

## The Political Economy of Basel III

This paper seeks to shed light on the new global standards for banking regulation - the so-called Basel III accord - by answering two interrelated questions: Are there any divergence in stakeholders' preferences on global banking standards? What determines the success of stakeholders in influencing such standards? Answers to these questions are sought by constructing a database of coded responses received in the Basel III consultation round. The results are then interpreted from a neoliberal institutional perspective. By doing this, the findings offer important new insights on differences across stakeholder categories in terms of their preferences and abilities to influence regulatory processes in finance. While the results largely support claims that private and financial sector stakeholders are abler in influencing regulatory processes and outcomes to their benefits, this paper reveals differences between stakeholders depending on their location in geographical regions, types of economies and economic sectors. The paper thereby offers empirical insights on characteristics of the international political economy in banking and finance that are commonly assumed but less often empirically investigated.

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# The Political Economy of Basel III

## 1 Introduction

This paper seeks to shed light on how the new global standards for banking regulation - the so-called Basel III accord (“Basel III”) – was developed. Global standards for banking regulation are developed by the Basel Committee of Banking Supervision (BCBS) – a membership forum consisting of central banks and banking supervisors in 28 jurisdictions. BCBS’s Basel III accord resulted from a lengthy process stretching over five years from the global financial crises. The final accord contained – among other things - substantial increases in the amount and quality of regulatory capital, the introduction of liquidity and funding requirements and a leverage ratio. In addition, The BCBS also expanded the scope its regulatory standards to include macroprudential policy.<sup>i</sup>

Despite the highly technical content of global banking standards, they nevertheless tend to stir considerable political debate and heated tensions. This is perhaps not surprising, since policy developments in monetary and financial policy typically have wide implications far beyond those directly targeted (Eichengreen 1999). Whereas some view international regulation – such as global banking standards - as a means to remove inefficiencies and bad practices, others see such regulation as results of special interest politics by powerful actors (Mattli and Woods 2009). In global financial regulation, the latter have emphasized that external stakeholders with different preferences are very active in influencing regulatory processes (Mattli and Büthe 2005; Porter 2005; Sinclair 2002; Tsingou 2003); that their powers and abilities to influence are not evenly distributed, since they depend on a wide set of institutional and structural conditions (Coleman 1996; Moran 1986); and that these different preferences and abilities have distributional consequences and therefore shape outcomes to the benefit of powerful actors (Krasner 1991; Mattli and Büthe 2003; Rosenbluth and Schaap 2003; Kahler and Lake 2003 etc.).

This paper seeks to understand Basel III through such a neoliberal institutional lens. It seeks to provide a better understanding of global financial regulation by answering two interrelated research questions related to the Basel III process and outcomes:<sup>ii</sup>

1. Are there any divergence in preferences on global banking standards that can be traced to stakeholder characteristics (such as whether they are based in BCBS member jurisdictions or advanced economies; or whether they are private or public; or the economic sectors they are active in)?
2. Do such stakeholder characteristics explain their ability to influence global banking standards?

Answers to these questions are sought by constructing a database by coding responses received by BCBS's in their main consultation round for Basel III. This coding is relatively detailed, and provides codes for each respondent along several geographical and sectoral dimensions. It is also detailed in terms of their responses and the policy areas they supported or rejected. The responses are then compared to the Basel III outcome, in order to develop “influence scores” for all consultation respondents. The paper then performs statistical tests in pursuit of patterns in terms of preferences and abilities to influence banking regulation across different stakeholder groups. Thereby, this paper continues the rather limited research that quantitatively analyses interest groups influence on banking regulation (such as Pagliari and Young (2014), Goldbach (2015) and Chalmers (2017).

