APPENDIX

A Brief Guide to the Committees, Groups, and Institutions That Comprise the International Financial Architecture (alphabetical order)

Bank for International Settlements (BIS): www.bis.org

Date established: 1930
Membership as of 2007–8: Fifty-six central banks or monetary authorities of the following countries: Algeria, Argentina, Australia, Austria, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, Chile, China, Croatia, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Latvia, Lithuania, Macedonia, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom, the United States, and European Central Bank.

Where the institution meets: Headquarters of the BIS are in Basel, Switzerland.

Main Function: The BIS was established to act as an agent for the collection and distribution of reparations associated with the Treaty of Versailles after World War I and as trustee for the Dawes and Young international loans, which were issued to finance those reparations. It was also intended to act as a forum for central bank cooperation, which has been its main function up until the present day. Since the end of World War II, it has carried out a variety of trustee and agency functions for its central bank membership, including the investment of foreign reserves. It also hosts the secretariats of the G10, its three committees (BCBS, CGFS, CPSS), the IAIS, and the FSF/FSB, and serves as the Head Office for the International Association of Deposit Insurers (IADI). Its bimonthly Global Economy Meeting, including thirty central bank governors of key industrial and emerging market economies focuses on developments in the global economy and international financial markets, drawing on the Bank's research and statistical activities.

Basel Committee on Banking Supervision (BCBS): www.bis.org/bcbs

Date established: 1974, by the central bank governors of the G10 countries
Membership as of 2007–8: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States; in March 2009, membership was extended to Australia, Brazil, China, India, Korea, Mexico, and Russia, and in June 2009, membership was extended to Argentina, Hong Kong SAR, Indonesia, Saudi Arabia, Singapore, South Africa, and Turkey.

Where the group meets: At the BIS in Basel, Switzerland (usually four times per year).

Main function: BCBS provides a forum for cooperation on issues related to banking supervision and acts as a standard-setting body on all aspects of banking supervision. It is also a member of the Joint Forum, established in 1996 in coordination with IOSCO and IAIS. The Joint Forum is comprised of an equal number of senior bank, insurance, and securities supervisors and deals with issues common to these three sectors. It has three main subgroups (risk assessment and capital, conglomerate supervision, and customer suitability) and typically meets three times per year.

The BCBS is responsible for one of the twelve core international standards and codes *(Core Principles for Effective Banking Supervision 1997/2006*) that sets out twenty-five basic principles for an effective system of banking supervision, dealing with licensing and structure, prudential regulations and requirements, supervisory methods and powers, and information requirements.

Committee on the Global Financial System (CGFS): www.bis.org/cgfs

Date established: 1971 as the Euro-currency Standing Committee by the G10 central bank governors; renamed CGFS in 1999 (with revised mandate)
Membership as of 2007–8: Members are deputy governors, other senior officials of central banks, and the Economic Adviser of the BIS; member

institutions include the Reserve Bank of Australia, National Bank of Belgium, Central Bank of Brazil, Bank of Canada, People's Bank of China, European Central Bank, Bank of France, Deutsche Bundesbank, Hong Kong Monetary Authority, Reserve Bank of India, Bank of Italy, Bank of Japan, Bank of Korea, Central Bank of Luxembourg, Bank of Mexico, Netherlands Bank, Monetary Authority of Singapore, Bank of Spain, Sveriges Riksbank, Swiss National Bank, Bank of England, Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of New York.

Where the group meets: Regular Committee meetings are held on the occasion of four of the bimonthly meetings of governors of BIS member central banks in Basel, Switzerland. As of January 2010, the chairman of the CGFS reports to the Global Economy Meeting of the BIS.

Main function: The Euro-currency Standing Committee was initially established with a mandate of monitoring international banking markets, with a focus on monetary policy implications of the rapid growth of offshore Eurodollar markets, and the oversight of BIS collection of international banking and financial statistics. As attention increasingly shifted toward issues of global financial stability and broader questions of structural change in the international financial system, the G10 governors renamed the committee in 1999 and revised its mandate to cover the review of global financial markets with a view to promoting improvements in their functioning and stability.

Committee on Payment and Settlement Systems (CPSS): www.bis.org/cpss

Date established: 1990, by the G10 central bank governors (to replace the Group of Experts on Payment Systems which was established in 1980 and the ad hoc Committee on Interbank Netting Schemes established in 1989)
Membership as of 2007–8: Belgium, Canada, the European Central Bank, France, Germany, Hong Kong, Italy, Japan, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom, and the United States. In July 2009, membership was extended to Australia, Brazil, China, India, Mexico, Russia, Saudi Arabia, South Africa, and South Korea.

Where the group meets: Until 1999, meetings were held exclusively at the BIS in Basel, Switzerland; since then, the location of meetings has varied. Meetings are now held three times per year—previously two times per year.

Main function: CPSS acts as a forum for central bank cooperation in strengthening financial market infrastructure through the monitoring and analysis of developments in domestic payment, settlement, and clearing systems as well as in cross-border and multicurrency systems. CPSS formulates broad supervisory standards and guidelines and recommends best practices in banking with the expectation that supervisory authorities will take steps to implement them. CPSS undertakes specific studies at its own discretion or at the request of the governors of the Global Economy Meeting. CPSS publishes various reports as well as the Red Book on payment systems, which provides extensive information on the most important systems in the CPSS countries.

CPSS has produced one of the twelve core international standards and codes (*Core Principles for Systemically Important Payment Systems 2001),* which governs the design and operation of payment systems. The principles focus on payment systems (i.e., systems that comprise a set of instruments, procedures and rules for the transfer of funds among system participants), which are intended to apply to systemically important payment systems, whether credit/debit, electronic/manual processing, and electronic/paper-based instruments. A related code *(Recommendations for Securities Settlement Systems 2001),* which was produced with IOSCO, identifies minimum standards for securities settlement systems.

Development Committee (DC): www.worldbank.org/devcommittee

Date established: 1974, as a joint committee of the Board of Governors of the IMF and World Bank (Joint Committee on the Transfer of Real Resources to Developing Countries)
Membership in 2007/08: Governors of the IMF and World Bank representing the twenty-four constituencies of these institutions; the managing director of the IMF and president of the World Bank serve as *ex officio* members. Official observers include the heads of the UN, UNDP, UNCTAD, FAO, ILO, WHO, WTO, African Development Bank, Arab Bank for Economic Development in Africa, Arab Fund for Economic and Social Development, Arab Monetary Fund, Asian Development Bank, Council of European Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Fund for Agricultural Development, Islamic Development Bank, Nordic Development Fund, Nordic Investment Bank, OPEC Fund for International Development, and West African Development Bank, and the Commissioner for Development and Human Affairs of the EU.

Where the group meets: Development Committee meets twice a year (usually in Washington, DC) on the occasion of the spring (April/May) and Annual (September/October) Meetings of the IMF and World Bank; every third year, the Annual Meetings are convened in one of the member countries on a rotating basis.

Main function: Development Committee provides general oversight of the activities of the IMF and World Bank with developing countries and constitutes a forum for the consideration of global development issues.

European Central Bank (ECB): www.ecb.int

Date established: 1998
Membership as of 2007–8: Governing Council of the ECB comprises six members of its Executive Board as well as the governors of the central banks of the sixteen countries that participate in the common currency of the euro area (including Malta that joined in January 2009).

Where the institution meets: Headquarters of the ECB are in Frankfurt, Germany.

Main function: The ECB is the regional central bank for the sixteen countries of the European Union which participate in the common currency area of the euro area; it fulfills the normal functions of a central bank, in coordination with the central banks of the countries that participate in the euro area.

European Commission (EC): ec.europa.eu

Date established: 1958, with the establishment of the European Economic Community
Membership as of 2007–8: Twenty-seven commissioners appointed by the European Council, subject to the approval of the EU Parliament.

Where the institution meets: Headquarters of the EC are in Brussels, Belgium.

Main function: The EC is the executive body of the European Union, which drafts proposals for EU legislation and acts as the implementing agency for its policies and spending programs.

Financial Action Task Force (FATF): www.fatf.org

Date established: 1989, by the G7
Membership as of 2007–8: Argentina, Australia, Austria, Belgium, Brazil, Canada, China, Denmark, European Commission, Finland,

France, Germany, Greece, Gulf Co-operation Council, Hong Kong, China, Iceland, Ireland, Italy, Japan, Kingdom of the Netherlands (including the Netherlands, the Netherlands Antilles, and Aruba), Luxembourg, Mexico, New Zealand, Norway, Portugal, Republic of Korea, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States; there are also twenty-seven international and regional organizations that are Associate Members or Observers of the FATF and participate in its work.

