



Current efforts to enhance global financial supervision

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*Views expressed here are those of the author and do not necessarily reflect those of the BIS.



Global financial integration

Graph 1

Long-term growth in international trade, investment and financial flows

Logarithmic scale for vertical axis; end-1993 = 100



¹ Global trade volume of goods and services. ² Outstanding amounts, by residence. ³ Gross issuance (announcements), by residence.

Sources: IMF IFS; IMF WEO; BIS international banking statistics; BIS international debt securities.



Is global financial integration worth it?

- Instability of spreads
- Difficult to ensure safety of global institutions
- But:
 - Non-US banks purchased long-term dollar assets
 - Funded with short-term wholesale funding and FX swaps

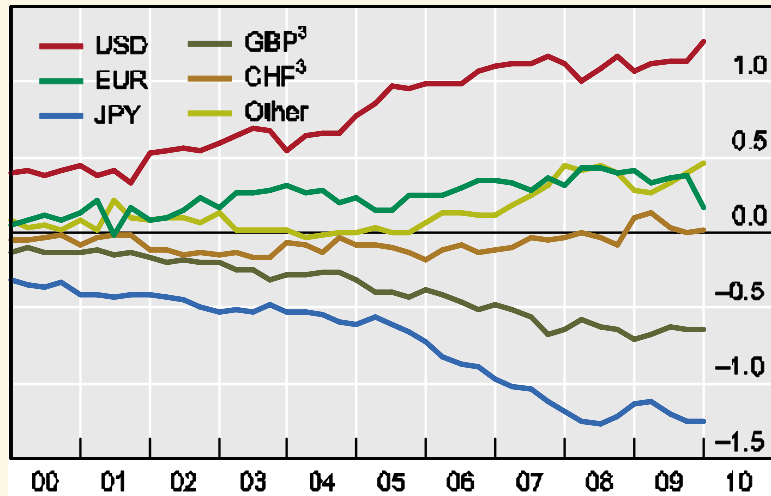


Graph 2

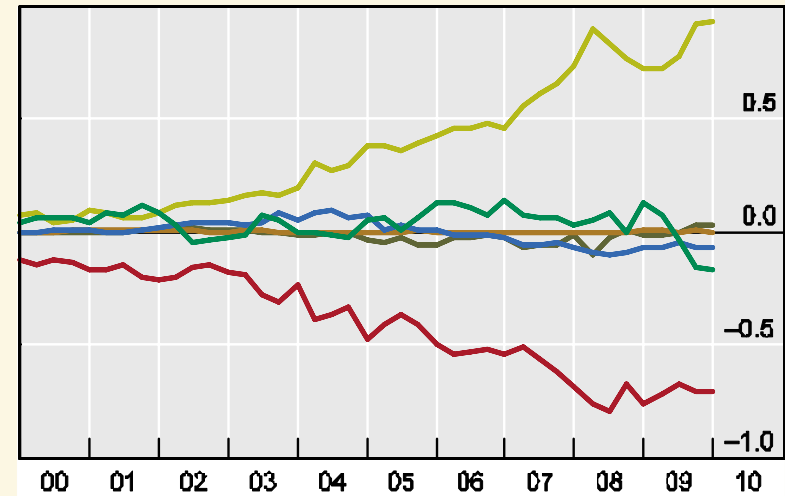
Long and short USD banks' net FX swap positions, by currency

In trillions of US dollars

USD long banks¹



USD short banks²



¹ Includes Canadian, Dutch, German, Japanese, Swiss and UK banks. ² Includes Australian, Belgian, Danish, Spanish, Finnish, French, Italian, Luxembourgian, Norwegian, Portuguese, Swedish, Hong Kong, Greek, Turkish and Taiwanese banks. ³ Positions booked by offices located in Switzerland (for CHF) and in the United Kingdom (for GBP). CHF and GBP positions reported by offices located elsewhere are included in "Other".

