History of the Basel Committee and its Membership (August 2009)

The Basel Committee on Banking Supervision was established as the Committee on Banking Regulations and Supervisory Practices by the central-bank Governors of the Group of Ten countries at the end of 1974 in the aftermath of serious disturbances in international currency and banking markets (notably the failure of Bankhaus Herstatt in West Germany). The first meeting took place in February 1975 and meetings have been held regularly three or four times a year since.

The Committee's members come from Argentina, Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Indonesia, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. Countries are represented by their central bank and also by the authority with formal responsibility for the prudential supervision of banking business where this is not the central bank. The present Chairman of the Committee is Mr Nout Wellink, President of the Netherlands Bank. The previous Chairmen were, from 1974-77, Sir George Blunden (then Executive Director, Bank of England); from 1977-88, Mr W P Cooke (Associate Director, Bank of England); from 1988-91, Mr H J Muller, (Executive Director of the Netherlands Bank); from 1991-1993, Mr E Gerald Corrigan, (President of the Federal Reserve Bank of New York); from 1993 to 1997, Dr T Padoa-Schioppa (Deputy Director General of the Bank of Italy); from 1997 to 1998, Mr T de Swaan (Executive Director of the Netherlands Bank); from 1998 to 2003 Mr William J McDonough (President and Chief Executive Officer of the Federal Reserve Bank of New York); and from 2003 to June 2006, Mr Jaime Caruana (Governor of the Bank of Spain).

The Committee provides a forum for regular cooperation between its member countries on banking supervisory matters. Initially, it discussed modalities for international cooperation in order to close gaps in the supervisory net, but its wider objective has been to improve supervisory understanding and the quality of banking supervision worldwide. It seeks to do this in three principal ways: by exchanging information on national supervisory arrangements; by improving the effectiveness of techniques for supervising international banking business; and by setting minimum supervisory standards in areas where they are considered desirable.

The Committee does not possess any formal supranational supervisory authority. Its conclusions do not have, and were never intended to have, legal force. Rather, it formulates broad supervisory standards and guidelines and recommends statements of best practice in the expectation that individual authorities will take steps to implement them through detailed arrangements – statutory or otherwise – which are best suited to their own national systems. In this way, the Committee encourages convergence towards common approaches and common standards without attempting detailed harmonisation of member countries' supervisory techniques. More than 100 documents providing guidance on a wide range of supervisory topics appear on the BIS website.

One important objective of the Committee's work has been to close gaps in international supervisory coverage in pursuit of two basic principles: that no foreign banking establishment should escape supervision; and that supervision should be adequate. In May 1983 the Committee finalised a document *Principles for the Supervision of Banks' Foreign Establishments* which set down the principles for sharing supervisory responsibility for banks' foreign branches, subsidiaries and joint ventures between host and parent (or home) supervisory authorities. This document is a revised version of a paper originally issued in 1975 which came to be known as the "Concordat". The text of the earlier paper was expanded and reformulated to take account of changes in the market and to incorporate the principle of consolidated supervision of international banking groups (which had been adopted in 1978). In April 1990, a Supplement to the 1983 Concordat was issued with the intention of improving the flow of prudential information between banking supervisors in different countries. In June 1992 certain principles of the Concordat were reformulated as Minimum Standards. These Standards were communicated to other banking supervisory authorities who were invited to endorse them, and in July 1992 the Standards were published.

As an outcome of the ongoing collaboration in the supervision of international banks, the Committee has addressed a number of related topics. It has collected information on most national systems for supervising banks' foreign establishments; it has examined the obstacles to effective supervision arising from bank secrecy regulations in different countries; and it has studied authorisation procedures for new foreign banking establishments. In October 1996, the Committee released a report drawn up by a joint working group also containing supervisors from offshore centres, which presented proposals for overcoming the impediments experienced by banking supervisors in conducting effective consolidated supervision of the cross-border operations of international banks. This report was endorsed by supervisors from one hundred and forty countries who attended the International Conference of Banking Supervisors (ICBS) in June 1996 and considerable progress has taken place in a number of countries to remove or overcome obstacles to effective consolidated supervision.

The topic to which most of the Committee's time has been devoted in recent years is capital adequacy. In the early 1980s, the Committee became concerned that the capital ratios of the main international banks were deteriorating just at the time that international risks, notably those vis-à-vis heavily-indebted countries, were growing. Backed by the Group of Ten Governors, the members of the Committee resolved to halt the erosion of capital standards in their banking systems and to work towards greater convergence in the measurement of capital adequacy. This resulted in the emergence of a broad consensus on a weighted approach to the measurement of risk, both on and off the balance sheet.