Where the group meets: Each year, the FATF holds three plenary meetings, as well as meetings of various ad hoc groups; most FATF plenary meetings take place in the facilities of the OECD in Paris.

Main function: The Financial Action Task Force (FATF) develops and promotes policies at the national and international level to combat money laundering and terrorist financing. FATF monitors members' progress in implementing measures to counter money laundering through annual self-assessments and more detailed mutual evaluations. FATF also reviews money laundering trends, techniques, and countermeasures and their implications, and promotes the implementation of its recommendations by nonmember countries.

The FATF has produced one of the twelve core international standards and codes *(The 40 Recommendations of Financial Action Task Force 2002)* that sets out principles for the design of countermeasures against money laundering covering the criminal justice system and law enforcement, the financial system and its regulation, and international cooperation. In addition, the *Nine Special Recommendations on Terrorist Financing 2002* provide a set of international standards designed to deny terrorists access to the international financial system and to track down the assets of terrorists. The standards focus on the following issues: ensuring that terrorist financing is listed as a criminal offence in national legislation, the seizure of terrorist assets, the reporting of suspicious financial transactions, international cooperation, and measures to prevent the misuse of remittance systems.

Financial Stability Forum (now Board) (FSF/FSB): www.financialstabilityboard.org

Date established: 1999; in April 2009 it was reconstituted as the Financial Stability Board
Membership as of 2007/08: G7 (with 3 members each representing finance ministry, central bank and regulatory agency), plus the central

banks of Australia, Hong Kong, Singapore, and Switzerland, two representatives each from the BCBS, CGFS, CPSS, IAIS, IMF, and World Bank, and one representative from the BIS, ECB, IASB, Joint Forum, and OECD. In April 2009, membership was extended to all members of the G20, the EC, the Netherlands, and Spain.

Where the group meets: FSF/FSB meets at the headquarters of the BIS in Basel, Switzerland twice a year, prior to the spring and Annual Meetings of the IMF and World Bank,

Main function: The FSF was established by the G7 to foster cooperation among the various national and international regulatory bodies concerned with the promotion of global financial stability. One of its major responsibilities was to oversee the development of twelve core international standards and codes and their implementation.

Group of 7: www.g7.utoronto.ca

Date established: 1975, at the level of finance ministers and central bank governors
Membership as of 2007–8: Canada, France, Germany, Italy, Japan, the United States, the United Kingdom, and Russia.

Where the group meets: In one of the member countries on a rotating basis 3–4 times a year, and in Washington, DC on the occasion of the spring and Annual Meetings of the IMF and World Bank.

Main function: Initially the focus of ministerial level meetings was on issues of macroeconomic policy management and cooperation, but since the late 1980s its agenda has covered a range of economic development and financial stability issues within the purview of the IMF and World Bank affecting developing and emerging market economies.

Group of 10: www.bis.org

Date established: 1961, in connection with General Arrangements to Borrow (GAB) of the IMF
Membership as of 2007–8: Finance Ministers and Central Bank Governors of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.

Where the group meets: Usually at the BIS on the occasion of its bimonthly meetings of central bank governors, and in Washington, DC on the occasion of the Annual and Spring Meetings of the IMF and World Bank.

Main function: The group was established to administer the GAB, which is a supplementary loan facility for the IMF. It has also served as a consultative forum for the discussion of issues related to the functioning of the international monetary system. It was the locus of early discussions on the adequacy of international reserves under the Bretton Woods system and the development of Special Drawing Rights (SDRs) in the IMF.

Group of 20: www.g20.org

Date established: 1999
Membership as of 2007–8: Finance Ministers and Central Governors of the G7 plus Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the Commissioner of European and Monetary Affairs of the European Union, and President of the European Central Bank; the chairmen of the Joint Development Committee and the International Monetary and Financial Committee, the managing director of the IMF, and president of the World Bank attend as *ex officio* members

Where the group meets: In one of the member countries annually on a rotating basis; since November 2008, the G20 has met 3–4 times years

Main function: The G20 has served as a consultative forum for the discussion of issues related to global economic governance, economic development, and international financial stability that are relevant to the work of the IMF and World Bank

International Association of Insurance Supervisors (IAIS): www.iaisweb.org

Date established: 1994
Membership as of 2007–8: IAIS represents insurance regulators and supervisors from 190 jurisdictions. Since 1999, IAIS has also welcomed insurance professionals as Observers, and there are now more than 120 Observers representing industry associations, professional associations, insurers and reinsurers, consultants, and international financial institutions.

Where the group meets: Annual Conference, Triennial Conferences, and other subgroup meetings take place in a variety of venues. The Executive Committee is located in Basel, Switzerland.

Main function: The IAIS is a forum for cooperation among insurance regulators and supervisors. It is charged with developing international principles and standards for effective insurance regulation and supervision. IAIS is also a member of the Joint Forum, established in 1996 in coordination with the BCBS and IOSCO.

The IAIS has produced one of the twelve core international standards and codes (*Insurance Core Principles 1999/2003*), which define the essential principles for an effective insurance supervisory system, as well as the underlying rationale for each principle and criteria to facilitate comprehensive assessments. The principles apply to the supervision of insurers and reinsurers, whether private or government-controlled.

International Accounting Standards Board (IASB): www.iasb.org

Date established: 2001, by the IASC Foundation, which replaced the International Accounting Standards Committee
Membership as of 2007–8: The IASB is an independent group of fifteen experts in the accounting field appointed by a group of international Trustees. Six of the Trustees must be selected from the Asia/Oceania region, six from Europe, six from North America, one from Africa, one from South America, and two from any region.

Where the group meets: London, UK.

Main function: The IASB is an independent, privately funded, nonprofit standard-setting body of the IASC Foundation, committed to developing global accounting standards for general purpose financial statements. IASB cooperates with national accounting standard setters to achieve international accounting standard convergence.

The IASB has produced one of the twelve core international standards and codes (*International Accounting Standards 2002*), which are a set of international financial reporting standards (IFRS) that provide guidance on how transactions and other dealings should be reported in financial statements. Although IASB has no formal authority to enforce compliance, nearly 120 countries (other than the United States that follows its own accounting standard) require the financial statements of publicly traded companies to be prepared in accordance with IFRS. To date, forty international accounting standards have been promulgated by the IASB and by its predecessor group, the International Accounting Standards Committee.

International Federation of Accountants (IFAC): www.ifac.org

Date established: 1977, as the successor to the International Coordination Committee for the Accounting Profession (ICCAP), which was established in 1972.
Membership as of 2007–8: IFAC has 159 members and associates (primarily national professional accountancy bodies) in 124 countries

and jurisdictions. These members and associates represent 2.5 million accountants employed in public practice, industry and commerce, government, and academia.

Where the group meets: The IFAC Secretariat is headquartered in New York.

Main function: IFAC develops international standards on ethics, auditing and assurance, education, and public sector accounting standards through independent standard-setting boards. It also issues guidance to support professional accountants internationally and issues policy positions on topics relevant to the profession.

The International Auditing and Assurance Standards Board of IFAC has produced one of the twelve core international standards and codes *(International Standards on Auditing 2002*) that set out principles for the design, review, and quality control of auditing and related services.

International Monetary and Financial Committee (IMFC): www.imf.org

Date established: 1974, as a committee of the Board of Governors of the IMF which are the Finance Ministers or Central Bank Governors of its member countries

Membership as of 2007–8: Twenty-four Governors of the IMF representing the twenty-four constituencies of its Executive Board; the managing director of the IMF serves as an *ex officio* member. Official observers include the president of the World Bank, the chairman of the Joint Development Committee, the chairman of the Financial Stability Forum (now Board), the general manager of the BIS, the president of the European Central Bank, the heads of the ILO, OECD, UN, UNDP, WTO, and the EU Commissioner for Economic and Monetary Affairs

Where the committee meets: twice a year (usually in Washington, DC) on the occasion of the spring (April or May) and Annual (September or October) Meetings of the IMF and the World Bank; every third year, the Annual Meeting of the committee is held in one of the IMF member countries on a rotating basis.

Main function: IMFC is an advisory body of the IMF Board of Governors that provides general oversight of the activities of the IMF and constitutes a forum for the consideration of international monetary and financial issues.

International Monetary Fund (IMF): www.imf.org

Date established: 1944, at the Bretton Woods Conference and began operations in 1945
Membership as of 2007–8: 185 members (excludes Cuba, North Korea, and Taiwan); Kosovo joined in June 2009 and Tuvalu joined in June 2010

Where the institution meets: Headquarters of the IMF are in Washington, DC.

