

Global Financial Regulation: Shortcomings and Reform Options

Emily Jones  and Peter Knaack 

Blavatnik School of Government, University of Oxford

Abstract

Standard-setting bodies in global finance follow a core-periphery logic, imposing a rigid dichotomy between standard-setters and standard-takers. They also focus exclusively on promoting financial stability. We argue that both attributes are increasingly problematic in today's world of globalised finance. Developing countries outside of standard-setting bodies are highly integrated into global finance and while they are not systemically important, they are greatly affected by the regulatory decisions taken in the core. Analysing Basel banking standards, we show how the two-tier structure of decision-making results in international standards that generate adverse implications for countries in the periphery, particularly developing countries. Focusing on debates over the regulation of non-bank credit intermediation, we show how the exclusive focus on financial stability can operate to the detriment of other important policy objectives, including financial inclusion. To improve the efficacy of international standard setting we make a series of recommendations aimed at increasing the applicability of standards to a wide variety of jurisdictions, and widening the focus of standard-setting beyond financial stability. We also propose the creation of a new standard-setting body for the regulation of fintech that models a more inclusive and holistic approach.

Policy Implications

- Strengthen the voice of developing countries in global financial standard-setting by expanding and strengthening the institutional channels of consultation, and by fostering collaboration among developing country regulators.
- Direct key standard-setting bodies in financial regulation, and related international organisations, to conduct research on the impact of standards on developing countries at the standard design stage, not post hoc.
- Amend the charter of global standard-setting bodies to explicitly recognise the need for differentiated standards and commit to build proportionality into their design, so they can be readily adapted for use in a wide range of jurisdictions.
- Create a new standard-setting body for digital financial services with a dual mandate of harnessing both financial stability and financial inclusion.

1. Global financial standards: the reform imperative

Over the past three decades financial globalisation has grown apace. Cross-border capital flows rose from US \$0.5 trillion in 1980 to a peak of US\$11.8 trillion in 2007, before decreasing markedly in the wake of the financial crisis (Lund et al., 2013). Cross-border banks were a major vehicle of financial globalisation, especially in developing countries (Claessens, 2017). In tandem, financial innovation and integration have increased the speed and extent to which shocks are transmitted across asset classes and countries (Davies and Green, 2008).

The global financial crisis of 2007–08 was a powerful reminder that inadequate regulation and supervision in countries at the core of the financial system can have global repercussions, and it proved to be a clarion call for strengthening international regulatory cooperation (Bauerle Danzman et al., 2017). We have seen a far-reaching reform effort, particularly in international banking regulation. While the reforms have substantially improved the solvency and

liquidity of globally systemic banks, deficiencies remain (Aikman et al., 2018). Our main argument is that despite recent governance reforms in major standard setting bodies (SSBs), a core-periphery logic persists that generates a dominant focus on ensuring financial stability in the core of the global economy. While vitally important, this focus on the core unnecessarily leads to marginalisation of issues that are particularly relevant to developing and emerging countries.

A two-tier structure dominates decision-making in international financial regulation. While the membership of standard-setting bodies varies, all restrict rule-making power to a select number of mostly developed economies. The Financial Stability Board (FSB) at the apex of international regulatory cooperation includes only 25 jurisdictions, while the Basel Committee on Banking Supervision has 28.¹ All other jurisdictions have access to specific channels of consultation, but in practice they are relegated to the role of rule-takers.

As financial globalisation has intensified, there has been a step-change in the level of integration of countries into

global finance, notably among countries in the periphery. As we explain below, global financial standards can be a poor match for the idiosyncratic conditions of domestic financial markets, particularly at an early stage of development. Yet integration into global finance generates strong reputational and competitive incentives for regulators in developing countries to adopt international standards anyway. As currently designed, international banking standards pose serious implementation challenges for regulators in developing countries. We make the case for hard-wiring proportionality into global standard-setting, so that international standards can be more readily adapted for use in a wide variety of jurisdictions, and make specific recommendations as to how to strengthen the inputs from peripheral countries, particularly developing countries, in the design of global standards.

A further shortcoming arises from the exclusive focus of standard-setting bodies on promoting financial stability. Financial stability is of course vitally important, but it is not the only policy objective relevant for international financial regulation. We argue that the exclusive focus on financial stability has come, unnecessarily, at the cost of other important objectives, most notably that of financial inclusion. As with the two-tier system, the adverse consequences of the singular mandate of standard-setting bodies are felt most acutely by citizens of developing countries. This is most apparent in the area of anti-money laundering, where the implementation of international standards had negative repercussions for financial inclusion. Tension between financial stability and financial inclusion objectives has also emerged in the debate over how best to regulate non-bank credit intermediation, that is 'shadow banking'.

The international policy community, led by the G20, has recognised that international financial standards can have unintended consequences, commissioning research on the problems that arise and taking remedial action. But under this model, harm is done before a solution is found. It would be far preferable to anticipate adverse implications of international standards on policy objectives such as financial inclusion from the outset, and to design standards with this in mind. To this end we propose expanding the mandates of standard-setting bodies in international finance, requiring them to analyse, anticipate and address adverse implications for financial inclusion and economic development when they formulate international standards. Precedent exists at the national level for such an approach.

The remainder of this paper is structured as follows. Section 2 sets out our core theoretical argument. Sections 3 and 4 then set out our arguments about the shortcomings associated with the current structure of global financial governance. Section 3 focuses on Basel Banking Standards to elucidate the problems that arise from the two-tier decision-making structure in standard-setting bodies, while Section 4 examines the debates over anti-money laundering and the regulation of 'shadow banking' to reveal the challenges that arise from the exclusive focus of standard-setting bodies on financial stability. Section 5 concludes by setting out reform options for standard-setting bodies.

2. Core-periphery dynamics in international finance

Financial globalisation has generated deep interdependence between national financial sectors, stimulated by governments removing barriers to cross-border capital flows. In the 1970s, the collapse of Bankhaus Herstatt in Germany drew attention to the increasingly integrated nature of national banking systems and vulnerability to cross-border contagion. A need for international regulatory coordination was felt particularly acute by national authorities in core countries that housed major financial centres such as New York, London, Hong Kong, Tokyo and Frankfurt, where interdependence was most pronounced. This led to the creation of the Basel Committee on Banking Supervision (hereafter 'Basel Committee') which was formed in the 1970s to mitigate the risk of financial contagion that had increased with the growth of cross-border banking and to address regulatory arbitrage by large internationally active banks (Aikman et al., 2018; Kapstein, 1989). The Basel Committee developed a series of prudential standards for the regulation of internationally active banks (Basel I in 1988, Basel II in 2004, and Basel III from 2010).

The nature of deepening financial interdependence has been highly asymmetric, generating a series of core-periphery dynamics. Financial sector assets remain concentrated in a few countries, with the United States in a pre-eminent position, and as interdependence between the core and periphery intensifies, market movements in the financial core have substantial effects on financial markets in the periphery (e.g. Aizenman et al., 2015; Rey, 2015). For instance, demand for capital in the core of the global financial system has a dramatic impact on the flows of capital to and from the periphery, illustrated by the 'taper tantrum' in 2013 as moves by the US Federal Reserve to normalise interest rates led to an outflow of capital from emerging economies. In general, a reduction in demand for capital in the core generates capital inflow bonanzas in the periphery, and banking crises when increased demand in the core leads these flows to reverse (Bauerle Danzman et al., 2017; Rey, 2015).

Similarly, as core countries are home to the world's largest banks and other market actors, regulatory decisions in the core shape the worldwide behaviour of these actors, affecting financial markets in the periphery. For instance, changes in the regulatory and enforcement landscape in core countries has significantly contributed to a reduction in correspondent banking relations, particularly in Europe and Central Asia, the Caribbean, Africa and the Pacific (IMF, 2017).

In this paper we are interested in another distinct attribute of this core-periphery dynamic, namely powerful incentives that financial globalisation generates for regulatory authorities in the periphery to converge on the regulatory standards and norms that prevail in the core. As we explain below, politicians, banks and regulatory authorities in peripheral countries face strong reputational and competitive incentives to adopt international financial standards

designed by regulators in the core, even when these standards are sub-optimal from a purely technical perspective and come with substantial implementation risks and costs. Regulatory harmonisation through cross-border bank networks can serve as a reputational channel to endow governments in the financial periphery with greater credibility in sovereign bond markets (Grittersová, 2014, 2017). But there are substantial costs and policy trade-offs, particularly for low and lower middle income countries, that occur when implementing international standards that are poorly aligned to local contexts. These costs and trade-offs are often overlooked in policy circles.

Given the challenges that peripheral countries face in this highly asymmetric system of global finance, persuasive arguments are made for greater reliance on national regulation in peripheral countries, including by decentralising the structures of global financial governance to give greater authority to national and regional authorities (Eichengreen et al., 2018). For instance, the use of capital controls and macroprudential measures by national authorities in peripheral countries can help temper destabilising inflows and outflows of capital (Gallagher, 2015; Rey, 2015). Similarly, national authorities might insist that foreign banks can only operate as subsidiaries not branches in their jurisdictions, thereby enabling peripheral governments to have greater control over their operations (The Warwick Commission, 2009).

