. BIS, 75th Annual Report, p. 147.
- 39. Other institutions, however, do enforce BIS standards. For example, the IMF included Basle I compliance in loan conditions that followed the Asian and Russian financial crises.



- 44. Recent estimates suggest Asian banks will spend up to 11 per cent of their annual budgets on building information technology systems for Basel II compliance until 2012, an investment considered to be 'a large investment with little bottom line returns'. See 'Compliance architecture for financial institutions', New Straits Times, 12 September 2005.
- 45. On 'developed country "government-at-a-distance" over developing countries', see Sinclair, The New Masters of Capital, p. 147.
- 46. See Seabrooke, The Social Sources of Financial Power, ch. 7.



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