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The Regulation of International Banking: An Assessment of International Institutions†

James V. Hackney*
Kim Leslie Shafer**

Introduction

In the past two decades banking has become internationalized to such an extent that national supervision over domestic banks no longer provides an adequate framework for regulating bank operations. Recent circumstances, including several European and American bank failures and the dramatic and unrestrained increase in private lending to developing countries,¹ have highlighted the gaps in supervising international banking. International cooperation among bank supervisors, which began to develop only a decade ago, has not yet filled these gaps. Thus, the search for better international banking supervision continues as part of the broader quest for international financial reform.

Are the global operations of banks adequately supervised? Do supervisors have sufficient capability to prevent a global financial breakdown? This Article examines the institutions involved with these questions.

Various institutions address different aspects of international banking regulation. Although no institution directly regulates international banking, certain institutions influence that regulation significantly. Those institutions are the Institute for International Finance, the Bank for International Settlements, the Cooke Committee and other supervisory groups, and the Contact Group of the European Economic Community. In addition, institutions that do not directly supervise banks, such as the International Monetary Fund ("IMF"), the World Bank, the Paris Club, and private bank advisory

† The views expressed in this article are those of the authors and are not necessarily those of White & Case.
** Associate, White & Case, New York, N.Y.; B.A. 1979, Phi Beta Kappa, Vanderbilt University; J.D. 1984, Columbia University School of Law.
¹ Private lending to developing countries dramatically increased in the decade from 1972 through 1981 at an annual rate of over 30%, which in current dollar terms averages close to $30 billion per year. Bolin & del Canto, LDC Debt: Beyond Crisis Management, 61 FOREIGN AFF. 1099, 1106-07 (1983).
committees, engage in activities affecting international lending practices.

I. Institutions Influencing International Lending

A. The International Monetary Fund

While the activities of the IMF are not regulatory in nature, they do significantly influence international bank lending practices and operations. Whether loans to developing countries are from government or private banks, the IMF usually becomes involved in their negotiation. In some cases, a debtor country solicits IMF involvement in seeking access to IMF credit facilities and financial expertise. More commonly, governments or private creditors demand IMF involvement, usually requiring an IMF stabilization program as a precondition for debt renegotiation or continued lending. In the eyes of these creditors, IMF participation in an adjustment program "certifies" a country's economic management and tends to assure foreign lenders that a country's external account position will be sustainable.

The IMF requires debtor countries to participate in "conditionality" programs as a prerequisite to gaining access to IMF credit facilities. "Conditionality" denotes a set of corrective economic policies designed by the IMF to improve a debtor country's balance of payments deficit within a specified time. The more commonly used austerity measures contained in conditionality programs include currency devaluation, restrictions on government subsidies and other spending, changes in wage and price controls, ceilings on credit expansion by the central bank, and limits on additional external borrowing.

In addition to framing stabilization programs and committing its own resources in standby or extended credit arrangements, the IMF also plays a "catalytic role" in raising external finance for debtor countries. The IMF began helping member countries raise external finance in the mid-1960's, when these countries requested debt service relief from foreign governments, funding of public investment projects, and programs from multinational consultative groups. More recently, the IMF informally but actively has persuaded banks to continue lending to certain countries in Eastern Europe and Latin America, thus expanding its role beyond "informal persuasion" to prescribing involuntary lending by private banks. This expansion of

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2 Mendez, Recent Trends in Commercial Bank Lending to LDCs: Part of the Problem or Part of the Solution?, 8 YALE J. WORLD PUB. ORD. 173, 188 (1982).


5 Mendez, supra note 2, at 190-91.
the IMF role first occurred in November, 1982, when the IMF informed bankers with major exposures in Argentina and Mexico that it would not commit its resources to stabilization programs until the banks increased their exposures by complementary amounts envisaged in the negotiated programs. A similar approach was followed successfully in Brazil and a number of other countries with stabilization programs. Whether it is financing balance of payments deficits, analyzing country economies, prescribing economic adjustment measures and limits on borrowing, or participating in debt rescheduling negotiations, the IMF influences when, where, how, and to whom private banks extend credit.

B. The World Bank

As a development and project finance institution, the World Bank is not a regulatory institution; yet many of its activities complement those of the IMF and affect international lending operations of banks. Relevant activities include the World Bank’s structural adjustment loans, Special Action Programs, and cofinancing.

The World Bank’s Articles of Agreement require it to lend only for specific projects except under special circumstances. In recent years the serious balance of payments problems of developing countries, which threaten their continued development, have presented the necessary “special circumstances” and motivated the Bank to go beyond its original mandate by making “structural adjustment” loans (“SALs”). According to the World Bank:

The main objective of “structural adjustment” lending is to facilitate the restructuring of a developing country’s economy so as to put its current-account deficit on a sustainable basis within three to five years. The loan support programs ... are intended to anticipate and avert economic crises through economic reforms and changes in investment priorities.

SALs also serve as catalysts for inflows of other external capital that would help ease balance of payments problems. SALs require the

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6 Robichek, supra note 3, at 147-48; see also E. Brau, R.C. Williams, P. M. Keller and M. Nowak, Recent Multilateral Debt Restructuring with Official and Bank Creditors 13-14 (Occasional Papers of the Int’l Monetary Fund No. 25, 1983) [hereinafter Recent Multilateral Debt Restructurings].