Yet the uneven distribution of structural power in the global financial system limits the extent to which national authorities in peripheral countries can act. National regulatory authorities in small countries, particularly those with nascent financial sectors, are often looking to attract international capital, maintain (or attain) investment grade ratings from international ratings agencies, and stay on good terms with International Financial Institutions. In such contexts they face strong pressure to accommodate the interests of international financial actors, which helps to account for the maintenance of open capital accounts by many peripheral countries, and convergence on international financial standards (Chwieroth, 2010; Gallagher, 2015). While there is undoubtedly some room for manoeuvre at the national level, the power politics of highly asymmetric interdependence severely restricts the range of policy options that national authorities in peripheral countries can pursue. For this reason, we make proposals for reforms at the global level that seek to provide developing and emerging economies with greater influence in standard-setting processes. Because we can reasonably assume that even the rather technocratic system of financial standard-setting is not independent from power politics, we propose incremental reforms that incumbent powerholders may be willing to accommodate, rather than a radical overhaul of global financial governance.

3. Challenges arising from two-tier decision-making

Over the past three decades, the international banking landscape has witnessed two dramatic shifts. First, the banking

sectors of the largest developing countries became systemically important for global financial stability (BIS, 2017). We have seen a rapid cross-border expansion of banks headquartered in developing countries. This is most notable in China, which now is the home jurisdiction for four of the ten largest banks on earth, with operations in over 40 countries (The Banker, 2017). Moreover, emerging market economies account for a 20 per cent share of the global shadow banking sector.

A second shift, which has received less attention in international policy discussions, is that countries in the periphery are far more interconnected to the financial core and to each other than 40 years ago when the Basel Committee was created. This shift is particularly pronounced in developing countries. Following waves of privatisation and liberalisation in the 1980s and 1990s, foreign bank presence increased and by 2007 accounted for more than half of the market share in 63 developing countries. In the past decade there has been an expansion of cross-border banking within the periphery. In sub-Saharan Africa for instance, pan-African banks are now systemically important in 36 countries and play a more important role on the continent than long-established European and US banks (Marchettini et al., 2015). As a result of these changes, developing countries now have a higher level of foreign bank presence than industrialised countries, making them particularly vulnerable to financial crises and regulatory changes in other jurisdictions. This heightened interconnectedness was powerfully illustrated during the 2007–08 global financial crisis which, unlike previous crises, affected all types of countries around the world (Claessens, 2016).

Limited developing country influence within the Basel committee

These shifts challenge the efficacy of the two-tier structure, where a core group of developed countries has long dominated regulatory negotiations. Until 2009, the Basel Committee membership centred on the G10 countries. Membership was expanded to incorporate ten emerging market economy G20 members following the global financial crisis. However, even among Basel members, regulators from emerging and developing countries are less engaged in Basel Committee proceedings. Historical institutionalist scholars would attribute this to relative sequencing (Farrell and Newman, 2010): institutional capacity and regulatory expertise are important sources of power in global regulatory politics (Baker, 2009; Posner, 2010; Seabrooke and Tsingou, 2009; Slaughter, 2004). Since emerging market representatives in the Basel Committee lack such institutional capacity in relative terms, the incumbent network of well-resourced regulators from industrialised countries continues to dominate the regulatory debate (Chey, 2016; Walter, 2016). The Bank for International Settlements conducts research and hosts meetings of central bankers, including the Basel Committee. While it does not influence the Basel Committee deliberations directly, as described by one deputy central bank governor, the Bank acts as the 'glue that helps keep the

fraternity together' (Bosley and Speciale, 2017). Its board of directors continues to be controlled by its six founding members, which are guaranteed a majority on the board (12 of 21 votes).²

The vast majority of developing countries are not members of the Basel Committee, and have minimal input into the standard-setting processes. Although the Basel Committee has a long-standing Basel Consultative Group that is designed to promote dialogue between members and non-members, it is dominated by developed countries, and low and lower middle income countries are chronically under-represented.

This persistent gap between developed and developing countries generates challenges for the efficacy of international financial standards. There is consensus in academic and policy circles that in financial regulation 'one size does not fit all'. As a result there is an inevitable divergence between the international standards and the *sui generis* regulations that would be most appropriate to each jurisdiction's industry structure, pre-existing financial regulation and political preferences (e.g. Barth et al., 2006; The Warwick Commission, 2009). This gap is greater for developing countries, particularly low-income developing countries, as the continued dominance of developed countries in decision-making results in standards that are poorly calibrated for their financial sectors and regulatory capacities. In addition, implementation of banking standards among core countries generates adverse consequences for countries in the periphery. Adverse effects of Basel III implementation include the reduction in cross-border bank lending to emerging markets and developing economies, particularly for trade finance (Rojas-Suarez, 2018; Rojas-Suarez and Muhammad, 2018).

Implementation challenges for developing countries

Developing countries face a series of challenges when they seek to implement Basel II and III. These are not a consequence of the regulatory stringency demanded by the standards – pre-existing capital and liquidity requirements in developing countries are often higher than Basel standards. Instead implementation challenges arise from the excessive complexity of the standards, and the fact that they are ill-suited for less developed financial markets.

A review of academic and policy research reveals five implementation challenges associated with Basel II and III, particularly for low and lower middle income countries (LMICs). The first challenge arises from gaps in financial infrastructure. Even the simpler components of Basel II and III presume a degree of financial development that is not in place in many LMICs. For instance, the standardised approach to credit risk relies on credit rating agencies, which do not cover wide segments of developing country markets. Stock markets in many LMICs are not deep and liquid enough for investors to exert the kind of market discipline that is envisioned in Pillar III of Basel standards. Meanwhile the supply of high-quality liquid assets in many LMICs may not be sufficient for banks to meet the liquidity requirements of Basel III (Frait and Tomšík, 2014; Gobat et al., 2014).

A second challenge arises because international standards are often a poor match for the financial stability risks in LMICs. Basel II and III address financial risks that may be of little relevance in the simpler financial systems of LMIC, such as counterparty risk for derivatives exposures or liquidity mismatches arising from wholesale funding. The Basel III counter-cyclical buffer relies on the supervisor's ability to accurately anticipate credit bubbles, which is particularly challenging in developing countries where large swings in economic performance are common. Conversely, Basel II and III may not adequately address key macroeconomic threats to financial stability in LMICs, such as large swings in global commodity prices and other external shocks (Kasekende et al., 2011; Repullo and Saurina, 2011).

The third set of challenges arises from resource constraints and exacerbated information asymmetry between supervisors and banks. Even national authorities in developed Basel member jurisdictions have found implementation of the new Basel standards challenging due to human resource constraints, above all the advanced, internal-ratings based approaches of Basel II and the macroprudential elements of Basel III (Bailey, 2014; BCBS, 2013b). The complexity of these standards also exacerbates information asymmetries between regulators and regulatees, who may have greater space for regulatory arbitrage. These concerns are even more salient in developing countries, where human and financial resources are scarcer, and where remunerative differences and brain drain to the private sector pose significant challenges for regulatory authorities (Abdel-Baki, 2012; Fuchs et al., 2013; Gottschalk, 2010, 2016; Gottschalk and Griffith-Jones, 2006).

A fourth challenge arises because implementing Basel II and III may take scarce resources away from other priority tasks of the regulatory agency. Regulators in LMICs recognise the need to improve corporate governance, strengthen regulatory independence and bolster their authority for timely supervision and prompt corrective action in order to safeguard financial stability. These features of a strong regulatory regime are enshrined in the Basel Core Principles. In contrast, implementation of Basel II/III does not necessarily address underlying weaknesses in the regulatory system or the political entrenchment of vested interests. The global standards embody a complex financial regulatory regime, not necessarily a strong one (Basel Consultative Group, 2014; Powell, 2004).

Finally, implementation may lead to a deterioration of credit composition. Banks that implement Basel II and III may have an incentive to shift their portfolio away from sectors of the economy that are key for inclusive economic development. Higher risk weights for trade letters of credit due to the Basel III output floor for example may increase the cost of trade financing, even though previous rule changes have taken emerging markets into account. Higher risk weights for loans to small and medium enterprises under Basel III may not properly reflect the potential benefit of diversification away from a few large enterprises and discourage financial inclusion. Moreover, the Basel III liquidity ratios may raise the cost of infrastructure lending because

they require banks to match such exposures with long-term liabilities that are in relatively short supply in developing countries (Beck, 2018; Gobat et al., 2014; Rojas-Suarez and Muhammad, 2018).

