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# The United States and Europe in the Global Arena

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## 10 The United States and Europe: The Emerging Regulatory Framework for International Capital Markets

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During the past two decades or so, capital controls have been lifted, national capital markets have been liberalized and international capital markets have exploded among the advanced industrial economies and beyond. As major players with significant stakes in the smooth operation of international capital markets, the United States and Europe have common interests in the emergence of a regulatory framework that enhances market stability, minimizes systemic risks, and allows for the efficient operation of markets. Yet despite the growth in cross-border capital movements, regulatory cooperation is at times plagued by differences in national approaches and preferences, difficulties coordinating rules where multiple regional or international organizations are involved, and regulators' reluctance to cooperate fully with foreign jurisdictions.

As a result, cooperation among financial regulators in Europe and North America has been intense but uneven since the late 1980s. It has assumed a variety of forms — multilateral, regional and bilateral — that are closely related to the nature of the problem regulators are trying to tackle and the market forces at play. Few have doubted the need to address in some fashion regulatory problems that arise with the internationalization of capital, but the politics of regulatory harmonization have been driven by concerns about defection and the regulatory scope necessary to assure regulatory effectiveness. And, increasingly, decisions made outside of the North Atlantic region influence financial stability within that region, as the instability that started in late 1997 in Asia has graphically illustrated.

A single chapter cannot do justice to the range of rules and agreements that have been made among the banking and securities regulators of Europe and America over the past decade. Rather than strive for exhaustiveness, this chapter selects three issue areas that illustrate particular dynamics of rule development: capital adequacy standards for internationally active banks; anti-money laundering efforts; and international accounting standards for foreign listings on local stock exchanges. There are two key dimensions that these cases illustrate: the problem of *defection* (which demands stronger rules of surveillance and sanction than mere coordination problems), and the issue of the *scope* of agreement (systemic problems demand multilateral solutions).

The remainder of this chapter is organized as follows. The first section presents evidence of the growth in international capital flows that motivate much of the concern to coordinate a regulatory response. Next, I explore the rationale for US-European cooperation in regulating these growing markets. Section three discusses the international organizational context in which US-European relations take place in this issue area. Then I examine three areas of regulation, and characterize the process of rule development in each. Finally, in the concluding section, I offer policy implications for transatlantic coordination with respect to the regulation of international capital markets.

### THE GROWTH OF INTERNATIONAL CAPITAL MARKETS

There is little doubt that the relatively recent burst of concern within the Atlantic community for fashioning some kind of common regulatory regime for international capital markets has been the result of the fantastic growth in these markets over the past decade. Balance of payments statistics indicate that cross-border transactions in bonds and equities for the G-7 rose from less than 10 per cent of gross domestic product in those countries in 1980, to over 140 per cent in 1995.<sup>1</sup> International bond markets have reached staggering proportions: by the end of 1995, some \$2.8 trillion of international debt securities were outstanding worldwide. Capital flows, largely from Europe and the United States, but also from

Japan, to developing countries and countries in transition grew from \$57 billion in 1990 to over \$211 billion in 1995.<sup>2</sup> Foreign lending in the form of international syndicated credit facilities has surged since the 1980s, to over \$320 billion at the end of 1995. Foreign exchange transactions – which represent the world's largest market – reached an estimated average *daily* turnover of nearly \$1.2 trillion in 1995, compared to \$590 billion daily turnover in 1989.<sup>3</sup>

Several explanations have been advanced for such phenomenal growth. Competitive deregulation, foreign policy pressures, and the exogenous development of technology are prominent themes in the literature.<sup>4</sup> Governments' need to tap international markets to finance growing debts also figure prominently.<sup>5</sup> Many studies have noted the central role played by neo-liberal economic thought and the resurgence of conservative political ideology.<sup>6</sup> But whatever the reason, capital controls have dropped drastically throughout Europe and North America over the past two decades.<sup>7</sup> Consequently, as Figure 10.1 illustrates, foreign investment and capital flows have mushroomed as a proportion of total economic activity for these countries.

At the microeconomic level, this exposure to international markets creates a host of new potential risks, which firms and other investors have tried to reduce through the use of derivative instruments. Exchange-rate and interest-rate volatility have especially contributed to the risks investors face in overseas markets. As a result, the annual turnover in derivatives contracts – defined as financial agreements which derive their value from the performance of other assets, interest or currency exchange rates, or indexes – doubled between 1990 and 1995, from 635.6 million contract trades in 1990 to over 1.2 billion in 1995. The value of these contracts tripled from \$3.4 trillion in 1990 to over \$10.6 trillion in 1995.<sup>8</sup>

#### INTERNATIONALIZATION OF CAPITAL AND THE RATIONALE FOR COOPERATIVE REGULATION

In the 1990s, the speed with which international transactions take place, the complex structure of many financial contracts, and the complicated network of branches and affiliates

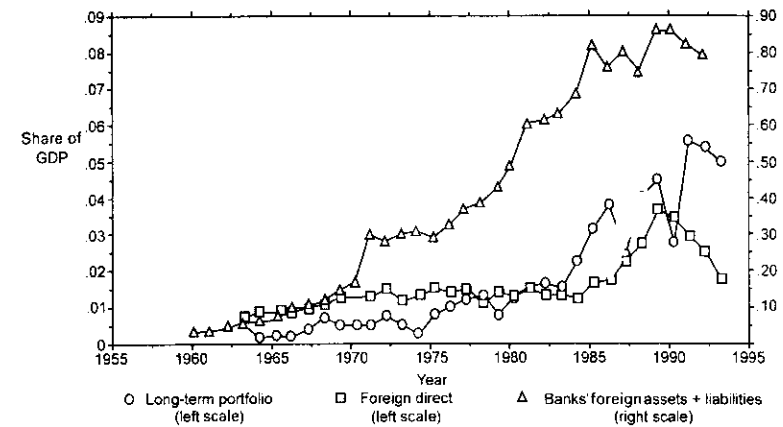


Figure 10.1 The growth in cross-border capital movements: portfolio investment, foreign direct investment and deposit banks' foreign assets plus liabilities, each as a proportion of GDP for the OECD countries, 1960–93

#### Sources:

Foreign direct investment is calculated from *Balances of Payments of OECD Countries* (Geneva: OECD)

Portfolio investment is calculated from *Balances of Payments of OECD Countries*, supplemented by IMF *Balance of Payments Statistic Yearbook*, (Washington, DC: IMF) detailed transactions tables:

portfolio outflows are calculated from lines 53 (government bonds), 56 (corporate bonds), and 59 (corporate equities);

portfolio inflows are calculated from lines 55 (government bonds), 58 (corporate bonds), and 61 (corporate equities).

Deposit banks' foreign assets and liabilities: IMF, *International Financial Statistics Yearbook* (world tables), various years.