10 Stern, World Bank Financing of Structural Adjustment, in IMF CONDITIONALITY 87, 89 (J. Williamson ed. 1983). The World Bank establishes conditions as part of the steps required in the structural adjustment program itself. Id. at 99.
borrower to meet World Bank conditionality criteria. Because such loans often require debtors to secure an IMF standby credit arrangement, the borrower must meet IMF conditionality criteria as well.11

The World Bank has further responded to the liquidity problems experienced by developing countries associated with the debt crisis by establishing a Special Action Program ("SAP"). The SAP authorizes expanded lending for high priority operations supporting structural adjustment policy changes, production for export, greater use of existing capacity, and the maintenance of vital infrastructure.12

"Cofinancing" is another means by which the World Bank has sought to increase the flow of private funds to member developing countries. Cofinancing links a World Bank presence with additional external investment finance from official lenders, export credit institutions, and private sources.13 The World Bank's objectives are not only to increase available funds but also to lengthen loan maturity periods and minimize borrowing costs.14 Cofinancing provides lenders with certain guarantees of World Bank financing and assurances that projects are well-conceived and supervised. The World Bank's participation in cofinancing with commercial banks may take several forms. The World Bank may participate directly in securing later maturity periods for private bank loans, may instead guarantee those later maturities, or may participate if interest rates rise above a certain level.15 Thus, World Bank participation makes financing available on terms comfortable for banks and debtor countries.16

Like the IMF, the World Bank influences private lending directly and indirectly: directly by its participation in debt rescheduling negotiations; and indirectly by its own lending and analyses of economies, policies, and project proposals of developing countries. While national bank regulation may typically focus on such prudential measures as capital-asset ratios, World Bank and IMF approval of countries' economic plans provides a different sort of prudential control on international bank lending.

C. The Paris Club

The "Paris Club" is the "institution" through which credits extended by governments or by private lenders possessing a creditor-
government guarantee are rescheduled. Despite its name, the Paris Club has no members and no written operating rules. It does have a chairman, a French Ministry of Finance official, who convenes meetings upon formal request by a debtor country. All reschedulings are done on a case by case basis, but “institutional memory” allows due regard to precedent.

The Paris Club originated in 1956 when a group of creditor governments met in Paris to negotiate a debt relief arrangement with Argentina. Creditor countries wanted to establish common terms for debt restructuring applications rather than negotiate a series of bilateral arrangements with debtor countries. Since that time the Paris Club has conducted more than sixty-five reschedulings and has become an integral part of efforts to manage the global debt crisis.

Although the debtor must initiate the request for debt relief to procure Paris Club assistance, creditors must be persuaded that the debtor will default on its external payments without such relief. This situation is labeled “imminent default.” Creditors normally await an IMF staff paper describing the debtor country’s standby request before taking a negotiating position on credit terms. At the actual Paris Club meeting, IMF, World Bank, and UNCTAD representatives are present. While proposals and counterproposals are made, the debtor and creditors usually reach an agreement within two days. A Paris Club agreement, however, only provides a framework for fu-

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17 Id. at 91. “In some respects the ‘Paris Club’ is a misnomer, for it has no ‘members.’ Rather, it has ‘participating creditor countries.’ The Paris Club is less an institution and more an ad hoc procedure for renegotiation of debts owed to official creditors . . . .” Id.
18 Recent Multilateral Debt Restructurings, supra note 6, at 15.
19 Rieffel, supra note 16, at 83.
21 Commercial banks were not involved in debt relief in the late 1950s and early 1960s because they were not major creditors. In the late 1960s creditor governments experimented with debt relief as a form of development assistance. In the early 1970s creditor governments were first faced with debtor-country insolvency. Creditor governments then granted long term rescheduling at concessional interest rates. In the mid-1970s, however, official creditors abandoned debt relief as a form of aid and commercial banks were faced with reschedulings on their own. Rieffel, supra note 16, at 83-84. Although the Paris Club is open to any creditor country with a significant exposure in the debtor country concerned, as a practical matter only Organization for Economic Cooperation and Development (“OECD”) member countries have participated in Paris Club negotiations. Id. at 92. Other multilateral fora, such as aid consortia, the OECD, and special creditor groups, have provided debt relief, but the negotiating framework has remained essentially the same. Recent Multilateral Debt Restructurings, supra note 6, at 15.
22 Rieffel, supra note 16, at 84-85.
23 Id. at 95-97. The Paris Club has renegotiated debt of nonmembers of the IMF, such as Cuba, Poland, and Mozambique, by substituting a task force to evaluate the country’s recovery plan. Sington, The Most Exclusive Club in Paris, EUROMONEY, Oct. 1985, at 383.
ture negotiation because bilateral agreements between the debtor
country and each participating creditor must subsequently be
executed.  

The Paris Club process divides creditors into four broad groups:
multilateral lending institutions, such as the IMF and the World
Bank; official creditors participating in the Paris Club negotiations;
non-participating official creditors; and private creditors, such as
commercial banks.  

The Paris Club generally attempts to implement the principle of
burdensharing among participating creditors. This requirement of
providing relief commensurate with a creditor's exposure in the
debtor country is not applied, however, to multilateral lending insti-
tutions. Participating official creditors ensure burdensharing from
non-participating official creditors through "non-discrimination"
clauses in standard Paris Club agreements. If a debtor country, hav-
ing signed such a clause, pays more to non-participating creditors
than is consistent with Paris Club terms, then Paris Club creditors
have the right to demand larger payments from the debtor.  