Main function: IMF is an international financial institution with primary responsibility for oversight of the international monetary system, which it carries out through a variety of bilateral, regional, and multilateral surveillance exercises. It also provides financial assistance to its members in relation to their quota subscriptions for dealing with balance of payments problems, and technical assistance in fiscal, monetary, and statistical functions. Quotas, which currently amount to the equivalent of US$335 billion, are based on a formula that takes account of a member's GDP, its external current receipts and payments, the variability of its external receipts and net capital flows, and its gross foreign reserves.

The IMF has produced three of the twelve core international standards and codes in the areas of data dissemination, fiscal transparency, and monetary and financial policy transparency. The *Special Data Dissemination Standard 1996 (SDDS),* which is intended for countries that are active in the international financial markets, established benchmarks for the coverage, periodicity and timeliness of official statistics, and the basic principles of an independent statistical function. The *General Data Dissemination System 1997 (GDDS)* was established for the guidance of other member countries with somewhat less demanding requirements than the SDDS for the production and dissemination of official statistics.

The *Code on Good Practices in Fiscal Transparency 1998* identifies a set of principles that are intended to guide governments in the public dissemination of information regarding the structure and content of their public finances. The code deals with the clarity of roles and responsibilities of fiscal institutions, open budget processes, public availability of information, and assurances of integrity.

The *Code of Good Practices on Transparency of Monetary and Financial Policies 1999* provides guidance on clarifying the roles, responsibilities and objectives of central banks and other financial agencies, the processes for formulating and reporting their policy decisions, the public availability of information on these decisions, and appropriate standards of accountability and assurances of integrity of these institutions.

International Organization of Securities Commissions (IOSCO): www.iosco.org

Date established: 1983, as an international transformation of its inter-American regional association ancestor
Membership as of 2007–8: 110 ordinary members (country-level financial supervisory bodies); 11 associate members; 72 affiliate members.

Where the group meets: Meets once per year at an Annual Conference, but the venue changes each year; the General Secretariat is located in Madrid, Spain.

Main function: IOSCO was established to facilitate cooperation among national regulators of securities and futures markets. To maintain efficient and stable markets, it develops and promotes standards of securities regulation, drawing on its international membership to establish standards for effective surveillance of international securities markets. IOSCO is also a member of the Joint Forum, established in 1996 in coordination with the BCBS and the IAIS.

IOSCO has produced one of the twelve core international standards and codes (*Objectives and Principles of Securities Regulation 1998*), which sets out thirty principles of securities regulation based on three objectives of securities regulation: investor protection; the promotion of markets that are fair, efficient, and transparent; and reduction of systemic risk.

Organization for Economic Cooperation and Development (OECD): www.oecd.org

Date established: 1961 (succeeded the Organization for European Economic Cooperation which was founded in 1947 to oversee the administration of Marshall Plan aid for Western Europe)
Membership as of 2007–8: Thirty members including Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States (Chile became a member in May 2010).

Where the institution meets: Headquarters of the OECD is in Paris, France.

Main function: The OECD deals with a broad range of development, economic, environmental, and financial issues relevant to the economic growth and financial stability of its members. A hallmark of OECD operations is its peer review process of member country policies in the areas just noted on a regular basis. Its Development Assistance Committee (DAC) is the major forum for donor coordination among advanced countries and is a primary source of data on overseas development assistance (ODA).

The OECD has produced one of the twelve core international standards and codes (*Principles of Corporate Governance 1999/2004*), which provides guidance on the regulatory, institutional, and legal framework for an effective regime of corporate governance with an emphasis on publicly traded companies. The principles deal specifically with the rights and equitable treatment of shareholders, the role of various stakeholders in corporate governance, guidelines on disclosure and transparency, and the role and responsibility of corporate boards of directors.

Paris Club (www.clubdeparis.org)

Date established: 1956

Membership as of 2007–8: Nineteen members (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Russia, Spain, Sweden, Switzerland, the United Kingdom, and the United States); other countries may be invited to participate on an ad hoc basis in debt negotiations if invited by the concerned debtor country and agreed by the Paris Club membership; observers include the IMF, World Bank, African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Commission, Inter-American Development Bank, and UNCTAD

Where the institution meets: The French Treasury provides meeting space and secretariat support at its offices in Paris, France.

Main function: The Paris Club is an informal arrangement among the major donor countries that handles the negotiation of debt relief agreements with selected debtor countries of official bilateral credits (ODA).

World Bank (www.worldbank.org)

Date established: 1944 at the Bretton Woods Conference and began operations in 1945 as the International Bank for Reconstruction and Development (IBRD)
Membership as of 2007–8: 185 member countries (excludes Cuba, North Korea, and Taiwan); Kosovo became a member in June 2009, and Tuvalu in June 2010

Where the institution meets: Headquarters of the World Bank are in Washington, DC.

Main function: The World Bank provides long-term loans for development purposes, as well as technical assistance in a variety of development policy and structural areas. The Bank raises its financial resources in the international capital markets, with the full faith and guarantee of its members, as well as from bilateral donor contributions. Member country capital subscriptions, until recently, have been based on IMF quotas, but only a relatively small share of these subscriptions has been contributed as paid-in capital.

In addition to the IBRD, the World Bank includes the International Finance Corporation (est. 1956), the International Development Association (1960), the International Center for the Settlement of Investment Disputes (1966), and the Multilateral Investment Guarantee Agency (1988).

The Bank has produced one of the twelve core international standards and codes *(The Principles of Insolvency and Creditor Rights Systems 2001/2005)* that provides specific guidance on the legal framework for creditor rights, risk management, corporate debt workouts, and insolvency, as well as the institutional requirements for their effective implementation.

World Trade Organization (WTO): www.wto.org

Date established: 1995 as the successor agency of the General Agreement on Tariffs and Trade, which operated during 1947–94
Membership as of 2007–8: 153 members, including the EC that represents the twenty-seven member countries of the European Union; there are thirty observer states, most of which are seeking membership, including Russia.

Where the institution meets: Headquarters of the WTO is in Geneva, Switzerland.

Main function: WTO provides a forum for the negotiation of reductions in barriers to international trade in goods and services and oversees the administration and implementation of negotiated agreements. It also maintains a dispute settlement body to handle the adjudication of disputes among its members regarding their compliance with the terms and conditions of negotiated agreements. Two particular features of the WTO, which are relevant to the international financial architecture, are the General Agreement on Trade-related Investment Measures (TRIMs, 1994) and the General Agreement on Trade in Services (GATS, 1997). The former deals with restraints on foreign direct investment that have an impact on foreign trade (such as local content requirements), while the latter calls for the elimination of capital account restrictions related to the liberalization of trade in services (e.g., financial services).

Notes

2 Financial Globalization and the International Financial Architecture

1. Two restrictions in the United States which led to a shift of financial flows to offshore markets were Regulation Q, which placed a ceiling on the yield that banks could offer on retail deposits; and the interest equalization tax of 1963, which increased the cost of funding from overseas sources for domestic firms if it was less than in the United States.
2. This database is described in Lane and Milesi-Ferretti (2007) and can be accessed at the webpage for Professor Lane at Trinity College, Dublin (www.philliplane.org).
3. Data for foreign exchange trading are taken from the Annual Reports of the Bank for International Settlements; the value of global trade is from the statistical yearbooks of the WTO.
4. These relationships among advanced, emerging market and other developing countries are presented in Kose, Prasad, Rogoff, and Wei . (2009).
5. The drivers of financial globalization are explored in an article by Lane and Milesi-Ferretti (2008).
6. This evidence is reviewed and extended in Dell'Ariccia, di Giovanni, Faria, Kose, Mauro, Ostry, Schindler, and Terrones (2008).
7. Economists have also looked at the correlation of national savings and investment ratios across countries to gauge the extent of financial globalization, as divergences between these two ratios imply large current account balances and thus an increase in the accumulation of foreign assets and liabilities. In a famous study by Feldstein and Horioka (1980), the correlation between saving and investment ratios among the advanced countries was found to be very high during the 1970s, but it has declined sharply since then.
8. This evidence and other price-based measures of capital market integration are presented in Obstfeld and Taylor (2004).
9. This index is described in Chinn and Ito (2008), and it is available on the homepage of Professor Chinn (www.ssc.wisc.edu/-mchinn.research.html).
10. The process of capital account liberalization in the industrial countries is described in Mathieson and Rojas-Suarez (1993) and Quirk and Evans (1995).