The politics of Basel implementation in the periphery

Regulators in developing countries have considerable scope for discretion in the implementation of Basel standards. Developing country members of the Basel Committee have to fully implement Basel II and III, although regulators can adapt the standards to suit the domestic context. Developing countries outside of the Basel Committee have even more scope for discretion as they are under no obligation to implement the standards. Recognising the implementation challenges associated with Basel II and III, the World Bank, IMF and FSB advised countries with less internationally integrated financial systems and substantial supervisory capacity constraints to 'first focus on reforms to ensure compliance with the Basel Core Principles and only move to the more advanced capital standards at a pace tailored to their circumstances' (FSB, IMF and WB, 2011, p. 7).

Yet many regulators, including in LMICs, are proceeding apace with Basel II and III implementation. Analysis of data from the Financial Stability Institute at the Bank of International Settlements shows that as at 2015, 90 out of 100 surveyed non-member jurisdictions had implemented Basel II at least partially or were in the process of doing so. Moreover, 81 jurisdictions reported that they had taken steps towards the implementation of at least one component of Basel III.³ Our own analysis of Basel II and III implementation in 11 LMICs on three continents reveals a high level of engagement with Basel standards, with all but one country implementing elements of Basel II, and six countries implementing aspects of Basel III.

Our research shows that reasons for implementing Basel II and III are not confined to technical considerations about the best ways to ensure financial stability. We find that a combination of reputational benefits, peer pressure from regulators abroad, and competitive concerns drive the majority of non-member jurisdictions to implement the newest Basel standards (Jones and Zeitz, 2017). More specifically, we find that countries are adopting international standards in a bid to signal sophistication and attract international investors (Jones, Forthcoming). In Ghana, Rwanda and Kenya for instance, politicians have advocated the implementation of Basel II and III, and other international financial standards, as part of a drive to establish financial hubs in their countries. In some countries, internationally active banks headquartered in developing countries advocate Basel II or III implementation as part of their international expansion strategy, as they seek to reassure potential host regulators that they are well-regulated at home. There is evidence of this at work in Nigeria, where large domestic banks have championed Basel II/III adoption at home as they seek to expand abroad.

In some cases, regulators favour the adoption of international standards to facilitate cross-border coordination between supervisors. In Vietnam for instance, regulators

were keen to adopt Basel standards as their country opened up to foreign banks, to ensure they had a 'common language' to facilitate the supervision of the foreign banks operating in their jurisdiction. Finally, regulators can also come under peer-pressure in international policy circles to adopt international standards. In the West African Economic and Monetary Union (WAEMU), regulators at the supranational Banking Commission are planning an ambitious adoption of Basel II and III with the support and encouragement of technocratic peer networks and the IMF.

Global finance generates very strong incentives for regulators outside of the Basel Committee to adopt international standards, even when there is a wide gap between international standards and the prudential regulations that are optimal for the local context. Regulators in LMICs recognise this gap and are selectively adopting international standards and tailoring them to make them suitable to their context. However, this process of adapting international standards is challenging and expensive, and falls on the regulatory agencies that can least afford it. It would be far preferable if the Basel Committee factored in the perspective of developing countries, particularly LMICs, more systematically at the design stage, building in a proportional approach. A powerful argument has been made for a proportional approach to Basel III in Europe to accommodate small banks (Dombret, 2018). The argument for a proportional approach to accommodate LMICs is even more compelling.

Reform efforts

The Financial Stability Board and Basel Committee are increasingly aware of the challenges for developing countries and have undertaken some reforms. Yet these fall far short of what is needed.

In the wake of the global financial crisis the G20 asked standard setters to assess the implications of international standards for developing countries, and to further open up decision-making processes. In response, the Financial Stability Board created an internal workstream on the effects of regulatory reform on emerging market and developing economies (FSB, World Bank and IMF, 2011). It also established six regional consultative groups where members and non-members exchange views on financial stability issues and the global regulatory reform agenda. However, little is known about the nature of participation and quality of dialogue because public summaries of the meetings carry very little information. Standard-setting bodies are also making increasing use of public consultation periods that are open to all stakeholders, no matter whether or not they are located in a member jurisdiction.

Little has changed at the Basel Committee. It set up a Task Force on Simplicity and Comparability in 2012, and has implemented some of its recommendations, such as an output floor for risk weight calculations using internal models. But the Task Force paid no attention to implementation challenges faced by developing countries (BCBS, 2013b). There have been calls for the Basel Committee to build greater proportionality into the design of its standards. The

Basel II Accord of 2004 included a so-called Simplified Standardised Approach to credit risk, a regulatory standard that was specifically designed with developing countries in mind. Unfortunately, the Basel Committee has not engaged in a revision of the standard in line with Basel III even though developing country comments in consultations consistently emphasised the costs of complexity (WB, 2015). A recent proposal to simplify the Basel approach to market risk has also been criticised by developing country representatives as still excessively complex (BCBS, 2017b).

This section focused on international banking standards but the deficits inherent in the two-tier decision-making structure also apply to other areas of financial regulation. A standard-setting process that focuses almost exclusively on core countries is hard to justify in today's world of globalised finance, which generates very strong incentives in peripheral countries to adopt international standards. There is a strong case for designing international standards on a proportional basis so that they can be readily adapted and implemented in a wide variety of jurisdictions. Before discussing how to achieve this in practice, we turn to examine a second area where the current standard-setting process is problematic, namely its exclusive focus on financial stability.

4. Challenges arising from an exclusive focus on financial stability

Reflecting their origins, global financial standard-setting bodies have focused almost exclusively on the goal of financial stability. This goal is of vital importance: Lax financial regulatory standards increase the likelihood of a financial crisis both in core and periphery countries, the repercussions of which can wipe out years of development gains. In the wake of the global financial crisis, policy makers around the world called for greater regulatory stringency, including experts that take into account developing country preferences (Stiglitz, 2010; Sundaram, 2011).

Yet developing countries also need to use financial regulation to pursue inclusive economic development and poverty reduction. Research has provided evidence for the positive effect of financial inclusion on the income and well-being of low-income households in developing countries, although widening the perimeter of financial services is no panacea in itself (Banerjee et al., 2013; Cull et al., 2013). But the stringent and inflexible implementation of global standards can jeopardise well-designed financial inclusion policies (GPFI, 2011).

At the 2009 Pittsburgh Summit G20 leaders agreed on a set of Core Values for Sustainable Economic Activity. They did not restrict themselves to financial stability alone, but also committed to providing for 'financial markets that serve the needs of households, businesses and productive investment' while recognising that 'there are different approaches to economic development' (G20, 2009). At the Summit in Korea the following year, G20 leaders established the Global Partnership for Financial Inclusion (GPFI), a network of government officials, non-state organisations, the World Bank and the major global financial standard-setting bodies. It

issued a report the following year that highlights the negative impact of stringent standards on financial inclusion. The GPFI report advocates for a proportionate application of financial standards, taking into account the nature of risk, regulatory capacity and the current level of financial inclusion (GPFI, 2011).

Upon the insistence of developing country representatives, some global standard-setters have made efforts to identify unintended negative consequences of financial regulatory reform (FATF, Asia/Pacific Group on Money Laundering and World Bank, 2013; FSB, 2012b). Others in turn have shown greater resistance to any departure from an exclusive focus on financial stability. This section examines policy progress in two issue areas, namely anti-money laundering and shadow banking, to highlight the negative repercussions of a stability-maximising regulatory approach for financial inclusion and development.

Financial inclusion in the anti-money laundering regime

The agreement and implementation of international standards to combat money laundering and the financing of terrorism (AML/CFT) has, like prudential banking regulation, important public interest benefits for industrialised and developing countries alike. According to the United Nations Office on Drugs and Crime in 2009 criminal proceeds amounted to 3.6 per cent of global GDP, with 2.7 per cent (or US\$1.6 trillion) being laundered (UNODC, 2011). Recent estimates put illicit financial flows from Africa at over \$50 billion per year, more than the amount of money that the continent receives in the form of aid (UNECA, 2015).

Yet, as with international banking standards, while the aims have been laudable, the standards and their implementation have not always reflected the interests of developing countries. The original requirements of the AML/CFT regime, as set out by Financial Action Task Force (FATF), espoused a compliance-based approach that aimed at raising international standards to the highest feasible level and apply naming-and-shaming procedures to punish non-compliant jurisdictions. Even though strict compliance with AML/CFT rules imposed barriers to financial inclusion, countries nonetheless implemented the standards because being grey or blacklisted by FATF carries serious reputational costs that affect both capital markets and the banking system (Sharman, 2008).

To its credit, FATF opened up to developing country concerns, incorporating financial inclusion and development goals in an updated set of global AML/CFT standards in 2012. The new standards apply a proportionality principle. Know-your-customer identification requirements for example can be more relaxed for small-scale transactions and in low-risk locations, facilitating access for millions of low-income households to remittances and banking services (FATF, 2012). In spite of such efforts, many developing countries have experienced the withdrawal of financial services by international banks in the past years. While such 'de-risking' may reflect strategic business decisions in the wake of the financial crisis, concerns about the costs of complying with

AML/CFT requirements still appear to be a key driver, especially as long as domestic agencies like the US Department of Justice continue to pursue a risk framework that undercuts international efforts. As a consequence, the cost of remittances is not decreasing, and low-income households and non-profit organisations are threatened with being cut-off from financial services. Global policy efforts to address de-risking are ongoing and the outcome is uncertain, but the reforms to the AML/CFT regime show how a global standard-setting body has successfully incorporated developing country prerogatives into its deliberations. (BAFT, BBA, Basel Institute on Governance, ICC, IIF and Wolfsberg Group, 2014; World Bank, 2015; Klapper et al., 2016; FSB, 2018a).

