



An Analysis of the interface of the bank of international settlement and the bretton woods system in financial governance

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Abstract

The need for an international banking regulator is highly predicated, with the Bank of International Settlements (BIS) currently serving as a centre for central banks and financial regulators of the world, to deal with international financial issues. By issuing memoranda and drafting regulations on several subjects affecting international banking like capital, management of international conglomerates, and electronic banking. Despite this, the emerging challenges of the international banking systems have ignited the need for some form of unified regulation and control. As the need for one international banking regulator is increasingly acknowledged, with BIS coming closer than ever to fulfilling this function. Since the International Monetary Fund (IMF) is seen to be too politicised. As such, only the BIS has attracted the intellectual resources needed to resolve international problems thoughtfully and deliberately, as the world's banking centre. Although to be anointed as an international regulator with the power to impose rules, would require massive compromises among national regulators in this regard. On this base, the current configuration of the international financial system (IFS) is classified into three groups of organizations. With the configuration of the IFS reflecting the evolving characteristics of capitalism. In this vein, the paper focuses on the first group, by providing the scope and historical configuration of the financial regulatory organisation of the IFS, and the interface of the BIS and IMF. So as to show how organisations can play a new role in the face of the challenges of an increasingly interconnected and interdependent international scenario.

Keywords: interface, BIS, bretton woods system, financial governance

Introduction

The Bank of International Settlements (BIS) also called the 'bank of central banks,' was set up in Basel, Switzerland in 1923 - to handle the remaining financial issues from World War II, largely with regard to German's reparation payments. It was the first of the semi-public international banks, whose functions changed gradually over the years and, largely since the late 1970s. It has served as the *situs* for the world's central banks and financial regulators to pool ideas and deal with international financial issues (Westermeier, 2018) ^[31]. As a group of committees, composed mainly of representatives of central bankers, currently meet at BIS, with the aim to issue memoranda and draft regulations on several subjects affecting international banking. These include issues relating to the regulation of capital, management of international conglomerates, and the problems resulting from electronic banking. On this base, the problems in the international banking systems have ignited and illuminated the need for some form of unified regulation and control. Indeed, this need for one international banking regulator is increasingly acknowledged, with BIS having come closer than any other organisation to fulfilling this function (Ibid.). In this connection, the International Monetary Fund (IMF) has also come close but is seen as too politicised. That being the case, it is essential to note that only the BIS has attracted the intellectual resources needed to analyse and resolve international problems in a thoughtful and deliberate manner, as the world's banking centre. As such, it is envisaged that the BIS reached is international as the world's senior financial regulator, although banking is conducted locally. This means to anoint an organisation as a

senior regulator with the power to impose rules would require massive compromises among the national regulators to achieve one central set of rules. That's why, the contemporary configuration of the international financial system (IFS) is classified into three groups of organisations - with the first group exercising functions of regulation and supervision, while the second are those that are regulated and supervised by the former, and the third are those which do not follow such rules or supervision, that is, they have a "shadow banking system". In this context, it is worth noting that this configuration of the IFS reflects the evolving characteristics of capitalism, which is broadly known in this current era of financial globalization (Hirst *et al.*, 2009) ^[14]. What's more, it is important to note that the structure of the IFS and its functioning, carry an apparent contradiction between the expansionist vision and widespread competition that is inherent to capitalism itself, as an economic system. On this account, the paper seeks to examine the first group only, by specifically considering the interface of BIS and IMF. This is to verify how these organisations can play a new role in the face of the challenges of an increasingly interconnected and interdependent international scenario, as the actions of such organisations in the IFS cannot be ignored as a whole. In this vein, the paper is organised into two parts: The first part presents the scope and historical configuration of the financial regulatory organisation of the IFS; while the second peruses the intertwining of the regulatory framework of the chosen "IFS", as it wraps up with a conclusion and way forward.

