



Globalization, National Sovereignty, and International Standard-Setting

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In A Nutshell

- Uncertainties about future of globalization
- Global financial standards immune so far
- Global governance cannot stand still

Globalization: Uncertain Times

- **United States: Trump Administration**
 - Exit of TPP & Paris Accord, NAFTA revision, tariffs
 - Parenthesis, self-isolation, or rogue actor?
- **European Union: euro crisis, Brexit**
 - Inward-looking, beleaguered, mercantilist impulses
 - New trade agreements; post-crisis assertiveness?
- **China: Xi Jinping's domestic clampdown**
 - Aggressive neighbor in South China Sea
 - Open-economy rhetoric; new realism on Belt & Road?

Financial Globalization Lives On

Peak global trade and banking?

As a percentage of world GDP

Graph 1

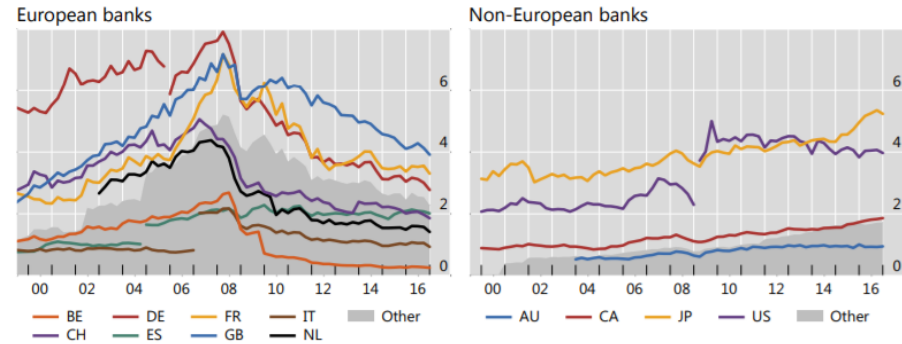


Sources: IMF; World Bank; BIS locational banking statistics; BIS calculations.

Consolidated foreign claims, by banking system

As a percentage of world GDP

Graph 4



Gaps in the plotted series indicate breaks in series reflecting, for example, bank mergers or changes in the reporting population. Country codes denote the nationality of banks.

AU = Australia; BE = Belgium; CA = Canada; CH = Switzerland; DE = Germany; ES = Spain; FR = France; GB = United Kingdom; IT = Italy; JP = Japan; NL = Netherlands; US = United States.

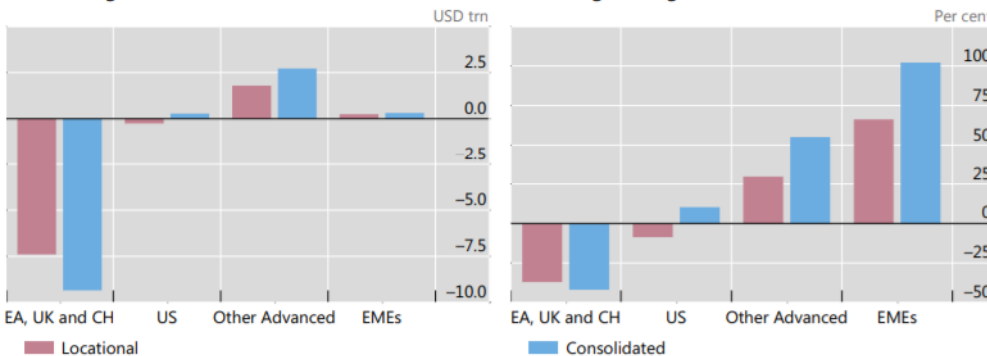
Source: IMF *World Economic Outlook*; BIS locational banking statistics, BIS consolidated banking statistics.

Banks' external claims by location and consolidated foreign claims by nationality

Graph 5

Level changes 2007-2016

Percentage changes 2007-2016



Note: The groupings include countries reporting both the locational and consolidated banking statistics over the entire period of 2007-2016. EA, UK and CH = AT, BE, CH, DE, ES, FI, FR, GB, GR, IE, IT, NL and PT; Other Advanced = AU, CA, DK, HK, JP, LU, NO, SE and SG; EMEs = BR, CL, IN, MX, PA, TR and TW. US numbers correct for breaks in series.

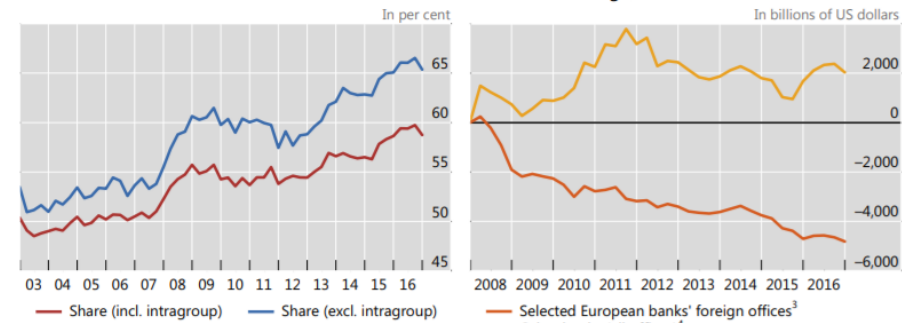
Sources: BIS locational and consolidated banking statistics; authors' calculations.

European banks shed assets outside their home countries¹

Graph 7

Share booked in offices at home²

Cumulative change, relative to other banks



¹ The selected European banks are banks headquartered in Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands and Switzerland. ² The lines show the share of selected European banks' total cross-border claims that are booked by banks' offices in home countries, both including intragroup positions (red line) and excluding these positions (blue line). ³ Cumulative change in cross-border claims booked by the selected European banks' offices outside the home country. ⁴ Cumulative change in cross-border claims booked by all banks other than the selected European banks; includes claims booked in home offices and offices abroad.

