HISTORY OF THE BASEL COMMITTEE AND ITS MEMBERSHIP
(March 2001)

The Basel Committee 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 Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain,[1] Sweden, Switzerland, United Kingdom and 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. William J. McDonough, President and Chief Executive Officer of the Federal Reserve Bank of New York. 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 De Nederlandsche 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); and from 1997 to 1998, Mr. T. de Swaan (Executive Director of De Nederlandsche Bank.)

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

[1] Spain was invited to join the Basel Committee on 1 February 2001.

this way, the Committee encourages convergence towards common approaches and common standards without attempting detailed harmonisation of member countries' supervisory techniques.

The Committee reports to the Committee of central bank Governors of the Group of Ten countries, which meets at the Bank for International Settlements, and seeks the Governors' endorsement and commitment for its major initiatives. In addition, however, since the Committee contains representatives from institutions which are not central banks, the decisions it takes carry the commitment of many national authorities outside the central banking fraternity.

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 the 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 of the 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. The Committee is constantly exploring the mechanics of enforcing these Standards.

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, 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 G-10 Governors and released to banks in July 1988. This system provided for the implementation of the framework with a minimum capital standard 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 G-10 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 an additional amendment to the Capital Accord, effective end-1997 at the latest, designed to incorporate within the Accord 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. This proposal was well received and in January 2001 a far more extensive consultative package was published. The proposed 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 market discipline as a lever to strengthen disclosure 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 Capital Accord 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 consultation process on the New Accord includes extensive interaction with banks and industry groups and all interested parties have been invited to comment on the proposed framework by 31 May 2001. A final document taking into account these comments and incorporating further work performed by the Committee and its working groups is expected to be issued around the end of 2001. The Committee is currently envisaging implementation in 2004.

In addition to work on the Concordat and capital standards, particular supervisory questions which the Committee has addressed and which have resulted in published papers include the supervision of banks' foreign exchange positions, the management of banks' international lending (i.e. country risk), the management of banks' off-balance-sheet exposures, the prevention of the criminal use of the banking system, the supervision of large exposures, risk management guidelines for derivatives, sound practices for loan accounting and disclosure and corporate governance. , Documents issued within the past year address, among other things, credit risk management, principles for credit risk disclosure, and current practices and applications of credit risk modelling. The Committee is currently consulting on three topics other than capital. These are internal audit, relationships between supervisors and external auditors and customer due diligence procedures. However, most of the Committee's effort continues to focus on the various aspects pertaining to the revision of the Capital Accord. In view of the complexity of many of these issues, the technical work is mostly undertaken in sub-committees composed of experts on each topic.

The Committee has worked closely with the International Organisation of Securities Commissions (IOSCO) over a number of years. Since 1995, ten joint reports have been issued dealing with the management, reporting and disclosure of the derivatives activities of banks and securities firms. The Committee has also 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 was succeeded in 1996 by the Joint Forum on Financial Conglomerates, constituted under the aegis of the Basel Committee, IOSCO and the 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. The papers issued by the Joint Forum, for which the Basel Committee provides Secretariat support, will shortly be available in a separate Compendium of Joint Forum documents.

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, the European Banking Federation and securities regulatory organisations.

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-G-10 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. Eleven such conferences have been held to date, the first in London in 1979. The most recent conference, hosted by the Swiss National Bank, the Swiss Federal Banking Commission, and the Bank for International Settlements, took place in Basel in September 2000 and the next will be held in Cape Town in September 2002 at the invitation of the South African Reserve Bank.

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; the Association of Bank Supervisors of the Americas; and supervisory groups from 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.

Through the medium of the international conferences and the supervisory groupings referred to, the principles agreed by the Basel Committee have been widely disseminated. 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 G-7 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-G-10 supervisory authorities, the Committee in 1997 developed a set of "*Core Principles for Effective Banking Supervision*", which provides 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 G-10 and non-G-10 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*".

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, recently increased to twelve, 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-G-10 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 recently, the Basel Committee had orchestrated an active training programme on banking supervisory issues. Since 1987, the Secretariat had 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 was conducting several training courses annually at regional locations and was 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 increasingly loaded FSI programme of conferences, seminars and workshops.

Institutions represented on the Basel Committee on Banking Supervision

Belgium:	National Bank of Belgium Banking and Finance Commission
Canada:	Bank of Canada Office of the Superintendent of Financial Institutions
France:	Bank of France Banking Commission
Germany:	Deutsche Bundesbank Federal Banking Supervisory Office
Italy:	Bank of Italy
Japan:	Bank of Japan Financial Supervisory Agency
Luxembourg:	Surveillance Commission for the Financial Sector
Netherlands:	The Netherlands Bank
Spain	Bank of Spain
Sweden:	Sveriges Riksbank The Swedish Financial Supervisory Authority
Switzerland:	Swiss National Bank Swiss Federal Banking Commission
United Kingdom:	Bank of England Financial Services Authority
United States:	Federal Reserve Board Federal Reserve Bank of New York Office of the Comptroller of the Currency Federal Deposit Insurance Corporation
Secretariat:	Bank for International Settlements