This methodology, and the findings it yielded, contributes in several ways to the theoretical understanding of global banking regulation. It also contributes to the more general international political economy (IPE) literature on financial regulation, particularly by empirical analysing a number of conundrums and common assumptions in that literature:

- First, our approach offers detailed insights into the differences in preferences among stakeholders. These features are typically missing in the IPE literature on financial regulation formation, where much research is based on an assumption that the financial or banking industry is a homogeneous group of actors with very distinct interests that differ from other stakeholders (c.f. Lall 2012; Igan and Mishra 2011; Young 2012, Hellenier and Porter 2010; important exceptions include Fioretos 2010; Clapp and Helleiner 2012; Woll 2013).<sup>iii</sup>
- Second, our findings confirm a significant higher ability among private stakeholders in influencing regulatory processes and outcomes. This is well documented in the literature on international financial governance (see Mosley 2009 for a discussion) and specifically on global banking standards (Barr and Miller 2006; Singer 2004; Oatley and Nabors 1998 and others). However, due to our detailed coding along several complementary dimensions (BCBS membership, type of economy, geographic region, economic sector etc.), we are also able to probe deeper into differences among stakeholders in terms of preferences and abilities. Such nuances are typically missing in research on influence on regulatory processes in finance (exceptions include Lall 2012; Igan and Mishra 2011; Young 2012, Hellenier and Porter 2010 - see Pagliari and Young 2014 for a discussion). For instance, we demonstrate that being located in an advanced economy does not increase influential powers; nor do being located in jurisdictions being members of the BCBS. Furthermore, our paper complements Goldbach's (2015) analysis of private influence on Basel III, but offers a more detailed breakdown of stakeholder groups along several dimensions including financial industry (sub)sectors.
- Third, our findings also offer nuances on how regulatory outcomes in global banking regulation are influenced by various stakeholders, by explicitly considering their respective *efforts* to exert influence. Research on previous Basel accords has documented relatively limited efforts by stakeholders outside the private (financial) sector or advanced economies to exert influence on global banking regulation (Blom 2009; Claessens et al. 2009). Also, on Basel III, Chalmers (2015) shows that there are no differences in terms of banks' lobbying activities depending on whether they are located in BCBS member countries or not; nor does location in emerging markets or advanced economies matter. This paper seeks to venture beyond the relatively limited number of studies that either quantitatively measure interest stakeholder groups' *efforts* (c.f. Chalmers 2017; Dür 2008) or *abilities* (Goldbach 2015) to influence banking standards. The particular intersection between ability and effort is not well covered in the IPE literature on global financial regulation. Much of this research appears to be based on an assumption that the ability – even after efforts have been taken into account – is higher among banks, financial industry or private stakeholders in general, particularly those based in advanced economies and BCBS member countries. By explicitly considering stakeholders' efforts to influence, this paper provides a complementary view; it demonstrates, for instance, that the relative ability of emerging market stakeholders to

influence appears to be similar to advanced economy stakeholders, but that their actual influence is likely to be significantly lower. This also implies that this paper adopts a broader view of power than most other research on this topic, which focuses solely on stakeholders' *absolute* abilities to influence regulation (Barr and Miller 2006; Singer 2004; Oatley and Nabors 1998 and others).

- Finally, the paper focuses on the most recent Basel agreement, which so far has attracted limited attention in research (exceptions include Chalmers 2017; Veron 2012; Lall 2012; Ghosh et al. 2011). Providing an update to prior research on efforts and powers of stakeholder in Basel processes (cf. Barr and Miller 2006; Tarullo 2008) is theoretically interesting, since the IPE literature documents several cases where stakeholder preferences (Mattli and Woods 2009) and power dynamics changes over time (Hall and Biersteker 2002). For instance, Singer (2004) shows that domestic stakeholders' desire for regulatory harmonization through global banking standards changes depends on domestic systemic stability and competition from foreign firms. The mainstream view in the IPE literature is that the role played by financial industry in policy formulation has increased in recent decades (Cohen 2008; Underhill and Zhang 2008; Claessens et al. 2009; Blom 2009). However, the IPE literature also shows that significant events may have profound effects on stakeholders' preferences (Mattli and Woods 2009) and their powers to influence financial regulation (Eichengreen 1999; Willet 2001). Indeed, Singer (2004) shows that exogenous shocks, such as the developing economies' debt crises in the 1980s, contributed to the stricter capital requirements introduced by the Basel II accord ("Basel II").