Total flows are calculated as the absolute value of the sum of these inward and outward flows.

through which they pass often makes it difficult for national authorities to properly supervise and regulate financial markets. Increasingly, it is difficult to promote behaviour that is reasonably prudent and fair, without significantly cutting into the efficiency of the market or the jurisdiction of another national regulator. National regulators are also wary of creating a domestic regulatory environment that raises costs for nationally-based firms or that encourages legitimate

capital to migrate to jurisdictions with more favourable regulations.

Yet the traditional reasons for regulating capital markets remain.<sup>9</sup> The reduction of systemic risk, the need to protect consumers of these services from flagrant fraud, and the desire to crack down on related illicit activities that use capital markets to launder profits, have increasingly preoccupied regulators across the Atlantic and around the world. Financial liberalization and integration has in many ways complicated their regulatory tasks. Liberalization has increased competition in banking, which in turn has encouraged some firms to take on more risk, potentially threatening systemic stability. A plethora of innovative financial instruments and varying accounting and reporting standards across jurisdictions has reduced transparency. And as capital controls have been lifted, the opportunity to use international markets for illicit activities has increased.

Since the late 1980s, there has been a flurry of activity among national decision-makers, regulators, standard-setters, and law-enforcers in Europe and the United States to stitch together a set of rules for international capital market participants. Financial-market rule development has tended to involve small numbers of national regulators or supervisors, working briefly but intensively on relatively narrow issues, and producing non-binding agreements. It is easy to see why this is so: financial markets are changing so rapidly that drawn-out, legalistic negotiations among a large number of participants would produce agreements that would be obsolete long before they were ever implemented. For example, in thinking about how much capital should be kept on hand to guard against risk, regulatory focus has shifted rapidly from *credit risk* to *market risk*, a concept which itself mutates as quickly as financial instruments and strategies proliferate. This fact has placed the EU, with its relatively cumbersome legislative process, at something of a disadvantage compared to less-formal entities in regulating market risk.

Finally, there is the issue of the concentration of power and the conscious decision among regulators in the largest markets in the United States and Europe to minimize the role played by minor players or the growing number of extra-regional regulators. After all, the largest internationally-

active banks are still disproportionately from the G-10 countries; the world's largest stock exchanges are in the United States and London; and some 85 per cent of world foreign exchange transactions involve the US dollar. Moreover, the 25 biggest foreign banks in the world keep roughly 5.6 per cent of their assets in the United States, or about \$536 billion.<sup>10</sup> In addition, though difficult to quantify, much of the world's regulatory expertise with respect to finance is concentrated in the major financial centres of the United States and Europe. As a result, the lead regulators in the transatlantic region have approached regulatory harmonization as though the rest of the world has little to contribute and can only slow things down. Increasingly this idea is being challenged, but it is a direct function of shifts in financial power away from Europe and towards Japan, Hong Kong and Singapore. The exception is in anti-money laundering efforts, where smaller jurisdictions' cooperation has been essential to achieve US and European goals.

Overall, the process of rule development has been shaped by the fact that financial markets – and, even more so, financial transactions – are swiftly-moving targets whose supervision and regulation requires streamlined decision-making and a tremendous amount of technical expertise.

### The International Organizational Setting

One of the complicating aspects of US–European cooperation is the organizational architecture that deals with cooperative international financial regulation. As will become clear below, many aspects of this cooperation involve parallel harmonization, but there are four significant organizations involved in various aspects of regulatory cooperation (see Figure 10.2).

The first of these is the G-10 group of countries, which makes up the Basle Committee on Banking Supervision (sometimes called the Basle Committee or the Banking Committee) of the Bank for International Settlements. This group is widely recognized as the principal international forum for developments in international banking supervision. (See Table 10.1 for a description of the Basle Concordat System.) The Banking Committee makes decisions by consensus, moving quite swiftly when an issue is viewed as urgent. But the

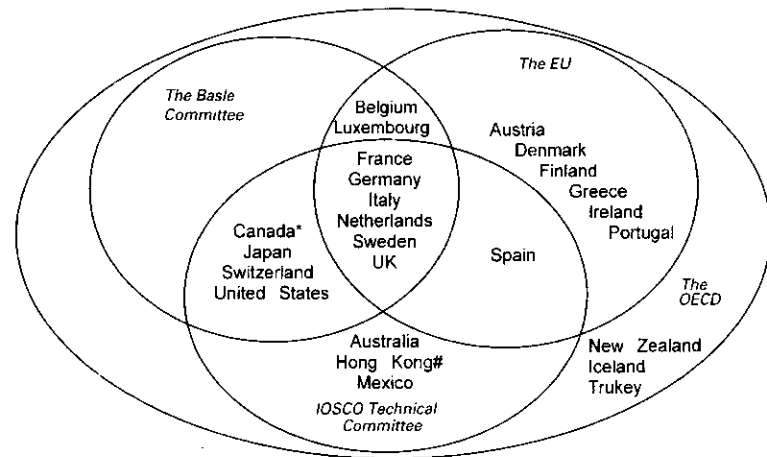


Figure 10.2 Overlapping organizational memberships: the OECD, European Union, Basle Committee, and the Technical Committee of IOSCO

\*Canada is represented at the Basle Committee by the Bank of Canada, and at IOSCO by the Ontario and Quebec securities commissions.

#Hong Kong is the only country represented here that is not a member of the OECD.

Source: Adapted from IMF, *International Capital Markets* (Washington, DC: IMF, 1996), p. 145.

Committee has no enforcement power; implementation of its decisions takes place through national regulatory structures. The focus of this group has been to provide standards and general principles to insure adequate supervision of internationally active banks, typically promulgating guidelines that reflect minimum standards to which the member countries are willing to adhere.

Securities regulators have formed their own International Organization of Securities Commissions (IOSCO). The organization as a whole is highly inclusive (95 per cent of the world's stock exchanges are claimed to be represented), but the most important regulatory work is done in the Technical Committee, which is overwhelmingly American and European. Like the Basle Banking Committee, this group also

Table 10.1 The Basle Concordat System

The Basle Concordat of 1975: *Report of the Governors on the Supervision of Banks' Foreign Establishments*. Guidelines for cooperation between national authorities for supervisory authority over foreign banks (branches, subsidiaries, joint ventures).

The Basle Concordat of 1983: *Principles for the Supervision of Banks' Foreign Establishments*. Recommended that parent and host supervisors communicate to determine whether either is unable to supervise a foreign office effectively. Parent supervisor should take over if the host supervisor's level of supervision is deemed inadequate, and vice versa. Parent supervisor is responsible for ensuring that holding companies and their subsidiaries are adequately supervised.