No financial inclusion in the shadow banking regime

In contrast to the FATF, other standards-setting bodies have been more reluctant to respond to developing country concerns about financial inclusion. The evolving regulatory approach to non-bank credit intermediation (NBCI) or 'shadow banking' at the FSB shows how, again, a financial stability-maximising approach may be at odds with developing country needs and preferences.

The global financial crisis highlighted the interconnectedness of the financial system and the destabilising role money market funds, monoline insurers and derivatives brokers can play. Regulators recognised that concentrating on the banking sector alone is insufficient to safeguard the financial system (Knight, 2018). In the wake of the crisis, regulatory scrutiny has expanded to cover shadow banking – non-bank financial institutions that are involved in credit intermediation. Widening the regulatory perimeter is prudent because of what Goodhart (2008) calls the boundary problem: the tightening of prudential requirements for entities within the regulatory perimeter creates incentives to shift activities to areas where regulation and supervision are weaker or non-existent.

The issue of regulating shadow banking entities entered the G20 agenda at the Seoul Summit of 2010 (FSB, 2011; G20, 2011). It coincided with the beginning of G20 work on financial inclusion, but the overlap between the two issue areas was not apparent to policy makers for several years. The FSB concentrated its initial work on the kinds of shadow banking entities and activities that are prevalent in developed economies, such as money market funds, securitisation, and securities financing transactions. Applying a stability-maximising approach to these entities and activities seems warranted, especially given the role they played in the global financial crisis. While such kinds of shadow banking activity are currently concentrated in the world's most developed markets, they deserve equivalent regulatory scrutiny in developing countries.

Tensions between developed and developing countries arose in the one FSB workstream (WS3) that focuses on 'other shadow banking entities' (FSB, 2013). This ample category covers non-bank institutions that are important vehicles of financial inclusion in developing countries. For example, non-bank financial corporations in India extend

services to the rural households that do not have access to the formal bank branch network (Acharya et al., 2013). Peer to peer lending and mobile credit services perform similar financial inclusion functions, but they also fall under the FSB's definition of shadow banks. It is important to note that regulators from around the world agree that NBCI that contributes to systemic risk merit as much regulatory scrutiny and containment as its equivalent in the banking sector. Where the interests of developed and developing countries diverge is in the treatment of NBCI that may not pose systemic risk but benefits domestic economic actors that are underserved by the banking system.

Regulators from East Asian developing countries took the lead in voicing their dissatisfaction with the neglect of financial inclusion in the discussion of how shadow banking should be regulated. In a 2014 report by the FSB's Asian Regional Consultative Group (RCG), representatives made clear that shadow banks 'fill a credit void' in making financial services available to individuals and enterprises that may not otherwise benefit from access to funding. RCG members also pointed out that in the region, shadow banks already exist within the perimeter of prudential supervision, and that cross-border financial risks generated by the sector are minimal (FSB RCG Asia, 2014). What is remarkable about this report is that it was published by consensus among a heterogeneous group of jurisdictions that comprises both developed (Australia, Hong Kong, Japan, Singapore, Korea) and developing economies, and both FSB members and non-members.

The Bank of Russia and the Alliance for Financial Inclusion (AFI), a transgovernmental network of regulators from over 100 developing countries, organised a conference in 2015 to raise awareness for 'the need for co-existence of banks and non-bank financial institutions for inclusive financial ecosystems; and the challenges in developing and applying proportionate regulatory and supervisory frameworks for shadow banking'. The final declaration of the Moscow conference states that 'Emerging economies and developing countries, while focusing on the stability of the financial system, are also concerned with identifying, properly regulating and supervising those shadow banking activities and entities that could have a positive impact on financial inclusion' (Bank of Russia and Alliance for Financial Inclusion, 2015, pp. 1–2).

The FSB has shown a remarkable unwillingness to engage with this debate. Its 2015 shadow banking information sharing exercise and 2016 thematic peer review do not entertain any of the arguments advanced by developing countries. The report dedicates three lines in a section titled 'background' to the benefits of shadow banking and continues with the well-known argument that the financial crisis revealed shadow banking as a source of systemic risk. The clarification that shadow banking is not intended to cast a pejorative tone is relegated to a footnote. The peer review concludes that 'More work is needed to ensure that the Framework's application is rigorous enough for jurisdictions to comprehensively assess and respond to potential financial stability risks posed by non-bank financial entities, and

to support FSB risk assessments and policy discussions' (FSB, 2016, p. 3).

No FSB shadow banking report to date has acknowledged the RCG Asia report, the Moscow Declaration, nor the arguments contained in these documents. Contrary to the distinction between domestic and cross-border risk as proposed by the RCG Asia, the design of the FSB information sharing exercise takes a 'conservative approach', covering all entities that could 'give rise to shadow banking risks in at least one jurisdiction' (FSB, 2016, p. 28). The FSB also does not entertain the idea of a differentiated approach to shadow banking for developing countries. Even the latest FSB report to date does not acknowledge that a stability-maximising approach to shadow banking might have negative repercussions for financial inclusion (FSB, 2018b).

Currently, the FSB work on NBCI is confined to data gathering, monitoring and the provision of a voluntary regulatory toolbox. FSB members have not publicly voiced any intention to negotiate a common global standard for shadow banking in the future. This might be a key reason why Asian regulators have not been more vocal in their criticism of the FSB perspective on NBCI. But even in the absence of a global standard, information about the size of the 'shadow banking' sector can be understood by international investors as an indicator of regulatory laxity and risk in a given jurisdiction, with significant reputational implications. Developing countries that are FSB members have adopted mainly subliminal defensive strategies such as minimal compliance with data-sharing exercises or footnotes expressing disagreement with the FSB definition of shadow banking (as in the case of India and China) (FSB, 2016). Non-member jurisdictions are currently not subject to FSB peer pressure, and many have not even adopted an official definition of shadow banking, as a recent survey among AFI members reveals (AFI, 2018). If the FSB approach to shadow banking was adopted by the World Bank and the IMF in their regular financial stability assessments; however, financial regulators in developing countries around the world would have to provide data and justification for domestic non-bank credit intermediation, threatening some channels of financial inclusion.

The neglect of financial inclusion by the FSB and Basel Committee results in part from their mandates. The charters of both the FSB and the Basel Committee focus exclusively on financial stability (BCBS, 2013a, para. 1; FSB, 2012a, para. 2(3)). While this is of vital importance, there are other important policy objectives relevant to the design and implementation of financial regulations, including financial inclusion and financial sector development. Broadening the mandate of the FSB and Basel Committee to reflect these objectives would incentivise more careful analysis in international-standard setting.

At a national level many members of the FSB and Basel Committee have organisational mandates that go beyond financial stability. As Table 1 shows, a sizeable minority of 38% of the organisations that are members of the Basel Committee (17 out of 45) have a domestic mandate to develop financial markets or promote innovation. Strikingly, such a financial development mandate is much more

common among Basel Committee members from developing countries (71%) than advanced economies (22%). This is similar at the FSB Plenary, where many Basel Committee member organisations are also represented. Forty per cent of the regulatory agencies at the FSB (16 of 36) endorse financial sector development, but the ratio is 70% for developing countries and 30% for advanced economies.⁴

The central bank of Argentina for example seeks to promote 'monetary and financial stability, employment, and economic development with social equality' (BCRA, 2012, para. 3). Promoting the healthy development of the banking sector is among the mandates of both the Chinese central bank and the banking regulator (PRC, 1995, 2003). It is noteworthy that even most regulatory agencies from high-income Asian jurisdictions, such as Korea, Hong Kong and Singapore, count financial development among their objectives. Japan's Financial Services Agency reports that it 'has advocated that the global regulatory reform efforts should aim to attain both growth and stability' (JFSA, 2017, p. 16). In advanced Western economies, some financial regulators that are independent of their respective central bank also endeavour to create a regulatory environment that is favourable to innovation and growth (ACPR, 2017; FINMA, 2017; OCC, 2014). Yet the charters of the major global standard-setting bodies do not reflect this diversity of objectives.

5. Reform options for standard-setting bodies

The analysis in the previous sections suggests that a rigid two-tier decision-making structure and exclusive focus on financial stability result in sub-optimal international standards. What reforms could be undertaken?

Reform 1: increase the voice of developing countries in global standard-setting

The prevailing system imposes a rigid divide between standard-setters and standard-takers. This arrangement violates the *equivalence principle* of global governance: all jurisdictions affected by a global good (or bad) should have a say in its provision and regulation (Held and Young, 2009).

