

Capital Regulation in the Global Economy

David Andrew Singer
Massachusetts Institute of Technology



Massachusetts Institute of Technology

*IIF Presentation
September 22, 2006*

Key Issues

- Explaining the emergence of international capital standards
- Exploring the evolution of the global financial architecture



Creating International Capital Standards

- Basel Accord (1988); Basel II (today)
- For other regulators: is Basel a realistic guide?



“Why can’t you be more like Basel??”

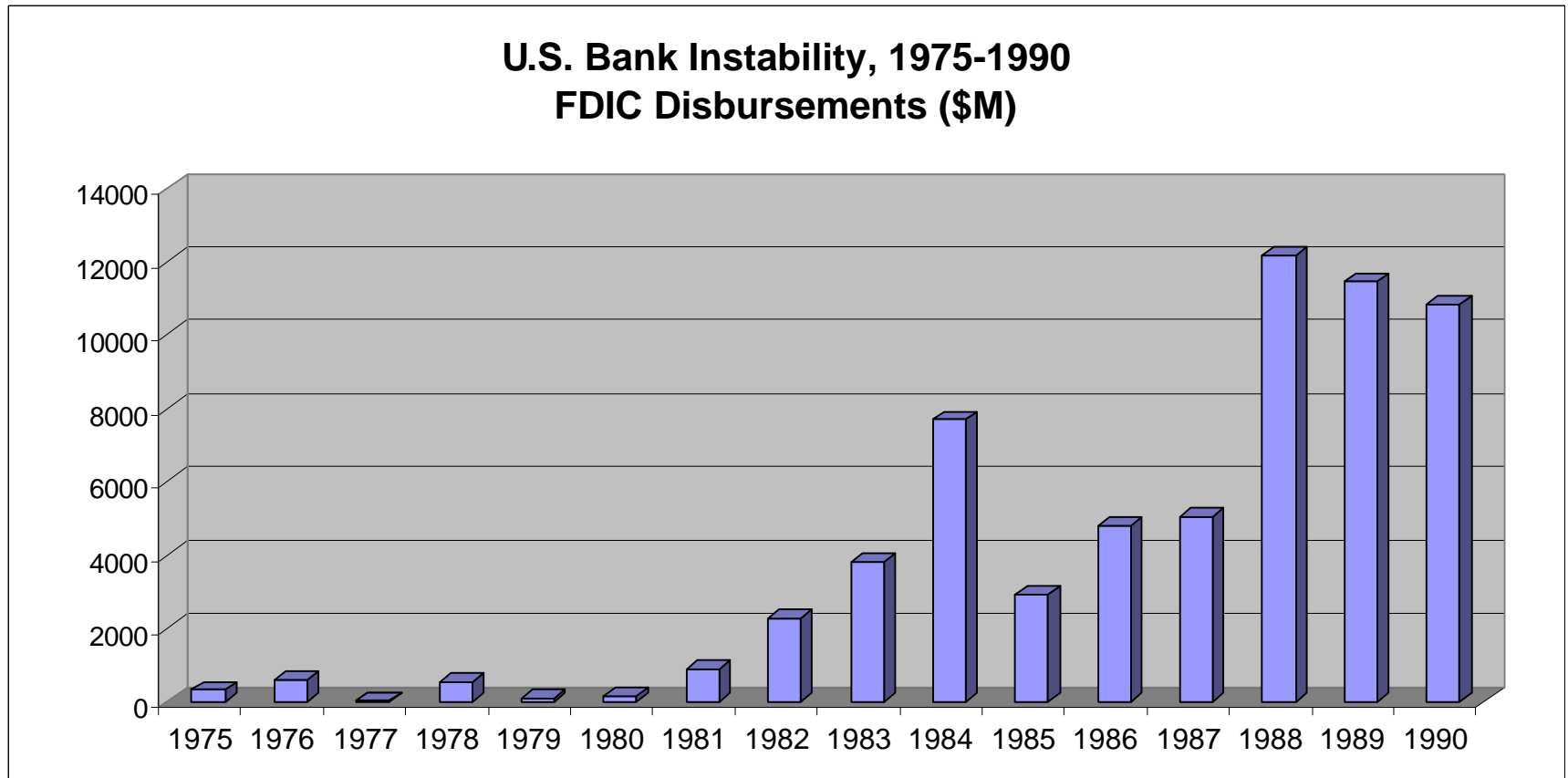


Basel Accord: Conventional Wisdom

- The Basel Accord emerged because it was needed to address a global problem
 - The perils of “functionalist” thinking



Origins of the Basel Accord (1)