There was a strong recognition within the Committee of the overriding need for a multinational accord to strengthen the stability of the international banking system and to remove a source of competitive inequality arising from differences in national capital requirements. Following comments on a consultative paper published in December 1987, a capital measurement system commonly referred to as the Basel Capital Accord (or the 1988 Accord) was approved by the G10 Governors and released to banks in July 1988. This system provided for the implementation of the framework with a minimum capital ratio of capital to risk-weighted assets of 8 percent by end-1992. Since 1988, this framework has been progressively introduced not only in member countries but also in virtually all other countries with active international banks. In September 1993, a statement was issued confirming that all the banks in the G10 countries with material international banking business were meeting the minimum requirements laid down in the 1988 Accord.

The 1988 capital framework was not intended to be static but to evolve over time. In November 1991, it was amended to give greater precision to the definition of those general provisions or general loan-loss reserves which could be included in capital for purposes of calculating capital adequacy. In April 1995, the Committee issued an amendment to the

Capital Accord, to take effect at end-1995, to recognise the effects of bilateral netting of banks' credit exposures in derivative products and to expand the matrix of add-on factors. In April 1996, a further document was issued explaining how Committee members intended to recognise the effects of multilateral netting.

The Committee has also undertaken work to refine the framework to address risks other than credit risk, which was the focus of the 1988 Accord. In January 1996, following two consultative processes, the Committee issued the so-called Market Risk Amendment to the Capital Accord, effective end-1997 at the latest, designed to incorporate within the Accord a capital requirements for the market risks arising from banks' open positions in foreign exchange, traded debt securities, equities, commodities and options. An important aspect of this amendment is that, as an alternative to a standardised measurement method, banks are permitted, subject to strict quantitative and qualitative standards, to use internal value-at-risk models as a basis for measuring their market risk capital requirements. Much of the preparatory work for the market risk package was undertaken jointly with securities regulators and the Committee believes it is capable of application to non-bank financial institutions.

In June 1999, the Committee issued a proposal for a new capital adequacy framework to replace the 1988 Accord, and this has been refined in the intervening years, culminating in the release of the New Capital Framework on 26 June 2004. The new Framework consists of three pillars: minimum capital requirements, which seek to develop and expand on the standardised rules set forth in the 1988 Accord; supervisory review of an institution's capital adequacy and internal assessment process; and effective use of disclosure as a lever to strengthen market discipline and encourage safe and sound banking practices. The Committee believes that, taken together, these three elements are the essential pillars of an effective capital framework. The new Framework is designed to improve the way regulatory capital requirements reflect underlying risks and to better address the financial innovation that has occurred in recent years, as shown, for example, by asset securitisation structures. The changes aim at rewarding the improvements in risk measurement and control that have occurred and providing incentives for such improvements to continue.

The publication of the Framework in June 2004 represented the culmination of nearly six years of challenging work. During those years, the Basel Committee consulted extensively with banks and industry groups in an attempt to develop significantly more risk-sensitive capital requirements that are conceptually sound. At the same time, the Committee considered the characteristics and needs of markets and supervisory systems in numerous countries. To achieve its aims, the Committee undertook a careful review of the existing rules and of the recent advances attained in the industry. It consulted widely and publicly with industry representatives, supervisory agencies, central banks and outside observers.

Following the June 2004 release, which focused primarily on the banking book, the Committee turned its attention to the trading book. In close cooperation with the International Organization of Securities Commissions (IOSCO), the international body of securities regulators who monitor the activities of securities firms and investment houses, the Committee published in July 2005 a consensus document governing the treatment of banks' trading books under the new Framework. For ease of reference, this new text was integrated with the June 2004 text in a comprehensive document released in June 2006.

Committee members, as well as several other countries, have already introduced the new rules, or are in the process of introducing them. Consistent implementation of the new Framework across borders has consequently become a critical and challenging task for the Committee. To encourage collaboration and shared approaches, the Committee's Standard Implementation Group (SIG) serves as a forum on implementation matters. The SIG discusses issues of mutual concern with supervisors outside the Committee's membership through its contacts with regional associations. One challenge that supervisors worldwide face increasingly under Basel II is the need to approve the use of certain approaches to risk measurement in multiple jurisdictions. While this is not a new concept for the supervisory community – the Market Risk Amendment of 1996 involved a similar requirement – Basel II extends the scope of such approvals and demands an even greater degree of cooperation between home and host supervisors in the future. To help address this challenging issue, the Committee issued guidance on information sharing and on supervisory cooperation and allocation mechanisms in the context of Advanced Measurement Approaches in 2006 and 2007, respectively.