One reform option is to embrace the shift away from a singular global financial governance regime in favour of greater autonomy along national or regional lines (Eichengreen et al., 2018; The Warwick Commission, 2009). Greater national autonomy in a fragmented global financial system would in theory allow each country to tailor standards to their financial markets and regulatory capacity, and achieve an optimal balance between financial stability and inclusive growth. But in practice, given the distribution of power in global financial markets, a few leading jurisdictions can be expected to dictate the rules of finance. Fears of cross-border arbitrage would drive regulators in these jurisdictions to maximise extraterritorial authority, reducing the de facto policy space available to financial supervisors elsewhere.

An alternative option is to reform international standard-setting bodies to ensure they are more representative. The FSB took modest steps in this direction in 2014, rearranging

Table 1. Basel Committee member organisations and their mandates

FSB member	Organisation	Financial stability	Development
Advanced economies			
Australia	Central Bank	✓	
	APRA+	✓	
Belgium	Central Bank+	✓	
Canada	Central Bank	✓	
	OSFI	✓	
EU	Central Bank	✓	
	Single Supervisory Mechanism+	✓	
France	Central Bank	✓	
	ACPR+	✓	✓
	AMF•	✓	
Germany	Central Bank	✓	
	BaFin	✓	
Hong Kong	HKMA	✓	✓
Italy	Central Bank	✓	
	CONSOB•	✓	
Japan	Central Bank	✓	
	JFSA	✓	✓
Korea	Central Bank	✓	✓
	FSS+	✓	
	FSC•	✓	✓
Luxembourg	CSSF+	✓	
Netherlands	Central Bank	✓	
Singapore	Central Bank	✓	✓
Spain	Central Bank	✓	
Sweden	Central Bank+	✓	
	FI+	✓	
Switzerland	Central Bank	✓	
	FINMA+	✓	✓
United Kingdom	Central Bank	✓	
	PRA+	✓	
	FCA•	✓	✓
United States	Central Bank	✓	
	NY Fed+	✓	
	OCC+	✓	✓
	FDIC+	✓	
	SEC•	✓	✓

(continued)

Table 1. (continued)

FSB member	Organisation	Financial stability	Development
Emerging markets and developing economies			
Argentina	Central Bank	✓	✓
Brazil	Central Bank	✓	
	CVM•	✓	✓
China	Central Bank	✓	✓
	CBIRC	✓	✓
India	Central Bank	✓	✓
	SEBI•	✓	✓
Indonesia	Central Bank	✓	✓
	OJK+	✓	✓
Mexico	Central Bank	✓	
	CNBV+	✓	✓
Russia	Central Bank	✓	✓
Saudi Arabia	Central Bank	✓	✓
South Africa	Central Bank	✓	
Turkey	Central Bank	✓	
	BDDK+	✓	✓

Notes: +: BCBS member only; •: FSB member only.

Source: Website and annual reports of each respective organisation.

the Plenary to give more seats to officials from emerging market member jurisdictions (FSB, 2014). At the same time, it reduced the seats of international organisations such as the IMF and the World Bank, who could in principle represent developing country voices, but in practice have done so with negligible effectiveness.

More radical proposals include the merger and formalisation of existing financial governance bodies. King (2010) argues that the G20 should metamorphose into a 'Governing Council for the IMF', while Knight (2014) suggests to merge the FSB with the International Monetary and Financial Committee (IMFC). Avgouleas (2012) envisions the integration of micro and macroprudential supervisory institutions on the basis of an umbrella treaty that is signed and ratified by member states in accordance with international public law. Proposals have also been made for the creation of an entirely new inter-governmental organisation featuring wide or even universal membership in a constituency system akin to that of the IMF or the World Bank, where members of the governing board represent several member countries (Claessens, 2008; Eichengreen, 2009; Stiglitz, 2010).

Despite calls for reform and sophisticated proposals, none of them has come to fruition in the decade since the global financial crisis. Financial Stability Board members have considered and dismissed the proposal of conversion into a classic inter-governmental organisation as undesirable. They also rejected the proposal of adopting a constituency-based

membership system because it would be inconsistent with its institutional model (individual financial agencies are members of the Financial Stability Board, not states) and because it 'would make FSB discussions more rigid' (FSB, 2014, p. 1). While a radical overhaul may not be feasible, more moderate reforms could be pursued to ensure that international standards have greater utility and fewer adverse effects for developing countries. The Basel Committee could amend its charter to explicitly recognise the need for differentiated standards and commit to build proportionality into their design, so they can be readily adapted for use in a wide range of jurisdictions. Furthermore, it could commit to impact assessments of new standards for developing countries *ex ante*. The Basel Consultative Group could review its membership to ensure it is broadly representative, inviting new members in particular from LMIC. The Basel Consultative Group and the FSB Regional Consultative Groups could move away from the current top-down *modus operandi* of focusing on the implementation of global standards towards facilitating bottom-up proposals to influence their design.

Steps should be taken to strengthen the evidence base from which developing country regulators can make proposals. The evidence they can draw on is much weaker than for their developed country counterparts, making it harder for them to develop detailed proposals for international standard-setting. The research conducted by the Bank for International Settlements focuses on the regulatory priorities of

developed countries, while the IMF and World Bank focus on providing technical advice to developing countries on how to *implement* international standards, rather than supporting developing countries to shape global standards during the design phase. Relations between regulators and the industry they regulate are important in building this evidence base, but authorities should take care to not reproduce the skewed system of interest aggregation prevalent in advanced economies, where vested interests and large financial firms have a disproportionate influence on regulatory designs (Lall, 2014; Quaglia, 2018). Greater efforts at fostering collaboration between developing country regulators could also help strengthen alliances among developing countries, enabling them to coordinate more effectively and thereby exert greater influence in global standard-setting processes.

Reform 2: create a new standard-setting body for fintech with a dual mandate

Digital financial services provide an opportunity to establish a new standard-setting body for the prudential regulation of digital financial services, which takes the challenges laid out in this article seriously. Rather than seeking to address digital financial services within old organisations that resist reform, a new body could be created under the aegis of the FSB. Such a body would be forward-looking in addressing the challenges of next generation financial services regulation with a dual mandate that balances financial stability and inclusive growth, akin to that of many FSB member organisations.

The foundations of such a standard setter can be found in the joint work of the Global Partnership for Financial Inclusion, the Chinese central bank and the World Bank, who developed the 2016 High-Level Principles for *Digital* Financial Inclusion. The Principles were endorsed by G20 leaders at the Hangzhou Summit in September 2016, along with a plethora of other initiatives and action plans that promote fintech and digital financial inclusion (GPFI, 2016; G20, 2016).

An exclusive focus on *digital* financial services would entail two advantages for the new standard setter. First, it would allow regulators to concentrate on the financial sector that is of greatest concern for developing countries (FSI, 2016). Digital financial inclusion to date is driven by non-bank financial institutions and technology firms, not big banks. Over the last two decades, 'financial innovation' by large, internationally active banks has contributed more to financial crises than to the financial inclusion of underprivileged parts of the global population. Leaving these firms under the conservative, watchful eye of the Basel Committee is unlikely to harm digital financial inclusion in the years to come. It might also allow regulators to seize what Philippon (2016) calls the 'fintech opportunity' of nurturing 'a new vintage of financial firms and systems' that is less beset by regulatory capture and vested interests.

Second, digital financial services require a new regulatory skill set. Digital financial operations involve new actors, risks and cross-sector services that the current division of banking, financial market and payments/settlements regulation is ill-equipped to deal with. Moreover, it reduces inequalities

in regulatory experience and capacity between developed and developing-country regulators. For example, the Central Bank of Kenya has accumulated 11 years of experience in regulating mobile-based payment and banking services (M-Pesa), while China's regulators oversee many of the world's largest providers of digital financial services. According to a UBS survey of 28,000 bank customers in 24 countries, individuals in Kenya, Indonesia, China, India and other developing countries have a much higher propensity to engage in fintech lending than their peers in advanced economies (CGFS and FSB, 2017). Even in developed countries, regulatory initiatives such as Project Innovate by the UK FCA indicate that supervisory authorities focusing on digital financial services have a more open attitude towards experimentation and peer learning than their colleagues in the traditional banking supervision departments do (Arner et al., 2015). A recent series of reports on fintech also pays greater attention to the opportunities new technologies can provide for financial inclusion in developing countries (BCBS, 2017a; CGFS and FSB, 2017; FSB, 2017).

A fintech standard-setting body would comprise banking and market regulators from jurisdictions where digital financial services play a significant role in financial intermediation. Membership should be revised regularly to incorporate regulators of countries where fintech services approach systemic importance at the national level. The FSB umbrella would ensure continuity with the existing G20 work on digital financial inclusion mentioned above, and support from the leading financial powers. It would also facilitate institutional channels of cooperation with other standard setters such as the Basel Committee and IOSCO, a requisite of vital importance in this evolving issue area that still defies definitional boundaries. All other jurisdictions that fall below the membership threshold could establish FATF-style regional bodies as forums for peer learning and interest aggregation, with clear institutional channels of bottom-up feedback as outlined under reform option 1 (above).