Non-discrimination clauses are not applied to private creditors;
instead, the concept of "comparable treatment" is used. Essentially,
debtor governments agree to seek relief from the banks on terms
comparable to those sought from official creditors. Specifically, the
terms are to be as generous in the context of normal commercial
lending as those offered by creditor governments in the context of
their lending. "Comparable treatment" recognizes that government
creditors should be more generous in their terms than banks because
commercial lending is profit-motivated and involves tax, income, and
regulatory implications that government lenders need not
confront.  

Several institutional reforms of the Paris Club process have been
proposed. First, creating a more permanent form for the Paris Club
process has been suggested. Second, the process has been criticized
for the frequency with which debtor countries must return to
reschedule their debts. Third, some commentators have called for
generalized debt relief or long-term "workout arrangements." Fourth,
some debtors have objected to the participation of the
IMF.  

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25 Id. at 87.
26 Id. at 87-88. Whether co-financiers with multilateral institutions will be similarly
treated as exempt from burdensharing requirements is a matter of debate. Id. at 87 n.15.
27 Id. at 90.
28 Nigeria recently attempted to deal with its creditors without first obtaining IMF
approval of its economic reforms. Nigeria Promotes Its Strategy for Foreign Debt Repayment,
rescheduled $47 billion in foreign debt. Sington, supra note 23, at 383.
Since 1956 more than sixty-five Paris Club agreements have been completed, forty of which were concluded between 1978 and 1983. Overall, as U.S. Treasury economist Alexis Rieffel has said:

The Paris Club system works . . . given the amounts involved, the conflicting interests of debtors and creditors, and the differing views among creditors, it is remarkable how smoothly the negotiations proceeded in all but a few cases. It also is remarkable how little time, effort and expense has been involved in these negotiations.  

D. Bank Advisory Committees

Commercial bank creditors have developed a restructuring process similar to that of the Paris Club. Previously, such creditors negotiated lengthy and complex restructuring agreements. Currently, banks reach a precatory agreement on the treatment of different debt categories. Separate restructuring agreements between the debtor country and the creditor banks are then negotiated to complement the broad agreement on principles.  

Bank advisory or coordinating committees normally provide the framework for reaching such restructuring agreements. These committees are often referred to as the London Club. Such a committee acts as advisor and liaison for all bank creditors. The committee provides a forum for discussing coverage and restructuring terms and, as necessary, maintaining short-term bank exposure and providing new financing.  

The IMF participates in negotiating meetings of the bank advisory committees on request. Private banks frequently insist, either as a condition precedent to executing a restructuring agreement or as a precondition to initiating debt renegotiations, that an IMF adjustment program be in place. A World Bank structural adjustment loan program may similarly be required. A Paris Club agreement may also precede bank renegotiations to allow comparable treatment or to assure IMF participation.  

Banks have been unwilling to reschedule payments at less than market-related interest rates. Therefore, restructuring usually requires banks to provide additional financing. Banks have also resisted rescheduling interest payments because rescheduling might
cause loans to be reclassified as nonperforming assets.\textsuperscript{36}

A recent development in restructuring sovereign debt is the negotiation of multi-year restructuring agreements ("Myras"). Unlike past restructuring agreements, which dealt only with maturities coming due in the same or the following year, Myras cover maturities of five or more years. Partly in return for getting a longer term commitment from banks, the debtor agrees to the following terms: biannual rather than annual visits by the IMF with the attendant confidential report made available to the creditor banks; and a currency switch mechanism so that banks outside the United States can switch their loans into their home currency. Myras also reduce the sovereign's debt service obligations by tying such funds to an inter-bank rate ("Libor") or a cost-of-funds domestic rate instead of a margin over prime rate. The theory is that Myras create a payment schedule that sovereigns are more likely to be able to meet.\textsuperscript{37}

Suggestions—similar to those advanced about the Paris Club—that bank advisory committees should be transformed into semi-permanent institutions have been made. Improved information and analysis resulting from more continuous operation of such committees would enable the parties to respond before a severe financial shortfall arrives. Partial reschedulings and closer coordination between the World Bank, IMF, and private creditors would then be possible. As another needed improvement, central banks might help to prevent smaller banks with limited exposures to foreign debtors from withdrawing their funds.\textsuperscript{38}

The Paris Club and bank advisory committee processes have resulted in successful international debt rescheduling. Together these institutions impose terms of imminent default, conditionality, burdensharing, and involuntary lending on debtor countries and their official and private creditors. Through these means, the permanent and ad hoc institutions have managed to defer the global debt crisis. Nonetheless, most observers continue to believe that additional international regulatory improvements are needed.

\textit{E. The Baker Plan}

During the 1985 annual meeting of the World Bank and IMF, U.S. Treasury Secretary James A. Baker III unveiled a new U.S.-
sponsored initiative aimed at fostering growth in developing countries and curtailing the international debt crisis. A broad emphasis on economic growth as a condition for the payment of developing country debt lies at the heart of the Baker initiative. Baker’s “Program for Sustained Growth” calls upon commercial banks to lend an additional 20 billion dollars over three years to support economic growth in fifteen developing countries.\(^{39}\) In addition, the program encourages international financial institutions, including the World Bank, to increase lending by 9 billion dollars to support structural policy improvements and to supplement continued balance of payments lending by the IMF. In return for increased capital flows, the fifteen developing countries are urged to implement sound fiscal and monetary policies, strengthen their private sectors, facilitate foreign investment, liberalize trade, and pursue market-oriented approaches to currencies, interest rates, and prices.\(^{40}\)