Scope and Historical Configuration of The Chosen Global Financial Organisations

As highlighted earlier, the IFS comprises three groups of organisations. The first group is those that regulate and supervise the functioning of the system, as most of such organisations have a supranational role; while the second group is regulated institutions that in general, have an area of activity linked to national spaces; and the third group is the shadow banking system. On this base, it is essential to proceed by presenting the history, structure, and characteristics of the most important organisations of the first group, with the aim to illuminate the interface between them.

1. The Historical Compact and Impact of BIS

a. Historical compact

The BIS was established in 1930 in Basel, Switzerland by the Hague Agreements - in the context of the Young Plan, adopted on 20 January 1930 at the Hague Conference. It replaced the 'Agent General for Reparations' and assumed the role of managing the administration, collection, and distribution of the annuities payable as reparations. Besides, the BIS was appointed as an agent to the trustees and trustee, respectively, for the German government's international loans of 1924 and 1930. As such, in the execution of the Young Plan, the BIS reinvested part of the Young Loan proceeds in German bonds (Backer, 2002) ^[3]. With the funds that allowed its functioning being provided by the central banks of Belgium, France, Germany, Italy, Japan, and Great Britain, as well as three private banks in the United States (J.P. Morgan & Company, First National Bank of New York, and the First National Bank of Chicago). Thus, the central bank of each country subscribed to 16,000 shares, and the three private American banks had 16,000 shares each (LeBor, 2013) ^[20]. On this account, the American representation in the BIS was three times greater than that of any other country. Besides, the BIS board consisted of the governors and their alternates of the National Bank of Belgium, Bank of France, German Reichsbank, Bank of Italy, Netherlands Bank, Swedish Riksbank, Swiss National Bank, and the Bank of England, as well as representatives for the Bank of Japan (Ibid.).

Notwithstanding, after the advent of World War II, a resolution was put forth during the Bretton Woods Conference that the BIS should be abolished "at the earliest possible moment". Since it was considered that the BIS would have no useful role to play once the newly created World Bank and IMF become operational. Despite this, the European central bankers held a different opinion, and successfully lobbied for the maintenance of the BIS. For this reason, by early 1948, the liquidation resolution was put aside, with an agreement that the BIS should focus foremost on European monetary and financial matters (BIS, 2017). On this base, the BIS board meetings that resumed in December 1946 gave more priority to stabilising the different European national currencies before trade and foreign exchange restrictions could be gradually lifted. As a consequence, in September 1950, 18 European countries set up a European Payments Union (EPU) and appointed the BIS as its agent. *Per se*, since the prime goal of the EPU was to restore the free convertibility of European currencies in line with the Bretton Woods agreements. As such, each country was supposed to report its bilateral trade deficits or surpluses with each of the other participating countries to

the BIS monthly - where the aggregate deficit or surplus of each country is calculated as part of the EPU as a whole. However, initially, these deficits and surpluses were not to be settled immediately but were instead largely converted into debits and credits within the EPU. But subsequently, the ratio of debits and credits granted by the EPU was gradually reduced until the end of 1958, when it was dissolved (Ibid.).

Eventually, with the signature of the Rome Treaties in 1958, and the starting process of creating the European Economic Community, BIS continued its role as a mentor for the European countries who had signed such treaties. In this vein, both the European Monetary Cooperation Fund (EMCF, 1973) and the European Monetary System (EMS, 1979) were operated from Basel, with the BIS acting as their technical support. Besides, from 1988-1989, the Committee for the Study of Economic and Monetary Union was once again based in Basel, where BIS also provided the technical groundwork for the European Council's decision to move toward a full European monetary union, that was approved in the 1992 Maastricht Treaty. However, with the implementation of the first phase of the monetary union process at the end of 1993, the Committee of Governors was replaced by the European Monetary Institute (EMI) - thus, moving it from Basel to Frankfurt where in 1997, the EMI became the European Central Bank (ECB) (ECB, 2017).

