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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 most of the time).

Known as the 'Bank of Central Banks', the BIS's original charge in 1930 was to 'promote the co-operation of central banks and to provide additional facilities for international financial operations; and to act as a trustee or agent in regard to international financial settlements entrusted to it under agreements with the parties concerned'.² Today, the BIS still provides an institutional space for the sharing of information among central bank governors, but it is equally concerned with the development of international banking regulation and the collation and dissemination of financial data to international financial institutions and private financial market actors. This *Global Monitor* report provides an overview of the purposes and functions of the BIS and the Basle Committee on Banking Supervision, as well as contemporary problems and debates in international cooperation for financial regulation. The report provides a description of the BIS's institutional

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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 internationally.
5. Currently the Board has 17 members, of which six sit permanently (the same founders, minus Japan) and the remaining members comprise their 'seconders' and three countries (Canada, Japan and the Netherlands) currently elected to Board. Nout Wellink, the President of the Netherlands, is currently the Chairman and Malcolm D. Knight is currently the General Manager.
6. The BIS changed to the SDR in April 2003.
7. Calculated from BIS annual reports for 1993 to 2005. The upper end of this figure, some 30.7 per cent, was that proposed for 2005, a nearly 12 per cent increase on 2004. The low point, 13.7 per cent, was registered in 1999 following the Asian and Russian financial crises. In terms of profits returned as a proportion of total assets, the BIS is not as competitive as US banks but out-performed both German and Japanese banks in 2004. BIS, 75th Annual Report, pp. 121, 188, 192.
8. *Ibid.*, pp. 155–7.

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 Quarterly Bulletin*, August (1992), p. 290.
17. BIS, 70th Annual Report (BIS, 2000), p. 158.
18. Seabrooke, *US Power*, pp. 177-9. Most developing countries, however, were only able to implement a fifth of the proposed measures. See Giovanni Majnoni, Margaret Miller & Andrew Powell, *Bank Capital and Loan Loss Reserves under Basel II: Implications for Emerging Countries*, *World Bank Policy Research Working Paper 3437*, October 2004, p. 16.
19. BIS, *Recent Innovations in International Banking* (BIS, 1986). One simple way to consider this process is that rather than maintaining long-term traditional loans, banks increasingly turned to exchanging 'IOUs' that could be bought and sold either short term or long term. For more, see Leonard Seabrooke, 'Disintermediation', in Martin Griffiths (ed.), *Routledge Encyclopedia of International Relations and Global Politics* (Routledge, 2005), pp. 193-6.

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.
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, 17-21 March 2004.
28. BIS, 67th Annual Report, pp. 148-9.
29. See Jacqueline Best, *The Limits of Transparency: Ambiguity and the History of International Finance* (Cornell University Press, 2005), p. 138.
30. Randall D. Germain 'Global Financial Governance and the Problem of Inclusion', *Global Governance*, Vol. 7, No. 4 (2001), pp. 411-26. The G20 includes the finance ministers and central bank governors of: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the UK and the USA. It also includes representatives from the EU, the IMF and the World Bank.
31. See Jason Sharman's brilliant analysis of how international forums use 'shaming' techniques to pressure offshore financial centres, in Jason C. Sharman, *Tax Havens and the Struggle for Global Tax Regulation* (Cornell University Press, forthcoming 2006).

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.
40. Simmons, 'Why Innovate?'; Thomas Oatley & Robert Nabors, 'Market Failure, Wealth Transfers and the Basle Accord', *International Organization*, Vol. 52, No. 1 (1998), pp. 35–54.
41. Tony Porter, 'Politics, Institutions, Constructivism and the Emerging International Regime for Financial Regulation', *Review of Policy Research*, Vol. 19, No. 1 (2002), pp. 53–79.
42. On financial actors' agency within institutional constraints see Leonard Seabrooke, 'Civilizing Global Capital Markets: Room to Groove?', in Brett Bowden & Leonard Seabrooke (eds), *Global Standards of Market Civilization* (Routledge/RIPE Series in Global Political Economy, forthcoming 2006).
43. 'Banking Agencies Announce Revised Plan for Implementation of Basel II Framework', Federal Reserve Board Joint Press Release, 30 September 2005, <http://www.federalreserve.gov/boarddocs/press/bcreg/2005/20050930/default.htm>

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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