Supplement to the Concordat, 1987/90: Emerged from a joint report by the Basle Committee and the Offshore Group of Banking Supervisors, issued in August 1987. Provided recommendations concerning the removal of secrecy constraints; noted that national secrecy laws designed to protect the legitimate interests of bank customers can be an obstacle to information-exchange among supervisors and banks.

The Capital Adequacy Accord, 1988: *International Convergence of Capital Measurement and Capital Standards*. Provided for a common definition of capital. Established a risk-weighting framework which ties capital requirements to the credit risks of assets and off-balance-sheet activities; and a standard that internationally-active banks must maintain a capital base equivalent to at least 8 per cent of their risk-adjusted assets by the end of 1992.

The Minimum Standards Statement, 1992: *Minimum Standards for the Supervision of International Banking Groups and their Cross-border Establishments*. Lays down standards of supervision. Recommends that supervisors have the right to gather information from cross-border banks or groups for which they are the home-country supervisor.

Source: *International Currency Review*, vol. 22 no. 3-4, 1993/94, p. 99.

makes decisions by consensus; for example, they have recommended endorsement of some of the International Accounting Standards proposed by the International Accounting Standards Committee (referred to in more detail below). The group has also actively encouraged bilateral cooperation

among regulators to curb and punish securities fraud, and in the wake of the Barings crisis are disseminating recommendations on procedures for identifying large exposures and sharing this information among regulators.<sup>11</sup> Once again, the decisions of this group are non-binding, and there is a significant disparity among the members with respect to implementation.<sup>12</sup>

The most authoritative international organization dealing with financial market regulation is without doubt the European Union. The EU formally entered the banking supervisory arena in 1977 with the enactment of the 'First Banking Directive'. Of course, in contrast to either the Basle Banking Committee or the Technical Committee of IOSCO, EU directives are binding on the member-states. The EU has implemented a 'single passport' concept in European financial services, which permits EU incorporated banks and investment firms to provide cross-border services without further authorization by the host country. Common rules have been established for capital adequacy for EU banks, and the EU has made an effort to extend similar supervisory regimes to banks and securities firms alike.

The very authoritativeness of the EU has placed it at somewhat of a disadvantage in international financial regulatory affairs. Because it is crafting legislation, the EU's decision-making process is far less flexible than that of the G-10's Banking Committee. For example, the EU's Capital Adequacy Directive took nearly three years to be adopted after the proposal had been approved by the Commission. By contrast, the Banking Committee proposed a common method of measuring capital and it was endorsed by all central bank governors within seven months, creating the 1988 Capital Accord. As will be discussed below, the slow pace of EU decision-making has created further problems in adapting to both the demands of market conditions and changes in rules by the G-10 supervisors, increasingly rendering the EU a follower rather than an initiator in banking supervision.

Political organization is only one aspect of the process of developing a regulatory regime for international capital, and arguably it is not the most important. Even more crucial to understanding US-European relations within this issue area is the central role of market forces that cause interests to

converge or diverge, that create pressures for harmonization or defection, and that create incentives to develop bilateral solutions, or even take unilateral actions, rather than negotiate multilaterally. The cases discussed below highlight the interaction of decision-making and market reaction, thus providing a sense of the context in which cooperative arrangements are made, implemented within the region, and promulgated to the rest of the world.

## CASES

### **The Case of Capital Adequacy Rules**

One of the most significant international banking agreements of the past decade has been the decision of the G-10 countries to coordinate their rules on how much capital their nationally-chartered banks are required to hold against credit or other risks. In December 1987, central bankers from the G-10 countries adopted guidelines for evaluating the adequacy of capital in their international banks and agreed to reach an established minimum level by 1992. Worried by a trend towards capital deterioration despite growing financial risks associated with internationalization and liberalization – and the initially serious concern that differential approaches to capital requirements would constitute a competitive disadvantage for banks chartered in countries with more stringent requirements – the United States Federal Reserve and the Bank of England initially struck a bilateral agreement. That accord provided for a common definition of capital, adoption of a risk-weighting system for each class of assets, the inclusion of 'off-balance-sheet' items in risk-determination, and a formula for calculating specific capital requirements for individual banks, based on their weighted-asset risk profile.

The bilateral agreement between the two largest players sparked intense negotiations among the G-10 to adopt a common approach to capital adequacy. By some accounts, Japan, Germany and France accepted the US/UK framework (with some changes) because they were concerned that their banks might be excluded from those markets.<sup>13</sup> More plausible, however, is the reluctance of the G-10 central bankers to

cede leadership in this area to the United States and the United Kingdom. A more likely impetus to the broader accord was worry of being perceived as underregulated. The dynamics of capital adequacy harmonization since 1988 have largely been one of *voluntary rule adoption and compliance*, despite early predictions that 'rigorous enforcement' of the rules would be necessary.<sup>14</sup> By the end of 1993, internationally-active G-10 banks had capital ratios that *exceeded* the prescribed minimum.<sup>15</sup> By the mid-1990s the European Union had followed suit. Increasingly, emerging markets around the world have adopted elements of a common approach to capital adequacy: the Czech Republic, Poland and Hungary, for example, have all adopted Basle capital-adequacy standards, and banks in their jurisdictions typically exceed the 8 per cent rule, often by significant margins.<sup>16</sup>

This pattern of concentric waves of harmonization has been influenced by the perceived systemic nature of the risks and low value of defection inherent in this issue area. Despite initiation by the US and the UK, there was never any doubt that a common definition of capital adequacy would have to be applied, at a minimum, across the G-10. The globalization of banking has increasingly meant that any bank involved in the increasingly dense network of interbank relations can potentially transmit its weaknesses – such as problems of liquidity or solvency – to the interbank market and throughout the system. It is for this reason that individual bank failures such as the Herrstatt Bank in 1975, the Italiano Banco Ambrosio, and the scandal and collapse of the Bank for Credit and Commerce International (BCCI) have stimulated *collective* responses – creation of the Basle Banking Committee, promulgation of the G-10 principles of consolidated supervision, and international agreement on minimum standards of home-country supervision, respectively.<sup>17</sup> Prudential banking regulation, of which capital-adequacy standards are just one example, are explicitly intended to 'protect the safety and stability of the system as a whole'<sup>18</sup> from risky activities that could originate in any number of institutions in the system.

