The Political Economy of Basel III

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Abstract

In response to the global financial crisis, the Basel Committee of Banking Supervision (BCBS) set out to develop a new global standard for banking regulation – the Basel III accord. This paper analyses consultation responses to assess the influence of external stakeholders on the Basel III process and outcome. Unlike most other research on global financial policy developments, it relies on a quantitative approach. The findings show that the interests and preferences of various stakeholder groups vary significantly, and the BCBS mainly accommodated the preferences of stakeholders from the financial industry and advanced economies in finalising Basel III. This largely corresponds to findings on the development of previous Basel accords. However, this paper also reveals that efforts to influence are also much higher among private sector stakeholders in advanced countries compared to other stakeholders. It thereby offers new light and raises questions on whether the distribution of abilities to influence global financial policy is skewed towards particular types of stakeholders.

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Key words: Political economy; Global financial standards, Basel Committee on Banking Supervision; Basel III; Banking regulation.

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1 Introduction

In a world with vast interconnectedness - between financial markets and entities, the financial system and the real economy, and the global and the domestic - policy developments in monetary and financial policy have wide implications far beyond those directly targeted (Eichengreen 1999). This raises legitimate questions on how the process of global policy formulation actually occurs.

In the area of banking regulation, influence from stakeholders outside the actual policy making process has always been substantial (Mattli and Büthe 2005; Porter 2005; Sinclair 2002; Tsingou 2003). Private interest from the financial services industry has played a particularly important role, not least due to its technical knowledge and vast financial resources (Coleman 1996; Moran 1986). It is often claim that the role played by the financial industry in policy formulation has increased in recent years (Cohen 2008; Underhill and Zhang 2008; Claessens et al. 2009; Blom 2009).

An important question is whether the role of external stakeholders on the formulation of global banking policy has changed following the global financial crisis. Earlier crises have had profound effects on the balance of power and governance of policy formulation in financial regulation (Eichengreen 1999; Willet 2001). Indeed, a number of developments suggest that the global policy formulation is once again undergoing significant changes. One is the emergence of the G-20 and its substructure – the Financial Stability Board (FSB) – as the main locus of global financial policy development including banking (Aron and Taylor 2009; Bengtsson 2013). Another is the strengthened role of the political sphere in many other areas of financial policy formulation (c.f. Bengtsson 2011). Although some claim that pre-crisis patterns remain, and global policy developments continue to be strongly influenced by private interests from advanced economies (Claessens et al. 2008, Verdier 2013), it remains unclear whether and to what extent the dynamics of influence has changed.

This paper seeks to shed light on this issue by analyzing the consultation process by which the new global standards for banking regulation were developed. These standards– the Basel III Accord – was the result of a lengthy process stretching over five years from the time when the FSB called for changes to Basel II and the finalization of Basel III by the Basel Committee of Banking Supervision (BCBS). The final package contained – inter alia - substantial increases in the amount and quality of capital adequacy requirements, the introduction of liquidity requirements and a leverage ratio. In addition, The BCBS also expanded the scope its regulatory standards to also include macroprudential policy. This newfound interest in systemic risks and how to mitigate them was even reflected in the title of the Basel III accord - *A global regulatory framework for more resilient banks and banking systems (BCBS 2010).*[1]

Two interrelated analytical goals relating to the Basel III process are pursued in this paper. First, it analyses on how stakeholders from different economic sectors, countries, economies sought to influence the development of the new standards. Second, it sheds light on the relative success of those stakeholders in influencing the final outcome of the process – the Basel III Accord. The paper also compares these findings with similar research on the previous Basel accords. Some preliminary

[1] The titles of the Basel I and II accords were '*International Convergence of Capital Measurement and Capital Standards'* (BCBC 1988; 2004). It also important to note that unlike its preceding accords, Basel III is a direct response to a systemic crisis. One should also note that Basel III consists of a number of separate documents, including BCBS (2010; 2013, 2014a; b; c; d).

analyses on this topic suggest that the influence of the private sector on BCBS has receded This paper complements prior research on Basel processes and outcomes by quantifying responses received in the consultation process.[2] Such quantification not only allows for measuring efforts to influence standard settings, it also provides a less arbitrary perspective on the extent of influence by different stakeholders on the standard setting process. The findings show that the patterns of previous BCBS accords remain – with stakeholders from the private financial sector and advanced countries enjoying a considerable influence on standard setting outcomes. However, it offers new light on the political economy of global banking regulation, since it also shows that the efforts of these stakeholders to exert influence also widely surpasses those of stakeholders outside the financial sector and advanced economies.

Deepening the understanding of the role of external stakeholders' influence on BCBS standard setting process is important for several reasons. First, the understanding on global financial policy formulation remains limited, despite its substantial consequences for the real economy and wider society (Barnett and Finnemore 2006; Tsgintou 2003; Verdier 2013). In this respect, the BCBS and its standards are often said to be particularly important, since they affect credit intermediation and competitiveness of banks worldwide (Barr and Miller 2006, Claessens et al 2008). Second, the Basel accords are often viewed as trail blazers for standards covering other financial entities and activities outside banking (Tarullo 2008).