Notwithstanding, in the 1970s, the Group of Ten (G10) created the Basel Committee on Banking Supervision (BCBS), as a committee of banking supervisory authorities of the central bank governors of the G10 countries in order to provide a forum for regular cooperation on banking supervisory matters. Subsequently, the Basel Committee issued the Basel Capital Accord, introducing a credit risk measurement framework for internationally active banks that became a globally accepted standard. Moreover, the capital accord was further refined in the Basel II (2004) and Basel III (2010) frameworks, with the goal to increase the control and transparent measurement of the various risks incurred by internationally active banks, limiting the possibility of contagion in case of a crisis within the IFS (LeBor, 2013) ^[20]. However, besides the Basel Committee, are other BIS-based committees like the Markets Committee (since 1964), the Committee on the Global Financial System (CGFS, since 1971), and the Committee on Payment and Market Infrastructures. On this base, the current mission of the BIS is to serve central banks in their pursuit of monetary and financial stability, foster international cooperation in those areas and act as a bank for central banks.

That being the case, BIS pursues its mission by fostering discussion and facilitating collaboration among central banks, supporting dialogue with other authorities that are responsible for promoting financial stability, carrying out research and policy analysis on issues of relevance for monetary and financial stability, acting as a prime counterparty for central banks in their financial transactions, and serving as an agent or trustee in connection with international financial operations (BIS, 2017). Moreover, owing to the 2007-2008 financial and banking crises, its structure was modified to gain more speed in decisions making. With its main structures and working groups being the board of directors and main committees. These committees are the BCBS, the Committee on the Global Financial System (BGFS), the Committee on Payment and Settlement Systems (CPSS), and the Central Bank

Governance Forum (Ibid.). As such, the board of directors meets every two months with a quorum of at least 21 members, including the six *ex officio* directors, comprising the central bank governors of Belgium, France, Germany, Italy, the United Kingdom, and the United States. Besides, each of the *ex officio* members may appoint another member of the same nationality. While nine governors of the central bank of other members may be elected to the board. In addition, the board of directors elects its chairman and vice chairman for a three-year term. What's more, BIS is part of several other organisations like the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), and the International Association of Deposit Insurers (IADI) (Ibid.).

b. Impact of BIS

The BIS is often considered as a bank, although, in this contemporary era, that is only one of its several tasks – as it aims to influence the policies of the financial markets decided by the central bankers and other financial institutions officials within the various Basel-based committees that mostly meet in Basel. Despite this, its monetary and economic department has no decision-making powers although it has other ways to influence policy-making via producing intellectual arguments to provide evidence for policy-making. Besides, it advocates ideas, develops and maintains policy networks, and provides expertise to policy-makers, that is, it carries out research and analysis to contribute to the understanding of issues that are at the core of the central bank community's work, to inform the meetings of the governors and other central bank officials, and provide analytical support to the activities of the various Basel-based committees (Bank for International Settlements, 2016b) ^[4]. Nonetheless, the purpose and goals of the BIS, and its several committees have changed with the aims of economic and monetary policy. Its role as hosting representatives of the most influential countries in international policy-making, the so-called G10, began in the 1960s, though, already then, it was primarily known as the meeting place for the most important financial regulators. Indeed, BIS is more than a discreet place for high-level meetings - since it provides expertise and technical support for those meetings, for discussions on financial regulation. On this account, *Guido Carli*, the former governor of the Italian central bank, described the BIS as “the brain trust of the Bretton Woods system - since its influence is as discreet as it was enormous” (Toniolo, 2005) ^[29]. Notwithstanding, it is noted that while its core function of facilitating exchange among central bankers continued, its role in policy-making has shifted from ‘fire-fighting’ to that of the design and implementation of policies (Borio and Toniolo, 2011) ^[9]. As such, the high-level committees that BIS hosts play a decisive role in such matters, especially the BCBS and CPSS, as well as the Financial Stability Forum (FSF), which in 2009 became the FSB.