On the other hand, there are no major net advantages to undercutting a well-established capital adequacy standard. In increasingly complex and highly internationalized financial markets, private actors often depend on the regulatory

environment to provide information on the quality of an institution as a counter-party to an agreement. Where the reputations of firms are crucial and information asymmetries provide an opening for opportunistic behaviour, the advantages of providing a well-regulated financial environment generally outweigh those of lowering regulatory standards and competing on price alone. A regulatory race to the bottom is conceivable in the absence of any obvious focal point, but once one has been established there is very little incentive to reduce standards and thereby risk developing a reputation as 'poorly regulated'. Appropriate prudential regulations in fact are a competitive advantage that other jurisdictions have an incentive to copy, for, in the words of the chairman of the Federal Reserve Bank of Australia:

[o]nce standards or requirements of these [capital adequacy requirements] are adopted by the Central Banks in G-10 countries, there is considerable pressure on others to follow otherwise their banks risk being perceived as somewhat inferior institutions in competitive situations.<sup>19</sup>

The combination of a systemic problem and low incentives to defect has meant that capital adequacy rules have been negotiated first among the most important financial centres, and then gained adherents *without the pervasive use of political pressure*. The European Union has used the G-10 guidelines as a basis for the Capital Adequacy Directive (CAD) which came into effect in January 1996. This has not been without some complications for the EU, since they are in the business of creating binding directives with which national legislation must be brought into conformity, a process that can barely keep up with the changes in regulatory recommendations coming out the group of G-10 central bankers. Harmonization has also been complicated by the fact that the G-10 focuses its attention on large money-centre banks, while the EU necessarily crafts directives for large and small banks that comprise national banking systems. Nor does adoption of the G-10's approach resolve the issue of the 'level playing field' for the European countries, since some banks have much larger trading books than do others, and these are now taken into account in calculating value at risk according to the G-10 rules. But despite what might be construed as

difficulties, harmonization with respect to capital adequacy has proceeded rapidly from the G-10 to the EU.

Capital adequacy standards have become more rigorous and more widespread than a model of competitive regulatory laxity would suggest. The standards have emanated from the most important financial centres, notably the United States and the United Kingdom. They have spread among the G-10, throughout the EU, and beyond through multilateral efforts organized by bank supervisors in the major financial centres, who have defined the problem as systemic. Market pressures to match international standards have been far more important than political pressure, in sharp contrast to the case of anti-money-laundering efforts discussed below.

### **The Case of Anti-Money Laundering**

Money-laundering is the transferring of illegally obtained money or investments through an outside party to conceal the true nature of the source. The Financial Action Task Force (FATF), created by the major industrial countries of the OECD in 1989, estimated that by 1990 about \$122 billion was being laundered in Europe and the United States every year (or about \$85 billion net after 'expenses').<sup>20</sup> By some estimates, \$1 billion of criminal profits finds its way into the world's financial markets *every day*.<sup>21</sup> Lifting capital controls has made laundering easier by reducing the scrutiny given to international transactions.<sup>22</sup> Money-laundering has become a global phenomenon: as North American and European regulators have stepped up enforcement efforts, sometimes with notable success, illicit funds have moved on to Eastern Europe, the former Soviet Republics, the Middle East and parts of Southeast Asia.<sup>23</sup>

International initiatives to control money-laundering have come primarily from the United States, in alliance with the United Kingdom, France and increasingly Australia. As recently as 1986, the United States was the only country in the world to have criminalized money-laundering, and it remains by far the leader in prosecutions.<sup>24</sup> Relatively few prosecutions have actually taken place in Europe, though regulations have tightened significantly as a result of an EU directive on money-laundering.

Money-laundering cannot be handled effectively on a unilateral or bilateral basis. Significantly different rules across

jurisdictions invite the shifting of business to countries with weaker controls.<sup>25</sup> For example, when the United States passed the Bank Secrecy Act of 1970, which tightened reporting requirements for cash transactions over \$10,000, illicit money moved to Europe where most banks were not required to collect information on large cash deposits.<sup>26</sup> Even cooperation among the major financial centres is insufficient to pose a significant barrier to determined criminals. As the rules have tightened in the industrialized countries, illegal-source money is increasingly directed towards jurisdictions where regulations are more lax (Eastern Europe and the former Soviet Republics, the open economies of the Gulf and Mediterranean regions, and the emerging economies of Asia)<sup>27</sup> or to non-bank institutions where stockbrokers are much less likely than bankers to know their customers.<sup>28</sup> One Bank of England official has reportedly said fighting money-laundering is like squeezing a balloon - you simply displace the activity to wherever there is the least resistance.<sup>29</sup> To yield significant benefits, near-global cooperation is a virtual necessity.

However, individual jurisdictions may face incentives to resist international agreements to control money-laundering. Banking secrecy is often considered essential in attracting legitimate business; rules that require extensive inquiry into the source of funds are likely to push funds offshore.<sup>30</sup> Private banking, as it has been practiced in Switzerland, Liechtenstein and Luxembourg, for example, has proved a lucrative financial niche. The business of managing the funds of wealthy clients provides a third of the Swiss Bank Corporation's very stable profits. Some estimates suggest that private assets managed in Switzerland total SFr20 000 billion, or about a third of all money placed by wealthy individuals in banks outside their home countries.<sup>31</sup> These funds also provide the basis for the country's relatively large capital and securities market. Swiss officials have long recognized that bank secrecy has contributed significantly to the high standard of living and thus 'at least indirectly concerns substantial economic interests of the state'.<sup>32</sup> In Liechtenstein, even mild rules regarding 'due diligence' which require bankers to report suspicious activities to authorities - 'pose a direct threat to Liechtenstein's basic competitiveness', according to bankers in Vaduz.<sup>33</sup>



Other motives also discourage cooperation. Cost may be one; extensive financial reporting systems are expensive.<sup>34</sup> Tradition and idiosyncratic domestic political constraints in some countries may even be a factor. Austria's unwillingness to give up its traditional anonymous savings accounts has led to a dispute with the EU about whether Austria has fulfilled its obligations under the 1991 directive on money-laundering. Unlike the interest financial institutions may have in developing a reputation for safety, 'it is not necessarily in the direct financial interest of financial institutions to adopt anti-laundering behaviour'.<sup>35</sup> Anti-money laundering efforts provide no clear economic payoff, and may in fact exact immediate costs.

As a result, *international political pressure* has been the driving force behind harmonization to date<sup>36</sup> (for a list of major international anti-money-laundering conventions and agreements, see Table 10.2). The earliest initiatives came from the

Table 10.2 Major US and European anti-money-laundering initiatives

*Group of Ten; Committee on Banking Regulation and Supervisory Practices<sup>a</sup>*

'*Basle Statement of Principles; Prevention of Criminal Use of the Banking System for the Purpose of Money Laundering*' (December 1988).

- Establishes a minimum set of operating standards and management principles by which all banks in the IMF member countries should operate.
- Includes standards on customer identification, and adherence to national laws and policies intended to prevent money-laundering.

*Financial Action Task Force (FATF)<sup>b</sup>*

'*Financial Action Task Force on Money Laundering Report: Forty Recommendations*' (February 1990).

- Establishes a framework of comprehensive programmes to address money-laundering and facilitate greater cooperation in international investigations, prosecutions and confiscations which the FATF wants all countries to follow (not just its own membership).
- Calls for each country to define money-laundering and make it a criminal offense; recommends that countries extend the definition to

'knowingly' having laundered, and to the proceeds from all illegal activities, not just drug proceeds.