The remained of this paper is organized as follows: Section 2 covers the relevant literature. Section 3 outlines the methodology and the quantification of consultation responses to construct data. In Section 4, the empirical results are presented and contrasted with findings from prior research. Section 5 provides a concluding discussion and suggests a number of topics for future research.

2 Literature review

A recurring theme in the literature on global financial policy developments is that other goals than merely effective and efficient regulation are pursued the setting of standards. This has also been documented for the BCBS. Rather than reflecting the outcome of cooperation to reap joint gains across countries, previous capital accords have rather been determined by BCBS and its members seeking to satisfy bureaucratic, commercial and political interests (Tarullo 2008; Gerding 2010). While these interests are often intertwined and hard to separate in practice (c.f. Tsgintou 2003), this paper focuses on the latter two. The starting point is that external stakeholders, both private and public, may have both the interest and the ability to influence BCBS standard setting; and that such interest and abilities may be unevenly distributed among those stakeholders.

2.1 Banking standard setting – Divergence of interest and distribution of ability to influence

Two strands can be distinguished in the literature on the ability of external stakeholders to influence financial regulatory standards. One views standards as the lowest common denominator stakeholders are willing to tolerate (Verdier 2013). This implies that standards are most likely to be adopted if they have strong support from at least one important actor, and passive acquiescence by other relevant stakeholders. The other strand assumes that standard setting is determined by the relative power of stakeholders. The latter strand has been adopted to analyse how both

[2] It is important to emphasize that this paper cover the *regulatory* outcome, but does not seek to add knowledge on the economic impact of Basel III (c.f. Bengtsson et al. 2011, BBVA 2011, FSB 2012b, B20 2012, Ghosh et al. 2011; Takáts and Villar 2011; Cosimans and Hakura 2011).

stakeholders from different countries and economic sectors have been able to influence regulatory outcomes in financial services.

Divergence of interest and distribution of influence – Geographical perspective

Verdier (2013) proposes that stakeholders in different countries have different interest and capabilities to influence international financial regulation. This implies that great economic powers are able to influence outcomes disproportionally. Cohen (2008) argues that the distribution of power among the countries of the global financial system is skewed in favour of leading advanced economies. Specifically on BCBS standards, Singer (2004) focuses on how relations between national authorities and domestic political bodies, and the preferences of the latter based on the sources of competitiveness of domestic industries, shapes Basel agreements. Indeed, Singer attributes the adoption of the Basel I accord to an exceptional alignment of interest between UK and US regulators, largely due to similar domestic political preferences. Correspondingly, this has meant that representatives from developing countries and emerging markets have had limited influence on BCBS standards, despite multiple instances when such stakeholders have raised concern with proposed standards (Claessens et al. 2008). However, Cohen (2008) and Veron (2012) argue that the previous dominance of a limited number of powerful advanced economies is eroding, with power becoming more diffused among countries and where large emerging market economies play an increasingly important role.

Divergence of interest and distribution of influence – Sectoral perspective

Divergent interest and different powers to influence financial regulation have also been attributed to different economic sectors – both differences between the public and the private sector, but also differences among private sector stakeholders. In fact, some see the increased influence of private market stakeholders in the policy process as one of the most important changes in global financial system in recent decades (Underhill and Zhang 2008; Cohen 2008). Some claim that such special interest politics has meant that the financial industry has become able to dictate regulatory outcomes (Tarullo 2008; Blom 2009; Verdier 2013). Other take a more modest stance, but nonetheless argue that BCBS is far more likely to take into account views of the private sector in their standard setting, in particular the private sector in advanced economies (Underhill and Zhang 2008).

The power of the financial industry to influence outcomes has been attributed to a range of factors, where financial resources, technical know-how and expertise, coupled with complex regulation often are highlighted (Tarullo 2008; Blom 2009; Verdier 2013). Also, due to international expansion, consolidation and other factors, financial firms have become increasingly large. This has facilitated their coordination to overcome collective action problems relating to influencing regulatory outcomes (Verdier 2013).

Finally, the relationship between regulators and the financial industry has also become institutionalized, and influences mindsets, discourse and terminology of both the regulators and the regulated. Such “cognitive capture” enabled the private sector to articulate clear preference and exert considerable influence on the development of previous Basel accords (Underhill and Zhang 2008; Baker, 2010; Buiter, 2012). Cohen (2008) argues that there has been a steady diffusion of power towards private actors in the history of BCBS standards. However, in other areas of financial regulatory standards, the global financial crisis became a turning point, after which the importance of private influence receded and political influence grew stronger (c.f. Bengtsson 2011; Veron 2012).

2.2 Banking standard setting – process and outcomes

BCBS standard setting processes

Many of the above propositions on the political economy of banking regulation are confirmed by studies on the actual processes of policy formulation. The fact that major industry stakeholders provide the majority of comments on most financial regulatory initiatives is well known (cf. Barr and Miller 2006).

