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Introduction

1. There is extensive international regulatory cooperation in financial services regulation, coordinated through several global regulatory committees. Diagram 1 sets out the architecture of global financial regulation. However, the financial crisis has revealed some of the shortcomings in the international coordination of financial regulation and their consequences for global financial stability. This case study focuses on international cooperation with respect to the prudential regulation and supervision of banks at the global level. This is only one aspect of global financial regulation; there are examples of international regulatory cooperation with respect to a number of other aspects including market surveillance and macro-prudential regulation; regulation of trading in financial instruments, such as equities and derivatives; insurance regulation; regulation of particular market actors, such as credit rating agencies; and regulation to prevent / investigate fraud, money laundering and other financial crimes.

Figure 1. Structure of Global Financial Regulations

<table>
<thead>
<tr>
<th>OECD (Gov'ts)</th>
<th>G-20 + EU, ECB (Gov'ts)</th>
<th>IMF World Bank (Gov'ts)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FATF (Money Laundering)</td>
<td>Financial Stability Board</td>
<td>IASB (Accounting Non gov'ts)</td>
</tr>
<tr>
<td>Bank for International Settlements (Central Banks)</td>
<td></td>
<td>IAIS (140 members) (Insurance)</td>
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<tr>
<td>G-20 (Central Banks)</td>
<td>IOSCO (182 members) (Securities)</td>
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<tr>
<td>CGFS</td>
<td>CPSS</td>
<td>Joint Forum</td>
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2. The Basle Committee on Banking Supervision (BCBS) is the forum which coordinates the formation, and increasingly the implementation, of global standards for the prudential regulation of banks. Other bodies are also engaged in this sub-sector of financial regulation, notably the Financial Stability Board (FSB), the International Accounting Standards Board (IASB) and the global committees of securities regulators (IOSCO) and insurance supervisors (IAIS). The BCBS, IOSCO and IAIS coordinate mainly through a coordinating committee of the three bodies, the Joint Forum, on issues arising with respect to the supervision of global financial conglomerates which combine securities, banking and insurance activities.
3. Collectively and individually, these bodies set a wide range of standards addressed to member state regulators concerning the regulation of financial services and markets. Under the expectations of membership, these globally agreed standards inform national regulatory standards. The IMF and the World Bank monitor implementation of some, but by no means all, of these standards as part of their broader reviews of members’ financial sectors under their Financial Sector Assessment Process, initiated in 1999. Since the financial crisis of 2007-9 the global committees are also starting to perform their own peer review processes to monitor implementation of some of their own standards. In addition, there has been a growth in coordination between national banking supervisors with respect to the supervision of individual global banks. Coordination in this activity occurs through international supervisory colleges.

1 Identification of the main characteristics

1.1 Area where IRC is taking place

4. The regulatory coordination focused on in this case study is occurring in a sub-sector of financial regulation: the prudential regulation of banks.

1.2 Actors involved: number and nature

5. There are several actors involved, most of whom are international committees of regulators. There is one ‘supra-committee’, the Financial Stability Board, whose membership comprises the international committees of regulators and other international organisations including the international financial institutions (World Bank and IMF) and the OECD.

6. The other actors are what may be termed ‘meta-organisations’: their members are national regulators. The principal body responsible for the formation of global standards relating to banking regulation is the Basle Committee on Banking Supervision, a sub-committee of the Bank of International Settlements. The principle actors are:

- Bank of International Settlements – three subcommittees: Basle Committee on Banking Supervision; Committee on the Global Financial System; Committee on Payments and Settlement Systems. The BIS committees were initially comprised of the G10 central banks and banking supervisors; membership was expanded in 2009 to G20 countries.

1 Under the Report on the Observation of Standards and Codes, which forms part of the FSAP, the IMF and World Bank review compliance with the Basel Core Principles for Effective Banking Supervision; the International Association of Insurance Supervisors (IAIS) Principles for Insurance Regulation; the International Organization of Securities Commission (IOSCO) Objectives and Principles of Securities Regulation; and the Committee on Payment and Settle Systems (CPSS) and IOSCO Recommendations for Central Counterparties (CCPs).