- Recommends that financial institutions do not keep anonymous accounts or accounts in fictitious names. Financial institutions should establish the principal owners and beneficiaries of all accounts.
- Financial institutions should be permitted or required to report suspicious activity to the competent authorities.

*Council of Europe<sup>c</sup>*

'*Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime (Strasbourg Convention)*' (November 1990).

- The main purpose of the convention is to coordinate policies with respect to investigation of suspected money-laundering and confiscation of the property and proceeds associated with illegal activities.
- The convention creates an obligation to provide other parties the 'widest possible measure of assistance in the identification and tracing' of property and proceeds, including providing and securing evidence to establish its existence, location, nature, and so on.

*European Union*

'*Directive on Prevention of the Use of Financial System for the Purpose of Money Laundering*' (June 1991).

- Obliges credit and financial institutions to require proper identification for all their customers when beginning a business relationship, when a single transaction or linked transactions are conducted exceeding ecus 5000, or when money-laundering is suspected.
- Allows member-states to put stricter rules in place than those provided in the directive. These should be coordinated by and communicated to a 'contact committee' to be established by the European Commission.

<sup>a</sup> G-7 countries plus Austria, Switzerland and Luxembourg.

<sup>b</sup> The original FATF consisted of G-7 members, eight other industrialized nations, and the European Commission.

<sup>c</sup> Membership currently includes 25 nations from Western Europe, and several Central and Eastern European nations.

United States, when Congress passed the Kerry Amendment,<sup>37</sup> which required the Treasury to negotiate with foreign countries with the objective of having foreign banks record all cash deposits over US\$10,000 and to provide information to US authorities in the event of a narcotics-related investigation. Should a bank fail to agree, the amendment gave the President the power to deny that bank access to the US clearing-house system, in an effort to isolate it from world trade. For a number of reasons – including the universal nature of the problem, opposition from Treasury,<sup>38</sup> the fear of stimulating foreign alternatives to US clearing facilities, and the fear of retaliation against US banks – this unilateral approach has fizzled with few tangible results.

Since 1988, political efforts have had a broad regional or multilateral focus. The United States was central in the drafting of the 1988 Vienna Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances,<sup>39</sup> which specifies ‘intentionally’ laundering drug profits as a criminal activity.<sup>40</sup> Such a designation is meant to assist in information-sharing to further prosecution, since mutual legal-assistance agreements usually specify that the activity under investigation must be a crime in both the requesting and the receiving country.<sup>41</sup> The US also brought the issue of money-laundering to the initially unenthusiastic G-10 banking supervisors, where it met with reluctance on the part of the French and especially the Germans to draw bank supervisors into what were widely perceived as law-enforcement efforts. Indeed, there was some suspicion that congressional pressure underlies the Federal Reserve’s interest in the matter. Nevertheless, as the wrongdoing at BCCI was beginning to unfold, both the Swiss and Italian regulators were won over to the idea that the Basle Banking Committee should make some kind of statement that financial systems must not be allowed to be used to aid criminal activity.<sup>42</sup> In December 1988, the G-10 bank supervisors came up with a ‘statement of principles’ recommending that banks cooperate with investigators and limit their dealings with customers if they believe the funds are either derived from illegal activity or to be used for illegal purposes. But this agreement noted explicitly that bank supervisors in the G-10 have very different roles and responsibilities in this area, that this was *not* a legal

document and *not* in any way intended to supersede national legal approaches.

The centre of multilateral political pressure is not in Basle, but in Paris, where the FATF is headquartered. The FATF is comprised of experts from government ministries, law-enforcement authorities, and bank supervisory and regulatory agencies from the OECD countries. The FATF regularly employs peer pressure and potentially a graduated set of sanctions to review and influence the policies of its own members and those of non-members to follow the spirit of its ‘Forty Recommendations’ promulgated in 1990. These recommendations call for states to ratify the 1988 Vienna Convention, to adopt effective seizure and forfeiture laws, and to prohibit anonymous accounts, endorsing the Basle group’s ‘know your customer’ guidelines.

The FATF employs a system of mutual review in which each member’s laws and efforts are scrutinized by an FATF team and then assessed by the full membership. Members can be sanctioned for making no effort to adhere to the Forty Recommendations. The mildest sanction is a letter from the president indicating shortcomings in a particular country; the harshest sanction is expulsion. Turkey has been sanctioned; it is the only country in the FATF that until recently had failed to make money-laundering a crime.<sup>43</sup>

The EU is also a source of pressure to control money-laundering. Removal of capital controls – and the potential danger of importing criminal activity from Eastern Europe – has helped to forge a strong consensus that money-laundering rules must be stringent and harmonized across the market. The EU Directive on the Prevention of the use of the Financial System for the Purposes of Money Laundering (1991) applies to all credit and financial institutions, including insurance companies. The rules require the identification of customers, data-recording and storage, an obligation to report suspicious transactions, and internal control mechanisms and staff training. The rules have entailed costly adjustments, for example in Luxembourg,<sup>44</sup> and have influenced a major 1995 overhaul of the Spanish penal code, encompassing money-laundering and corruption.<sup>45</sup> But the most contentious case has been that of Austria, which, despite significant reforms, ran into trouble with the Commission

over anonymous bank accounts.<sup>46</sup> In 1996, the EU indicated that continued Austrian non-compliance could mean legal action before the European Court.<sup>47</sup>

The convergence across national jurisdictions since 1986 has been significant, but hard fought and hardly complete. The United States and every European country agrees that money-laundering should be considered a crime, although there is continuing disagreement on the 'precedent offenses' that produce illicit gains. Furthermore, few countries have embraced the US approach of comprehensive reporting of all cash transactions above \$10 000 and extensive record-keeping for all international wire transactions (most banks have lobbied their governments hard to reject US-style record-keeping and reporting).<sup>48</sup> Recent rules in France, however, will bring that jurisdiction closer to the American standards.<sup>49</sup> The traditional European approach – leaving it to the banks to know their customers and to report suspicious activities – has found much more favour worldwide, and in fact is currently the basis of the FATF recommendations.

In short, harmonization with respect to money-laundering depends on pressure from a financial centre or centres and, because the problem is systemic, steps must be taken multilaterally. The benefits of remaining outside of a tight regime tempt many jurisdictions to defect, and encourages the major financial centres to press hard for cooperation. Because the issue area so clearly involves dilemmas of collective action, international fora have been directly involved in rule-development, surveillance, and even enforcement.

### The Case of Accounting Standards

Cross-border flows of portfolio investment have grown ten-fold as a proportion of GNP in the G-7 countries since 1980. Yet equity markets remain highly-segmented internationally. Investors favour domestic equities over foreign ones, despite the fact that they could benefit from further international diversification.<sup>50</sup> Stock exchanges are heavily dominated by domestic listings.<sup>51</sup> This may be due to informational barriers and incompatibilities that encourage firms to list at home and investors to buy stocks of the better-known nationally-based firms.