This has also been the case for the Basel II accord, when the BCBS opted for an open consultation process and abandoned the process of closed dialogue with the industry used in developing Basel I (Blom 200; Claessens et al. 2008). Four consultative papers (CPs) were issued in the process of developing Basel II, each attracting around 200 responses (Barr and Miller 2006). For all these CPs, responses were dominated by financial services companies and their industry associations (accounting for 74 % of all responses in the Basel II process (Blom 2009). Regulatory and supervisory authorities from countries not represented in the BCBS represented the second largest group. In line with the propositions of the previous section, very few financial firms in emerging or developing countries submitted comments (Claessens et al. 2008), nor did stakeholders representing broader social constituencies (Underhill and Zhang 2008).

BCBS standard setting outcomes

In terms of influencing the outcomes of standard setting processes, the dominant proposition the literature is that BCBS has been responsive to concerns and have adjusted their proposals according to the preferences of the private financial sector (c.f. Claessens et al. 2008). Such adjustments have characterized the BCBS even since its first capital accord (Kapstein 1994; 2006; Underhill and Zhang 2008).

In the first consultative round (CP1) of the Basel II accord, large financial firms primarily promoted the IRB approach. Other comments included Germany's concern with capital requirements for lending to SMEs, whereas stakeholders from less developed countries who worried that the standard would be too complex for their supervisors and banks manage (Barr and Miler 2006). Despite questioning by academics and other individuals of the merits of the IRB approach, in the second consultative paper (CP2) of the Basel II, the comments of the financial industry were largely taken aboard by allowing for two IRB approaches.[3] Following continued pressure from Germany and from US senators pushing the interests of banks with large trading desks, custodian and investment management business, the final Basel II accord permitted a lower capital charge for lending to SMEs and reliefs relating to (inter alia) asset securitization, credit cards and risk mitigation; all to the benefit of large banks with investment banking and trading activities (Barr and Miller 2006; Tarullo 2008). The framework was approved by Governors and Heads of Supervision (GHoS) in June 2004, supported by large international banks, who expected that it would enable them to reduce capital levels (Tarullo 2008; Verdier 2013).

The influence on the process and outcome in terms of actual standards is also mirrored in economic implications of the Basel accords. The global bank regulation standards have tended to favour large advanced banks and/or create competitive disadvantages for smaller and less sophisticated banks

[3] Authorities have also reacted by adopting market-oriented approaches to regulation and supervision, where private firms are largely responsible for risk management through complex mathematical models implemented under the approval of supervisory agencies (Underhill and Zhang 2008).

(Blom 2009; Claessens et al. 2008; Alexander 2005). Since national banking systems differ, this has also meant that the implications of standard on various countries have differed. In short, banking industries in emerging markets and developing countries typically are less developed and have fewer large international firms. As a consequence, they have been disadvantaged (Bailey 2005). Some research suggests that these economic implications are directly linked to the low ability of non-advanced/ non-financial sector stakeholders to influence the outcomes of BCBS standard setting (Underhill and Zhang 2008).

3 Methodology

3.1 Overview

The methodological approach follows the tradition in interest group literature that analyses consultation responses. Interested parties were invited to provide written comments on BCBS's first consultative paper (CP) on Basel III from December 2009 by April 2010 (BCBS 2009). Using these consultation responses as a basis, a three step approach was pursued:

1. Based on the consultation responses, a database was constructed by categorising each response along several dimensions. These covered both the number of responses by types of stakeholders ("respondents") and the areas of the Basel III proposal on which they expressed major concern or support.[4] Thereby, the database allows both for comparing the number of responses by different types of respondents, and for outlining patterns of notable differences in terms of preferences between them.

2. As a second step, major revisions to the Basel III proposal after the consultation process ended were identified. The revisions were identified by comparing the Basel III consultation document of December 2009 with the final Basel III accord (which published in through several documents including refinements or revisions between June 2011 and January 2014).[5]

3. Finally, the differences between the areas of concern and support expressed by different categories of respondents were cross-matched with the major revisions made by BCBS. This enabled an understanding of whose views were mostly accommodated by the BCBS in developing the final Basel III accord.

Regading the first step, the approach taken differs from most research on financial regulatory efforts including those of BCBS in two ways. First, it uses a quantitative approach that allows shedding new light and detail on the role of various stakeholders in the process.[6] Second, this quantitative approach allows for combining information on differences among stakeholders in terms of their preferences, their efforts to influence (measures by number of responses by stakeholder categories) and their relative ability to influence standard settings outcomes. This allows for better ability to efforts from different types of actors as well as their plurality (c.f. Pagliari and Young 2014, Lall, 2012; Young, 2012). Also, a distinction is also made within the financial industry depending of type of institutions and geographical location. Thereby the approach also that differs from most research into financial regulation formation, which treats the financial industry as a homogeneous group of actors (important exceptions are Fioretos, 2010; Clapp and Helleiner, 2012; Woll, 2013).

[4] Most responses included several areas of concerns and/or support.
[5] BCBS 2010; 2013; 2014a; b; c; d.
[6] For a similar methodological approach, see for instance Krawiec (2013) who adopts a quantitative approach to analysing the formulation of the Dodd-Frank Act.