In this connection, it is worth stressing that the BCBS is the central body that sets standards for banking supervision worldwide, even though it takes a soft-law approach - that is, its recommendations are not legally binding for its member institutions. Rather, its influence depends on the group pressure among its members. The Secretariat of the BCBS is staffed mainly by economists and financial regulators on “temporary secondment from member institutions” and is consulted by other supervisory

authorities around the globe. The committee also has many sub-committees that provide expertise on special matters (Basel Committee of Banking Supervision, 2016) ^[6]. This interchange and collaboration on the level of the workforce are possible as the staffs of the central banks are part of the epistemic community. As such, the principles developed by BCBS and CPSS are implemented in the standards that are envisaged to be crucial for the so-called “new financial architecture” (Kapstein, 2011) ^[18].

In contrast, *Langley* criticises this new architecture by arguing that it is the continuation of the “qualitative distinct network of governance” that would reproduce the existing global financial order, which first began to emerge in the mid-1970s (Langley, 2004) ^[19]. Besides, insiders like chief economist *Claudio Borio*, who, together with historian *Gianni Toniolo*, wrote about the history of the BIS, praised the personal relationships that have been built at the BIS. According to them “through regular meetings at all levels in a familiar setting, it creates an environment particularly well suited to the development of a mutual understanding, to learning from each other's experience, to building consensus and to breeding close and long-lasting personal relationships” (Borio and Toniolo, 2011) ^[9]. Indeed, it is exactly these close associations that have been criticized as “club-model governance” that is serving as the “mechanism through which self-selected, elite members of the community gain influence and replicate their power”. As this has ensured the transnational community of financial regulation remained largely unchanged after the financial crisis (Tsingou, 2014) ^[30]. Moreover, other scholars criticise the impact of the power of the central bankers and their hidden influence on financial markets and economic policies (Ahamed, 2009; Allen *et al.*, 2016) ^[1, 2]; Irwin, 2014) ^[17]. By focusing on how elite, mostly male groups shape world economics and politics. With BIS seemed to fit into their narrative as a place where central bankers and other financial policy-makers meet regularly to discuss their policies in confidence and among them (LeBor, 2013) ^[20].

In addition, compared to other international financial institutions like the World Bank (Best, 2015) ^[7], the IMF (Chwieroth, 2015) ^[10], or the OECD (Nay, 2014) ^[22], BIS is quite modest in size. Since as part of its ‘strategic communication’, it has expanded its “academic network build-up” (Pautz, 2012) ^[23] and research abilities by organising conferences and workshops, and has also intensified exchange by granting research fellowships to “Academics or Researchers with a policy bent” (Bank for International Settlements, 2016c) ^[5]. Although organised and managed separately, the bodies that meet within the BIS and the BIS itself are closely intertwined. For example, the first chairman of the FSF, *Andrew Crockett*, was at the same time the General Manager of BIS. And the BIS in Basel hosts the secretariat of the FSB that brings together finance ministers, central bankers, and international financial bodies (Ibid.).

2. The Precepts of the International Monetary Fund

Unlike the BIS, the International Monetary Fund (IMF) was conceived after World War I in July 1944 at a meeting in the Bretton Woods – USA, and formally came into existence in December 1945 - when the first 29 member countries signed its Articles of Agreement, enabling it to begin operations on 01 March 1947. Its primary mission was to ensure the stability of the international monetary

system, by operating mainly in the system of exchange rates and international payments. As such, to maintain stability and prevent crises in the international monetary system, the IMF monitors member countries' policies, as well as national, regional, and global economic and financial developments (IMF, 2010). As every country that joins the IMF accepts the obligation to subject its economic and financial policies to the scrutiny of the organisation and the international community. On this base, the IMF's mandate is to oversee the international monetary system and monitors the economic and financial developments and policies of its 189 member countries. In this vein, to perform these colossal tasks, the surveillance process assesses whether the domestic policies of its member countries promote their stability - by examining the risks they might pose to the domestic and balance of payments stability. As the IMF technicians are always available to advise on policy adjustments and make appropriate alternative policies proposal when the countries' decisions could affect global stability (De Vries, 1986) ^[11].