The reaction of the international community to the Baker Plan has varied considerably. On October 28, 1985, the Institute of International Finance convened a meeting of the sixty banks from around the world holding eighty-five percent of the third world debt. Although the major U.S. commercial banks praised the Baker Plan—unsurprising, given their extensive exposure to debtor countries—regionally oriented U.S. banks as well as European and Japanese banks reacted warily. Many banks wanted guarantees from industrialized country governments for increased bank loans. Less than two months after the Baker Plan was unveiled, the heads of the World Bank and IMF, with the endorsement of their boards of directors, issued an unprecedented joint statement of support for the Plan.\(^{41}\)

Despite the Baker Plan’s apparent emphasis on growth rather than austerity, developing countries have, for several reasons, been noticeably slow in endorsing the overall program. First, the Plan will require developing countries to implement painful and politically sensitive policy corrections, including cuts in government payrolls and subsidies to state enterprises. Second, although the Plan is viewed by the majority of developing countries as a positive step, most, if not all, feel that the Plan does not go far enough. According to several economic officials from developing countries and some economists from the industrialized world, two key components for resolving debt crises, abating high interest rates and protectionism in the United States and Europe, are not addressed in the Baker plan.


\(^{40}\) Martin & Westlake, *supra* note 38, at 85.

Plan. Finally, some debtor countries view the Plan as another attempt by the industrialized world to interfere in internal policy-making, all for the sake of ensuring the stability of the major international banks.

Despite concerns expressed about the Baker Plan, the Reagan Administration appears determined to forge ahead with the initiative, assuming a model debtor can be found to test the scheme. At the moment, this model debtor appears to be Argentina, which in the eyes of the international banks has undergone a remarkable economic reconstruction in just eighteen months. Although Argentina has held several meetings with officials from the United States, World Bank, and IMF, it remains unclear whether the country will choose to take advantage of the Baker Plan. Even if the Baker Plan is implemented and the economies of debtor countries grow, many believe that more drastic measures are needed for the debtor countries to shoulder their debt burden.

II. Influencing Bank Regulation

A. Institute of International Finance

The Institute of International Finance (the “Institute”) is an organization of private commercial banks created to improve the process of sovereign risk lending. The idea for the Institute was conceived at a meeting sponsored by the National Planning Association held at Ditchley Park, England, in May, 1982. Later that year, representatives of thirty-one major banks from eight countries met in New York to decide upon operating procedures. The Institute of International Finance, Inc., was incorporated in Washington, D.C., as a non-profit institution in January 1983. As of 1984, 189 commercial banks from thirty-nine countries were members. This represents more than eighty percent of total international banking exposure to the developing world.

Participants at the first Ditchley meeting recognized the private banking community’s need for up-to-date financial and economic information on debtor countries and identified four basic deficiencies

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44 Id. at 117. Any commercial bank with international exposure from loans in its portfolio for its own risk can become a member of the Institute. Excluded are banks not participating in international lending in any significant way and those lending only for the account of official agencies. Id. at 116.
45 W. Cline, International Debt and Stability of the World Economy 97 (Inst. for Int'l Econ., Pol'y Analysis in Int'l Econ. No. 4, 1983).
in the flow of information. First, debtor nations provide information to official institutions, such as the Bank for International Settlements (the "BIS") and the IMF, on a confidential sovereign-to-sovereign basis. Although private commercial banks cannot readily gain access to this information, they are still expected to participate actively in restructuring schemes developed by the official multilateral institutions. Second, the data available to the banking community is not as current as it should be. For example, information from official sources is frequently out of date by six months or more. According to the "information gap" hypothesis on the 1982 debt crisis, because individual banks did not know how rapidly their competitors were expanding lending (especially short-term lending), by the time the true magnitude of increased debt was known the situation was out of control. 46 Third, because smaller, regional banks perceive the larger, money-center banks as having far more sophisticated information about the financial condition of borrowing countries, they have been far less willing to continue lending to debtor countries since the advent of the debt crisis. Fourth, information reported by borrowing countries varies considerably in quality. The Institute, therefore, could obtain information, sufficiently current for banks to make independent credit judgments, which would be available to smaller and non-money-center banks. This information would be drawn from official reports already prepared by the BIS, the IMF, and the World Bank and from member banks which have collected information from debtor countries. 47

To improve the process of international lending, the Institute has undertaken three main tasks: to improve the timeliness and quality of information available on sovereign borrowers; to facilitate communication among the major participants in the international lending; and to encourage an exchange of views within the financial community on the future of international lending.

1. Information

Data on each borrowing country’s overall economic situation and debt problems is covered on an eighty-line data table, available by direct computer access, including roughly thirty developing countries. In-depth country reports, prepared by the Institute’s staff, review each country’s economic policies, development plans, balance of payments prospects, and external financing requirements. These

47 Id. at 118-22. The range of issues includes flexible new approaches to terms in rescheduling agreements, legal and technical aspects of reschedulings, and institutional initiatives such as cofinancing, insurance/guarantees, establishing a private lender of last resort, and organizing secondary markets for LDC paper. Institute of International Finance, The Working Party on the Future of International Lending 1 (unpublished manuscript).
reports focus on the kinds of information most valuable to commercial bankers making lending decisions.

2. Facilitating Communication

The Institute conducts country visits with an Institute staff member and several representatives from debtor nations to facilitate communication. It also represents the views of the commercial banking community before various multilateral organizations and government regulatory bodies.

3. Exchange of Views

Under the auspices of the Institute, the Working Party on the Future of International Bank Lending has met several times to exchange views and established committees on various issues involved in debt restructuring. This is the first attempt by the banking industry as a whole to deal cooperatively with sovereign debt issues.

