



FINANCIAL STABILITY INSTITUTE

BANK FOR INTERNATIONAL SETTLEMENTS

International Conference on “Financial Stability and
Implications of Basel II”

Financial Stability and the Basel Process

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Chairman

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Istanbul, 16 May 2005



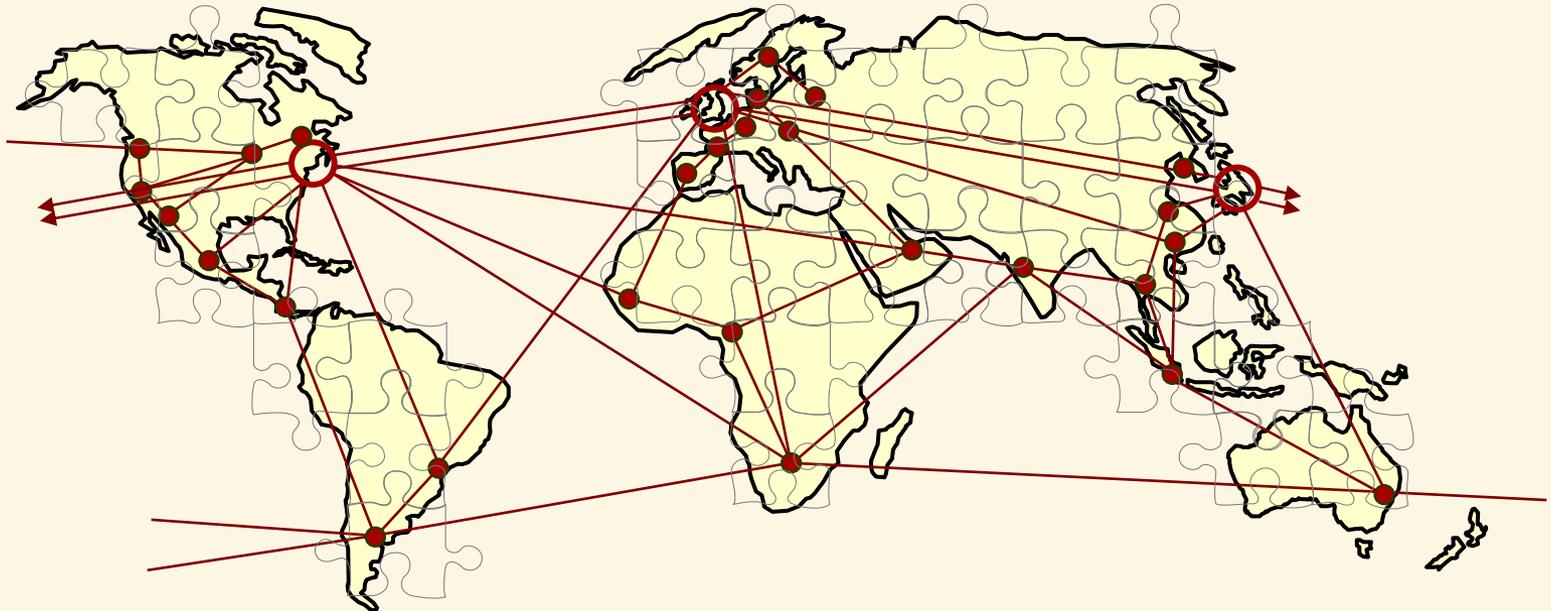
Agenda

1. The integration of financial markets and financial stability
2. The Basel Process
3. Some open financial stability issues
4. Concluding remarks



1. Financially Integrated World with Fragmented Jurisdictions

- Financial institutions operate globally in integrated financial markets...
- ...but policy responsibility lies with sovereign states