In this regard, by the early 1960s, the U.S. dollar's fixed value against gold, under the Bretton Woods system of fixed exchange rates, was observed as overvalued. As such, with the collapse of the Bretton Woods system, the IMF members' countries become free to select any form of exchange arrangement they wish; thus, allowing the currency to float freely, pegging it to another currency or a basket of currencies, adopting the currency of another country, participating in a currency bloc, or forming part of a monetary union (IMF, 2010). Indeed, as part of the first amendment to its Articles of Agreement in 1969, the IMF developed new reserve instruments called special drawing rights (SDRs), which could be held by the central banks and exchanged among themselves and the IMF as an alternative to gold. The SDRs originally entered service in 1970 as units of a market basket of 16 major vehicle currencies of countries whose share of the total world exports exceeded 1%. However, the basket's composition changed over time and presently consists of the U.S. dollar, euro, Japanese yen, Chinese yuan, and British pound. Beyond holding them as reserves, nations can denominate transactions among themselves and the IMF in SDRs, although the instrument is not a vehicle for trade. The SDRs were originally equivalent to a specified amount of gold, but were not directly redeemable for gold, but rather served as a surrogate in obtaining other currencies that could be exchanged for gold. Indeed, the IMF initially issued 9.5 billion SDRs from 1970 to 1972 (Somanath, 2011) ^[27].

Most importantly, the IMF members signed the Jamaica Agreement in January 1976, which ratified the end of the Bretton Woods system and officially embraced the flexible exchange rate regimes, thus, formalising the end of the use of gold as a reserve instrument. The IMF's gold reserves were then returned to members or sold to provide poorer nations with relief funding. On this based, developing countries and countries not endowed with oil export resources enjoyed greater access to the IMF lending programmes as a result. As such, after the agreement, IMF continued assisting nations experiencing balance of payment deficits and currency crises, while imposing conditionality on its funding, by requiring countries to adopt policies that aimed at reducing deficits through cutting expenditures and increasing taxes, reducing protective trade barriers, and contradiction on monetary policy (De Vries, 1986) ^[11]. In

this regard, the second amendment to the Articles of Agreement was signed in 1978, which legally formalised the free-floating and gold demonetisation system achieved by the Jamaica Agreement. Likewise, it required members to support the stable exchange rates via macroeconomic policy. As such, it is worth noting that this post-Bretton Woods system was decentralised as member countries retained autonomy in selecting an exchange rate regime (Ibid.). Despite this, the IMF restated its mission after the post 2007-2008 financial and banking crisis to ensure the stability of the international monetary system – that is, a system of exchange rates and international payments that enables countries to transact with each other. Moreover, its mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability (IMF, 2017).

In this connection, to attain that goal, the IMF states that it works with a management team and 17 departments. The staff have a managing director, who is the head of the staffs and chairperson of the executive board - appointed by the executive board for a renewable term of five years and assisted by a first deputy managing director and three deputy managing directors. The resources for the IMF loans are provided by the member countries, primarily through their quotas payments (Ibid.). Since each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. From this, it is worth stressing that the primary decisions of the IMF are made by the board of governors that normally meets once a year - which is composed of the governor and an alternate governor of each member country. With the governor often appointed by the member country being typically either the minister of finance or the governor of the central bank (Ibid.). Most importantly, it is worth noting that over 50% of the IMF quotas are held by the USA, Japan, China, Germany, the UK, France, Italy, and India. Thus, to attain over 50% of the voting power, Russia is included in the group. As such, these nine countries, in case of mutual agreement, can decide by vote, on any question in the board of governors (Ibid.).