Commentators envision other potential roles for the Institute. Economist William Cline, for example, suggests that the Institute prepare country credit ratings since it would not be subject to the political pressures that affect the IMF. Cline also suggests that the Institute could help mobilize lending from smaller banks. Major banks have often been compelled to provide capital to preserve their existing individual large exposures. Some smaller banks, however, have attempted to avoid continued lending to debtor countries. To some extent, this "free ride" phenomenon has been reduced through pressure applied on smaller banks by central banks and large private banks. The Institute might add some degree of moral persuasion to these efforts.

B. The Bank for International Settlements

The Bank for International Settlements, located in Basel, Switzerland, is an organization of central banks. It was established in 1930 to promote cooperation among central banks, to provide additional facilities for financial operations, and to act as trustee for post-World War I reparations agreements.

The Bank for International Settlements (BIS) has twenty-nine members. The United States is a member through a group of private U.S. banks, although it is the only country (entitled to do so) whose central bank has chosen not to be represented on the Board of Directors. The central banks of Australia, Canada, Japan, and South Af-

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48 W. Cline, supra note 45, at 97.
49 BANK FOR INTERNATIONAL SETTLEMENTS STATUTES, art. 3.
50 Report to Congress by the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, and the Secretary of State on United States Membership in the Bank for International Settlements 2-3 (Nov. 30, 1984).
rica are the only other non-European members. While all of the Eastern European central banks, except for the Soviet Union, East Germany, and Albania, are members, no developing country central banks are included among the membership.\(^5\)

The BIS is both a forum where central bankers meet to discuss issues of common concern and an international financial institution. Since 1963 the BIS has hosted monthly meetings ten times annually of central bank representatives from the Group of Ten countries\(^5\) for discussions of national and international economic issues. Specialists in foreign exchange, the Eurocurrency markets, and bank supervision meet regularly under BIS auspices as well. In addition, the BIS serves as the secretariat for periodic meetings of the Governors of Central Banks of the European community and is part of the secretariat for the Group of Ten ministers and governors.\(^5\)

The BIS has mobilized financing at various times. In the 1960s and 1970s BIS discussions facilitated balance of payments financing for several European countries. More recently, medium-term credit lines to the IMF have been arranged through a number of central banks.\(^5\) In 1982 and 1983, the BIS helped arrange bridge financing for several countries that were then facing debt-service problems. These arrangements led to short-term multilateral credits while new medium- and long-term lending commitments were finalized.\(^5\) Not only did the BIS organize central bank participation in these financial arrangements, but it also committed its own institutional resources.

The BIS is not an international lender of last resort facility. In fact, no such facility now exists. Following the Herstatt bank failure in 1974, the central bank governors of the Group of Ten and Switzerland issued a communiqué that touched on the lender of last resort function: The Governors recognized that it would not be practical to lay down in advance detailed rules and procedures for the provision of temporary liquidity. But they were satisfied that means are available for that purpose and will be used if and when necessary.\(^5\) The bank governors assumed that the principle of "parental responsibility" applied, and thus that the central bank supervising a bank's headquarters would provide emergency financing.\(^5\)

\(^{51}\) Id. at 9. The Group of Ten includes the United States, the United Kingdom, Canada, France, Germany, Italy, the Netherlands, Belgium, Sweden, and Japan.

\(^{52}\) Id. at 9-10.

\(^{53}\) Id. at 11.

\(^{54}\) Recent Multilateral Debt Restructurings, supra note 6, at 27.


Nonetheless, the BIS communiqué applies only to Group of Ten banks and the allocation of responsibility for subsidiaries is unclear. Therefore, this attempt to provide assurances of a lender of last resort remains quite imperfect.  

The BIS functions of providing a forum and arranging financings are complemented by its third role of compiling information. For example, since 1981 the BIS has collected consolidated data—as a result of Cooke Committee efforts—on asset and liability maturities so that the maturity mismatching problem can be better understood and addressed.  

C. The Cooke Committee  

In 1974 the Bank for International Settlements, seeking to address new issues in international banking supervision, created a standing committee of bank supervisors from the Group of Ten countries plus Luxembourg and Switzerland. This Committee on Bank Regulations and Supervisory Practices is referred to as the Basel Committee or by the name of its chairman, currently Peter Cooke of the Bank of England.  

The basic role of supervision is to ensure that banks have adequate procedures to manage risk and possess sufficient information on which to base lending decisions. The Cooke Committee was designed to augment national supervision techniques. In the words of Chairman Cooke:

The purpose of the Committee is to provide a regular forum for closer international cooperation on banking supervisory matters and to work towards improving the cohesion of arrangements for supervising the activities of banks operating in international markets. It has set out to do this in three ways: (1) to improve the general coverage and effectiveness of supervisory techniques for international banking business, (2) to address particular prudential problems affecting banks operating internationally and (3) to exchange information on national supervisory arrangements with the object of improving the quality of banking supervision worldwide.  

The Committee meets three times a year in Basel. The personal contacts between supervisors resulting from these meetings have created a de facto early warning system for bank crises.  

Both host-country and parent-country central banks share responsibility for supervising subsidiaries, according to the revised Concordat, but such supervisory responsibility does not necessarily apply to lender-of-last resort responsibility. *Id.* See infra text accompanying notes 66-67.

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58 INTERNATIONAL BANKING SAFETY NET, supra note 55, at 28.  
60 Cooke, Basle Supervisors’ Committee, 8 ISSUES BANK REG. 7, 8 (1984).  
61 INTERNATIONAL BANKING SAFETY NET, supra note 55, at 26.  
sors call on supervisors of other nationalities, whom they already know and trust, for information or tactical planning when a banking problem appears on the horizon.