11. These regional experiments in capital account liberalization are discussed in Abdelal (2007) and Bakker (1996).
12. "Leads" refer to prepayments of obligations before their normal date of payment, and "lags" represent the postponement of such payments beyond their due date. Under the Bretton Woods system, leads and lags were often induced by expectations of exchange rate changes, and thus constituted speculative capital flows.
13. The experience of financial liberalization in selected industrial and emerging market economies after 1973 is reviewed in Williamson and Mahar (1998).
14. The role of AIG, American Express, and Citigroup in pressuring the US government for a relaxation of international barriers to their entry into foreign markets is presented in Raghavan (2009).
15. This evidence is presented in Quirk and Evans (1995).
16. These patterns are based on the indices of capital account liberalization developed by Quinn (1997).
17. For an alternative vision of global financial governance, which shares some common ground with the one presented in this book, see Bryant (2003).
18. The literature on these informal cooperative, or transgovernmental, networks is extensive and includes prominently the writings of Keohane and Nye (2001) and Slaughter (2004).
19. A summary description of each of the committees, groups, and institutions that comprise the IFA is presented in the appendix.

3 The Evolution of the Global Financial Order

1. The trilemma is derived from the policy implications of fixed and flexible exchange rate regimes for the maintenance of internal and external balance, as explained in Obstfeld and Taylor (2004). The discussion in this section follows their presentation.
2. These issues are explored in a recent paper by Aizenman, Chinn, and Ito (2008).
3. The U-pattern of financial globalization is examined fully in Obstfeld and Taylor (2004).
4. This statement is true in terms of net capital flows, and direct investment and bond finance in particular; however, gross capital flows have been far higher in the current era of financial globalization because of the greater diversity of financial instruments being traded.
5. These differences in the two eras of globalization are examined more fully in Bourguinon et al (2002) and Wolf (2004).
6. At the peak of the gold standard in the first decade of the twentieth century, an estimated sixty countries participated in the gold standard in one form or another. This estimate is based on Ahamed (2009).
7. The term "rules of the game" was coined by John Maynard Keynes in 1925 in his writings about the gold standard era (MacKinnon 1993).

8. While in practice, the gold standard adjustment mechanism operated with less automaticity in the short run than implied by the standard textbook model, over time it tended to operate as envisaged. The adjustment mechanism of the gold standard is described in Eichengreen (1996).
9. The role of the gold standard as a "seal of good housekeeping" is discussed in Bordo and Rockoff (1996).
10. This pattern of financing under the gold standard is explored in Bordo and Schwartz (1998).
11. Alan Taylor (2003) has shown that the ratio of foreign investment to GDP for Latin America during the first decade of the twentieth century was 2.7, the highest on record for any developing region, and that foreign investment accounted for around one-third of its capital stock.
12. These defaults are identified in Sturznegger and Zettelmeyer (2006).
13. The work of the British Corporation of Foreign Bondholders is described in Mauro, Sussman, and Yafeh (2006).
14. The terms of debt workouts is examined in Mauro and Yafeh (2003) and Sturznegger and Zettelmeyer (2006).
15. The Venezuelan blockade and other creditor country interventions to force debt repayments are described in Suter and Stamm (1992).
16. The United States declined to join either of these institutions at the time of their creation because of its isolationist sentiment. Instead, three private banking institutions from the US (J.P. Morgan, the First National Bank of Chicago, and the First National Bank of New York) were accepted as original members of the BIS.
17. The work of the League of Nations in the economic and financial spheres as described in this chapter is based on the work of Louis Pauly (1996 and 1997).
18. Beth Simmons (1993) provides an interesting discussion of the events surrounding the establishment of the BIS.
19. The final act of the Bretton Woods Conference in 1944 called for the "liquidation of the BIS at the earliest possible moment" (Mikesell 1994). The debate about the future of the BIS after the Bretton Woods Agreement is discussed in Helleiner (1994).
20. A recent book which describes the rise and fall of cooperation among the central bank governors of France, Germany, the United Kingdom and the United States during the period before the Great Depression is *Lords of Finance* (Ahamed 2009).
21. These rescue operations are described in Bordo and Schwartz (1998).
22. The history of efforts to restore the gold standard after World War I and its role as one of the causes of the Great Depression are examined in Eichengreen (1992).
23. The continued existence of Article VI of the Fund Agreement raises the distinct possibility that provisions of the GATS and TRIMs Agreements of the WTO may be in conflict with the Fund's provision that grants members the discretion to impose restrictions on capital transactions that are

proscribed under the WTO agreements. This issue is examined in a recent paper by Gallagher (2010).

24. This term was never defined in the Articles of Agreement, but could be understood to mean a situation in which the value of a currency was severely misaligned or where the overall balance of payments disequilibrium was unsustainable.
25. It is interesting to note that in the first US (White) Plan for the IMF, members were expected not to default on their external debt obligations without prior consent of the Fund. This requirement was understood as giving the Fund the role of "compulsory arbitration" in cases of debt default (see Horsefield 1969, vol. III). This issue is examined more fully in Helleiner (2008).
26. This term was first used by John Ruggie (1982).
27. The details of the initial quota determination for the IMF are discussed in Horsefield (1969). The preeminent position of the United States was dictated by the fact that the dollar was the only major currency that was convertible for current account transactions, while the US government was in possession of 55 percent of the global supply of gold in June 1945 (as reported in the BIS Annual Report of 1945).
28. This feature of financial transactions in the Fund was borrowed from the practice established for the Exchange Stabilization Fund (ESF) of the US Treasury that was created in 1935 with the profits arising from the devaluation of the US dollar in terms of gold. The ESF made its first loan to Mexico in 1936 and has been used since then to support stabilization loans to countries mainly in Latin America, often in concert with the IMF (see Bordo and Schwartz 2001 and Gold 1988).
29. The primacy of the IMF in the Bretton Woods system was symbolized by the fact that membership in the IMF was set as a requirement for membership in the World Bank.
30. Under Keynes' proposal for an International Clearing Union (ICU), there were limits on debtor and creditor positions that would trigger adjustment actions (Horsefield 1969, vol. III). For two recent discussions of the Keynes' plan for an ICU, see Alessandrini and Fratiani (2009) and Mateos y Lago, Duttagupta, and Goyal (2009). As an alternative to the adjustment rules of the ICU, the Fund Agreement included a "scarce currency" clause under Article VII that would have allowed the Fund to authorize countries to impose exchange restrictions against surplus countries, but this provision has never been invoked.
31. The data for disbursements of Marshall Plan aid and IMF and World Bank lending are taken from Horsefield (1969) and Kapur, Lewis, and Webb (1997).
32. On the relationship between the IMF and the EPU, see Horsefield (1969).
33. Eichengreen (1992) reports that "dynamic instability" was also a concern among analysts during the gold exchange standard of the inter-war period

in relation to potential pressures on the core gold standard countries arising from the accumulation of short-term claims by noncore countries.

4 The Breakdown of the Bretton Woods System and First Reform of the International Financial Architecture

1. These data are taken from MacKinnon (1979).
2. The limitation on the use of GAB funding by only G10 participants was a source of some resentment among IMF members, as it was seen as a departure from the cooperative nature of the IMF and its uniformity of treatment of all members. This issue is discussed in Ainley (1985) and Solomon (1982). The restriction on the use of GAB funding was removed in 1983. The G10 actually includes eleven countries: Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.
3. This line of argument is developed by Gianni (1999).
4. The creation of the SDR is discussed in DeVries (1976) and Solomon (1982).
5. The G10 was also seen as providing the European powers an effective counterweight to the perceived dominance of the United States in the IMF, as recounted in James (1996).
6. These various swap arrangements are discussed in Borio and Toniolo (2006).
7. This arrangement has been described in various books, most recently one by Eichengreen (2007).
8. The problem of "dynamic instability" of the Bretton Woods regime was laid out in Triffin (1960). During the 1960s, there was an active academic debate about the nature of the United States' payments imbalance. One of the measures of this imbalance was the official settlements version, which is calculated as the change in the net short-term foreign liability position of the United States, which was equal to the sum of its current account imbalance plus its long-term investments abroad. This imbalance was said to arise from the role of the United States as the main financial intermediary for the global monetary system, by which it accepted short-term claims from other countries (equivalent to demand deposits of a bank), which it used to invest in longer-term productive assets abroad.
9. This hegemonic approach to international monetary relations was first articulated in Kindleberger (1973).
10. In addition to the IFC and IDA, two other agencies were created within the World Bank Group: the International Center for the Settlement of Investment Disputes in 1966 and the Multilateral Investment Guarantee Agency in 1988.
11. The early history of the research work of the IMF is reviewed in Rhomberg and Heller (1977) and Blejer, Khan, and Masson (1995). Robert Mundell

and J. Marcus Fleming developed the Mundell-Fleming model of monetary and fiscal policies under fixed and flexible exchange rate regimes during the early 1960s while they were both working in the research department of the IMF.