Sources: BIS consolidated statistics (immediate borrower and ultimate risk basis); BIS locational statistics by nationality.



Responses to ensure that benefits outweigh costs

- The right policies
- A harmonised international regulatory framework
 - Create a level playing field
 - Safeguard financial stability



Will the current reform kill the recovery?

- Working group looking at the transitional impact
 - A complex task
 - Changes in banks' business models
 - Changes in required returns on equity
 - Preliminary findings are reassuring
- Need to compare short-term costs to long-term benefits
 - Lower risk of crisis
 - More stable growth



Multinational vs. International Banks

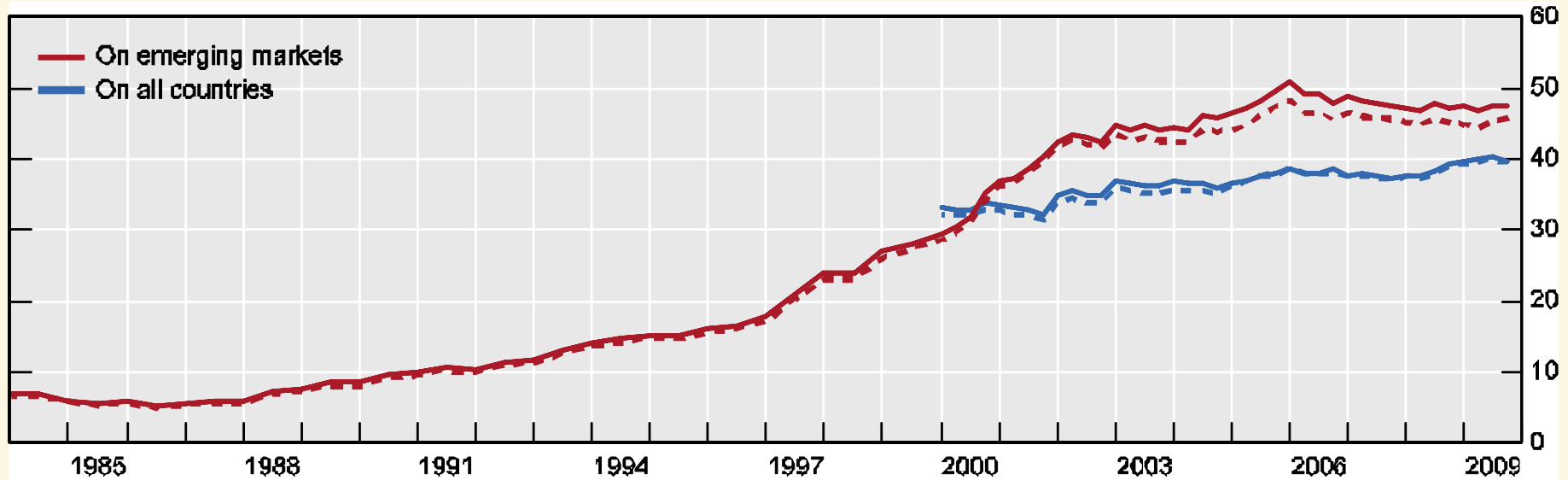
- Multinational:
 - foreign branches & subsidiaries, multiple, local funding
- International:
 - operates in home country, conducts cross-border business
- Trends in global banking: more reliance on local funding
- Locally funded lending was more resilient during the crisis



Graph 3

Local currency claims as a share of foreign claims

In per cent



BIS reporting banks' local claims in local currencies over total foreign claims, by type of borrower country. The dashed lines show the estimates holding the population of reporting banking systems constant through time.

Sources: BIS consolidated banking statistics (ultimate risk (UR) and immediate borrower (IB) basis).