Regading the third step, matching patterns in responses by different categories of respondents and adjustments made by the BCBS does not necessarily imply that certain categories of respondents were more successful in influencing the BCBS than others. However, it provides an indication on whose interests matter most in the political economy of banking regulation. Whether this is attributable to regulatory capture in the direct sense or merely through its cultural and intellectual traits is impossible to tell. Also, when different categories of respondents express similar opinions, it is impossible to assess the extent to which this reflects a relatively higher ability to influence of any category of respondents on another. For instance, industry participants also influence the politician sphere, which then may influence standard setting bodies.[7] Finally, the methodology does not capture any influence exerted informally. We assume that official statements – such as consultation responses -at least to a considerable extent reflect preferences pursued through informal influence. Such influence could of course also affect the formulation of the reform agenda in the first place, even before any concrete proposal was made.[8] The methodological problems outlined above are not unique to this study, but are common to most research on the influence on the process of financial regulatory reform.

3.2 Data and categorization of responses

The consultation period stretched from 17 December 2009 - 16 April 2010. 276 responses were received.[9] Certain respondents sent in separate replies for the capital and liquidity parts of the consultation. For categorization purposes, these replies were combined and treated as a single response. Others provided joint replies from several respondents (typically public authorities), and were also treated as a single response. Two submissions were not made in English (one in German and one in Spanish). These were not categorized and do not form parts of the final data set. Taken together, this limited the total number of responses included in the analysis to 213.

The categorization of responses covered both the type of stakeholder submitting the response ("respondent") and areas of the Basel III proposal on which they expressed major concern or support (for an outline and description of all categories, see Boxes 1 and 2 below). Such categorization is always arbitrary to some extent. In order to control for this, a secondary classification was made by a researcher not involved in the project for a subset of 20 responses. This robustness check rendered the same categorizations as the initial one.

Box 1 Categories for classifying responses to the Basel III consultation

Each response to the Basel III consultation was categorised according to 9 areas of concern or support with the Basel III proposal. Most responses covered several areas. The main areas were:

Areas of concern

Capital adequacy requirements (CAP) – Concern about the levels and eligibility criteria of regulatory capital.
Liquidity coverage ratio (LCR) – Concern about the proposed liquidity coverage ratio.
Net stable funding ratio (NSFR) – Concern about the net stable funding ratio.

[7] See for instance, Veron (2012) who demonstrates private-sector capture of the policy process when the European Commission forced the IASB to amend its IAS 39 standard on financial instruments during the global financial crisis.

[8] Research has shown that the financial industry often plays a leading role even at the stage of agenda formulation (cf. Krawiec 2013).

[9] This figure is adjusted to reflect the fact that some respondents sent in separate submissions on (typically) the regulatory proposals on capital and liquidity. In these cases, this counts as a single response. Also, some supervisory and regulatory authorities also submitted joint replies. In such cases, the organizations are treated as a single respondent. The consultation responses are available for download at the Bank for International Settlements' website: http://www.bis.org/publ/bcbs165/cacomments.htm

Leverage ratio (LR) – Concern about the leverage ratio not being risk sensitive.
Risk metrics (RM) –Concern about the proposed calculations of risk weights, and requirements for credit value adjustments, counterpart credit risk and central clearing party exposures.
Cumulative impact (CIMP) – Concern about the cumulative impact on the real economy if the proposal would be adopted.
Level playing field (LVP) –Concern about the effects on competition between countries and types of firms.

Areas of support
Support of capital adequacy requirements (CAP+) – Strong support of the levels and eligibility criteria of regulatory capital
Support of leverage ratio (LR+) – Strong support of the leverage ratio

Box 2 Categories for classifying respondents to the Basel III consultation

Respondents to the Basel III consultation were categorised along four main dimensions: whether they were based in countries that are represented in the BCBS; their geographical region of origin; the type of economy they were based in; and which economic sector they represent. Respondents in the subcategory of financial services industry were further divided into financial industry subsectors.

Respondent categories
Membership
This category divides respondents into three subcategories:
Traditional member (TM) –Respondents from those jurisdiction that were members of the BCBS prior to its expansion in 2009. This subcategory also include respondents representing European-wide or global interest associations.
New member (NM) –Respondents from those jurisdiction that were included in BCBS following its expansion in 2009 and thereafter.
Non-member (N) - Respondents from jurisdiction that are not members in the BCBS.

Geography
This category classifies respondents based on their geographical region:
Global (G) – Respondents representing stakeholders in multiple jurisdictions without any regional annotation. Mostly global interest groups or industry associations.
Americas (AM) - Respondents from the US and Canada.
Australasia (AS) – respondents from Australia or Asia.
European Community (EC) – Respondents from the European Union and the European Economic Area (thus including Norway, Switzerland and European-wide interest groups and industry associations).
Europe outside EC (ER)– Respondents from jurisdictions outside the European Union and the European Economic Area.