12. The US Federal Reserve did not formally take up its position on the Board of Directors of the BIS until July 1994, even though it had been attending its bimonthly meetings of Central Bank Governors before that date (see 65th Annual Report of the BIS, June 12, 1995).
13. The "Outline of Reform" and other technical documents of the C20 are reproduced in IMF Committee of 20 (1974).
14. Analytical reviews of the C20 debates from participants in the process are provided by Williamson (1977), Solomon (1982) and DeVries (1985).
15. This issue was taken up in the Report of the C20 Technical Group on Disequilibrating Capital Flows, which is available in IMF Committee of 20 (1974) and is further discussed in Abdelal (2007).
16. In 1999, the euro replaced the franc and mark in the valuation of the SDR.
17. From an accounting perspective, when an SDR allocation is distributed to IMF members, the SDRs are classified as an international reserve asset in the balance sheet of the recipient agency, with an offsetting contra-entry in its capital account.
18. Initially, there was a "reconstitution" requirement for SDRs, which required members to maintain an average balance equivalent to at least 30 percent of their allocation, but this was gradually eliminated over time.
19. The debates on establishing a Substitution Account in the IMF are recounted by Solomon (1982) and Boughton (2001). Some of the exchange risk involved in establishing a Substitution Account could have been covered by the income earned by the account from investing in long-term government securities, which would have been larger than the interest paid on short-term SDR liabilities.
20. See, for example, the proposals on the UN Expert Group (Stiglitz Group) on reform of the international monetary system (United Nations 2009).
21. The ideas and proposals for a NIEO were formally presented in a "Declaration and Program of Action on the Establishment of a New International Economic Order" that was adopted by the UN General Assembly in May 1974.
22. This aspect of the NIEO debates is taken up in Little (1982).
23. The G77 specifically envisaged the creation of an International Debt Commission to deal with problems of official debt restructuring (Rogoff and Zettelmeyer 2002). The Paris Club evolved out of a process of ad hoc informal meetings of certain European creditors with developing country debtors in the mid-1950s to make arrangements for the settlement of their arrears on official debt service. These meetings were usually organized and hosted by the French Treasury in Paris. Over time, the IMF came to

play an important supporting role for the Paris Club, as its agreements on debt relief were almost always conditioned on the prior negotiation by the debtor country of a financial arrangement with the Fund.

24. The evolution of the Paris Club and debates on official debt restructuring are described in detail in Rieffel (2003).
25. This feature of the revolving, short-term nature of IMF financing based on quota contributions of its members has often been characterized as similar to that of a credit union.
26. Technically, under Article V (section 4) and Article IX (section 2) of the Fund Agreement, the Fund can accept collateral as a guarantee for its financial assistance. In 1962, the Fund accepted gold collateral for two purchases by Egypt (UAR) (Horsefield 1969 vol. I), but this procedure has not been used since that time.
27. These figures are taken from DeVries (1985).
28. This interpretation can be found in the writings of Joseph Gold, who served as General Counsel of the IMF at the time of the second amendment (Gold 1980).
29. "Surveillance over Exchange Rate Policies," IMF Decision No. 5392-(77/62), April 29, 1977
30. These figures are taken from DeVries (1985). In the case of the United States, the amounts approved under stand-by arrangements included only purchases of the gold or reserve tranche which was not subject to IMF conditionality.
31. These stabilization mechanisms are described in Ungerer (1990).
32. Because of the requirement of uniformity of treatment in Fund operations, the second amendment of the Fund Agreement included an amendment of Article V, section 12, which specified that "balance of payments assistance may be made available on special terms to developing countries in difficult circumstances, and for this purpose the Fund shall take into account the level of per capita income."
33. In addition to the Euro-currency Standing Committee, which was established in 1971, the Basel Committee on Bank Supervision was created in 1974, and the Group of Experts on Payments Systems (which became the Committee on Payments Systems and Settlements) was formed in 1980.
34. The history of discussions surrounding the possible creation of a Financial Support Fund in the OECD is discussed in Cohen (1997).
35. This point is brought out in DeVries (1985).
36. The emergence and evolution of the G7 process has been extensively covered in Baker (2006) and Hajnal (2007).
37. The so-called Plaza Accord of 1985 was probably the high-water mark of coordinated exchange rate action among the G7 in an effort to sustain the reversal of a period of sharp dollar appreciation during the first half of the decade.
38. For a good overview of the evolution of the G7 process of policy coordination, see Sobel and Stedman (2008).

39. The Fund's role in the G7 surveillance process is fully described in Henning and Bergsten (1996) and Boughton (2001).
40. This point of view is put forward by Henning and Bergsten (1996).
41. These results are presented in Von Furstenberg and Daniels (1992).
42. Many of these proposals have been associated with the Peterson Institute for International Economics; see, for example, Henning and Bergsten (1996). For a similar view by a Canadian participant at the deputies' level, see Dobson (1991). A more recent critique of G7 multilateral surveillance can be found in Kenen, Shafer, Wicks, and Wyplosz (2004).

5 Emerging Market Financial Crises and the Second Reform of the International Financial Architecture

1. Data for the IMF are taken from DeVries (1985) and for commercial bank lending from the World Bank's World Development Indicators database.
2. Since oil export receipts of the OPEC countries were deposited with large international banks operating in the eurodollar market centered in London, the pricing of deposits and loans was based on the six-month LIBOR (London interbank offer rate). Medium-term credits to oil-importing counties carried a variable interest rate, which was set at a margin or spread above LIBOR and adjusted on a six-monthly basis.
3. This information is taken from Rieffel (2003), which describes in detail the bank rescheduling process that operated under the so-called London Club approach during the debt crisis of the 1980s.
4. This figure is cited by William Cline in Kenen (1994).
5. The role of the IMF in handling the debt crisis during the 1980s is fully explored in Boughton (2001).
6. In 1983, the major international banks established the Institute of International Finance in Washington, DC to develop their own economic intelligence service on the major debtor countries to bring a second opinion on country conditions and prospects to the London Club process.
7. This approach to economic reform was first identified as the "Washington Consensus" in a much-cited paper by John Williamson (1990).
8. This point is made, among others, by Boughton (2001) in his retrospective on the Fund's role in the debt crisis. There have been many attempts to assess the impact of IMF and World Bank structural adjustment lending, which are summarized in Easterly (2006).
9. Under the Brady Plan, countries negotiated with the banks from a menu of different options for the cancellation of their bank debt, including the direct purchase of their debt in the secondary market at a discounted value (cash buybacks), the issue of par bonds for the face value of their debt at a below market interest rate, the issue of discount bonds paying a market rate of interest for an amount below the face value of the debt, and

debt-equity swaps. Further details are provided in Boughton (2001), Cline (1995), and Rieffel (2003).

10. These data are provided in Rieffel (2003).
11. In an important departure from normal Fund procedure, many of these loans took the form of "lending into arrears," which meant that the IMF would not require that the borrowing country be current in its debt service obligations, as normally required for its financial assistance. This policy, which shifted the Fund's influence in favor of the debtor country, was conditioned on evidence that the borrower was making a "good faith" effort to finalize its negotiation of a debt agreement with the banks.
12. The 1988 Basel Accord established five risk weights (0, 10, 20, 50, and 100 percent) to determine the capital charge applicable to different types of assets and loans on a bank's balance sheet. For example, debt securities issued by the US and other OECD governments carried a risk weight of zero, which implied that no capital charge was required, whereas consumer loans carried a risk weight of 100 percent, which implied a full capital charge of 8 percent.
13. The policy challenges of managing large private capital inflows have continued to be a matter of concern for many countries up until the present time. For a discussion of policy options, see chapter 3 of the IMF World Economic Outlook for October 2007 (IMF 2007).
14. This study was prepared by Mathieson and Rojas-Suarez (1993).
15. In 1995, in the wake of the first financial crisis of the 1990s in Mexico, the Executive Board revised its Surveillance Decision of 1977 to include an additional indicator to be used in determining whether member countries were pursuing appropriate exchange rate policies, which related to "unsustainable flows of private capital" (Decision No. 5392-[77/63], April 29, 1977, as amended). Also in 1995, the communiqué of the G7 leaders meeting in Halifax for the first time included a recommendation that "the IMF consider extending its obligations on convertibility of current account transactions to a staged liberalization of capital account transactions," which is available at www. G7.utoronto.ca.
16. A recent study by Chwieroth (2010) provides insight, on the basis of access to internal Fund documents, into the evolution of IMF staff thinking on approaches to capital account liberalization.
17. Analyses of the crisis cases can be found in Beim and Calomiris (2001) and Mishkin (2006).
18. The phenomenon of "twin crises" has been extensively studied in the economic literature and was first identified by Kaminsky and Reinhart (1999).
19. Paul Krugman was one of the first economists to present a theoretical framework for understanding balance of payments crises (Krugman 1995). Reinhart and Rogoff (2009) provide a comprehensive empirical study on the causes and consequences of financial crises.