In addition to work on the Concordat and capital standards, the Committee has addressed issues of significant supervisory interest. These include accounting, auditing, anti-money laundering, and various types of risk, such as credit, liquidity, market and operational risk. The work of the Committee on these topics often culminates in the publication of supervisory guidance, standards or sound practices papers. Recent publications address, among other things, liquidity risk management and its supervision, bank's financial instrument fair value practices, external audit quality, and implementation of compliance principles.

The Committee issued in July 2009 a package of documents to strengthen the Basel II capital framework, with regard notably to the treatment of certain complex securitisation positions, off-balance sheet vehicles and trading book exposures. This package also covered key aspects of risk managements and disclosure in the context of the Pillar 2 and the Pillar 3 rules. These enhancements are part of a broader effort the Committee has undertaken to strengthen the regulation and supervision of internationally active banks, in light of weaknesses revealed by the financial market crisis which started in 2007. The 2008 publications of the Committee, on liquidity and on valuation issues in particular, reflected part of these efforts, but further developments on other aspects are ongoing. In order to provide an appropriate and timely response to events which go beyond the sole banking sphere, the Committee has been liaising more closely since the beginning of the crisis with other relevant international financial bodies, like in particular the Financial Stability Forum.

The Committee has been working closely with securities and insurance supervisors to study the challenges presented by the development of diversified financial conglomerates. Initially this cooperation was through an informal Tripartite group of supervisors from each of the three sectors. This group was succeeded in 1996 by the Joint Forum on Financial Conglomerates, constituted under the aegis of the Basel Committee, IOSCO and the International Association of Insurance Supervisors (IAIS). The Joint Forum is mandated to elaborate ways to facilitate the exchange of information between supervisors and to enhance supervisory coordination, and to develop principles toward the more effective supervision of financial conglomerates. In addition, the Committee, together with IOSCO, has issued ten joint reports since 1995 dealing with the management, reporting and disclosure of the derivatives activities of banks and securities firms. The Committee and IOSCO have also worked together on the capital adequacy of trading activities, as mentioned above.

The Committee has also undertaken work on a number of technical banking and accounting issues in conjunction with outside bodies. These include the International Accounting Standards Committee, the International Auditing Practices Committee of the International Federation of Accountants and the International Chamber of Commerce. This work has resulted in papers on interbank confirmation procedures, on relationships between bank supervisors and external auditors and on uniform rules for foreign exchange contracts. In addition, contacts have been developed with the European Commission and the European Banking Federation.

In order to enable a wider group of countries to be associated with the work being pursued in Basel, the Committee has always encouraged contacts and cooperation between its members and other banking supervisory authorities. It has circulated to supervisors throughout the world published and unpublished papers, as well as more general information about its work. In many cases, supervisory authorities in non-member countries have seen fit publicly to associate themselves with the Committee's initiatives. Contacts have been further strengthened by biennial International Conferences of Banking Supervisors. Fifteen such conferences have been held to date, the first in London in 1979. The most recent conference, hosted jointly by the National Bank of Belgium and the Belgian Banking, Finance and Insurance Commission, took place in Brussels in September 2008.

The Basel Committee maintains close relations with a number of fellow bank supervisory groupings. These include the Offshore Group of Banking Supervisors, with members from the principal offshore banking centres; and supervisory groups from the Americas, the Caribbean, from the Arab States, from the SEANZA countries of the Indian sub-continent, South-East Asia and Australasia, from central and eastern European countries, from the African continent and from Central Asia and Transcaucasia. The Committee assists these groups in a variety of ways, by providing suitable documentation, participating as appropriate in the meetings, offering limited Secretariat assistance and hosting meetings between the principals to coordinate future work.