Economy
This category classifies respondents based on the type of economy they are based in:
Emerging markets and developing countries (EMDC) – Respondents from less developed countries or countries designated as emerging market by any of the major index providers, credit rating agencies, investment banks and other organizations that regulatory provide lists of emerging markets (IMF, Next-11/BRIC, CIVETS, FTSE, MSCI, The Economist, S&P, Dow Jones, BBVA, Columbia University and EMGP).
Advanced economies (AE) – All respondents that are not based in emerging markets or developing countries.

Economic sector
This category classifies respondents based on their main economic sector:
Financial services industry (FSC) – Respondents proving financial services (such as banks, insurance companies or credit rating agencies (CRAs)) and industry associations representing them.
Non-financial services industry (NFC) – Corporations outside the financial services sectors and their industry associations
Academics and individuals (ACA & IND) – Respondents writing in their own capacity or as academics.
Supervisory and regulatory agencies (SRA) – Includes multilateral public bodies and similar (such as the European Bank of Reconstruction and Development and the European Investment Fund).

Financial industry subsector (a subcategory of Economic sector)
Banks (B) – Credit institutions or financial groups dominated by banking.
Cooperative bank (CB) – Same as above but organized as cooperatives.
Non-bank financial institutions (NBFIs) – Financial service companies and groups whose main activity is not banking.

4 Basel III - Consultation process and outcome

In this section, the empirical findings are described and contrasted with findings from prior research. It begins by describing *who* answered the Basel III consultation, using the classification of respondents outlined in the methodology section (Section 4.1). Thereafter, different groups of respondents are contrasted in terms of the areas of concern or support raised in their responses to the consultation (Section 4.2). Finally, responses are cross-matched with the adjustments made to Basel III after the consultation process (Section 4.3). This enables an uncovering of respondents' preferences were relatively more satisfied in the final Basel III package.

4.1 Respondents to the Basel III consultation – Assessing efforts to influence

Distribution across countries

Table 1 displays the respondents to the Basel III consultation based on the categories outlined in Section 3. Beginning with the distribution of respondents across countries, it is clear that advanced economy (AE) respondents vastly dominated the responses received. 185 responses were posted by respondents in such economies, compared to a mere 29 from emerging markets and developing countries (EMDCs). Since all traditional BCBC member countries are AEs, this pattern is also reflected in the distribution of respondents from traditional and new member countries (167 and 14 respectively), as well as non-member countries (32). Only 10% of the responses from AEs were from non-members. The corresponding figure for EMDCs was 45%, with non-member responses coming from countries such as Poland, Czech Republic, Lebanon and Kuwait.

These figures show that direct efforts by stakeholders from these countries on banking standards through consultation responses remains limited. This corresponds to findings from research on previous consultation processes on Basel accords (Blom 2009; Claessens et al. 2008).

Distribution across economic sectors

The dominance by financial sector respondents documented in previous BCBS consultations (Blom 2009; Claessens et al. 2008; Underhill and Zhang 2008) seems to prevail also for the Basel III consultation. With 71% of responses, the relative number of responses from financial industry has slightly dwindled compared to the 74% of the Basel II consultation process. But financial industry responses still remain vastly dominant compared to the other sectors, including the non-financial corporations (6%) and academics and individuals (12%). Compared to the Basel II consultation, the percentage of responses from supervisory and regulatory authorities was radically reduced (from 30 to 8%). The expansion of the BCBS's membership (see Bengtsson 2013) probably explains part of this reduction, since it meant that a number of authorities that previously had to provide their views on BCBS proposals through consultation processes, and other formal and informal channels are now available. Another observation is that EU respondents represented the vast majority of non-financial industry responses with around three fourths of all responses from this category.

Of all responses from the financial industry, banks and their industry associations represented nearly two thirds. Among financial industry respondents from EMDCs, the dominance of banks was particularly dominant (88% of all financial industry responses). This is probably attributable to the lesser importance of non-bank financial intermediaries in most EMDCs (such as the U.S and the U.K) (c.f. Levine 2005; Schirm 2011).

<Insert Table 1>

4.2 Responses to the Basel III consultation – Assessing divergence of preferences

Most responses to the Basel III consultation covered several of the areas of concern or support, with an average of 2.4 areas by respondent. The most frequent area raised was concern with the LCR (emphasised by 93 of 213 respondents). Capital requirements was the second most common (69 respondents), followed by the NSFR (67) and the LR (56). An overview of the responses to the consultation by categories of respondents is provided in Table 2. This section elaborates on patterns distinguishable in the responses between different categories of respondents (as illustrated in Figures 1 and 2 below).