Accounting rules that provide the basis for the information on which investment decisions are made are determined by the national jurisdiction of the exchange on which the stock is listed. Tremendous advantages could be realized by using a single accounting language for cross-border listings worldwide. Investors would be better able to reduce risk and increase returns through informed portfolio diversification at drastically reduced information costs. Firms would be able to list on any exchange in the world on the basis of a single set of reporting rules. In the absence of a widely accepted international standard, information costs may be a significant deterrent to investors who otherwise might diversify their holdings and firms that would otherwise seek foreign listings.<sup>52</sup>

The difficulties are especially serious for cross-border listings between jurisdictions with very different accounting standards. This partially explains why it is, for example, that no German firm had ever traded on a stock exchange in the United States before 1993. When Daimler Benz reconciled its accounts based on 'United States Generally Accepted Accounting Principles' (USGAAP) as a condition of listing on a US exchange, potential investors were stunned to learn that Daimler's *DM615 million profit* in 1993 under German accounting rules dissolved into a *DM1.8 billion loss* using USGAAP for the same period.<sup>53</sup> The episode serves to illustrate that widely varying accounting rules add to transactions costs, potentially deter cross-border listings (as of early 1996, Daimler was still the only German firm listed on the NYSE), and confuse investors.

There is little disagreement that internationally accepted accounting standards would contribute to more efficient securities markets. The politics – which pits the United States and United Kingdom against much of the rest of Europe – revolve around *which* standard, and therefore *who* adjusts. As in all areas of finance, the struggle is among unequal contenders, given the dominance of the New York and London markets, and the insistence of the SEC that any firm listing in the US must use USGAAP.

The coordination of accounting standards across jurisdictions has been broadly regional, decentralized and evolutionary in nature. Perhaps because securities markets were

originally organized around time zones,<sup>54</sup> there are significant advantages to coordinating national requirements with those of a major nearby capital market even if there is far from universal agreement on an 'international' standard. Thus, Canada's standards tend to resemble those of the United States,<sup>55</sup> New Zealand's those of Australia, and the Scandinavian countries' those of Germany. Such coordination is useful in the absence of global or even G-10 agreement. In contrast to anti-money-laundering efforts, bilateral coordination *does* produce significant benefits; in contrast to capital adequacy, lax accounting rules may result in allocative inefficiency but *do not generate serious systemic risks*. As international markets grow, the demand for comparability in financial reporting among countries and across regions increases.<sup>56</sup> Ultimately, the political struggle for international preeminence is likely to develop between two or more emerging regionally-based standards or approaches.

The harmonization of accounting standards is also characterized by very low incentives to defect from an obvious focal point. Disagreements emerge over which rules should be the international standard, but no one has the incentive to differ radically from a major market, and, once accepted, there are virtually no incentives to defect. For internationally-active firms, the transactions costs of keeping up to speed on multiple standards are likely to exceed the one-time adjustment costs to a widely-used standard no matter what its 'nationality'. Indeed, many firms have prepared their statements voluntarily in order to maximize their access to international capital. Thus, in the 1960s Sony adopted US accounting rules in order to tap the US capital market, and in the last few years there has been a trend by Swiss, French and Belgian companies to adopt USGAAP or the less-stringent International Accounting Standards (IAS) currently under development by the International Accounting Standards Committee (IASC).<sup>57</sup> Stock exchanges themselves want to attract as much high-quality foreign business as possible, making them strong proponents of international standards.<sup>58</sup> Indeed, the decision of the newly-established EASDAQ (European Association of Securities Dealers Automated Quotation - the European equivalent of the US NASDAQ market) to use the American system of reporting, indicates the strength of

the incentives to fall in line with the dominant system.<sup>59</sup> As is the case with prudential regulations regarding bank capital, harmonization is reinforced by market pressures; once the adjustment costs are paid, there is no reason to buck the regulatory trend.

The most distinct accounting divide among the major capital markets is between the 'Anglo-American' versus the 'continental' approaches, which in turn have histories rooted in the way firms have traditionally been financed. The former stresses the shareholders' need for information about earnings and profitability, and is common where capital markets have traditionally provided the major source of external financing for firms. Countries in this school include the United States, United Kingdom, Australia, New Zealand and the Netherlands.<sup>60</sup> On the other hand, a number of countries, especially in continental Europe, use their tax books as the basis for financial reporting, which tends to mingle signals about a firm's profitability with its tax accounts. This is the method of accounting that has developed where firms' capital needs have traditionally been supplied by banks, which in turn are in a much better position to monitor a firm's true financial position than are decentralized stockholders. The emphasis using this method tends to be on capital maintenance and the minimization of distributable income - a purpose which better suits the interests of bank creditors since it focuses on the long-run source of income rather than profitability *per se*. Countries with accounting standards that fit this description include Germany, the Scandinavian countries, France, Belgium, Italy and Spain.<sup>61</sup>

Harmonization of accounting standards revolves primarily around which of these conceptual models should prevail, and secondarily over a myriad of details on exactly how calculations should be made to achieve the broad purpose of the standard. In a competitive market, the Anglo-American approach has two tremendous advantages: first, and most obviously, it is the approach governing the jurisdictions of the world's two largest securities markets. But secondly, it may be inherently more suited to globalized equity markets. It sends clearer signals to international investors, without mingling these with noise regarding national fiscal policy or

other objectives. Competing on the basis of the 'usefulness' of the information to the market, the Anglo-American approach is more likely to gather adherents.

Continental accounting ideas are most firmly rooted in countries of the EU, with the crucial exception of the United Kingdom. Britain has therefore opposed standardizing accounting rules at the European level. The EU has instead pursued a policy of mutual recognition,<sup>62</sup> which has left the Europeans somewhat disunited in their effort to influence international accounting standards. The European Commission has formally given up any effort to create a European Accounting Standards body.<sup>63</sup> Their strategy is now to try to influence the work of the IASC,<sup>64</sup> which is politically more palatable than accepting USGAAP without any pretense of multilateralism. The IASC appears to be making progress, but the progress it is making looks increasingly American to many.<sup>65</sup> The IASC knows its standards have little credibility unless the SEC accepts them, and, as one might expect, those rules that the SEC has accepted have been quite close to US practices anyway.<sup>66</sup>