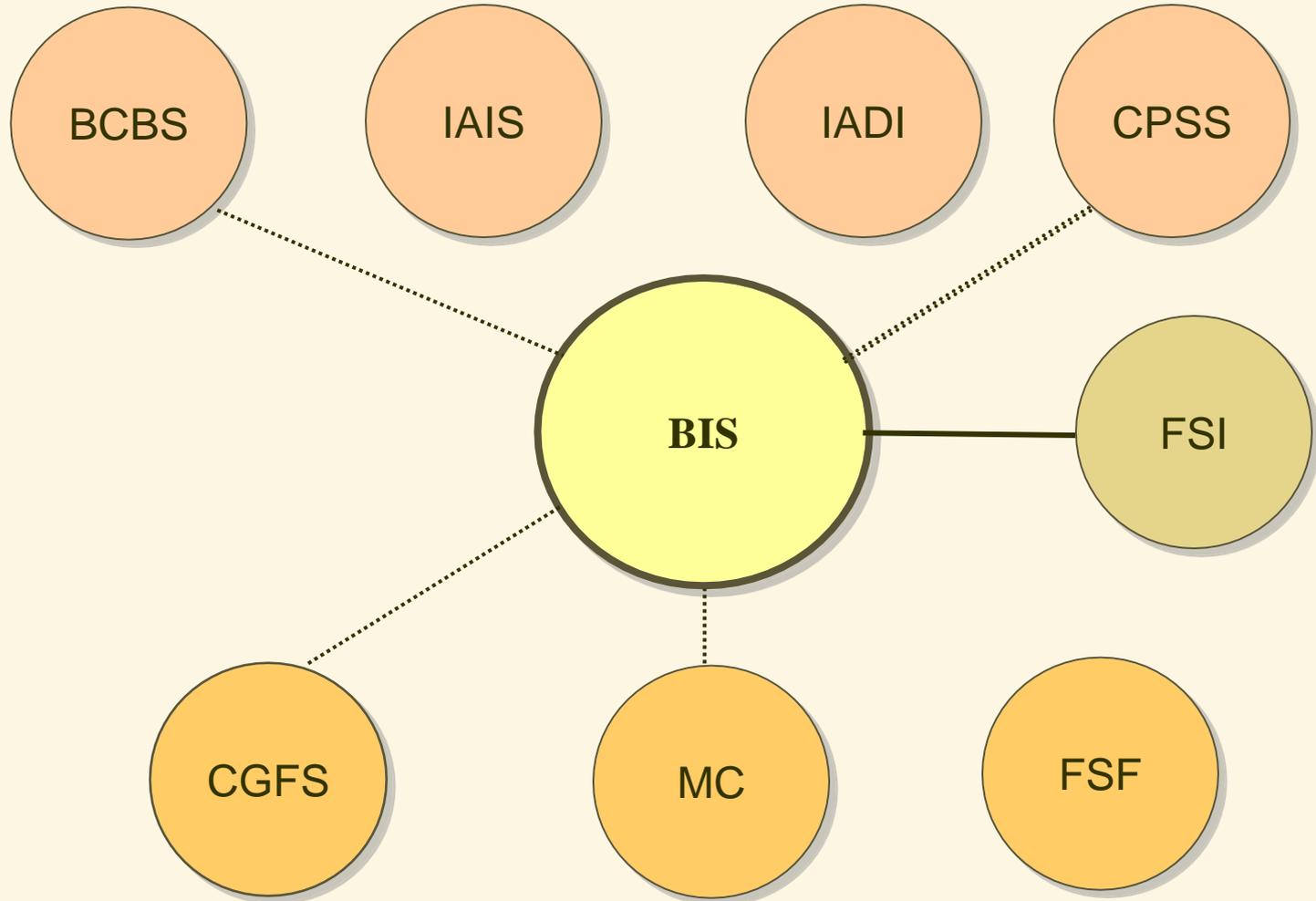


How to Deal with this Dilemma?

- The main concern is financial stability
- Currently, the Basel Process is playing an important role addressing this concern worldwide



2. The Basel Process – Institutional Framework





The Bank for International Settlements (BIS)

- Based in Basel and created in 1930, the BIS is the world's oldest international financial institution
- The BIS is a bank for central banks
- Its mission is to foster cooperation among central banks and other agencies in pursuit of monetary and financial stability



Basel Process Related Groups

- The BIS hosts various groups important for financial stability
 - Standards setters
 - Basel Committee on Banking Supervision (BCBS)
 - International Association of Insurance Supervisors (IAIS)
 - International Association of Deposit Insurers (IADI)
 - Committee on Payment and Settlement Systems (CPSS)
 - Standards disseminator
 - Financial Stability Institute (FSI)
 - Other groups
 - Committee on the Global Financial System (CGFS)
 - Markets Committee
 - Financial Stability Forum (FSF)



International Standards

In the absence of a global financial regulator, the work of international standards setters

- Reflects international sound practices and market developments
- Aids in “soft laws” being adopted by jurisdictions and transformed into “hard laws”
- Fosters regulatory and supervisory convergence across jurisdictions and financial sectors



Standards Creation Process

- Standards setters consult extensively with
 - Non G10 financial sector authorities
 - Private sector
 - Academics
 - Politicians



- Reality checks
- More “buy-in”
- Higher compliance



Cooperation Process

- Closer cooperation among standards setters
 - BCBS, IAIS and IOSCO under the Joint Forum
 - Cooperation with the Islamic Financial Services Board
 - Discussions with the International Accounting Standards Board



- Sound foundations across sectors
- Avoiding gaps and overlaps



Standards Dissemination Process

- The Financial Stability Institute (FSI)
 - Disseminates standards, codes and practices
 - Creates a platform for sharing knowledge and experiences
 - Helps in capacity building
 - Promotes research on regulatory and supervisory topics



- Better understanding
- Effective implementation
- More networking



Standards Implementation Process

- Extensive coordination among financial sector authorities
 - Home – host supervisory coordination
 - Real case studies – supervisory cooperation in regulating internationally active banks



- Common language
- Level playing field
- Reduction of unnecessary costs



Macroeconomic Monitoring

- Committee on the Global Financial System (CGFS)
 - Monitors global financial markets
 - Seeks to identify and address potential sources of stress
 - Promotes the development of well functioning and stable financial markets
- Markets Committee
 - Forum for senior officials responsible for market operations in the G10 central banks
 - Discusses recent developments in foreign exchange and related financial markets



Global Surveillance

- The Financial Stability Forum (FSF)
 - Assesses vulnerabilities in the international financial system
 - Identifies and oversees actions needed to address these
- The FSF comprises
 - National financial authorities
 - International financial institutions
 - International standards setters
 - Committees of central bank experts



- Brings together major stakeholders involved in financial stability issues



3. Some Open Financial Stability Issues

- There are a number of financial stability issues raised by financial sector authorities
 - Lender of last resort
 - Cost sharing of financial sector problems
 - Risk transfer from regulated to unregulated sectors
 - Etc.
- On the national level, there exist institutional arrangements to deal with them
- Yet, there are currently no arrangements to handle these issues on the international level



Some Open Financial Stability Issues

- There may not be a perfect way to deal with these open issues, in part because of moral hazard
- Any solution would require political support



4. Concluding Remarks

- Communication and cooperation are essential for financial stability
- The Basel Process plays an important role in this respect



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