3. The Scope of the World Bank

Like the IMF, the International Bank for Reconstruction and Development (IBRD) was founded in 1944 at the Bretton Woods Conference, which became known as the World Bank (WB) - with the purpose to provide loans to help rebuild the countries that were devastated by World War II. However, as time went on, its focus shifted from reconstruction to development, with a heavy emphasis on infrastructure like dams, electrical grids, irrigation systems, and roads. Likewise, the International Finance Corporation (IFC) was founded in 1956, to lend to private companies and financial institutions in developing countries. While later on, the International Development Association (IDA) was founded in 1960, putting more emphasis on the poorest countries - which became part of a steady shift toward the eradication of poverty becoming the WB group's primary goal. As subsequently, the International Centre for Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA) were further launched to round out the World Bank Group (WBG)'s ability to connect global financial resources to the needs of developing countries (World Bank, 2017) ^[32]. In addition, it is essential to note that to become a member of

the WB, a country needs to first join the IMF. Similarly, membership in IBRD is mandatory to become a member of IDA, IFC, and MIGA. As such, the member countries are represented by a board of governors, who are the ultimate policymakers of the WB (Ibid.).

In this regard, the governors are often the ministers of finance or economic development of the member countries. They meet once a year at the annual meetings of the boards of governors of the WBG and IMF, having the same characteristics in the voting policy. In this sense, each member votes on a system of share votes (one vote for each share of the WB's capital stock held by the member) plus the basic votes (calculated so that the sum of all basic votes is equal to 5.55% of the sum of the basic votes and share votes for all members). Despite this, there is the exception with MIGA, where each member votes based on share votes (one vote for each share of MIGA's capital stock held by the member) plus the parity votes, calculated so that the aggregate number of votes of category 1 and category 2 members is the same. As such, members usually select the category they want to join at the time of membership. Indeed, category 1 has members that were originally defined as developed countries, while category 2 has members defined as developing countries (Persaud, 2012) ^[24]. Most importantly, the WB operates under the leadership of a president, and vice presidents in charge of global practices, cross-cutting solutions, areas, regions, and functions. With the five largest shareholders often appointing an executive director, while the other member countries are represented by elected executive directors. Equally, the governors also delegate specific duties to the 25 executive directors, who work on-site at the WB. The board of directors is composed of the executive directors of the WB. They normally meet at least twice a week to oversee the WB's business, including approval of loans and guarantees, new policies, the administrative budget, country assistance strategies, and borrowing and financial decisions (World Bank, 2017) ^[32].

4. The significance of the Financial Stability Forum (FSF) and Financial Stability Board (FSB)

Congruently, due to the need to enhance international financial stability, the G10 Finance Ministers and Central Bank Governors created the Financial Stability Forum (FSF) in February 1999 - which became the Financial Stability Board (FSB) in 2009, to coordinate the emerging international standards regime by bringing together in the same place the representatives of important organisations of the IFS like the BCBS, IAIS, IOSCO, IASB, IMF, WB, BIS, and Organization for Economic Cooperation and Development (OECD), and the central bank, finance ministry, and regulatory and supervisory authorities from each G7 country (along with the European Central Bank (ECB)). On this basis, as one of its first tasks, the FSF compiled a compendium of existing international prudential standards (Porter, 2009) ^[25]. Especially as the FSB was established to assess the vulnerabilities affecting the global financial system, as well as to identify and review, timely and on an on-going basis, the supervisory, regulatory, and related actions required to address these vulnerabilities, and their outcomes. Since it aims to promote the coordination and information exchange among the authorities responsible for financial stability monitoring and advise on market developments and their implications for regulatory policy. As such, to perform this action, FSB undertakes joint

strategic reviews of the international standard-setting bodies, and coordinates their respective policy development work to ensure it is timely, coordinated, focused on priorities, and addresses gaps. Besides, FSB collaborates with the IMF to conduct "Early Warning Exercises" to promote the implementation of the agreed commitments, standards, and policy recommendations by the member jurisdictions, through monitoring the implementation by peer review and disclosure (Helleiner, 2010) ^[13].