2 Within the EU, coordination on implementation of global standards is achieved through the EU institutions and the new European Authorities for financial regulation, through EU colleges of supervisors for pan-European banks, as well as through bi-lateral member state coordination on supervisory matters. With respect to the rules governing the capital requirements for banks, the relevant EU Authority is the European Banking Authority, created in January 2011, who also coordinates the EU supervisory colleges.
• **Financial Stability Board** - The FSB was formed in 2009 out of a prior group, the Financial Stability Forum, and is a group of G20 financial regulators and finance ministers, the global regulatory committees (BIS and the three committees; IOSCO, IAIS), the International Accounting Standards Board (IASB), plus additional members: IMF, World Bank, European Central Bank, European Commission and the OECD.

• **International Accounting Standards Board** - The IASB is a non-state body of accounting professionals. In the wake of the crisis, political involvement in the IASB has increased and a Monitoring Board established to monitor its activities, comprised of IOSCO, Japan’s FSA, and the European Commission.

• **IOSCO (International Organisation of Securities Commissioners) & IAIS (International Association of Insurance Supervisors)** - IOSCO and IAIS are international committees of national regulators; IOSCO has 199 members; IAIS has 190.

### 1.3 Intended objectives of the Basle Committee on Banking Supervision:

7. The objectives and purposes of coordination of banking supervisors have evolved over the course of the BCBS’s existence. The overriding objective, which has sharpened since the crisis, is to ensure global financial stability, although other concerns have been relevant over the course of its history. Since its creation, its objectives have predominantly been:

- coordination of responsibilities for cross-border banks;
- exchange of information on national supervisory arrangements and ‘best practice’ techniques’; and
- setting minimum standards to ensure regulatory harmonisation, coordination and a ‘level playing field’ for internationally active banks.

8. In addition, the BCBS has developed an increasing interest in the development of common accounting standards for financial institutions, as common accounts are seen as necessary to enable investors to make efficient investment decisions.

### 1.4 Form that the cooperation is taking:

**Formality**

9. The Basle Committee has produced standards on a number of key issues in financial regulation, notably:

- Core Principles on Banking Supervision (2006) (currently being revised);
- Principles for Sharing Information between Home-Host Supervisors (2006);
Basle Capital Accords: Basle I (1988); revised 1996; Basle II (2004), revised 2009 and Basle III (2010);


10. The standards produced are not legally binding but there is significant peer pressure for their adoption by members. The Basle I capital accord was adopted by nearly all countries; the Basle II accord has been adopted in the EU, and by most OECD countries (the US was a late adopter); and the Basle III standards are in the course of implementation in all G20 countries.

Scope

11. The standards are intended to be comprehensive and to set minimum standards. Countries are free to set standards which are higher than those agreed by the Committee.

Mode of coordination

12. The Basle Committee is a ‘meta-organisation’: in other words, its members are other organisations. It operates on the basis of consensus, recognising that all members have their own legislative mandates, objectives and responsibilities. To date, the mode of coordination has been predominantly through consensus in the formation of the standards, and exhortation and peer pressure with respect to their implementation.

13. Since the crisis there are indications that the Committee is moving to adopt a more directive stance on implementation, and it is instituting its own system of peer reviews to monitor the implementation of both the Basle Accords and the other standards which its members have agreed. As such the mode of coordination exhibits a tension between being hierarchical – one institution as clear leader setting standards others implement, and one based on community / peer groups – operating through mutual recognition, MOUs and peer review.

14. There is an attempt to ensure implementation through market operations by increasing disclosure on compliance but thus far this has been a relatively under-developed feature of the coordination.

Functions being coordinated / components covered in agreements?