Under a twin mandate of financial stability and inclusion, a fintech standard-setting body could then develop a new regulatory paradigm that can take inspiration from the 12 principles for internet finance regulation formulated by the Chinese banking regulator Zhang (2016). Zhang suggests a system of 'dynamic proportionate supervision': regulators should regularly assess the risk profile of a given digital financial service and adjust supervision in increasing order of stringency, from self-regulation to licensing, regular monitoring and finally the imposition of capital, liquidity and other requirements. Given the marginal contribution to systemic risk of digital financial services at the current stage, the operations of this new standard-setting body would initially be limited to peer learning and the development of best practices. However, it can be expected to slowly rise in global importance along with the scope of the financial services under its purview in the coming decade. Hopefully there will be enough time for mutual trust, capacity and experience to grow among a new network of regulators that embody a better balance of developing and advanced economy interests than any of the current bodies of global financial regulatory governance.

Notes

This paper has benefited greatly from feedback at academic and professional conferences. Particular thanks to Svein Andresen, Thorsten Beck, Tim Lyman, Robin Newnham, Rupert Thorne, John Vickers, Andrew Walter, Jonathan Ward, Alexandra Zeitz and participants of the Financial Conduct Authority workshop on the Future of Financial Regulation in London, the African Central Bank Governors' Roundtable in Oxford, and the Alliance for Financial Inclusion workshops in Sochi and Siem Reap. We thank two anonymous reviewers for careful reading and thoughtful suggestions. This research was made possible thanks to funding provided by the UK Economic and Social Research Council (Grant ES/L012375/1) and the John Fell Fund of Oxford University Press (Grant 162/073). Any errors are our own.

1. See <http://www.fsb.org/about/fsb-members/> and <https://www.bis.org/bcb/index.htm>
2. See <https://www.bis.org/about/board.htm?m=1%7C2%7C2>
3. Authors' calculations based on most recent FSI data: www.bis.org/fsi/fsiop2015.htm
4. The FSB Plenary also includes finance ministries, but we did not include them here because their goals and priorities may change with every electoral cycle.

References

- Abdel-Baki, M. (2012). *Forecasting the Costs and Benefits of Implementing Basel III for North African Emerging Economies: An Application to Egypt and Tunisia (AfDB Economic Brief)*. African Development Bank. Available from: <https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Brochure%20Basel%20III%20Egypt%20and%20Tunisia%20Anglais.pdf> [Accessed 29 January 2019].
- Acharya, V. V., Khandwala, H. and Öncü, T. S. (2013) 'The Growth of a Shadow Banking System in Emerging Markets: Evidence from India', *Journal of International Money and Finance*, 39, pp. 207–230.
- ACPR (2017) 'Missions: Providing an Overall View of the Financial System' [online]. Available from: <https://acpr.banque-france.fr/en/acpr/assignments/providing-overall-view-financial-system> [Accessed 29 January 2019].
- AFI (2018) AFI member survey on global standards and financial inclusion - shadow banking. Available from: https://www.afi-global.org/sites/default/files/publications/2018-09/AFI_GSP_shadow%20banking_AW_digital.pdf [Accessed 29 January 2019].
- Aikman, D., Haldane, A., Hinterschweiger, M. and Kapadia, S. (2018) 'Rethinking Financial Stability'. *SSRN Electronic Journal*, Bank of England: Staff Working Paper No. 712. Available from: <https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2018/rethinking-financial-stability.pdf?la=en&hash=6A14C6F12C1DEFFDD57BD5C3255493BFE5F02060> [Accessed 29 January 2019].
- Aizenman, J., Chinn, M. D. and Ito, H. (2015) 'Monetary Policy Spillovers and the Trilemma in the New Normal: Periphery country sensitivity to core country conditions', NBER Working Paper 21128. Available from: <http://www.nber.org/papers/w21128.pdf> [Accessed 29 January 2019].
- Arner, D. W., Barberis, J. N. and Buckley, R. P. (2015) 'The Evolution of Fintech: A New Post-crisis Paradigm', *Georgetown Journal of International Law*, 47, pp. 1271–1319.
- Avgouleas, E. (2012) *Governance of Global Financial Markets: The Law, The Economics, The Politics*. Cambridge: Cambridge University Press.
- BAFT, BBA, Basel Institute on Governance, ICC, IIF and Wolfsberg Group. (2014) 'De-risking: Global impact and unintended consequences for exclusion and stability' [online]. Available from: https://classic.regonline.com/custimages/340000/341739/G24%20AFI/G24_2015/De-risking_Report.pdf [Accessed 29 January 2019].
- Bailey, A. (2014) 'The Capital Adequacy of Banks: Today's Issues and What We Have Learned from the Past'. Presented at the Bloomberg Conference, London. Available from: <https://www.bankofengland.co.uk/speech/2014/the-capital-adequacy-of-banks-todays-issues-and-what-we-have-learned-from-the-past> [Accessed 29 January 2019].
- Baker, A. (2009) 'Deliberative Equality and the Transgovernmental Politics of the Global Financial Architecture', *Global Governance: A Review of Multilateralism and International Organizations*, 15 (2), pp. 195–218.
- Banerjee, A., Chandrasekhar, A. G., Duflo, E. and Jackson, M. O. (2013) 'The Diffusion of Microfinance', *Science*, 341(6144), 1236498.
- Bank of Russia and Alliance for Financial Inclusion. (2015) 'The Moscow Resolution on Financial Inclusion and Shadow Banking' [online]. Available from: <https://www.afi-global.org/publications/1987/The-Moscow-Resolution-on-Financial-Inclusion-and-Shadow-Banking> [Accessed 29 January 2019].
- Barth, J. R., Caprio, G. and Levine, R. (2006) *Rethinking Bank Regulation: Till Angels Govern*. Cambridge: Cambridge University Press.
- Basel Consultative Group. (2014) 'Impact and implementation challenges of the Basel framework for emerging market, developing and small economies'. BIS Working Paper No. 27, [online]. Available from: <https://www.bis.org/bcb/publ/wp27.pdf> [Accessed 29 January 2019].
- Bauerle Danzman, S., Winecoff, W. K. and Oatley, T. (2017) 'All Crises are Global: Capital Cycles in an Imbalanced International Political Economy', *International Studies Quarterly*, 61 (4), pp. 907–923.
- BCBS. (2013a) *Charter*. Basel: Bank for International Settlements. Available from <http://www.bis.org/bcb/charter.htm> [Accessed 29 January 2019].
- BCBS. (2013b) 'The Regulatory Framework: Balancing Risk Sensitivity, Simplicity and Comparability'. BIS Discussion Paper [online]. Available from: <https://www.bis.org/publ/bcb258.htm> [Accessed 29 January 2019].
- BCBS. (2017a) 'Implications of Fintech developments for banks and bank supervisors'. Consultative Document [online]. Available from: <https://www.bis.org/bcb/publ/d415.pdf> [Accessed 29 January 2019].
- BCBS. (2017b) 'Simplified Alternative to the Standardised Approach to Market Risk Capital Requirements' [online]. Available from: <https://www.bis.org/bcb/publ/d408.htm> [Accessed 29 January 2019].
- BCRA. (2012) 'Charter of the Central Bank of the Argentine Republic (2012)'. Available from: <http://www.bcra.gob.ar/Institucional/BCRALa.w.asp> [Accessed 29 January 2019].
- Beck, T. (2018) 'Basel III & Emerging Markets: Effects on Capital Market Development and the Real Economy' [online]. Available from: <https://www.cgdev.org/blog/basel-iii-unintended-consequences-emerging-markets-and-developing-economies-part-5-effects> [Accessed 4 June 2018].
- BIS. (2017) 'Consolidated Banking Statistics' [online]. Available from: <http://www.bis.org/statistics/consstats.htm> [Accessed 29 January 2019].
- Bosley, C. and Speciale, A. (2017) 'Welcome to the Elite Private Club of the World's Central Bankers'. Bloomberg Markets [online]. Available from: <https://www.bloomberg.com/news/articles/2017-11-30/welcome-to-the-elite-private-club-of-the-world-s-central-bankers> [Accessed 29 January 2019].
- CGFS and FSB. (2017) 'FinTech Credit: Market Structure, Business Models and Financial Stability Implications' [online]. Available from: https://www.bis.org/publ/cgfs_fsb1.htm [Accessed 29 January 2019].
- Chey, H. (2016) 'International Financial Standards and Emerging Economies Since the Global Financial Crisis', in C. R. Henning and A. Walter (eds.), *Global Financial Governance Confronts the Rising Powers*. Waterloo: CIGI, pp. 211–236.
- Chwieroth, J. M. (2010) *Capital Ideas: The IMF and the Rise of Financial Liberalization*. Princeton, NJ: Princeton University Press.
- Claessens, S. (2008) 'The New International Financial Architecture Requires Better Governance', in B. Eichengreen and R. Baldwin, (eds.), *What G20 Leaders must do to Stabilise our Economy and Fix the Financial System*. London: Centre for Economic Policy Research, pp. 29–33.
- Claessens, S. (2016) 'Global Banking: Recent Developments and Insights from Research', *Review of Finance*, 21 (4), pp. 1513–1555.
- Claessens, S. (2017) 'Global Banking: Recent Developments and Insights from Research', *Review of Finance*, 21 (4), pp. 1513–1555.
- Cull, R., Demirgüç-Kunt, A. and Morduch, J. (2013) *Banking the World: Empirical Foundations of Financial Inclusion*. Cambridge, MA: MIT Press.