One of the most important projects of the Cooke Committee has been developing and propagating the Basel Concordat in 1975 and the revised Concordat in 1983. In 1975 the Central Bank Governors of the Group of Ten approved a set of broad guidelines demarcating responsibilities among national supervisory authorities. The Concordat's two fundamental objectives are that no foreign bank should escape supervision and that supervision should be adequate. The guidelines embody the following key principles: (1) supervising foreign banking establishments is the joint responsibility of parent and host authorities; (2) no foreign banking establishment should escape supervision; (3) supervising liquidity should be the primary responsibility of host authorities; (4) supervising solvency is essentially a matter for the parent authority in the case of foreign branches and primarily the responsibility of the host authority in the case of foreign subsidiaries; (5) practical cooperation should be promoted by exchanges of information between host and parent authorities and by authorizing bank inspections by parent authorities in the territory of host authorities.63

The revised Concordat, published in 1983, differs from the 1975 agreement in several ways. First, it incorporates the principle of consolidated supervision. Supervisors cannot be assured of an individual bank's soundness without knowing that the banking group, comprised of the parent, branches, and subsidiaries, has not assumed total commitments and risks that are disproportionate to the group's capital base.64 The consolidated supervision proposed in the revised Concordat applies to country risk exposure as well as capital adequacy.65 Second, supervisory gaps have resulted from inadequate supervisory standards in certain countries, especially offshore banking centers, and from the existence of non-branch entities, such as holding companies and non-banking companies that can be exempt from supervision of parental authorities. The revised Concordat clarifies that host-country and parent-country central banks jointly share responsibility for supervising branches and subsidiaries with respect to liquidity; however, regarding solvency, parent central banks supervise, while joint parent-host supervision is required for subsidiaries.66 Third, the revised Concordat explicitly states what was implicit earlier: the central banks will not necessarily

63 INTERNATIONAL BANKING SAFETY NET, supra note 55, at 21.
64 Id. at 16.
65 W. CLINE, supra note 45, at 120.
act as lenders of last resort.67

The Cooke Committee, along with other supervisory groups, addresses a continuing agenda of international banking problems. Current issues include techniques of international cooperation, improvements in the exchange of information, standards of capital adequacy, professional assessment of risk, and the practical problems of dealing with failing or failed banks.68

D. Other Groups of Banking Supervisors

The Cooke Committee realized that to establish universal and adequate banking supervision it needed to spread the principles and practices of supervisory cooperation beyond its own membership. The Committee, therefore, circulated committee documents among the supervisory groupings, particularly among developing financial centers. As a result, several new groups are now in operation, including the Offshore Supervisors' Group; the Commission of Latin American and Caribbean Banking Supervisory and Inspection Organizations; and other similar groupings in the Middle East, Southeast Asia and Western Pacific regions; Scandinavian countries; and Central American Republics.69

Additionally, several international conferences of supervisory authorities have promoted cooperative action with nonmembers. Supervisors at the first conference, held in London in 1979, generally accepted the Concordat principles. The Offshore Supervisors' Group itself has accepted the Concordat principles, a significant step since offshore banking centers are the weak link in adequate banking supervision.

The Offshore Group of Banking Supervisors (the "Offshore Group") has been meeting annually since October 1980. Its membership70 is open to any offshore banking center which has endorsed the revised Basel Concordat and has a governmental structure capable of implementing the Concordat's principles. The Offshore Group has gone beyond endorsing the Concordat to agree upon the following: (1) offshore supervisory authorities must know the extent to which parent authorities are supervising banks operating in offshore territories on a consolidated basis; (2) offshore supervisory authorities must carefully consider the financial standing and

68 Id. at 4-5. For brief summaries of the EXPERT Banking Group of the OECD, the Nordic Supervisory Group, SEANZA Forum of Bank Supervisors, Banking Supervisors of the Caribbean, and Gulf Coordinating Council of Central Banks, see Appendix I, reprinted from Bench & Sable, infra note 69, at app. B.
69 Current members include Bahamas, Bahrain, Barbados, Cayman Islands, Cyprus, Gibraltar, Guernsey, Hong Kong, Isle of Man, Jersey, Lebanon, Netherlands Antilles, Panama, Singapore, and Vanuatu. Bench & Sable, The Structure of Proposed and Controlling Agreements Regulating Transnational Banking Operations 13 (unpublished manuscript).
70 Id. at 14.
reputation of applicants for bank licenses; (3) the Offshore Group will notify parent authorities of licensing applications by parent banks to offshore centers; (4) host and parent authorities should consult on an ongoing basis.\footnote{Id. at 15.}

The Commission of Latin American and Caribbean Banking Supervisory and Inspection Authorities (the "Commission") was organized in July 1981 and has generally been meeting annually since then. Currently, the Commission has twenty-three members.\footnote{Id. at 16-17.} In addition to endorsing the Concordat, the Commission has focused general and technical discussions on the following subjects: standardizing asset valuation and capital adequacy in inflationary settings; the impact of the debt crisis on bank supervisors; more uniform rules for establishing and operating foreign banks in member countries; standards for credit diversification; improved financial disclosure; early warning systems; and deposit insurance.\footnote{Muller, \textit{A Legal Framework for International Supervision: The EEC Model}, 8 \textit{Issues Bank Reg.} 56 (1984); R. Dale, \textit{Bank Supervision Around the World} 6 (1982).}