In this context, the plenary of the FSB is the sole decision-making body, governed by the FSB Charter, Articles of Association, and procedural guidelines. With the countries represented in it being Argentina, Australia, Brazil, Canada, China, France, Germany, Hong Kong, India, Indonesia, Italy, Japan, Korea, Mexico, Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Switzerland, UK, and the USA. Likewise, important organisations like the IMF, WB, BIS, OECD, ECB, European Commission, BCBS, IAIS, International Accounting Standards Board (IASB), and Committee on the Global Financial System (CGFS) are also represented in the FSB (Ibid.). As such, to ensure effective interconnectivity and cooperation between the various multi-stakeholders, a framework is embedded in the FSB's structure, to identify the systemic risk in the financial sector, frame the policy sector policy actions that can address the risks, and oversee the implementation of those responses. Equally, the FSB's structure comprises a plenary as the decision-making body, a steering committee to take forward operational work in between plenary meetings, and three standing committees (Standing Committee on Assessment of Vulnerabilities (SCAV) - FSB's primary mechanism for identifying and assessing risks; Standing Committee on Supervisory and Regulatory Cooperation (SRC) - charged with undertaking further supervisory analysis or framing a regulatory or supervisory policy response to a material vulnerability identified by SCAV; and the Standing Committee on Standards Implementation (SCSI) - responsible for monitoring the implementation of agreed FSB policy initiatives and international standards) (Helleiner, 2010) ^[13]. Notwithstanding, it is worth noting that although the FSB's decisions are not legally binding on its members. However, as obligations of membership, the members are committed to pursuing the maintenance of financial stability, maintaining the openness and transparency of the financial sector, implementing international financial standards, and agree to undergo periodic peer reviews, using IMF/World Bank public Financial Sector Assessment Program (FSAP) reports (Porter, 2009) ^[25].

Discussing The Intertwining Between the Main Global Financial Regulatory Organisations

Succinctly, in line with the above analysis, it is worth assessing how the BIS, IMF, and WB work together regarding the interaction with countries that have problems in their balance of payments or experiencing debt issues. Nevertheless, before proceeding, it is worth considering the impact of BIS on financial governance. Especially as the monetary and economic department of the BIS claims epistemic authority and attempts to shape public policy based on its research (Pautz, 2012) ^[23]. As this epistemic authority depends on its unique data resources that are grounded in cooperation with the central banks of its members. As such, their practices of modelling and

statistical research render their ‘codified knowledge’ more persuasive and reliable than others (Stone, 2007) ^[28]. Besides, it is worth stressing that this seemingly scientific objectivity is not apolitical. Since epistemic practices are employed within these networks, which are shaped by a strong belief in the superiority of market mechanisms over political reasoning. As such, the central bankers usually express confidence in market mechanisms to support their insistence on independence and their rejection of any political interference. Especially as they see financial regulation rather as the application of technical measures to a more or less working system and less as political matters (Ibid.). On this basis, this resembles what *Paul Langley and Aaron Major* describe as ‘neoliberal’ beliefs that have been a continuing part of the pre- and post-crisis of international financial architecture (Langley, 2004; Major, 2012) ^[19, 21]. Likewise, *Nay* alludes that two other important economic governance organisations, the OECD and World Bank, also apply similar mechanisms as the BIS (Nay, 2014) ^[22].

In contrast and in a practical mode, it is worth highlighting that the IMF interacts with governments while the BIS interacts only with central banks. Similarly, the IMF lends money to the national governments of countries experiencing some fiscal or monetary crisis and produces money by receiving contributions from the quotas of its member countries. For this reason, it is curious to note that this characteristic relationship between the IMF and its member countries is exactly the basis of the economic policy, which is consolidated in capitalist democracies in the last decades and that it engenders - in its apparent hydraulic logic of equilibrium, a contradiction between the taking of the social product generated by national economies and the policies of money emission. As such, wealth is exchanged for credit, which is a quite distinct category within the economic theory (Previdelli and Souza, 2018) ^[26]. By the same token, it is worth noting that the WB also lends money to governments through the IBRD and IDA – with IBRD targeting middle-income countries and countries deserving credit, while IDA caters for the poorest countries in the world. On this base, the WB is self-sufficient for internal operations like lending money from direct bank lending and floating bond issues, and then lending it via IBRD and IDA to countries in difficulty. While the BIS, like the central bank of the others banks, facilitates the movement of money. Thus, it plays a primordial role by doing ‘bridge loans’ to the central banks of countries, especially where IMF or WB money has been promised but not yet released. As such, these ‘bridge loans’ are subsequently returned by the respective governments when the pledged funds by the IMF or WB have been released.