<Insert Table 2>

Responses by types of countries

Figures 1 illustrate the percentage of respondents from different types of countries concerned with or supportive of particular areas of the Basel III proposal. In general, AE respondents expressed much concerns on more areas of the Basel III proposal compared to their EMDC counterparts. The share of AE respondents highlighting particular areas often exceeds the EMDCs by multiples of two or three. Reasons for this may vary. For capital adequacy rules, banks in EMDCs typically do not rely on hybrid capital structures that are common in Germany and Japan, or the inclusion of deferred tax assets (important in Japan) or minority interest (important in France). Also, EMDC banks are typically less reliant on market funding and more reliant on funding through deposits, which makes the NSFR less difficult to fulfil. One important exception is the LCR, for which the share of EMDC respondents reached 48%, compared to 41% for AEs. Another notable difference is the support for the capital adequacy requirement, shared by 10% of EMDC respondents but not by any respondent from AEs.

Figure 1 also depicts variations in responses between respondents from traditional BCBS member countries with those from new member and non-member countries. Traditional members expressed much higher concern with the cumulative impact than their peers. New members stood out in respect to their concern with the LCR and positive stance to the LR.

In addition, Figure 1 contrasts the responses received from different geographical regions. For many areas or potential consequences of Basel III, the raised concerns are relatively evenly distributed across geographical areas. However, a few notable deviations are observable. Asian respondents expressed considerably less concern with the NSFR compared to respondents from other regions. Another example is the positive view on the LR shared by respondents from the Americas. The latter is probably largely attributable to the leverage ratio already in place in US banking regulation.

Taken together, the above findings on differences between respondents by country confirm the notion that representatives from different countries are not homogenous in their interests. On the contrary, large differences prevail in terms of the areas highlighted by the respondents to the Basel III process, of which many seem attributable to particular characteristics or circumstances in the respondent's countries of origin.

< Insert Figure 1>

Responses by sectors and financial subsectors

Figures 2 shows the differences among respondents from various sectors in terms of the areas of Basel III they supported or expressed major concerns with. Figure 2 also displays the major areas raised from respondents from different economic sectors (including individuals and academics). It is perhaps no surprise that non-financial sector respondents were generally less concerned with the Basel III proposal (in terms of number of concerns). The high concern expressed by NFCs (shared by academics and individuals) on the proposed risk metrics was mainly attributable to the proposed increases in risk weights for particular exposures. As expected, SRAs were positive towards the revised capital adequacy rules, but even exceeded the concern of the financial sector with the LCR. Judged by the data presented in Figures 2, interest group preferences do indeed differ. This is apparent even within the financial subsectors, albeit to a lesser degree.

<Insert Figure 2>

4.3 Adjustments to Basel III by the BCBS – Assessing ability to influence

After the consultation process, the BCBS made a number of adjustments to the Basel III proposal. To uncover the respective ability of different types of stakeholders in influencing regulatory outcomes, adjustments were cross-matched with the different preferences of various stakeholders in terms of areas of concern or support.[10]

Adjustments to the Basel III proposal

In the period after the consultation had closed, the BCBS made a number of adjustments to the proposed Basel III package.[11] Four major areas were subject to particularly substantial changes (CAP, LCR, NSFR, LR):

- During summer 2010, BCBS softened the capital adequacy requirements. This adjustment meant that mortgage servicing rights, DTAs and minority interest no longer were subject to full deduction from capital.[12] This so-called “July compromise” was justified by fear that these deductions could have led to adverse consequences for banks with certain business models. Also, it was noted that full deduction of MSRs may not appropriately reflect evidence of positive valuations of these assets even during periods of stress.

- The BCBS also made substantial adjustments to the proposed liquidity standards – the LCR and NSFR. For the LCR, these adjustments included an expansion in the range of assets eligible as high-quality liquid assets (a core component of the LCR) and a prolonged phase-in period (BCBS 2013). Following the consultation, the BCBS included a review clause to address any unintended consequences of the NSFR. It also eased the NSFR requirement by raising the relative weight of retail and small and medium size companies’ deposits (BCBS 2014a; b).

[10] For a discussion on methodological caveats relating to this, see Section 3.3.
[11] See Governors and Heads of Supervision (GHoS) (2010).
[12] The new requirement means that bank need to deduct the amount by which the aggregate of the three items above exceeds 15% of its common equity component of Tier 1 (calculated prior to the deduction of these items but after the deduction of all other deductions from the common equity component of Tier 14). The items included in the 15% aggregate limit are subject to full disclosure.

- A revised LR was presented together with the revised NSFR. In comparison with the original proposal, a package of amendments pertaining to the exposure measure was adopted. This included allowing netting of certain securities financing transactions, more generous credit conversion factors for off-balance sheet exposures, and various reliefs relating to credit derivatives and exposures to CCPs (BCBS 2014c; d).

Assessing abilities to influence

Based on the adjustments made, it is clear that they in particular satisfy respondents from advanced economies, traditional BCBC member countries and the financial sector. All the areas in which major adjustments were made, were more important to such respondents relative to respondents from EMDCs, new and non-BCBS members, and from outside the financial sector. Regarding the LCR, the concern expressed by respondents from the financial industry was also supported by respondents from supervisory and regulatory authorities. Conversely, areas particularly highlighted by respondents from non-BCBC member countries and emerging markets were not adjusted by the BCBS. For instance, the latter groups of respondents expressed relatively high support for the proposed capital adequacy requirements.