\section*{E. The Advisory Banking Committee and the Contract Group of the EEC}

Whereas the Cooke Committee endeavors to bring about a gradual "convergence" in practice in banking supervision, the European Economic Community (the "EEC") promotes harmonization through legal directives. Harmonizing banking supervision represents a step towards creating and regulating the common market in banking as envisioned by the 1957 Treaty of Rome.\footnote{Muller, supra note 73, at 38-39.}

In 1977 the EEC Council of Ministers adopted the First Banking Coordination Directive. It established minimum authorization criteria for credit institutions, uniform calculation of prudential ratios for solvency and liquidity (initially for observation purposes only), and the Advisory Banking Committee to assist with further coordination efforts. More recently, the 1983 Consolidation Directive prescribed supervision of banks on a consolidated basis. It directed member states to eliminate all legal obstacles, including national banking laws and regulations, to the exchange of the information necessary for consolidated supervision.\footnote{R. Dale, supra note 73, at 6.} To support consolidated supervision, the Advisory Banking Committee introduced a new series of observation ratios covering solvency, liquidity and profitability.

The Advisory Banking Committee is a high level policy-making committee, backed by a secretariat from the EEC Commission, which in turn makes recommendations to the EEC council. It consists of not more than three representatives from each member state and the
EEC Commission, and usually meets twice a year in Brussels. The committee works alongside the EEC Commission to formulate general policy guidelines for supervisory coordination within the European Economic Community.\textsuperscript{76}

Supporting coordination work of the EEC Commission and the Advisory Banking Group is an informal club of member states' supervisory authorities know as the Contact Group. Established in 1971, the Group provides national supervisors with a forum to exchange views and develop an understanding of each other's regulatory systems. The Group submits to the Advisory Banking Group or the EEC Commission detailed studies that provide a basis for formal harmonization proposals. The Contact Group also frequently exchanges information with the Cooke Committee.\textsuperscript{77}

Since 1972 the Contact Group has met regularly, generally three times a year, with the EEC Commission attending since 1975. The Group's work has evolved over the past decade into four main activities: (1) information is exchanged about particular problem institutions when there may be implications for supervisors in other member states; (2) the Contact Group meets to keep members abreast of developments in national supervisory arrangements; (3) it conducts comparative studies addressing different aspects of supervisory practices in the member states. Prudential reporting and the control of risk concentration, interest rate risk, and off-balance sheet risk were all recently studied; (4) the Contact Group works with the EEC Commission and the Banking Advisory Committee, although this informal role was not envisioned by the Contact Group's founders.\textsuperscript{78}

Conclusion

Generally, the goals of banking regulation are promoting bank stability, protecting the public against instability, and promoting the efficiency and integrity of financial services.\textsuperscript{79} Bank stability has the following aspects:

- the potential for external disturbances, which may take the form of credit, interest rate or other shocks; the capacity of banks to withstand such disturbances, as measured, for instance, by capital and liquidity ratios; and the ability and willingness of national or international authorities to provide support in the event that individual institutions or the system as a whole should experience severe

\textsuperscript{76} Id. at 6-7 (unpublished manuscript presented at the Central Banking Seminar of the International Monetary Fund in Washington, D.C., June 28-July 13, 1982).

\textsuperscript{77} Schneider, The Contact Group of EEC Supervisory Authorities, 8 Issues Bank Reg. 15, 16-17 (1984).

\textsuperscript{78} R. Bench, A Framework and New Techniques for International Bank Supervision 6-7 (1982).

The debt crisis has shown that, in their international lending, the major U.S., European, and Japanese banks have not adequately assessed the potential for external disturbances in their international lending and have not sufficiently maintained their capacity to withstand such disturbances. Lending through subsidiaries and other affiliates has often made it more difficult for banks to monitor and control their exposure in certain countries. The capital adequacy of many banks has declined and loan-loss provisioning has not been adequate. Furthermore, provisioning standards frequently overlook the risk of sovereign governments being unable to repay debts and the related risk of countries having insufficient foreign exchange reserves to repay private or government debts on time. National supervisors permit another gap in their prudential controls by exempting foreign currency deposits from the reserve requirements applied to banks’ domestic currency liabilities. A final systemic shortcoming is that banks have at times lent money without sufficient information on countries’ economic and financial conditions.

The Institute of International Finance, the Bank for International Settlements, the Cooke Committee, other supervisory groups, and the Contact Group are addressing the need for better preventative measures that will enable banks to absorb external shocks. Yet, sufficient progress on these issues has not been made. Aside from the Contact Group, which is limited to EEC countries, no organization has sufficient authority to enforce compliance with agreed upon principles. Consolidated supervision is far from achieving universal, effective implementation.

On the international level, emergency arrangements to support and supervise banks in severe financial crisis are even further from being realized. Despite the BIS’ efforts during the Mexican debt crisis, no comprehensive international lender of last resort exists. Commentators have proposed that such a facility be established as a supranational institution backed by central banks, or as an institution organized by private international banks and designed to provide liquidity support on a reciprocal basis. Since foreign currency deposits generally are unprotected by national insurance schemes, development of international deposit insurance has also been

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81 Id. at 15-19.
82 R. Dale, supra note 79, at 12.
83 INTERNATIONAL CAPITAL MARKETS, 1984, supra note 80, at 18.
85 R. Dale, supra note 79, at 180.
proposed.\textsuperscript{86}

As a result of inadequate supervision of international banking and other causes of the debt crisis, the financial world faces a twin dilemma: private banks are overexposed in their lending to certain debtor countries, and developing countries need access to new capital in order to adjust their economies and to service existing debt.\textsuperscript{87} Multilateral institutions and bank supervisors may recognize this dilemma, but existing systems do not seem capable of an adequate response.