Source: BIS locational banking statistics.

Global Financial Standards

- International Financial Reporting Standards (IFRS)
 - IASB / IFRS Foundation, since 1973/2001
- Basel Accords on bank capital (& liquidity)
 - BCBS, since 1974/1988
- G20 derivatives market reforms
 - G20 / FSB mandates, since 2009
- Bank resolution regimes (“ending TBTF”)
 - FSB key attributes and implementation, since 2011/14

IFRS: increasingly global

- Required in most countries
- “Substantial convergence” in CN, ID, IN
- Optional use in Japan: highly successful
- US an outlier



- ↑ IFRS for SMEs: Latin America in lead

Basel Accords: More Demanding

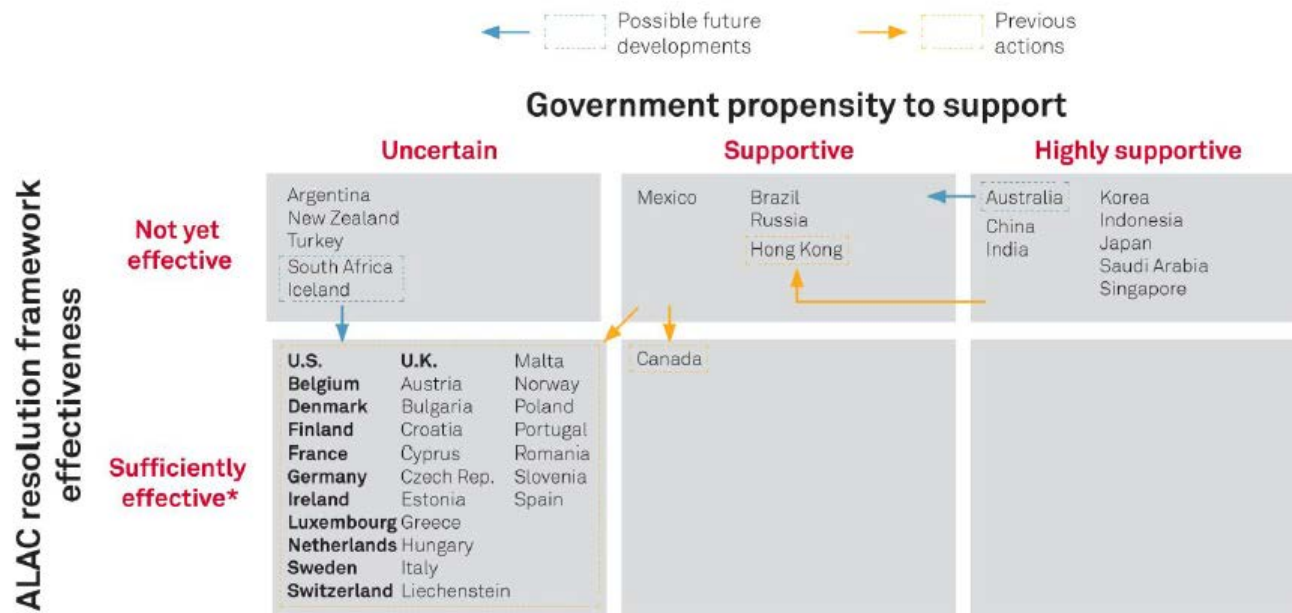
- Minimum requirements
- For internationally active banks
- Basel III broader, tighter than Basel II
 - Compliance is generally better (not least US)
- Robust process of compliance assessment
 - Regulatory Consistency Assessment Program, started 2012

Derivatives: Missing Standards

- Disclosure: DTCC Global Trade Repository
- Half-baked reform in 2009
 - Trade reporting mandate
 - But no uniform data formats
 - Multiple trade repositories in some jurisdictions (EU)
 - Aggregation a distant dream, ten years after decision
- Illustrates critical importance of global standard-setting

Resolution: Uncertain Future

- Regime change in most jurisdictions
- But new framework mostly untested



Countries in **bold** are those where we currently give ALAC uplift to at least one bank.

*For factors that would lead us to conclude that a resolution framework is sufficiently effective, see paragraph 17 of [Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity](#), published April 28, 2015.

Source: S&P Global Ratings. ALAC = Additional Loss-Absorbing Capacity

Sovereignty Frictions

- IFRS: accounting as economic policy
 - e.g. banks' mark-to-market losses, stock options
- Basel: bank-sovereign linkages
 - Financial repression, banking nationalism
- Derivatives: agencies' turf, special interests
- Resolution: bank-sovereign links + uncertainty about effect of market discipline
 - Highly dependent on banking sector structures

A New Era?

- Apparent nationalist momentum
 - Brexit vote, Trump, Bolsonaro...
 - But limited trend clarity
- Damage to global policy frameworks
 - Trade
 - Climate policy
 - Internet infrastructure?
- Financial sector comparatively insulated
 - US & Basel III; Randal Quarles at FSB
- But will the next crisis be like the last one?

Prospects

- High path-dependency
 - Global consistency gains made in earlier eras can be difficult to untangle: e.g. IFRS
- Governance arrangements need to adapt
 - Fast-changing international environment
 - e.g. IFRS Foundation funding; BCBS/FSB membership
- Where will leadership come from?
 - Ideally, orderly transformation in calm times
 - Crisis scenarios

“The world today does not have enough international institutions that can confer legitimacy on collective action, and creating new institutions that will better balance the requirements of legitimacy and effectiveness will be the prime task for the coming generation.”

Francis Fukuyama, *America at the Crossroads*, 2006



Thank You For Your Attention

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