20. The term "original sin" was first introduced in the writing of Barry Eichengreen and Ricardo Hausmann (1999).
21. The term "sudden stops" was first introduced in the writing of Guillermo Calvo (1998). Since the real exchange rate is defined as the nominal exchange rate (in foreign currency terms) times the ratio of foreign prices to domestic prices and foreign prices are fixed, a drop in domestic expenditure would lead to a decline in domestic prices that implies an increase (depreciation) in the real exchange rate.
22. The first G7 Summit to take up issues related to the reform of the international financial architecture was in Halifax (1995). For an overview and summary of these summits and the work of the G7 finance minister and central bank governors, see Baker (2006) and Hajnal (2007).
23. The G20 emerged out of informal meetings that had taken place under the aegis of the G22 and G33 beginning in April 1998. From 1999 until September 2008, the G20 met annually. The managing director of the IMF, the president of the World Bank, and the chairs of the IMFC and Development Committee have attended these meetings as ex officio members (G20 2008).
24. There is a growing academic literature on the role of political forces in IMF lending decisions, which is evaluated in Vreeland (2007) and Steinwand and Stone (2008).
25. The procedures and conceptual framework involved in IMF financial arrangements are discussed in Fischer (1997) and Mussa and Savastano (1999).
26. Two widely commented articles at the time were Feldstein (1998) and Goldstein (2000).
27. This evidence is provided by Robert M. Stern in a background paper for an IEO evaluation of the Fund's role in Trade Policy (Stern 2009); see also the discussion on Korea in IMF IEO (2003).
28. An evaluation of structural conditionality in IMF programs conducted by the IMF Independent Evaluation Office in 2007 concluded that the average number of structural conditions in Fund-supported programs had not declined, but that there had been a shift in the composition of these conditions toward core areas of IMF expertise (i.e., tax policy, public expenditure management, and financial sector issues) (IMF-Independent Evaluation Office 2007). The use of structural conditions as performance criteria in IMF financial arrangements was eliminated in April 2009 (IMF Public Information Notice 09/40; April 3, 2009).
29. Professor Joseph Stiglitz (2003) has been a particularly vocal critic of the Fund in this context.
30. The IMF's response to Malaysia's use of capital controls is discussed in IMF IEO (2005).
31. Malaysia's experience with capital controls and some of the associated literature is reviewed in Johnson et al (2006).

32. Article VI of the Fund Agreement, Section 1, says that "A member may not use the Fund's general resources to meet a large or sustained outflow of capital . . . and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund." Furthermore, Section 3 declares that "Members may exercise such controls as are necessary to regulate international capital movements."
33. A summary of the IMF Board's discussion of this policy is provided in Public Information Notice (PIN) no. 03/37 of March 21, 2003, which is available at www.imf.org.
34. The IMF's involvement in Argentina has been examined in Mussa (2002) and the IMF IEO (2004).
35. In September 2009, the Argentine government made a first attempt to reach an accommodation with private bondholders whose claims were still in default, which was accepted by a large share of these creditors in late June 2010.
36. The IMF proposal for the establishment of an SDRM was presented in Krueger (2002). Hagan (2005) provides an analysis of the debates surrounding its establishment.
37. For a recent report supporting the application of these principles, see IIF (2008).
38. The lack of representation of major emerging market economies in many of the standard-setting bodies has led to complaints by these countries that their interests have not adequately been taken into account. This issue is examined in Walter (2008).
39. Barry Eichengreen was an early proponent of the two-corner solution for exchange rate policy (2002); see also Fischer (2001 and 2007).
40. The phenomenon of "fear of floating" was first identified by Calvo and Reinhart (2002).
41. The debate on the capital account amendment to the IMF Agreement is discussed in Abdelal (2007) and Chwieroth (2010).
42. Magud and Reinhart (2006) provide an evaluation of the experience of developing countries in the use of capital controls.

6 The Challenge for Developing Countries in a World of Financial Globalization

1. Throughout this discussion, the term "development finance" refers broadly to the availability of external finance to developing countries from both private and official sources. Official development finance refers to both concessional loans and grants from multilateral financial institutions such as the IMF and World Bank, and official development assistance (ODA) from bilateral agencies.
2. These trends are discussed in the World Bank's Global Development Finance report of 2002.

3. The role of remittances as a form of development finance is explored in Kapur (2004) and chapter 2 of the April 2005 IMF World Economic Outlook. While remittances represent, on average, around 3–4 percent of GDP for developing countries, in some countries, such as Guyana, Haiti, Honduras, and Lebanon, they represent 20 percent of GDP or more.
4. This literature is reviewed in Henry (2007).
5. These effects are summarized in Prasad and Rajan (2008).
6. This evidence is presented in Prasad (2007).
7. There is a rich literature on the links between financial development and economic growth, which are examined and summarized in Levine (2008).
8. The problems of information and control that afflict developing financial markets are explored in Beim and Calomiris (2001).
9. The first ten years of the FSAP are reviewed in IMF and World Bank (2009).
10. The Asian Bond Initiative and other official efforts to support local bond markets in the Asian region are discussed in Elson (2006).
11. These developments are reviewed in Committee on the Global Financial System (2009).
12. This literature is reviewed in Roodman (2007).
13. This evidence is presented in Prasad, Rajan, and Subramanian (2007).
14. The terms "planners" and "searchers" are taken from Easterly (2006). Professor Sachs's views on the need for a "Big Push" in development assistance can be found in Sachs (2005) and (2009).
15. A good example of a "needs-based" assessment of the financial requirements to overcome a "poverty trap" and achieve the MDGs for a trio of African countries is provided in Sachs, McArthur, Schmidt-Traub, Kruk, Bahadur, Faye, and McCord (2004).
16. The work of the Central Asia Institute is explained in Mortenson and Relin (2007).
17. The Harrod-Domar model, which linked growth, savings, and the incremental capital-output ratio, was the basis for "capital fundamentalism" and has had a continuing influence on development planning since its formulation in the late 1930s.
18. The role of the "deep determinants" of growth (i.e., institutions, geography, and trade) is discussed in many recent studies, for example, Rodrik, Subramanian, and Trebbi (2004).
19. Meier (2005) provides a detailed discussion of the evolution of thinking about economic development in the post–World War II era.
20. Birdsall, de la Torre, and Caicedo (2010) provide an interesting assessment of the influence of the Washington Consensus on economic policy making in Latin America since the debt crises of the early 1980s.
21. This concept is associated with the writings of Anne Krueger; see, for example, Krueger (1990).
22. The report and background studies of the World Bank Commission on Growth and Development (so-called Spence Commission) can be found

at www.growthcommission.org and in World Bank Growth Commission (2008).

23. Professor Duflo was the recipient of the John Bates Clark Medal in 2010 for the best academic economist under the age of forty and was profiled in an article in the New Yorker magazine (Parker 2010).
24. These recommendations are similar to those of the High Level Panel on UN System-wide Coherence (UN 2006).
25. A number of options in this area are examined in Perry (2009).
26. Information for the World Bank's trust fund activities is reported in its annual Trust Fund reports which are available at www.worldbank.org.
27. The Center for Global Development has been a leading advocate for an independent external evaluation of World Bank programs; see, for example, Center for Global Development (2006).
28. These conclusions are presented in an evaluation conducted by an outside group of academic experts led by Professor Angus Deaton (World Bank 2006).
29. These concerns were raised in World Bank IEG (2008a and 2008b).
30. The withdrawal of the Fund from long-term concessional lending to low-income countries was recommended in the Report of the External Review Committee on Bank-Fund Collaboration (World Bank 2007).
31. In July 2009, the Executive Board of the IMF approved a number of changes in its lending facilities for low-income countries: the Poverty Reduction and Growth Facility was converted into an Extended Credit Facility; the Exogenous Shocks Facility was converted to the Rapid Credit Facility; and a new Short-term Credit Facility was created for concessional financing of short-term balance of payments assistance (IMF Press Release 09/268, July 29, 2009, which is available at www.imf.org).

7 Financial Globalization and the Onset of the Global Financial Crisis of 2008–9

1. These data are taken from McKinsey Global Institute (2008).
2. These data are presented in a speech by Andrew Haldane of the Bank of England (Haldane 2010).
3. These data are derived from the database available in Laeven and Valencia (2008).
4. The possible explanations for the Great Moderation are examined in Davis and Kahn (2008).
5. These issues are explored in Ferguson, Hartmann, Panetta and Portes (2007).
6. Gross foreign reserves are defined as gross official reserves minus gold, as reported in IMF International Financial Statistics.
7. The recent growth of sovereign wealth funds is explored more fully in Elson (2008).