A number of commentators\textsuperscript{88} have suggested in various formats the transfer of private bank loans to an international agency that would in turn transfer its own higher rated paper to private banks. This international agency would stretch out maturities of developing country debt and reduce interest rates. This system would both reduce the debt service burden on debtor countries and increase private bank liquidity by relieving banks of involuntary loans to debtor countries. However, such suggestions have been criticized for eliminating bank incentives to extend new involuntary loans and, paradoxically, reducing new capital flows to debtor countries.\textsuperscript{89}

The 1970s saw a dramatic shift in the composition of lending to developing countries from official to private lending. Official credits did not keep pace with debtor needs. Banks filled the financing gap but shortened maturities and charged variable interest rates. With monetary disinflation in the 1980s much higher interest rates resulted. Private lending abruptly contracted following the 1982-83 debt disruptions and may now have to be supplemented by a renewed emphasis on official financing. IMF quotas may again have to be increased, and the World Bank and other multilateral financial agencies may be required to enlarge their lending activity.\textsuperscript{90}

Increased leveraging of resources of the World Bank and other multilateral institutions would also increase capital flows to debtor countries without jeopardizing prudential controls on private banks.\textsuperscript{91} William Bolin and Jorge del Canto have proposed a new Export Development Fund that would finance medium-term loans, 

\begin{footnotesize}
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\item \textsuperscript{87} W. Cline, \textit{supra} note 57, at 130-33. The principle reform proposals discussed in the United States have been advanced by Peter B. Kenen of Princeton University, Senator Bill Bradley (D-NJ), Congressman Charles E. Schumer (D-NY), and financier Felix Rohatyn. W. Cline, \textit{supra} note 46, at 114.
\item \textsuperscript{88} W. Cline, \textit{supra} note 57, at 133-35.
\item \textsuperscript{89} Id. at 146.
\item \textsuperscript{90} The World Bank has approved the creation of the Multilateral Investment Guarantee Agency which will enter the arena of guaranteeing direct private investments. Voss, \textit{Introductory Note, World Bank: Convention Establishing the Multilateral Investment Guarantee Agency}, 24 \textit{Int'l Legal Materials} 1598, 1598-1600 (1985).
\item \textsuperscript{91} Bolin & del Canto, \textit{supra} note 1, at 1110-11.
\end{itemize}
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with private banks providing shorter-term credits and the World bank guaranteeing resources for the final period of twenty-year loans.\(^9\) A related proposal to bridge the gap between long-term and short-term financing would entail the creation of a new, highly leveraged World Bank subsidiary.

The Baker Plan combines the elements of increased private bank lending with greater development bank lending and participation. However, the 29 billion dollars in new money allocated for the Bank Plan may well be insufficient.

Coordination among international institutions has improved in recent years. Current global financial challenges, however, call for new arrangements, expanded institutional authority, and perhaps new institutions.

**APPENDIX**

1. *Expert Banking Group of the OECD*. This group was formed by the Committee on Financial Markets of the Organization for Economic Cooperation and Development and consists of bank regulatory and supervisory officials from the 24 industrialized countries. The Group has prepared a series of studies on differing national supervisory requirements and areas for convergence of requirements.

2. *Nordic Supervisory Group*. This organization is the oldest of the supervisory groups. The first official meeting of this group occurred in June, 1925, between the authorities in Denmark, Finland, Norway, and Sweden. Iceland later became a member. The Group meets on an annual basis. The Group's general purpose has been to exchange information rather than to adopt specific principles or common standards. Initial meetings generally concerned the methods and organization of bank supervision. Subsequent meetings focused on specific subjects such as valuation of assets and accounting principles. Currently, the Group has concerned itself with banks' foreign activities, particularly the development of consortia banks jointly owned by banks in the Nordic countries. Arrangements have been made for coordinated supervision of the shareholding banks' foreign departments as well as supervision of the consortia banks themselves.

3. *SEANZA Forum of Bank Supervisors*. This organization was established in 1984 by the SEANZA Council of Governors. (SEANZA is an organization of central banks in the Indian sub-continent, S.E. Asia, and the Pacific Basin.) Forum members include: Australia, Bangladesh, India, Indonesia, Iran, Japan, Korea, Malaysia, Nepal,

\(^{92}\) *Id.* at 1109; *Surrey & Nash*, *supra* note 43, at 124.
New Zealand, Pakistan, Singapore, Sri Lanka, and Thailand. Non-members of SEANZA in Asia and the Pacific may attend Forum meetings. The Forum first met in November 1984 and plans future annual meetings. The purposes of the Forum are to foster cooperation in the exchange of information and ideas and to discuss problems of common interest. At the first meeting, each member submitted a paper summarizing the banking system, and bank regulations and supervision in the member's country.

4. Banking Supervisors of the Caribbean. This group was organized in 1982 under the auspices of the Center of Latin American Economic Studies in Mexico City. Membership includes banking supervisors from twelve countries and is open to supervisors in any Caribbean nation. Three annual meetings have been held as well as numerous training programs. In addition to facilitating contacts among the members, the purpose of the group is to establish and improve standards for bank examination and supervision. Members also participate in the Commission of Latin American and Caribbean Banking Supervisory and Inspection Authorities.

5. The Middle East. Although there is no formal organization of banking supervisors, contacts and collaboration among the supervisors in this region have been fostered and strengthened under the auspices of the Gulf Coordinating Council of Central Banks.