The principles agreed by the Basel Committee have been widely disseminated through these international conferences and supervisory groupings. A large number of countries outside the Group of Ten have given their support to the fundamental objective of ensuring that no international banking activity should escape supervision. As a result there now remain only a very few territories around the world where banking companies are licensed and allowed to operate without serious efforts to accompany a licence with effective supervision and cooperation with other supervisory authorities. Moreover, the Committee has always worked to raise the level of supervisors' consciousness of their mutual interdependence where the international activities of banks within their jurisdictions are concerned. The development of close personal contacts between supervisors in different countries has greatly helped in the handling and resolution of problems affecting individual banks as they have arisen. This is an important, though necessarily unpublicised, element in the Committee's regular work.

The wider role of the Committee in promoting sound supervisory standards worldwide has intensified. The Communiqué issued by the G7 Heads of Government following the Lyon Summit in June 1996 called for the Committee to participate in efforts to improve supervisory standards in the emerging markets. As a result, and in close collaboration with many non-G10 supervisory authorities, the Committee in 1997 developed a set of *Core Principles for Effective Banking Supervision*, which provided a comprehensive blueprint for an effective supervisory system. A number of steps have been taken to encourage countries to implement the “Core Principles”, including the establishment of a Liaison group comprised of both G10 and non-G10 countries. As a first step to full implementation, an assessment of the current situation of a country's compliance with the Core Principles should take place. To facilitate implementation and assessment, the Basel Committee in October 1999 developed the *Core Principles Methodology*. Over the past year, the Committee has been reviewing the Core Principles and the Methodology in close collaboration with the assessors and with non-G10 supervisors. Revised versions of the two papers were issued in October 2006.

The Committee's Secretariat is provided by the Bank for International Settlements in Basel, where nearly all the Committee's meetings take place. The Secretariat is mainly staffed by professional supervisors on temporary secondment from member institutions. In addition to undertaking the secretarial work for the Basel Committee and its sub-committees, it stands ready to give advice to supervisory authorities in all countries. The Secretariat ensures that non-member supervisory authorities are kept informed of the work of the Committee. In this connection, it prepares a biennial report on international developments in banking supervision.

Until the end of the 1990s, the Basel Committee had organised an active training programme on banking supervisory issues. Since 1987, the Secretariat had also organised annual supervisory seminars at the BIS for promising young bank supervisors, attended by persons from about thirty-five countries worldwide. In addition, the Secretariat has conducted several training courses annually at regional locations and is regularly invited to lecture at training courses organised by the regional groups themselves or other official organisations. In 1999 the Bank for International Settlements, in a joint initiative with the Basel Committee, set up the Financial Stability Institute to take over and develop a multi-level educational programme. The Committee's Secretariat remains heavily involved in efforts to assist bank supervisors from around the world in strengthening their surveillance methods by means of an intensive FSI programme of conferences, seminars and workshops.

Institutions represented on the Basel Committee on Banking Supervision

Argentina:	Central Bank of Argentina
Australia:	Reserve Bank of Australia Australian Prudential Regulation Authority
Belgium:	National Bank of Belgium Banking, Finance and Insurance Commission
Brazil:	Central Bank of Brazil
Canada:	Bank of Canada Office of the Superintendent of Financial Institutions
China:	People's Bank of China China Banking Regulatory Commission
France:	Bank of France Banking Commission
Germany:	Deutsche Bundesbank German Financial Supervisory Authority (BAFin)
Hong Kong SAR:	Hong Kong Monetary Authority
India:	Reserve Bank of India
Indonesia:	Bank Indonesia
Italy:	Bank of Italy
Japan:	Bank of Japan Financial Services Agency
Korea:	Bank of Korea Financial Supervisory Service
Luxembourg:	Surveillance Commission for the Financial Sector
Mexico:	Bank of Mexico Comisión Nacional Bancaria y de Valores
Netherlands:	The Netherlands Bank
Russia:	Central Bank of the Russian Federation
Saudi Arabia:	Saudi Arabian Monetary Agency
Singapore:	Monetary Authority of Singapore
South Africa:	South African Reserve Bank

Spain	Bank of Spain
Sweden:	Sveriges Riksbank Finansinspecktionen
Switzerland:	Swiss National Bank Swiss Federal Banking Commission
Turkey:	Central Bank of the Republic of Turkey Banking Regulation and Supervision Agency
United Kingdom:	Bank of England Financial Services Authority
United States:	Board of Governors of the Federal Reserve System Federal Reserve Bank of New York Office of the Comptroller of the Currency Federal Deposit Insurance Corporation Office of Thrift Supervision

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Chairman:	Mr Nout Wellink, President, Netherlands Bank
Secretariat:	Bank for International Settlements