That’s why the IMF is considered the last resort of the BIS when a monetary crisis occurs. For instance, in the 1998 crisis with the Brazilian currency, caused by the country’s inability to pay excessive accumulated interest on loans made over an extended period of time. The original loans were made by banks like Citigroup, J.P. Morgan, Chase, and FleetBoston - and there were signs that they might suffer the loss of an immense amount of money if payment did not happen. On this account, the IMF lent money to Brazil to pay the banks and to be able to borrow again from them. In exchange for this new loan, the government had to accept the policies advised by IMF and speed the cut of expenses, the selling of governmental actives, and adopt a floating exchange rate. From this, it is observed that (1) this route of

action characterises these institutions - as described in the case of the currency crisis in a peripheral country, and (2) the circumstances of the articulation and performance of the organisations inherent to the system also depended on the internal environment of the economic policy, marked by the apologetics not only of the institutionally dominant economic policies but by its practice in the form of “hegemonic knowledge” (Ibid.).

In a nutshell, it is important to note that the IMF and BIS, as well as the committees, commissions, forums, and other organisations created from both, often have their decisions centred on a small group of nations. That’s why, if one crosses the structures of decision inside these organisations, then it is ultimate to see the names of such countries being highlighted. As such, it is observed that in the case of BIS, 12 of its 21 board members that actually make the decisions are the governors of Belgium, France, Germany, Italy, the UK, and the USA central banks. This is because these countries own, together, 35% of the voting power of the IMF, as do the WB. Equally, these six members of the G10, along with the other countries in the group, hold approximately 47% of the total votes in the IMF, and the WB (Ibid.). In contrast, other organisations have been created to increase the participation of developing countries like the G20, though even the FSF and FSB do not have the power to determine or confront the decisions made by this aforementioned group of countries.

Conclusion

Compendiously, the paper has provided an articulation between the largest organisations of the IFS – by following a logic and purpose that is not exactly what they advertise on their official web pages. As it is noted that BIS has gained a considerable impact on financial regulation following the financial crisis of 2008–2009. Since it has a dual function of being the host to the central bankers, financial politicians, and other actors in financial governance. Similarly, its significance in financial regulation is highly appreciated in its role as a provider of knowledge to these networks. Especially by portraying its work as largely apolitical and technocratic, the BIS lends weight to its arguments that resonate within the epi-centre of central bankers. Moreover, it is noted that while the effectiveness of the post-crisis regulatory agenda remains disputed, there is little doubt that the BIS has consolidated as a central provider of expertise within international financial governance. Despite this, it is noted that the BIS, WB, and IMF, in their genesis, coordination, changes, and permanency over time, are indicating a practice of “trial and error” in the sense of managing the financial crises, with the security not of the real assets of the economy or the productive factors in its efficiency but of the financial capital. On this based, it is noted that the permanence of strict interests linked to the preservation of the latter in the hands of its holders suggests a fairly linear consistency over time. Since the evolution of these organisations was originally and formally aimed to promote economic development and establish safeguards and protections for investors, as opposed to structural permanence – as both in operations and in the representativeness of strictly financial bodies like BIS, shows the fact for which the IFS is oriented. In this light, it is noted that through the structures created, the interconnected functioning of the IMF, BIS, World Bank, and G10 has cohesion, speed, and decision-

making power centralised in a few countries. Therefore, it is postulated that to enhance transparency and check-mate the main world economic powers, there is the need to advocate for the reform of the BIS, IMF, and World Bank, to reduce the domination of the developed economies, modify their existing activities, expand lending facilities in relation to least developing economies, provide governance, and the necessary discussion and reorientation of the entire IFS.

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