Meanwhile, the Anglo-Americans continue to press for investor-oriented accounting on a number of fronts. Unilaterally, the SEC continues to require that any cross-border listings within the US be *quantitatively* reconciled to USGAAP, which encourages foreign firms to adopt American standards and undercuts the bargaining position of the Europeans. In April 1996, Germany's fourth largest company, Veba, an energy and industrial conglomerate now moving into telecommunications, adopted USGAAP, its CEO explaining, 'It is a global capital market, and we all have to play by the same rules'.<sup>67</sup> A raft of European multinationals, and most of corporate Germany including Bayer, BASF and Hoechst, and many companies awaiting privatization, including Deutsche Telekom, may seek New York listings and may have to opt for USGAAP standards before IASC standards are complete.<sup>68</sup> They do not want to wait for a long fight in the IASC only to find out that the SEC decides in the end to continue to demand USGAAP. This has greatly increased the willingness of the Europeans to make concessions in multilateral talks. And the signals coming out of the SEC are usefully ambiguous: while in the past the SEC has stalled

multilateral work on accounting standards by opposing them in the technical committee of IOSCO,<sup>69</sup> in the spring of 1996 it began to show signs of interest in furthering the work of the IASC, signalling possible willingness to 'fast track' acceptance of accounts lodged in accordance with international standards by foreign companies listed on US stock exchanges.<sup>70</sup>

All the while, tighter regional coordination among the Anglo-Americans remains a live, indeed a thriving option. American standard-setters, notably the Financial Accounting Standards Board (FASB) remain deeply skeptical of the IASC, and continue to nurture the Anglo-American accounting alliance through the 'Group of 4+1' countries—the US, Britain, Australia and Canada, plus an IASC representative (who reportedly never contributes much) and sometimes New Zealand (when their travel budget permits). This group was created as an informal forum for discussion in 1994, but in the spring of 1996 became somewhat more organized with the election of its first chairman, David Tweedie of the UK's Accounting Standards Board.<sup>71</sup> In the view of American standard-setters, it is crucial to continue a dialogue with this group of 'like-minded' standard-setters, and not to count on progress at the IASC, which is far more likely to promulgate stretchy rules which would allow for outcomes unacceptable to the US.<sup>72</sup> The strategy of US standard-setters is to make as much progress as possible in the Group of 4 so that the Europeans are persuaded to participate essentially on Anglo-American terms.<sup>73</sup>

The process of harmonization of accounting standards has had a distinctive dynamic: two alliances relating to two schools of thought have developed over the past several decades and now are vying to influence the emerging global standard. Because accounting harmonization is characterized by divisible benefits, the roots of cooperation have been local or regional. In the absence of significant advantages to defection, these loose alliances of like-minded standard-setters have grown and are now facing-off for global dominance. Political power will determine the winner; market forces will ensure compliance once a clear standard emerges.

## CONCLUSIONS AND POLICY IMPLICATIONS

Capital markets have developed so rapidly over the past decade that regulators everywhere have had to struggle to keep up with the changing markets and institutions they are charged to supervise. Internationalization of these markets has added a dimension that was not present only two decades ago: national markets are sufficiently integrated with one another that national rules cannot effectively achieve the regulatory goals of reducing systemic risk, protecting customers, and other related social objectives. All across the regulatory spectrum, from bank supervision to accounting requirements to anti-money-laundering efforts, national authorities are finding that the ability to achieve their objectives at a reasonable cost is influenced by the action (or inaction) of their counterparts in foreign jurisdictions. This is especially true in the North Atlantic region, where barriers to international capital mobility are virtually nil, markets are highly sophisticated, and capital flows have exploded in real terms over the past two decades.

Across the Atlantic region, national approaches to regulating capital markets are far more similar in the late-1990s than they were only ten years ago. Market pressures have cut both ways in the process of regulatory harmonization, reinforcing some aspects of financial regulation but sharpening dilemmas of collective action in others. For the most part, the convergence of rules regarding capital adequacy has been far more 'natural' than many would have predicted, due to the advantages of being viewed as matching 'global standards' with respect to prudential banking practices. The contrast with anti-money-laundering is stark: central political pressure exercised by the United States, the FATF and the EU has been necessary to counter market pressures that encourage defection in this issue area. The development of international accounting standards illustrates yet a third process. Regional practices have gained adherents, until globalization has led to demands for a single widely-accepted standard for stock-exchange listings. Anglo-American rules now vie with a more 'continental' approach for status as the global standard.

Convergence across these issue areas – whether through multilateral negotiations, regional approaches or unilateral

actions – has not been without significant challenges, which may have important implications for future cooperative efforts. As markets continue to grow and change technologically, potential problems include the following:

*Coordination among international organizations.* One of the great challenges for the United States and Europe is to deal with what in many ways is an unnatural division of organizational responsibility and authority. The problem has two dimensions, one jurisdictional and the other intersectoral. The recent uncertainties over capital adequacy rules resulting from the Basle committee and the EU illustrate the difficulties of coordinating across these organizations despite significant overlap in their membership. More generally, one can wonder whether the decision-making process of the EU is well-suited to dealing with the intricacies of regulating the rapidly moving target of capital markets. The EU needs to refine regulatory decisions with respect to banking supervisions in a timely manner, or else should cede standard-setting to the G-10.

The second dimension of the coordination problem among international organizations is intersectoral, and reflects the traditional (in the US context, anyway) separation of securities and banking business. As these functions continue to merge, there will be an increasing need to coordinate the work of the G-10 bank regulators and the securities regulators meeting in IOSCO. Bank regulators have traditionally been much more focused on systemic risk than have securities regulators, whose attention has been centred on customer protection and market fairness. The distinction is increasingly untenable, as banks increasingly trade securities for their own accounts, and securities firms make deposits that constitute significant proportions of liabilities within particular banks. There is some evidence of movement towards intersectoral coordination, such as in the area of regulating financial conglomerates, but common approaches to capital adequacy for securities and banking institutions, for example, remain illusive outside of the EU itself.

*Addressing the divergence between agreement and fulfillment.* While it is easy to point to significant international regulatory output over the past decade, the true test will remain the extent to

which politically challenging agreements are actually implemented. In the North Atlantic regime, this is scarcely a problem for capital adequacy where meeting international standards of prudent operation is a competitive advantage; or for accounting standards, where there are strong incentives to coordinate on a single standard for purposes of international listings. Such is not the case, however, with respect to anti-money-laundering efforts. Suspicions have arisen in the United States that despite the harmonization of law, there has hardly been a harmonization of zeal to enforce, prosecute and punish. The task is not complete merely because the law is on the books, and continued perceptions of uneven commitment can create a certain degree of political friction, even among allies in a common cause. This will have to be kept in mind as the FATF continues to develop more specific policies (and possibly go beyond 'recommendations') in the future.