- Davies, H. and Green, D. (2008) *Global Financial Regulation: The Essential Guide*. Cambridge: Polity.
- Dombret, A. (2018) 'Addressing Proportionality in Europe' [online]. Available from: <https://www.bis.org/review/r180126b.htm>
- Eichengreen, B. (2009) 'Out of the box Thoughts about the International Financial Architecture'. Working Paper No. WP/09/116. International Monetary Fund. <https://www.imf.org/external/pubs/ft/wp/2009/wp09116.pdf> [Accessed 29 January 2019].
- Eichengreen, B., Lombardi, D. and Malkin, A. (2018) 'Multilayered Governance and the International Financial Architecture: The Erosion of Multilateralism in International Liquidity Provision', *Global Policy*, 9 (S1), pp. 7–20.
- Farrell, H. and Newman, A. L. (2010) 'Making Global Markets: Historical Institutionalism in International Political Economy', *Review of International Political Economy*, 17 (4), pp. 609–638.
- FATF. (2012) 'International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation' [online]. Available from: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf [Accessed 29 January 2019].
- FATF, Asia/Pacific Group on Money Laundering and World Bank. (2013) 'Anti-money Laundering and Terrorist Financing Measures and Financial Inclusion' [online]. Available from: http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf [Accessed 29 January 2019].
- FINMA. (2017) 'FINMA's strategic goals' [online]. Available from: <https://www.finma.ch/en/finma/supervisory-objectives/strategy/> [Accessed 29 January 2019].
- Frait, J. and Tomšík, V. (2014) 'Impact and Implementation Challenges of the Basel Framework for Emerging, Developing and Small Economies', *Comparative Economic Studies*, 56 (4), pp. 493–516. <https://doi.org/10.1057/ces.2014.31>
- FSB. (2011) 'Shadow Banking: Strengthening Oversight and Regulation. Recommendations of the Financial Stability Board' [online]. Available from: http://www.financialstabilityboard.org/publications/r_111027a.pdf [Accessed 29 January 2019].
- FSB. (2012a) 'FSB Charter with Revised Annex' [online]. Available from: <http://www.financialstabilityboard.org/wp-content/uploads/FSB-Charter-with-revised-Annex-FINAL.pdf> [Accessed 29 January 2019].
- FSB. (2012b) Identifying the Effects of Regulatory Reforms on Emerging Markets and Developing Economies: A Review of the Potential Unintended Consequences. Report to the G20 Finance Ministers and Central Bank Governors. Financial Stability Board. Available from: http://www.fsb.org/wp-content/uploads/r_120619e.pdf [Accessed 29 January 2019].
- FSB. (2013) 'Policy Framework for Strengthening Oversight and Regulation of Shadow Banking Entities' [online]. Available from: http://www.fsb.org/wp-content/uploads/r_130829c.pdf [Accessed 29 January 2019].
- FSB. (2014) 'Report to the G20 Brisbane Summit on the FSB's Review of the Structure of its Representation' [online]. Available from: <http://www.fsb.org/wp-content/uploads/Report-to-the-G20-Brisbane-Summit-on-the-FSB%E2%80%99s-Review-of-the-Structure-of-its-Representation.pdf> [Accessed 29 January 2019].
- FSB. (2016) 'Thematic Review on the Implementation of the FSB Policy Framework for Shadow Banking Entities. Financial Stability Board' [online]. Available from: <http://www.fsb.org/wp-content/uploads/Shadow-banking-peer-review.pdf> [Accessed 29 Jan 2019]
- FSB. (2017) 'Financial Stability Implications from FinTech' [online]. Available from: <http://www.fsb.org/wp-content/uploads/R270617.pdf>
- FSB. (2018a) 'FSB Action Plan to Assess and Address the Decline in Correspondent Banking: Fourth Progress Report' [online]. Available from: <http://www.fsb.org/wp-content/uploads/P160318-2.pdf> [Accessed 29 January 2019].
- FSB. (2018b) 'Global Shadow Banking Monitoring Report 2017' [online]. Available from: <http://www.fsb.org/wp-content/uploads/P050318-1.pdf> [Accessed 29 January 2019].
- FSB, IMF and WB. (2011) 'Financial Stability Issues in Emerging Market and Developing Economies: Report to the G20 Finance Ministers and Central Bank Governors' [online]. Available from: http://siteresource.s.worldbank.org/EXT/FINANCIALSECTOR/Resources/G20_Report_Financial_Stability_Issues_EMDEs.pdf [Accessed 29 January 2019].
- FSB RCG Asia. (2014) 'Report on shadow banking'. Financial Stability Board Regional Consultative Group Asia [online]. Available from: http://www.fsb.org/wp-content/uploads/r_140822c.pdf
- FSB, World Bank and IMF. (2011) 'Financial Stability Issues in Emerging Market and Developing Economies: Report to the G-20 Finance Ministers and Central Bank Governors' [online]. Available from: <https://openknowledge.worldbank.org/handle/10986/27274> [Accessed 29 January 2019].
- FSI. (2016) 'Supervisory priorities in non-Basel Committee jurisdictions' [online]. Available from: <http://www.bis.org/fsi/fsipapers13.pdf> [Accessed 29 January 2019].
- Fuchs, M., Losse-Mueller, T. and Witte, M. (2013) 'The Reform Agenda for Financial Regulation and Supervision in Africa', in T. Beck, and S. M. Maimbo (eds.), *Financial Sector Development in Africa: Opportunities and Challenges*. Washington DC: The World Bank.
- G20. (2009) 'Leaders' Statement: The Pittsburgh Summit' [online]. Available from: <http://www.g20.utoronto.ca/2009/2009communiqu0925.html> [Accessed 29 January 2019].
- G20. (2011) 'Cannes Summit Final Declaration'. Cannes [online]. Available from: <http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html> [Accessed 29 January 2019].
- G20. (2016) 'Hangzhou Summit Communiqué' [online]. Available from: <http://www.g20.utoronto.ca/2016/160905-communiqu.html>
- Gallagher, K. (2015) 'Ruling capital: Emerging markets and the reregulation of cross-border finance' [online]. Available from: <http://www.oopen.org/search?identifier=642720> [Accessed 29 January 2019].
- Gobat, J., Yanase, M. and Maloney, J. (2014) 'The Net Stable Funding Ratio: Impact and Issues for Consideration'. IMF Working Paper 14 (106), 1. <https://doi.org/10.5089/9781498346498.001>
- Goodhart, C. (2008) 'The Boundary Problem in Financial Regulation', *National Institute Economic Review*, 206 (1), pp. 48–55.
- Gottschalk, R. (2010) *The Basel Capital Accords in Developing Countries: Challenges for Development Finance*. Basingstoke: Palgrave Macmillan.
- Gottschalk, R. (2016) 'Assessing Capacity Constraints for Effective Financial Regulation in Sub-Saharan Africa', in S. Griffith-Jones, and R. Gottschalk, (eds.), *Achieving Financial Stability and Growth in Africa*. London: Routledge, pp. 61–82.
- Gottschalk, R. and Griffith-Jones, S. (2006) *Review of Basel II Implementation in Low-income Countries*. Brighton: Institute of Development Studies.
- GPFI. (2011) 'Global Standard-Setting Bodies and Financial Inclusion for the Poor: Toward Proportionate Standards and Guidance'. Available from: <http://www.gpfi.org/sites/default/files/documents/CGAP.pdf> [Accessed 29 January 2019].
- GPFI. (2016) 'G20 High Level Principles for Digital Financial Inclusion' [online]. Available from: <https://www.gpfi.org/sites/default/files/G20%20High%20Level%20Principles%20for%20Digital%20Financial%20Inclusion.pdf> [Accessed 29 January 2019].
- Grittersová, J. (2014) 'Transfer of Reputation: Multinational Banks and Perceived Creditworthiness of Transition Countries', *Review of International Political Economy*, 21 (4), pp. 878–912.
- Grittersová, J. (2017) *Borrowing Credibility: Global Banks and Monetary Regimes*. Ann Arbor, MI: University of Michigan Press.
- Held, D. and Young, K. L. (2009) 'Global Financial Governance: Principles of Reform' [online]. Available from: [http://eprints.lse.ac.uk/43602/1/The%20world%20crisis_%20global%20financial%20governance\(lsero\).pdf](http://eprints.lse.ac.uk/43602/1/The%20world%20crisis_%20global%20financial%20governance(lsero).pdf) [Accessed 29 Jan 2019]
- IMF. (2017) 'Recent Trends in Correspondent Banking Relationships – Further Considerations'. IMF Policy Paper. Available from: <https://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/21/recent-trends-in-correspondent-banking-relationships-further-considerations> [Accessed 29 January 2019].
- JFSA. (2017) 'Strategic Directions and Priorities 2017–2018' [online]. Available from: <https://www.fsa.go.jp/en/news/2018/2017StrategicDirectionsSummary-English.pdf>