- Ex-ante exchange of information;
- Agenda setting / setting goals;
- Formulating rules / norms / standards;
- Monitoring, data collection: note in particular Principles For Sharing Information Between Home-Host Supervisors issued by BCBS in 2006;
- Supervision of implementation of the BCBS’s own standards by national supervisors – increasing, see below;
• Supervision of firms themselves through meta-supervision: supervision of supervisory colleges that oversee internationally systemic banks (recent and increasing).

**Instruments of cooperation**

**Standard setting**

• Coordination between member countries is through consensus decision making between members of the committee;

• Coordination with non-member countries on standard setting is through the Core Principles Liaison Group (CPLG), a BCBS working group which includes representatives from sixteen non-BCBS jurisdictions, the Western African Monetary Union, the IMF and the World Bank;³

• Coordination in standard setting is through liaison with other transnational committees of financial regulators:
  
  o Through membership of supra-committees (committees whose members are other committees or international organisations) – notably with IOSCO and IAIS through the Joint Forum, with other international organisations through membership of the Financial Stability Board;
  
  o Informal liaison and formal communications

**Monitoring and implementation**

• Coordination between member countries as to their implementation of BCBS standards in national law and supervisory practice - through surveys, and since the crisis, through provision of standard interpretations of the Basle Accords, and through peer review, overseen by the Standards Implementation Group (a subcommittee of BCBS);

• Coordination between member states in their supervision of international banks through liaison with global supervisory colleges;

• Moves to monitor implementation by investigating banks directly, rather than addressing their activities at national supervisors.

2 **Short history of the development of the IRC**

2.1 **Short history of the BCBS and of international coordination in developing capital accords for banks**

15. Regulatory cooperation in the area of banking supervision has evolved considerably over the last 35-40 years. Whilst the interests and objectives of each participant will always differ, the principal triggers

³ Argentina, Australia, Brazil, Chile, China, Czech Republic, Hong Kong SAR, India, Korea, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Afric.
for enhanced cooperation in banking supervision have been essentially twofold: to address the mismatch between global banking and national supervision by attempting to ensure that no foreign branches or subsidiaries go unsupervised and that lines of supervisory responsibility are clear; and to create a ‘level playing field’ for competition between financial institutions which are operating cross-border by setting minimum standards to prevent a ‘race to the bottom’ in supervisory practices. Since the financial crisis of 2008, increased emphasis has been put on the need for coordination in order to ensure global financial stability.

16. The key coordinating institution is the Bank for International Settlements (BIS). The BIS was created in 1930 to handle the payments of reparations from Germany after the First World War. This function fell away but the BIS remained a focal group for central banks to discuss issues of monetary and financial stability.

17. Initial steps to formalise coordination on the supervision of cross-border banks were prompted by the failure of Bankhaus Herstatt in West Germany in 1974, which revealed considerable uncertainty as to where principal responsibility for the supervision of cross-border banks lay. The central bank governors of the G10\(^4\) therefore formed the Committee on Banking Regulations and Supervisory Practices (CBRSP) subsequently renamed the Basle Committee on Banking Supervision (BCBS). The CBRSP produced the first Concordat on coordination in 1975, setting out the responsibilities of home and host supervisors.

2.2 Basle Capital Accords

18. Coordination on the development of capital standards for banks was initiated in the 1980s. The formation of the initial Basle Capital Accord (Basle I) in 1988 was prompted by concerns, particularly by supervisors in the US and the UK, that lack of coordination on capital requirements was leading to a ‘race to the bottom’, with banks from some jurisdictions, notably Japan, entering US and UK markets and competing with home banks which were subject to stricter rules. The first Accord was agreed in 1988 between the G10 countries plus Spain, and had been implemented by all members (excluding Japan) by 1992. By 1999, nearly all countries in the world, including China, Russia and India, had adopted Basle I, at least in form.

19. Basle I was amended in 1996 to take into account changes in banks’ trading practices (the Market Risk Amendment). It was then substantially revised in 2004 (Basle II). The 2004 Accord put in place the ‘three pillar’ structure of supervision. Pillar 1 set out the capital requirements; Pillar 2 focused on supervisory practices; and Pillar 3 on disclosure and market discipline. Under Pillar 1, capital requirements were more aligned with risk, and banks given the option of using the standardised risk assessments of Basle II, or using their own internal models to assess risk, which were then approved by their national supervisors.