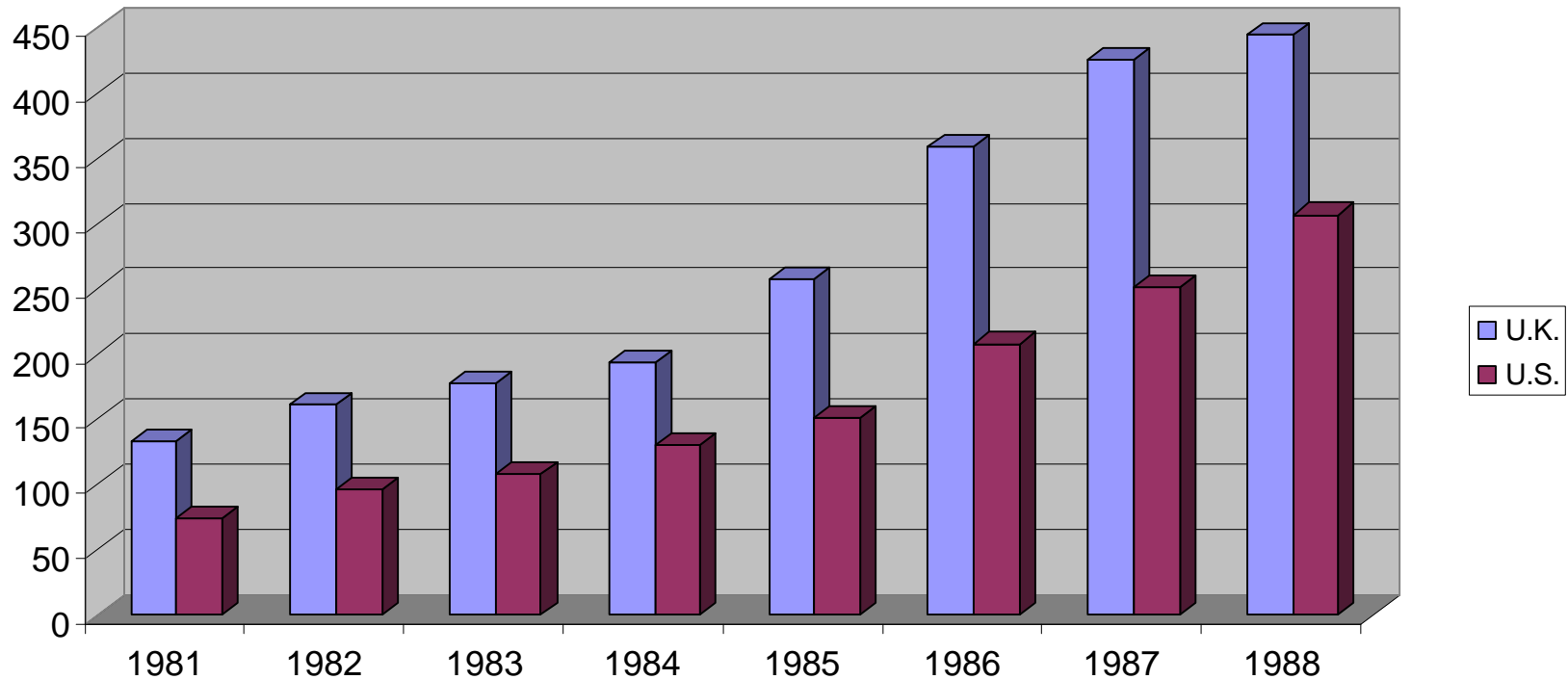
Origins of the Basel Accord (2)

- Banking Instability in the U.K.
 - Secondary banking crisis (mid-1970s)
 - Johnson Matthey collapse (1984)



Origins of the Basel Accord (3)

**Assets of Japanese Banks in the U.S. and U.K.,
1981-1988 (\$B)**



Origins of the Basel Accord (4)

- *Bilateral* capital agreement in 1986 (U.S. and U.K.)
- Pushed through Basel committee in late 1987



Capital Adequacy for Securities Firms?

- Attempt (1987-1992) to create an international capital adequacy standard for securities firms
 - Led by the U.K.'s SIB
 - Blocked by the U.S. SEC



Implications

- *Preemptive* international standards are unlikely
- Standards are crisis-driven
- Components:
 - Stability shock
 - Competitive pressures from foreign rivals



Changes in the Global Financial Architecture



Source: *The Economist*



Massachusetts Institute of Technology

Prof. David Andrew Singer
Department of Political Science

IMF's New Role: Enforcer of Standards

- IMF Reports on Standards and Codes (ROSCs)
 - Since 2000
- Significance:
 - Standards and codes mostly created outside the IMF (by Basel, IOSCO, IAIS, FATF, etc.)
 - ROSCs give these standards “teeth”
 - Makes creation of new standards more challenging?



Conclusion

- Change in the structure of financial firms
- Change in the structure of regulatory agencies
- Trade-off between flexibility and comparability