*The shift of financial power beyond the Atlantic region.* The most significant challenge for US-European cooperation with respect to the regulation of cross-border capital is that the market is a global one, and even a well-coordinated regional approach will eventually prove inadequate to the task. According to a recent report by the Bank for International Settlements, Singapore and Hong Kong are now the fourth and fifth largest foreign exchange trading centres in the world. A group of 26 emerging economies (plus Australia and New Zealand) whose total non-gold reserves were less than 50 per cent of those of the G-10 in 1987, had reserves in 1995 that were nearly 90 per cent of that group's total reserves. This same group had a stock-market capitalization in 1987 that was 6 per cent that of the G-10, but over 15 per cent of that group's total stock-market capitalization by 1995.<sup>74</sup> This constitutes good evidence that capital markets are growing much more quickly outside of the major economies of America and Europe than they are within the region.

Regulatory decisions made within Europe and the United States have in the past largely been accepted by countries outside of the region as 'international standards'. Regulatory cooperation and harmonization can be expected to meet significant resistance, however, where major players outside

the region are expected to make costly adjustments to their regulatory approaches. This problem is especially stark with respect to anti-money-laundering efforts. Outside of Japan, Singapore and Hong Kong, money-laundering is not a crime in much of Asia. Furthermore, despite encouragement and even pressure from the United States, Europe and Australia (who was willing to commit their own forfeiture funds for the development of a secretariat for the FATF in Asia), Asian support for some version of the FATF for the region has not been forthcoming.<sup>75</sup> Increasingly, Europe and the United States will have to devise policies that provide the proper incentives for global cooperation. At a minimum, they should anticipate discussions that broach the question of greater extra-regional representation in the centres of regulatory decision-making, if Asian cooperation is to be forthcoming.

Regardless of these continuing and future challenges, by almost any standard, it is fair to say that Europe and the United States are closer than ever to the liberal ideal of regulatory harmonization with respect to international financial markets. Standards will continue to evolve as market (and black market) conditions and technologies change, but if the United States and Europe work to adapt regional decision-making arrangements to the global arena, and if this can be done without sacrificing the speed, flexibility and standards of technical expertise that have been the hallmark of transatlantic cooperation, these adapted institutions should be able to address with some degree of success a more genuinely global regulatory regime for international finance.

## Notes

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19. Mr B. W. Fraser, Governor of the Reserve Bank of Australia, to the 24th Conference of Economists, Adelaide, 25 September 1995. Reprinted in the *Reserve Bank of Australia Bulletin*, October 1995. Fraser's reference to pressure alludes to economic, not political pressure.
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32. This statement is a translation of official Swiss federal government policy, quoted in M. Aubert, P. J. Kernén and H. Schoenle, *Das Schweizerische Bankgeheimnis* (Bern, 1978), p. 59 (translation provided in a summary generously supplied by an official of the International Monetary Fund). Recent changes in Swiss bank secrecy law now give banks the right – but not the obligation – to report suspicious clients. See articles by Frances Williams and Ian Rodger, 'Survey of the Swiss Banking System', *Financial Times*, 26 October 1995, p. iv, v. See also Thurston Clarke and John J. Tigue, *Dirty Money: Swiss Banks, the Mafia, Money Laundering, and White Collar Crime* (New York: Simon & Schuster, 1975).
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37. Section 4702 of the 1988 Omnibus Drug Bill. See also Thomas Crocker, 'Bankers, Police Yourselves', *International Financial Law Review* (June 1990), p. 11.
38. Treasury's lack of enthusiasm for this approach is described in 'Drug Money Laundering, Banks, and Foreign Policy', a Report to the Committee on Foreign Relations, United States Senate, by the Subcommittee on Narcotics, Terrorism and International Operations (USGPO), 101st Congress 2d session, February 1990, p. 28. This opposition was also confirmed in an interview with a Treasury official, 7 August 1996, Washington DC.

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40. Article 3, section 1, (b) (i) and (ii).
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42. Telephone interview with a Federal Reserve official who was involved in the drafting and negotiation of the 1988 agreement, Washington DC, 8 August 1996.
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  56. Michael Sharpe, 'Is it Possible to Evaluate a Company Objectively?', presentation to the 20th IOSCO Conference, 12 July 1995, Paris.
  57. *Ibid.*
  58. Certainly this has been the position of the New York Stock Exchange, which has relentlessly pressured the Securities and Exchange Commission to adopt the rules being developed in the International Accounting Standards Committee (IASC), even though in many ways they deviate from USGAAP. Interview with James Shapiro, Research and Planning, New York Stock Exchange, New York City, 8 November 1995.
  59. Dirk Tirez, 'EASDAQ Benefits from European Framework', *International Financial Law Review* (November 1997), pp. 11-15.
  60. Cummins, Harris, and Hassett, March 1994.
  61. *Ibid.*
  62. For example, mutual recognition of disclosures made in public-offer and listing prospectuses. See Mario Monti, 'The Establishment of Regional Financial Areas and Perspectives on Regulatory Harmonization', presentation at the 20th Annual Meeting of IOSCO, 13 July 1995, Paris.
  63. 'Europe Finance: Region Pushes for New Accounting Standards'. *Economist Intelligence Unit*, NewsEDGE/LAN, 13 May 1996; Jim Kelly, 'Cautiously Counting Lucky Stars in Europe...', *The Financial Times*, 6 June 1996, p. 29.
  64. See the comments of Mario Monti, 13 July 1995, *op. cit.*; Karel Lannoo, 'IOSCO Annual Conference', *Financial Regulation Report* (July/August 1995), p. 9.
  65. *Financial Regulation Report* (July/August 1995), p. 8. A draft of IASC's Work Program for harmonizing international accounting standards can be found in *International Securities Regulation Report*, vol. 8, no. 16 (3 August 1995), p. 4.
  66. Interview, 8 November 1995.
  67. 'German Finance: Large Corporations Turn to Global Capital Markets', *The Economist Intelligence Unit*, NewsEDGE/LAN, 15 April 1996.
  68. *Economist Intelligence Unit*, NewsEDGE/LAN, 13 May 1996.

69. This is the International Organization of Securities Regulators, the body which would endorse (or not) the accounting rules coming out of the IASC as appropriate (or not) for securities listings. Decisions of the group are, however, non-binding.
70. *International Securities Regulator* (25 April 1996), p. 7; 'Global Finance: Europe-USA Explore Uniform Listing Standards', *Economist Intelligence Unit*, NewsEDGE/LAN, 25 April 1996.
71. Jim Kelly, 'UK Aims to Influence Search for Global Accounting Code', *Financial Times*, 22 April 1996, London edition, p. 26.
72. One standard-setter expressed strong doubts that there could be any serious 'harmonization' with the Germans and Japanese, who have a completely different view of the purposes for providing information. Interview by telephone with Vice-Chairman of the Board, FASB, Norwalk, Conn., 15 August 1996.
73. *Ibid.*
74. International Finance Corporation. *Emerging Stock Markets Factbook*, various issues.
75. Discussion with officials from the US Treasury and FINCEN, 5-8 August 1996.