20. By the time Basle II was adopted, membership of the BCBS had expanded to include the EU Commission, and Basle II was implemented across the EU by the Capital Requirements Directives. Implementation of Basle II proved harder to secure than Basle I. In particular, the refusal by the US to

\(^4\) Belgium, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, the United States, and Luxembourg.
adopt Basle II initially, and then the agreement (only reached in 2007) to adopt it only for its most internationally active banks, was a disappointment. However, the crisis gave a significant additional impetus to adoption by individual countries, and by the end of September 2011, the majority of BCBS members (now expanded to G20 countries) had adopted Basle II. Implementation of Basle II.5 was either in place or planned for January 2012 for the majority of members, and proposals for the implementation of Basle III were underway.

21. The Accord was revised again in 2009 and 2010 to take account of lessons learned from the crisis (Basle II.5 and Basle III). There is a long transitional period for the introduction of these requirements, and full implementation of most the Basle III provisions is not scheduled by the Accord to be in place until 2019, with all elements scheduled to be in place by 2023. Many countries are moving more quickly than this timetable, however.

2.3 Core Principles on Banking Supervision

22. Core Principles of Banking Supervision were initially introduced in 1999, and revised in 2006. The crisis revealed a number of gaps in the Principles, however. In December 2011 the BCBS published revised Principles for consultation which included a number of new elements. These include provisions:

- on the need for enhanced risk management practices;
- for greater intensity and resources to deal effectively with systemically important banks;
- on the need to applying a system-wide, macro perspective to the microprudential supervision of banks to assist in identifying, analysing and taking pre-emptive action to address systemic risk;
- for a greater focus on effective crisis management, recovery and resolution measures in reducing both the probability and impact of a bank failure;
- a new principle on corporate governance of banks.

23. In addition, the expectations of what standards are necessary to demonstrate implementation have increased, with criteria for implementation which were deemed optional or ‘additional’ under the 2006 Principles now upgraded to ‘essential’.

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6 Adjustments were made to the calculation and management of market risk, the definitions of capital were tightened, additional capital buffers were put in place together with a leverage ratio, and banks were now also required to put in place strategies to manage their liquidity risk.

7 BCBS, Consultative Document – Core Principles for Effective Banking Supervision (December 2011).
Monitoring the implementation of Basle Committee standards – the BCBS Standards Implementation Group

24. Since the crisis the Basle Committee has also adopted a much firmer stance on implementation. The agent for this increased review of implementation is the Standards Implementation Group, a subcommittee of the BCBS (in place since 2003). Until the crisis, it aimed to provide a forum for information sharing and cooperation between supervisors, with the view that through such exchanges, consistent practices would develop and be implemented at the national level. It did not seek to give authoritative interpretations of the Accords, seeing their precise implementation to be at the discretion of national supervisors; nor did it systematically review the manner in which the Accord was being implemented, beyond formal enactment. For example, it conducted surveys of members to assess the extent to which the Accord had been implemented into national legislation. Together with the Core Principles Liaison Group (comprised of regulators from sixteen non-G10 countries) it developed principles for information sharing between home-host supervisors. It also issued some guidance on implementation of the Accord. The Group was also instrumental in establishing colleges of supervisors for large, internationally active banks. The crisis prompted greater recognition by the Committee of the need to take firmer control over the system of rules that they had developed. In particular, the Committee realised that relying on national supervisors only to put its guidelines in place was not enough.

25. The role of the SIG has thus changed significantly in three respects since the crisis. First, in 2009 the remit of the Group has been expanded to monitor implementation of all the principles and guidance emanating from the BCBS, not just the capital accords, and its name changed to the Standards Implementation Group to reflect this change. Second, it is seeking to ensure that there is far greater consistency in the interpretation and application of the capital Accords through for instance providing guidance on interpretation in the form of ‘FAQs’ on aspects of Basle III or publishing formal interpretations. It has also developed a Standards Surveillance Framework, applicable to all Basel Committee standards, with the aim of promoting consistency and comprehensiveness of the standards and ensuring that the standards keep up to date with market practices and financial innovation.