8. For a discussion of the recent impact of international banks in developing countries, see World Bank (2008), chapter 3.
9. A number of studies have been written to explain the causes of the financial crisis in the United States during 2007–8; see, for example, Bailey, Litan, and Johnson (2008) and Brunnermeier (2009).
10. In the case of the US Federal Reserve, this thesis is based on the application of the so-called Taylor Rule, which has proved to be a reliable predictor of, and explanation of, central bank policy actions over the medium-term. For its application to the recent crisis, see Taylor (2009).
11. In a recent study (Greenspan 2010), the then chairman of the US Federal Reserve defended the low interest rate policy of the US central bank on the grounds that such a policy was needed to prevent the problem of deflation that Japan experienced in the 1990s after the bursting of a bubble phenomenon in that country.
12. From the late 1990s, the rise in housing prices in the United States was exceeded in a number of countries of the European Union and in Central and Eastern Europe.
13. The estimate for the relative share of "shadow" banking system assets is cited in Sheng (2009) and IMF (2009a).
14. The data on the growth of credit default swaps are taken from Bailey, Litan, and Johnson (2008).
15. These data are provided in Acharya and Richardson (2009), ch. 1
16. The mechanics of structured finance products is explained in Bailey, Litan and Johnson (2008) and Coval, Jurek, and Stafford (2009).
17. These figures on the relative share of AAA-rated structured finance products are taken from Coval et al (2009).
18. The purchase and sale of credit default swaps (CDS) in the OTC market, instead of through organized exchanges or central clearinghouses, avoided certain reporting, monitoring, and margin requirements.
19. Much of the moral hazard in GSE lending must be attributed to the fact that these institutions were strongly encouraged by the US Congress to expand their acquisition of mortgage-backed securities to support low-income housing as a policy goal, with minimal or inadequate supervision.
20. Research studies have shown that large universal banks with an asset value equal to or exceeding US$100 and market capitalization equal to or exceeding US$20 billion received a premia in stock valuation with respect to smaller banks as a benefit for their perceived access to the federal safety net (Brewer and Jagtiani 2009). Studies have also demonstrated that large banks face lower funding costs than smaller banks, which represents an annual subsidy of around US$35 billion for the 18 largest US banks (Haldane 2010).
21. It has been estimated that the share of investment bank assets supported by overnight repos rose from 12.5 per cent in 2001 to 25 per cent in 2007 (Bailey, Litan, and Johnson 2008).

22. These data are cited in Adrian and Shin (2009).
23. The mechanics of the repo market are explained in Adrian, Burke, and McAndrews (2009).
24. There have been many critiques of the unrealistic assumptions underlying mainstream macroeconomic and financial paradigms that led economists and policy makers to ignore the risks that were building prior to the recent crisis; see, for example, Colander et al (2009).
25. One academic who has long argued against the fallacy of applying standard (Gaussian) probability theory to the analysis of financial markets is Benoit Mandelbrot (Mandelbrot and Hudson 2004). A more recent critique of the methods of modern quantitative finance can be found in Taleb (2007).
26. One behavioral economic theorist who has received much recognition in the wake of the current crisis is Daniel Kahneman, the Nobel laureate in economics for 2002; see Clift (2009).
27. This estimate is cited in Caballero, Farhi, and Gourinchas (2008).
28. See the testimony of former Federal Reserve Board Chairman Greenspan before the House Committee on Oversight and Government Reform (Hearings on the Role of Federal Regulators in the Financial Crisis, October 23, 2008).
29. The pattern of dollar funding across international financial markets that gave rise to a shortage of US dollar liquidity and "safe haven" investments in US treasury securities is analyzed in McGuire and von Peter (2009).
30. Data on global financial flows and stocks are taken from McKinsey Global Institute (2009).

8 The Role of the International Financial Architecture in Crisis Prevention and Crisis Management

1. The term "exorbitant privilege" was first used in relation to the US dollar by the French Finance Minister, Valery Giscard d'Estaing, during the 1960s.
2. See, for example, Chapter 3 of the April 2005 WEO and Chapter 1 of the September 2005 GFSR for clear warnings about the risks involved in global imbalances.
3. For the views of Alan Greenspan, see Greenspan (2007), and for those of Professor Cooper, see Cooper (2008).
4. Professors Obstfeld and Rogoff have written extensively on the problem of global imbalances; see, for example, Obstfeld and Rogoff (2004) and (2009). Wolf (2008) provides an extensive evaluation of these contrasting views about global imbalances.
5. The conclusions of the Fund's multilateral consultation procedure can be found in IMF Press Release 07/72 (April 14, 2007), which is available at www.imf.org.

6. In its communiqué of April 2007, the IMFC took note of the concluding statement of the multilateral consultation, which indicated that the multilateral consultation discussions "have contributed to an improved understanding of the issues (related to global imbalances) and each other's positions . . . We agreed to meet again when developments warrant" (IMF Press Release 07/72; April 14, 2007).
7. For a highly critical assessment of the Fund's bilateral surveillance of China's exchange rate policy, see Mussa (2008).
8. From July 2008 through late June 2010, the PBC reverted to its previous pattern of pegging the value of the renminbi to the US dollar.
9. These conclusions can be found in IMF-IEO (2007).
10. A recent manifestation of this same attitude was revealed in an evaluation of the IMF Independent Evaluation Office on "IMF Interactions with Member Countries," which was completed in November 2009. This report included the results of a survey conducted with policy authorities in the advanced countries, in which less than half of the respondents indicated that they wanted the Fund to play a role in international policy coordination and in the analysis of spillover effects from their policies (see Companion Paper One on IMF Interaction with Advanced Countries in IMF-IEO 2009).
11. Schinasi (2006) provides a good overview of the scope and requirements for assessing financial system stability.
12. The origins of the "macro-prudential" approach in BIS work are discussed in Clement (2010).
13. See Committee on the Global Financial System (2005), which is cited in Coval, Jurek, and Stafford (2009).
14. The role of the FSF Chairman in the meetings of the IMFC is noted in Peretz (2006). Mr. Peretz was a UK representative in the IMF Executive Board for a number of years.
15. This view and others regarding the work of the FSF are presented in Davies and Green (2008). Mr. Davies was the first Chairman of the UK Financial Services Authority, which was an institutional member of the FSF.
16. In its report to the IMFC of October 2007, the FSF reported that "members noted that macroeconomic conditions generally remain strong, underlying credit problems have been limited to a small proportion of credit instruments, and the capital of regulated institutions has remained at sound levels" (Statement of FSF Chair to the IMFC in October 2007—FSB Press Releases, which are available at www.fsb.org). The last part of this sentence suggests an unawareness among regulators in the advanced countries of the extent of off-balance sheet risks that large banks had been assuming in the prelude to the recent crisis.
17. The GFSR has been issued since 2001 and replaced earlier reports of the Fund's Research Department on International Capital Markets: Developments and Prospects.

18. In this connection, it is interesting to note that the Fund concluded in one of its early reviews of its role in the period leading up to the crisis that surveillance tended to downplay "tail risk" in the advanced countries, and that the IMF's formal vulnerability exercises involved only the emerging markets (IMF 2009b).
19. This example from Chapter II, p. 1 of the IMF Global Financial Stability Report (April 2006) was cited in the Turner Review of March 2009 (p. 85) of the UK Financial Services Authority (Financial Services Authority 2009).
20. The conclusions of the Fund's internal review of its surveillance exercises with selected advanced countries (Germany, Switzerland, the United Kingdom, and the United States) are presented in IMF (2008).
21. Financial Services Authority (2009), p. 86.
22. This view is conveyed in IMF IEO (2009), Companion Paper Two—IMF Interactions with Emerging Economies.
23. For an authoritative analysis of this problem, see Danielson et al (2001).
24. The role of "fair value" or mark-to-market accounting in the financial crisis has been the subject of much debate and controversy, which is summarized and evaluated in Laux and Leux (2010).
25. These issues are discussed in Acharya and Schnabl (2009), Bailey, Litan, and Johnson (2008) and Brunnermeier (2009).
26. The development of the Basel I and II Accords is examined in detail in Tarullo (2008).
27. This interpretation of the Basel II Accord is consistent with that presented in Claessens, Underhill, and Zhang (2008).
28. The role of the IIF in the design of the Basel II Accord is discussed in Claessens et al 2008, Tarullo (2008), and Lall 2009.
29. The Chiang Mai Initiative and the development of a regional financial architecture in East Asia are discussed in Elson (2006).
30. These figures are cited in Claessens, dell'Aricia, Igan, and Laeven (2010).
31. The demise of Lehman Brothers has been discussed in a number of recent books, including that of former US Treasury Secretary Paulson (2010), which provides a day-by-day accounting of the events surrounding its failure and the immediate aftermath.
32. This case, along with others, is discussed in BCBS (2010).
33. Government actions to support the financial sector are discussed in Claessens et al (2010).
34. The need for this policy action was highlighted in the IMF's World Economic Outlook exercise of April 2008.
35. These data are reported in IMF Fiscal Affairs Department (2009).
36. The swap lines of the US Federal Reserve and other central banks are discussed in McGuire and von Peter (2009) and Goldberg, Kennedy, and Mu (2010).
37. In May 2010, the Federal Reserve reopened five of these bilateral swap lines with the central banks of Canada, the euro zone, Japan, Switzerland,

and the United Kingdom for a period of eight months in the wake of market turmoil arising from the sovereign debt crisis in Greece.