In relation to prior research, the above findings support the proposition that regulatory outcomes in the area of banking standards are disproportionally influenced by a few advanced economies (Singer 2004; Verdier 2013). The influence of emerging markets and LDCs seem to remain limited (Claessens et al. 2008). Also, the financial industry seems to exert considerable influence (Tarullo 2008; Blom 2009; Underhill and Zhang 2008).This is especially true when supported by other (in particular political) actors, such as regulatory authorities (such as the case of the LCR). This indicates similarities with the previous Basel processes (Barr and Miller 2006; Tarullo 2008). Based on the Basel III process, little suggests that emerging market representatives (Veron 2012) or the political sphere has become more able to influence outcomes in comparison with previous Basel accords (cf. Kapstein 2006).

5 Concluding discussion

The findings presented in this paper suggest that there are significant differences between states and interest groups, not only in their interests, but also in their ability to influence regulatory outcomes in the banking area. In terms of policy preferences, this paper shows that large differences prevail in terms of the areas highlighted by the respondents to the Basel III process. Many differences seem attributable to particular characteristics or circumstances in the respondent's countries of origin, and vary across types of respondents.

This heterogeneity across respondents from different sectors and countries of origin also uncovers information on the respective capabilities of different types of stakeholders in influencing regulatory outcomes. Based on the cross-matching of consultation replies and the subsequent adjustments made to the final Basel III accord, it is suggested that satisfy respondents from advanced economies, traditional BCBC member countries and the financial sector were particularly successful in influencing outcomes. Conversely, direct influence from emerging market and LDC respondents was limited. This is also seems to be the case for respondents outside the financial sector more generally.

Taken together, these findings reject recent claims that the ability of advanced powerful countries and the financial sector to influence regulatory outcomes is eroding. Great economic powers and the international financial institutions still seem to play an important role in shaping global banking regulation. This suggests that the political economy of banking regulation still follows its pre-crisis pattern. However, this paper offers additional insights on why this is the case – namely that efforts to influence also differ substantially among types stakeholders. Therefore the strong ability of financial industry stakeholders to influence standard setting outcomes is perhaps more linked to their resources, than to their technical knowledge or shared mindsets with regulators (as suggested in some academic papers).

These findings also point to a number of areas where future research could share additional light on the political economy of banking regulation. One question concern explanations for the seemingly limited efforts by stakeholders outside advanced economies and the private financial sector to influence standards of banking regulation? Another is to analyze whether previous patterns will change as the institutional framework changes and becomes more inclusive at least for certain emerging market economies through the establishment of G20 and the Financial Stability Board, and the broadening of BCBS's membership to such countries. Whether the patterns and outcomes from the Basel accords are also shared in other areas of financial services reform, where substantial reform agendas were initiated following the crisis, is also an important topic for future research.[13] Expanding this field of research is vital, since the knowledge on how global financial policy is actually is developed and shaped remains limited, despite its vast importance for the real economy and wider society.

[13] One example of an area where increased influence of the political sphere on financial standards is global accounting standards, as demonstrated by (among others) Bengtsson (2011).

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Table 1 Respondents to the Basel III consultation by categories

Main categories	Subcategories	#	%
BCBS membership	Traditional member (TM)	**14**	7%
	New member (NM)	**167**	78%
	Non-member (N)	**32**	15%
	TOTAL	*213*	
Type of economy	Advanced economies (AE)	**185**	87%
	Emerging markets and dev. countries (EMDC)	**29**	14%
	TOTAL	*213*	
Region	Global (G)	**17**	8%
	Americas (AM)	**50**	23%
	Australasia (AS)	**37**	17%
	European Community (EC)	**99**	46%
	Europe outside EC (ER)	**10**	5%
	TOTAL	*213*	
Sector	Financial services industry (FSC)	**155**	73%
	Non-financial services industry (NFC)	**12**	6%
	Academics and individuals (ACA & IND)	**28**	13%
	Supervisory and regulatory agencies (SRA)	**18**	8%
	TOTAL	*213*	
Financial subsector (subset of FSC)	Banks (B)	**92**	43%
	Cooperative bank (CB)	**9**	4%
	Non-bank financial institutions (NBFIs)	**48**	23%
	Credit rating agencies (CRA)	**6**	3%
	TOTAL (subset of FSC)	*164*	77%