9 BCBS, Home-Host Information Sharing for Effective Basle II Implementation (June 2006).
11 A key example is the principles on liquidity management, first issued in 2000. S. Ingves (Chairman, BCBS), ‘Talk is Cheap – Putting Policies into Practice’, Speech, San Francisco, United States, 16 November 2011: ‘It is worth reflecting on how much of the risk management failures we witnessed during the crisis might have been avoided if supervisory sound principles and guidance had been implemented by banks and enforced by supervisors. The Committee’s liquidity risk management guidelines issued in 2000 serve as an instructive example: The guiding principles would have effectively addressed many of the issues observed during the crisis if they had been effectively implemented.’
13 October 2011 and December 2011 (capital); November 2011 (counterparty credit).
26. Third, it is moving to ensure that the standards are implemented in practice, and not simply enacted into legislation in national rule books. To this end it has also decided to undertake thematic peer reviews related to the implementation of selected Basel Committee standards, a significant practical and cultural shift in the approach of the Committee. Peer reviews will be conducted of all member countries, and the SIG will monitor follow up action plans to help promote the implementation of standards. The review process will be supported by appropriate public disclosure to reinforce incentives for member jurisdictions to implement Basel III in a full, consistent and timely manner.  

2.4 Coordination between national supervisory authorities: home-host information sharing and global supervisory colleges

27. One of the key concerns of the BCBS since its inception has been to try to address the mismatch between nationally based regulation and internationally active banks. In particular, given that banks may be complex structures of legal entities operating in several jurisdictions, it has encouraged regulators to supervise global banks on a consolidated basis.

Home-host information sharing

28. The system of supervision, both within the EU and at the global level, operates on the basis of a division of responsibilities between the ‘home’ supervisor, who is meant to be the lead supervisor, which is the country where the bank has its headquarters, and the ‘host’ supervisors – regulators of countries in which the bank operates. It is not necessarily the case that the most significant activities for the bank are located in its host country, however; nor is it the case that supervisors are the ‘home’ supervisor for institutions which pose the greatest systemic threat to their national financial systems. In some cases, a subsidiary or branch of a bank may be systemically important for the host country, but not for the bank as a whole. Conversely, a subsidiary or branch may be significant for a banking group but not for the host country, particularly if that host country is a major financial centre. Host supervisors need to have sufficient information about the banks’ operations and policies at group level to be able to supervise effectively, for example strategies being adopted at group level to manage group capital, and which of the options it is adopting under Basle II and III for measuring its risk exposures. Home supervisors need to have sufficient information from host supervisors as to the bank’s local activities and exposures in the different jurisdictions in which it operates.

29. Significant issues arise with respect to legal limitations on information sharing within national jurisdictions, in particular because much of the relevant information will relate to banks’ proprietary models for measuring risk. Countries have therefore been encouraged to ensure that national laws do not impede the cross-border flow of information necessary for effective coordination and which also protect


the confidentiality of information which they receive from other supervisors. In addition the BCBS has set out a set of core elements which it recommends should be included in any formal or informal cooperation agreements between national supervisors. 

Supervisory colleges

30. Supervisory colleges are multilateral working groups of relevant supervisors that are formed for the collective purpose of enhancing effective consolidated supervision of an international banking group on an ongoing basis. The potential for supervisory colleges to facilitate information flows between supervisors and the BCBS, hence promoting financial stability at the macroprudential level and a coherent and consistent implementation of standards across jurisdictions, has come to the fore since the crisis. 