38. Shortly after the decision on the FCL, the Fund announced a doubling in its normal, annual/cumulative access limits to 200/600 per cent of a member's quota, as well as the terms of a new High Access Precautionary Arrangement for countries that could not qualify for the FCL (IMF Public Information Notice 09/140, April 3, 2009, which is available at www.imf.org).
39. These arrangements are reviewed and discussed in IMF (2009f).
40. The New Arrangements to Borrow were established in 1997 to provide supplementary financing to the IMF from the G10 and sixteen other advanced and emerging market economies. In April 2009, its potential membership was extended to thirty-nine member countries.

9 The Third Reform of the International Financial Architecture

1. The creation of such a council is a key recommendation of the UN Commission of Exports (chaired by Professor Joseph Stiglitz) on Reform of the International Monetary and Financial System (United Nations 2009).
2. The sixteen countries are Bangladesh, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Nigeria, Pakistan, Russia, Spain, the United Kingdom, and the United States (Rueda-Sabater, Ramachandran, and Kraft 2009).
3. This recommendation was also advanced in the report of the De Larosiere Committee (European Commission 2009).
4. While the membership of the FSB was expanded, it should be noted that it still excludes representatives of two bodies (FATF and IFAC) that play important roles in the international standards and codes program overseen by the FSB.
5. The Charter for the FSB can be found on its website (www.financialstabilityboard.org). The FSB has established a Steering Committee and Standing Committees for Vulnerabilities Assessment, Supervisory and Regulatory Cooperation (including for supervisory colleges and cross-border crisis management), and the Implementation of Standards and Codes (FSB Press Release #14/2009; April 2, 2009).
6. Similar concerns have been raised by Kawai and Pomerleano (2009) and the Group of 30 (2009).
7. A convenient summary of various proposals for the reform of IMF governance can be found in IMF (2009e). Truman (2008) provides an authoritative, nonofficial view on many aspects of IMF reform.
8. As specified in the Fund Agreement, quotas in the Fund are reviewed once every five years and adjusted upward if agreed to by 85 percent of the membership. Since 1945, there have been eight increases in Fund quotas, the last in 1998.

9. While this reform of the quota calculation was approved by the Executive Board and Governors of the Fund, it has yet to be approved by 85 percent of total voting shares, as required under the Fund Agreement.
10. A careful analysis of the revised quota formula, along with suggestions for further improvement, is provided in Bryant (2008).
11. Horizontal accountability is to be distinguished from the vertical accountability of the formal governance arrangements of the Bretton Woods institutions that are mediated through the Executive Board, the IMFC, and Development Committee, and the Boards of Governors, which are responsible to member governments and national parliaments, and ultimately the citizens of each country. Since the 1990s, global civil society groups have complained about the weakness of these governance chains in the IMF and World Bank, and more broadly within the IFA, and the presence of a "democratic deficit" in the deliberations and decision-making of its constituent bodies. These groups, which are disproportionately present in the advanced countries, have been effective in demanding more transparency and disclosure of IMF and World Bank operations, which has increased their horizontal accountability. For an early discussion of the role of these groups in global governance, see Woods (2001).
12. The draft communique of the G20 was printed in the *Financial Times* on March 31, 2009.
13. These issues and proposals were examined in detail in an evaluation of the IMF Independent Evaluation Office on IMF Governance (IMF IEO 2008), as well as in the recommendations on governance reform of the Civil Society (Fourth Pillar) consultations with the IMF (New Rules for Global Finance Coalition 2009).
14. See, for example, IMF (2009a and 2009b).
15. See discussion in IMF (2008) and IMF IEO (2008).
16. This approach was endorsed in a study of the Council of Foreign Relations (Dunaway 2009). A similar recommendation was made by the Manuel Committee, although it would retain the prerogative of the Executive Board to discuss Article IV consultation reports in selected cases (IMF 2009d).
17. The utilization of the authority to call for "ad hoc consultations" was highlighted in the 2007 revision of the Fund's surveillance decision.
18. Such an approach was proposed in Ostry and Zettelmeyer (2005).
19. This perspective is brought out in a study by Lombardi and Woods (2008).
20. This and other reform proposals were discussed in Eichengreen (2009).
21. This proposal was presented in Matoo and Subramanian (2008).
22. The dominant role of the US dollar in the operations of the international monetary system is discussed in Goldberg, Kennedy, and Mu (2010).
23. The value of seignorage revenue accruing to the United States from the international use of the dollar is currently estimated to be around US$30 billion a year (Goldberg 2010). The ability of the United States to borrow

in its own currency, while investing abroad in foreign currencies, also implies that it benefits from valuation gains whenever the US dollar depreciates in value.

24. In June 2009, the ASEAN plus 3 countries (China, Japan, and Korea) agreed to multilateralize the Chiang Mai Initiative, which was accomplished in June 2010 with a reserve pool of US$120 billion.
25. Since 1978, the only countries in the Euro zone that have made purchases from the Fund (prior to that of Greece in May 2010) were Cyprus (1979–80), Portugal (1983–84), and Slovakia (1993–94).
26. This range of financing was noted in Obstfeld, Shambaugh, and Taylor (2009).
27. Through March 2010, the IMF had negotiated bilateral lines of credit for an aggregate amount of US$250 billion with sixteen member countries. In addition, commitments had been received from thirty-nine member countries for an increase in the resources under the New Arrangements to Borrow (NAB) from around US$50 billion to around US$550 billion.
28. This work was described in a joint FSB-IMF report on Information Gaps for the G20, dated October 29, 2009 (FSB and IMF 2009).
29. This information is reported in Johnston, Psalida, de Imus, Gobat, Moswami, Mulder, and Vazquez (2009).
30. The list of these institutions was reported in the Financial Times of November 30, 2009.
31. See, for example, a speech by Bank of England Governor Mervyn King of October 20, 2009, and chapter 3 of its Financial Stability Report of December 2009, which are available at www.bankofengland.co.uk.
32. The literature on economies of scale in banking is reviewed in Haldane (2010).
33. At the request of the G20, the IMF considered various options for taxing the financial sector, and recommended the imposition of a tax (or "financial stability contribution") on certain balance sheet items of financial institutions and a "financial activities tax" on the sum of a financial institution's profits and employee remuneration (IMF 2010). Professor Shin of Princeton University has proposed a tax on noncore liabilities of large financial institutions as a macro-prudential regulatory tool (Shin 2010).
34. The "tobin tax" was first proposed in Tobin (1978).
35. These issues are explored in the report of the Warwick Commission (2009). The report of the BCBS Cross-Border Bank Resolution Group examines the complexities of developing a cross-border resolution framework and the interim steps that are necessary (BCBS 2010).
36. The report of the Manuel Commission (IMF 2009e) also addressed this issue and recommended an amendment to the Fund Agreement to establish capital account liberalization as a purpose of IMF membership.
37. For a recent example of rethinking in the IMF on this issue, see Ostry, Ghosh, Habermeier, Chanon, Qureshi, and Reinhart (2010).

38. The Report of the De Larosiere Group laid out a number of recommendations for strengthening the European system of financial regulation and supervision, which have been largely endorsed by the EU (European Commission 2009).
39. The proposed changes in the Basel II regime have been laid out in a consultative document of the Basel Committee on Banking Supervision (BCBS 2009). While the membership of the BCBS was expanded in 2009 to include all of the G20 members and the process of revising the Basel Accord has been more open than in the past, it is still the case that most developing countries are excluded from the Committee's deliberations.
40. These guidelines are set out in the document of the FSB entitled "Principles for Executive Compensation" (April 2, 2009), which is available at www.financialstabilityboard.org
41. The creation of a regional debt restructuring mechanism within the EU has been recommended by economic experts at the Bruegel think-tank in Brussels (Pisani-Ferry and Sapir 2010) and the Centre for Economic Policy Studies (Gros and Mayer 2010).
42. This case experience is reviewed in Finger and Mecagni (2007) and Panizza, Sturznegger, and Zettelmeyer (2009).

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