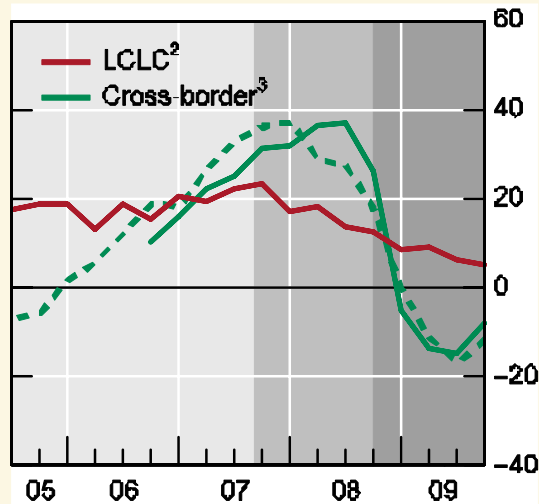


Graph 4

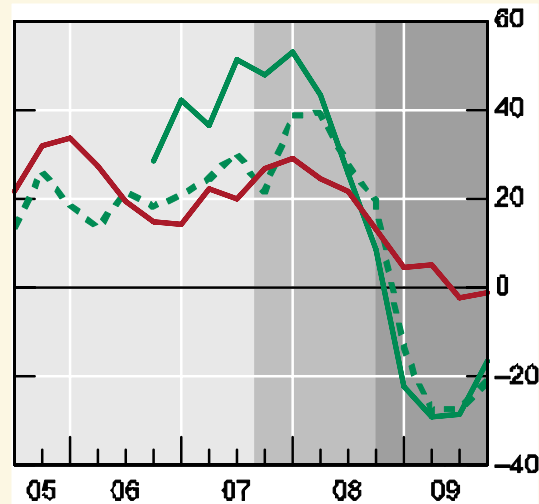
Foreign claims on emerging markets¹

Year-on-year growth, in per cent

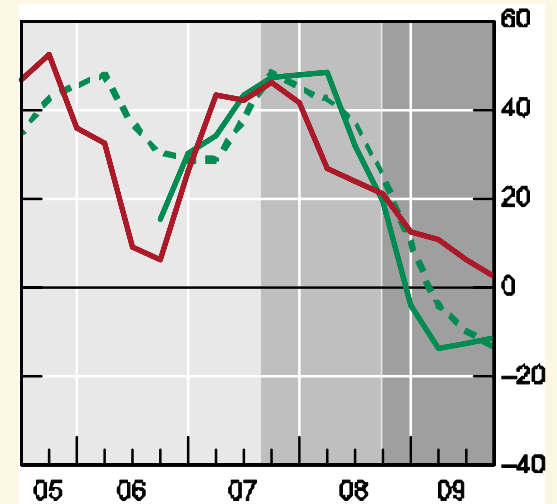
Latin America



Asia-Pacific



Emerging Europe



Latin America = Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela; Asia-Pacific = China, Chinese Taipei, India, Indonesia, Korea, Malaysia, the Philippines and Thailand; emerging Europe = Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, Slovenia and Turkey.

¹ Based on exchange rate adjusted data, corrected for the change in reporting by US banks in Q1 2009. The shaded areas start from end-Q2 2007 and end-Q3 2008. ² Local claims in local currency. ³ Cross-border positions. The solid green line shows growth in cross-border positions (UR basis) excluding inter-office positions, while the dashed green line shows the growth in cross-border positions (including inter-office) reported in the locational banking statistics.

Sources: BIS consolidated banking statistics (UR and IB basis); BIS locational banking statistics by residency.



Reforms: Institutions

Basel Committee on Banking Supervision

- Bank specific
 - Capital
 - Liquidity
- System-wide approach
 - Buffers
 - Capital conservation



Reforms: Instruments & Infrastructure

- Instruments:
 - Registration
 - Safety designation
- Infrastructure
 - Trade repositories
 - Central counterparties
 - Organized exchanges



What's left

- Finish what we started on institutions
- Address the shadow banking system
- Get going on instruments and infrastructure