31. In order to function effectively, colleges require a high degree of understanding and strong levels of mutual trust and confidence between national supervisors. The structure of the college is the responsibility of the home state, and colleges can have a variable geometry. For a very large global bank, such as HSBC, there will be over 70 members, reflecting the number of countries where the HSBC is active. Its supervisory college consists of a small core of supervisors from the countries which constitute the majority of its business activities, and a larger group which comprises all of the relevant countries. For other banks, a unitary college is possible. For yet others, there may be a large universal college, but different sub-colleges focused on particular risks or business lines. The BCBS’s Good Practice Principles for Supervisory Colleges require colleges to notify the BCBS of the membership and structure of the college.

32. Within the EU there is a separate requirement to form EU level supervisory colleges. These can operate in parallel to the global college with respect to an individual bank.

2.5 Coordination with other regulatory committees in developing standards

33. There are a number of examples of coordination between the international regulatory committees in developing standards. These include coordination with IOSCO on the Market Risk amendment in 1996, and risk evaluation methodologies to be used for Basle II.

34. The BCBS is also an observer on the Monitoring Board which IASB established in 2009 to further enhance its accountability to the principle users of its standards (other members are IOSCO, the US SEC, the Japanese FSA and the European Commission). The BCBS was also an observer member on the

18 BCBS, Essential elements of a statement of cooperation between banking supervisors, set out in Good Practice Principles for Supervisory Colleges, Annex 2.
19 BCBS, Good Practice Principles for Supervisory Colleges, 2010.
20 Principles, pp 2, 8 and 15.
21 Examples are set out in the Principles based on a BCBS survey of practices.
22 Under Article 131a of the amended CRD, all EEA cross border banking groups were required to have a college of supervisors in place by the end of 2010.
joint ISAB and FSAB (US accounting standards board) committee convened in the wake of the crisis to consider, amongst other things, revisions to international accounting rules on financial instruments, in particular the application of the rules on fair value accounting, which can have implications for prudential supervision and financial stability.  

35. There are also indications of new practices of coordination in the formation of standards. These take the form of inter-referencing with conditionality: principles issued by one regulator will reference those issued by another, and help to reinforce them through the imposition of conditions - ‘if you comply with X rule from Y organisation, then you comply with our requirements or get Z benefit within our part of the regime’. For example, the most recent Basle capital standards, Basle III, include the provision that the amount of capital a bank needs to hold to cover exposure to central counterparty (CCP) will reduce if the CCP is established and acting in accordance with standards on CCPs issued by the Committee on Payment and Settlement Systems (CPSS) and IOSCO. Further, only credit ratings agencies which are compliant with IOSCO’s Code of Conduct for Credit Rating Agencies will be an eligible to provide credit ratings within the Basle III framework.

3 Assessment (quantified when available)

36. The financial crisis revealed some of the consequences of insufficient international coordination for global financial stability.

3.1 Known benefits:

37. Expected benefits in greater coordination are progress in managing risks across borders and avoiding global systemic risks. In addition, there are administrative benefits to regulators from greater trust, coordination and transparency between national supervisors and more efficient administrative relations in the day to day business of supervision. The Institute of International Finance (main representative body of large financial institutions), for instance, has emphasised the key role of supervisory colleges, working with supervised firms, in achieving greater coordination and convergence of regulation and cooperation among supervisors and ‘ensuring a substantial increase in supervisory efficiency and effectiveness by aligning the efforts of multiple supervisors, allocating tasks and responsibilities among them, avoiding duplications and ensuring consistent common interpretations of the rules.’

38. It is not clear that any regulator or any of the coordination body has attempted to quantify the administrative costs or benefits of coordination, however. For financial institutions, the BCBS undertakes regular impact assessments of the implications implementation of the Basle capital accord standards on banks, but not on the specific question of coordination.

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24 Due to be finalised at the end of 2011.

25 BCBS, Basle III.

26 IIF, BCBS Consultative Document Good Practice Principles on Supervisory Colleges, June 2010.
3.2 **Challenges (and when they exist mechanisms to overcome them)**

39. The challenges to coordination have been principally to move beyond coordination on standard setting and general information sharing between a relatively small group of countries, and to extent coordination to include more countries and implementation and day to day supervision.