- Jones, E. (ed.) (Forthcoming). *The Politics of Banking Regulation in Developing Countries: Risk and Reputation*. Oxford, UK: Oxford University Press.
- Jones, E. and Zeitz, A. (2017) 'The Limits of Globalizing Basel Banking Standards'. *Journal of Financial Regulation*, 3, pp. 89–124.
- Kapstein, E. B. (1989) 'Resolving the Regulator's Dilemma: International Coordination of Banking Regulations', *International Organization*, 43 (2), pp. 323–347.
- Kasekende, L., Bagyenda, J. and Brownbridge, M. (2011) 'Basel III and the Global Reform of Financial Regulation: How Should Africa Respond? A Bank Regulator's Perspective' [online]. Available from: <http://www.new-rules.org/storage/documents/g20-fsb-imf/kasakende.docx> [Accessed 29 January 2019].
- King, M. (2010) 'Speech at the University of Exeter, Exeter [online]. Available from: <https://www.bankofengland.co.uk/speech/2010/mervyn-king-speech-at-the-university-of-exeter> [Accessed 29 January 2019].
- Klapper, L., El-Zoghbi, M. and Hess, J. (2016) 'Achieving the Sustainable Development Goals: The role of financial inclusion'. CGAP and UN Secretary General's Special Advocate for Inclusive Finance for Development [online]. Available from: https://www.unsgsa.org/files/2814/6489/8731/sdgs_paper_final_003.pdf [Accessed 29 January 2019].
- Knight, M. (2014) 'Reforming the Global Architecture of Financial Regulation: The G20, the IMF and the FSB'. CIGI Paper No. 42. [online]. Available from: <http://eprints.lse.ac.uk/61213/1/SP-6%20CIGI.pdf> [Accessed 29 January 2019].
- Knight, M. (2018) 'The G20's Reform of Bank Regulation and the Changing Structure of the Global Financial System', *Global Policy*, 9 (S1), pp. 21–33.
- Lall, R. (2014) 'Timing as a Source of Regulatory Influence: A Technical Elite Network Analysis of Global Finance', *Regulation & Governance*, 9 (2), pp. 125–143. <https://doi.org/10.1111/rego.12050>
- Lund, S., Daruvala, T., Dobbs, R., Härle, P., Kwek, J.-H. and Falcón, R. (2013) 'Financial Globalization: Retreat or Reset?' [online]. Available from: <http://www.mckinsey.com/global-themes/employment-and-growth/financial-globalization> [Accessed 29 January 2019].
- Marchettini, D., Mecagni, M. and Maino, R. (2015) 'Evolving Banking Trends in Sub-Saharan Africa: Key Features and Challenges', IMF African Departmental Paper No. 15/8 [online]. Available from: <http://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2016/12/31/Evolving-Banking-Trends-in-Sub-Saharan-Africa-Key-Features-and-Challenges-43276> [Accessed 29 January 2019].
- OCC. (2014) 'The OCC's Strategic Plan, Fiscal Years 2015–2019' [online]. Available from: <https://www.occ.treas.gov/publications/publications-by-type/other-publications-reports/occ-strategic-plan-2015-2019.pdf> [Accessed 29 January 2019].
- Philippson, T. (2016) 'The FinTech Opportunity', National Bureau of Economic Research Working Paper No. 22476 [online]. <https://doi.org/10.3386/w22476>
- Posner, E. (2010) 'Sequence as Explanation: The International Politics of Accounting Standards', *Review of International Political Economy*, 17 (4), pp. 639–664.
- Powell, A. (2004) 'Basel II and Developing Countries: Sailing through the Sea of Standards', World Bank Policy Research Working Paper [online]. Available from: <https://openknowledge.worldbank.org/handle/10986/14146> [Accessed 29 January 2019].
- PRC. (2003) 'People's Republic of China Banking Regulatory Act (中华人民共和国银行业监督管理)', [online]. Available from: http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/297.html [Accessed 29 January 2019].
- PRC. (1995) 'Law of the People's Republic of China on the People's Bank of China' [online]. Available from: http://www.china.org.cn/business/laws_regulations/2007-06/22/content_1214826.htm [Accessed 29 January 2019].
- Quaglia, L. (2018) 'The Politics of State Compliance with International "Soft Law" in Finance. *Governance*, 32(1), pp. 45–62. <https://doi.org/10.1111/gove.12344>
- Repullo, R. and Saurina, J. (2011) 'The Countercyclical Capital Buffer of Basel III: A Critical Assessment' CEMFI Working Paper No. wp2011_1102, [online]. Available from https://ideas.repec.org/p/cmf/wpaper/wp2011_1102.html [Accessed 29 Jan 2019]
- Rey, H. (2015) *Dilemma not Trilemma: The Global Financial Cycle and Monetary Policy Independence*. Working paper No. w21162. Cambridge, MA: National Bureau of Economic Research. <https://doi.org/10.3386/w21162>
- Rojas-Suarez, L. (2018) 'Basel III & Unintended Consequences for Emerging Markets and Developing Economies - Part 1: Cross-border Spillover Effects' [online]. Available from: <https://www.cgdev.org/blog/basel-iii-unintended-consequences-emerging-markets-and-developing-economies-part-1-cross-border> [Accessed 2 August 2018].
- Rojas-Suarez, L. and Muhammad, D. (2018) 'Basel III & Unintended Consequences for Emerging Markets and Developing Economies - Part 2: Effects on Trade Finance' [online]. Available from: <https://www.cgdev.org/blog/basel-iii-unintended-consequences-emerging-markets-and-developing-economies-part-2-effects> [Accessed 4 June 2018].
- Seabrooke, L. and Tsingou, E. (2009) 'Power Elites and Everyday Politics in International Financial Reform', *International Political Sociology*, 3 (4), pp. 457–461.
- Sharman, J. C. (2008) 'Power and Discourse in Policy Diffusion: Anti-money Laundering in Developing States', *International Studies Quarterly*, 52, pp. 635–656.
- Slaughter, A.-M. (2004) *A New World Order*. Princeton, NJ: Princeton University Press.
- Stiglitz, J. E. (2010) *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis*. New York: The New Press.
- Sundaram, J. K. (ed.) (2011) *Reforming the International Financial System for Development*. New York: Columbia University Press.
- The Banker. (2017) 'Top 1000 World Banks 2017' [online]. Available from: <https://www.thebanker.com/Top-1000> [Accessed 21 June 2018]
- The Warwick Commission. (2009) *In Praise of Unlevel Playing Fields*. Warwick: University of Warwick.
- UNECA. (2015) 'Illicit Financial Flow: report of the High Level Panel on Illicit Financial Flows from Africa' [online]. Available from: <http://repository.uneca.org/handle/10855/22695> [Accessed 29 Jan 2019]
- UNODC. (2011) 'World Drug Report 2011' [online]. Available from: <https://www.unodc.org/unodc/en/data-and-analysis/WDR-2011.html> [Accessed 10 March 2017].
- Walter, A. (2016) 'Emerging Countries and Basel III: Why is Engagement Still Low?', in C. R. Henning and A. Walter (eds.), *Global Financial Governance Confronts the Rising Powers*. Waterloo: CIGI, pp. 179–210.
- WB. (2015) 'World Bank Survey on the Proposed Revisions to the Basel II Standardised Approach for Credit Risk: Analysis of Survey Responses' [online]. Available from: <https://www.bis.org/bcbis/publications/d307/wbsaor.pdf> [Accessed 29 January 2019].
- World Bank. (2015) 'Withdrawal from correspondent banking: Where, why, and what to do about it' [online]. Washington, DC. Available from: <http://documents.worldbank.org/curated/en/113021467990964789/pdf/101098-revised-PUBLIC-CBR-Report-November-2015.pdf> [Accessed 29 January 2019].
- Zhang, X. (2016) 'Principles of Internet Finance Supervision – Exploring a New Regulatory Paradigm (互联网金融监管的原则—探索新金融监管范式)' [online]. Available from: http://www.modernbankers.com/html/2016/hlxjr_0116/673.html [Accessed 29 January 2019].

Author Information

Emily Jones is an Associate Professor of Public Policy at the Blavatnik School of Government, University of Oxford, where she directs the Global Economic Governance Programme. She is the principal investigator of an ESRC/DFID project examining developing countries and global banking standards.

Peter Knaack is a Senior Research Associate at the Global Economic Governance Programme, Blavatnik School of Government, University of Oxford. He also serves as a Visiting Scholar at the Center for New Structural Economics at Peking University. His research focuses on global financial governance.