Table 2 Responses to the Basel III consultation by categories

Respondent categories	Areas of concern								Areas of support	
	Cumulative impact	Level playing field	Capital req.	Liquidity ratio (LCR)	Stable funding (NSFR)	Leverage ratio	Risk metrics	Credit ratings	Capital req. positive	Lev. ratio positive
Traditional member (TM)	7	29	43	71	29	7	7	0	0	0
New member (NM)	35	10	35	41	34	28	19	3	1	3
Non-member (N)	13	3	13	38	22	28	13	3	9	3
Global (G)	39	11	11	11	11	22	11	0	0	0
Americas (AM)	34	14	44	46	44	22	16	4	0	8
Australasia (AS)	30	14	30	38	16	14	8	0	0	0
European Community (EC)	25	4	31	44	32	32	21	3	4	1
Europe outside EC (ER)	40	30	30	60	50	30	20	0	0	10
Advanced economies (AE)	32	10	34	41	34	29	18	3	1	3
Emerging markets and dev. countries (EMDC)	17	14	21	48	17	10	14	0	10	0
Financial services industry (FSC	36	11	39	49	40	31	47	3	1	3
Non-financial services industry (NFC)	42	0	0	8	0	17	42	0	0	0
Academics and individuals (ACA & IND)	7	4	4	7	0	4	18	0	0	0
Supervisory and regulatory agencies (SRA)	6	17	33	56	22	22	6	6	22	6
Banks (B)	42	15	50	50	48	39	19	0	0	5
Cooperative bank (CB)	0	33	33	44	33	11	0	0	0	0
Non-bank financial institutions (NBFIs)	29	4	23	52	29	19	15	0	2	0
Credit rating agencies (CRA)	0	0	17	17	17	0	0	83	0	0

Figure 1 Responses by types of countries- Areas of concern & support (%)

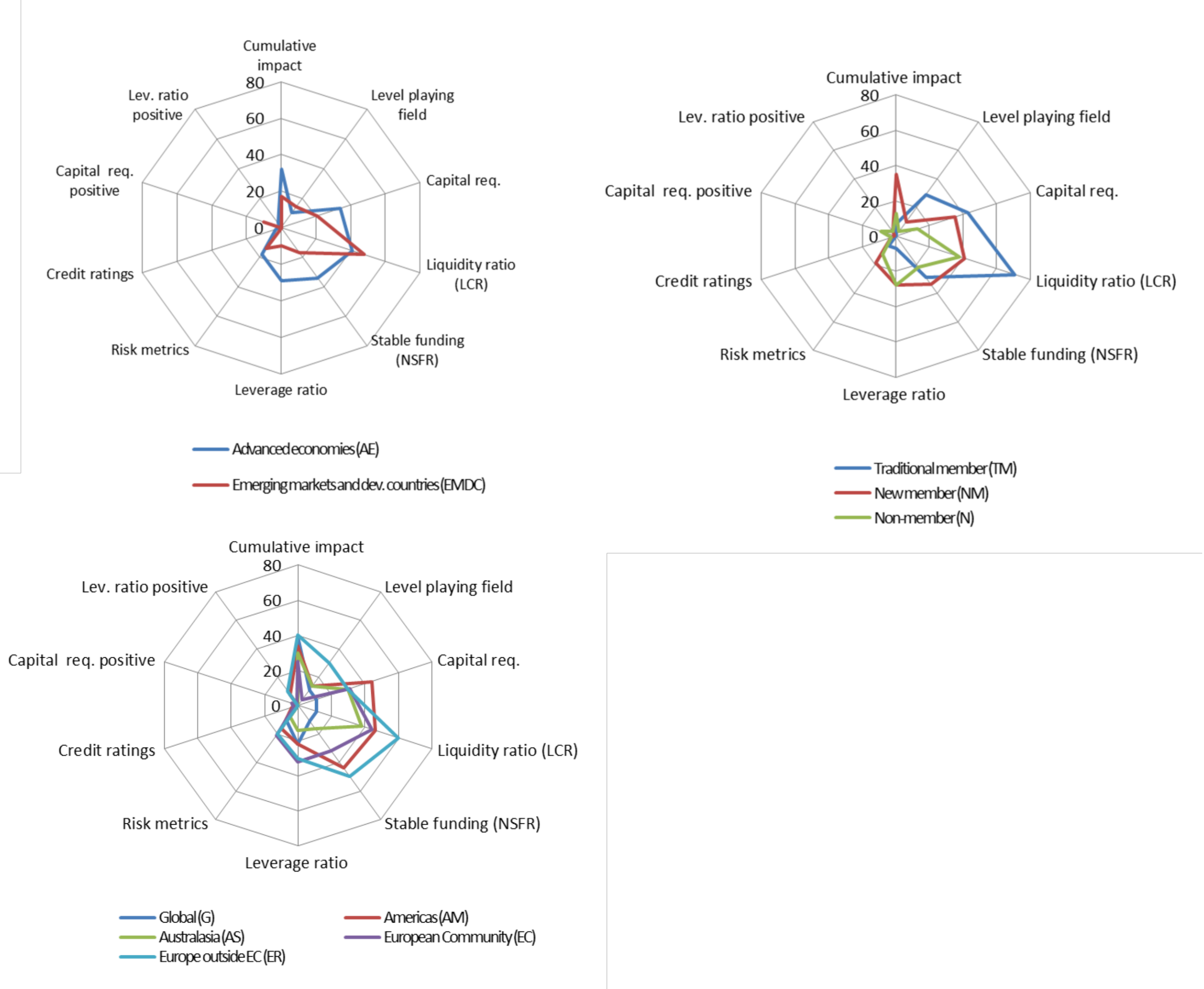

Figure 2 Responses by sectors & financial subsectors- Areas of concern & support (%)