40. The BCBS has traditionally had a narrow membership. The expansion in the wake of the credit crisis to include the G20 countries has brought all the major economies into the decision making, but its membership is still considerably narrower than that of IOSCO and IAIS. Nonetheless, its standards are adopted globally. The mismatch between membership and adoption has led to a number of issues, not least the question of the applicability of the standards to less developed countries, and although the BCBS did consult more widely, including through the Core Principles Liaison Group, there have been criticisms from developing countries that the consultation comes too late in the drafting process.

41. The crisis has prompted a recognition of greater need for coordination in financial regulation, but there are relatively low levels of coordination between the committees. There is greater coordination between the BCBS and the FSB – both have the same core membership of G20 countries and they are also located in the same building, which facilitates overlap of personnel and communication. However, BCBS, IOSCO and IAIS each have a different membership, and each area (securities, banking and insurance) still has its own focus, mandate, and supervisory traditions. As a result, regulation at the global level (and often at the national level) is ‘silo-ed’ into three distinct areas. In addition, one committee may not agree with the provisions of another. In particular, gaining agreement between the BCBS and IASB on accounting standards for a number of financial instruments and transactions remains an issue, notably loan loss provisioning and the applicability of fair value accounting for a number of financial instruments.

42. Finally, the BCBS has faced a number of difficulties in ensuring consistent implementation of its standards. These difficulties lie in part in the opacity of banks’ practices and partly in the standards themselves: in allowing individualised calculations of risk exposure based on banks’ own internal models, it is difficult for observers, including the BCBS, to assess whether the standards really are being applied consistently. Issues of national sovereignty, national supervisory discretion, and the capacity of national supervisors to implement the provisions have added to these problems. Issues of regulatory competition have also arisen, and are a key motivating factor in the BCBS’s shift in approach. As the BCBS’s standards are not legally binding the BCBS has no formal sanctions to reinforce its greater focus on ensuring implementation, but the disclosure of peer reviews can create peer pressure to conform through ‘naming and shaming’.

4 **Next steps envisaged**

4.1 **New or forthcoming areas for cooperation**

43. New areas for cooperation, as noted above, are with respect to ensuring implementation and coordination of supervisory practices on the ground, notably through:

- closer monitoring of implementation;
- peer review;
• supervisory colleges;
• greater coordination of all the global regulatory committees, either bilaterally or through the Financial Stability Board.

4.2 **Emerging challenges**

44. Emerging challenges include addressing the technical complexities of the assessments required by the standards themselves and ensuring that there is no ‘backsliding’ by individual countries in implementation, particularly if it is perceived that requiring banks to have higher capital standards is having a negative effect on economic growth.

4.3 **Involvement of new actors**

45. Extension to G20 has brought a wider range of countries into the core of BCBS decision making and aligned its membership (in terms of countries) with the FSB.

4.4 **Evolution of new modes and mechanisms of coordination**

46. Modes of coordination have evolved progressively from information sharing to joint formation of standards, through more recently to peer review assessments of implementation and the enhancement of cooperation in the day to day business of supervision through global supervisory colleges. These mechanisms are also intended to facilitate the application of mechanisms to address macro-prudential risks.

47. The dynamics of these more recent modes of coordination are still evolving. The role of the FSB is changing from a body which operates as a loose coordinating mechanism to one which is the lead conductor, with a key role in driving the agenda of global financial regulation. The role of peer reviews is also developing rapidly at the global and EU level as a mechanism for ensuring coordination and consistent implementation of standards. However, just what peer review consists of can range considerably along a spectrum from a general sharing of best practices and building technical capacity to a more critical and even sanction-orientated process, including ‘naming and shaming’ non-compliers. Whilst the BCBS has indicated that it wants to move further to this latter end of the spectrum, the peer review dynamic can become dominated by a reluctance to ‘blow the whistle’ on another regulator if the peers realise that they have faults of their own. The dynamics of the peer review process will therefore have to be closely monitored.