Some research indicates that the global financial crisis was such a turning point. Some claim that preferences of politicians have increasingly diverged from those of the financial industry since the crisis, and their ability to influence regulation independently of the desires of the financial industry has grown. This, in turn, has diminished the ability of private stakeholders to exert influence on global financial standards (c.f. Bengtsson 2011; Veron 2012). Similarly, Cohen (2008) and Veron (2012) argue that the previous dominance of a limited number of powerful advanced economies has been eroding since the global financial crisis. Instead, power to influence global financial regulation is become increasingly dispersed, and large emerging market economies are playing increasingly important roles. But other hold opposing views, arguing that pre-crisis patterns remain (Claessens et al. 2008, Verdier 2013).

Our paper offers some insights into whether and to what extent the dynamics of influence has actually changed. This issue is particularly interesting since the BCBS - like many other international organizations –has relatively recently undergone changes to its governance structure and constitution. Some of these changes occurred before the Basel III process, and introduced mechanisms to increase transparency and increase stakeholder participation in the standard setting process (Mattli and Woods 2009). Since the global financial crisis, BCBS has also widened its membership to include several new emerging market countries (Bengtsson 2013). Also, the Financial Stability Board (FSB) has been established as the main locus of global financial policy development (Aron and Taylor 2009) which ultimately endorses BCBS standards. Our findings contribute to the wider IPE literature that offers insights on the implications of such changes (cf. Kahler and Lake 2003). Despite the changes to BCBS's constitution and governance and the global financial crisis, this paper demonstrates that private and financial interests were important influences in the Basel III

process, just as for previous Basel processes (c.f. Barr and Miller 2006; Tarullo 2008). While this cannot fully validate Cohen's (2008) claim of a steady diffusion of power towards private actors, it at least casts doubt on the notion that the influence of private and financial stakeholders has receded following the global financial crisis (c.f. Bengtsson 2011; Veron 2012).

However, unlike most IPE research, the findings indicate that stakeholders' abilities to influence were not generally not depending on their geographic regions. Nor do the findings show that there are differences between stakeholders' ability to influence depending on whether they are based in advanced economies or not. These findings largely support Cohen's (2008) and Veron's (2012) of advanced economies eroding power in the global financial system. However, the findings show that financial sector stakeholders in Asia have significantly lower ability to influence global banking standards, while their European counterparts' ability is significantly higher. This sheds additional light on and offer additional nuances on the notion that international financial regulation tends to be strongly influenced and result in beneficial outcomes for stakeholders in the US (Kahler and Lake 2003; Mattli and Woods 2009) and Europe (Drezner 2007).

The findings presented in this paper also have practical relevance. First, the understanding on global financial policy formulation remains limited, despite its substantial consequences for the real economy and wider society (Seabrooke 2006; Barnett and Finnemore 2006; Tsgintou 2003; Verdier 2013), especially through its effects on credit intermediation and the competitiveness of banks (Barr and Miller 2006; Claessens et al. 2008). Thus, introducing new standards are likely to entail distributional consequences across stakeholders, regions and countries. Second, Basel accords are interesting cases of private engagement in regulation, since private actors are strongly contributing to the enforcement of standards (Mosley 2009). Such "market discipline" implies that even jurisdictions outside those involved in establishing the standards are in reality forced to implement them (Griffith-Jones and Ocampo 2003; Vojta and Uzan 2003), not least since such market discipline is buttressed by global bodies such as the IMF or the World Bank (Kahler and Lake 2003; Mosley 2009).<sup>iv</sup> Finally, the Basel accords are often function as trail blazers for standards and regulation of financial entities and activities outside banking (Tarullo 2008).

The remained of this paper is organized as follows: Chapter 2 covers the relevant literature, and develops a number of hypotheses. Chapter 3 outlines the research design, the coding of consultation respondents and responses, the resulting data set and the analytical methods. In Chapter 4, the empirical results are presented and contrasted with findings from prior research on the political economy of banking regulation. Chapter 5 provides a concluding discussion and suggests topics for future research.

## **2 Literature review**

This paper's theoretical framework is set within the neoliberal institutional strand of the IPE literature. This literature includes works both on financial regulation in general (Mattli and Woods 2009; Kahler and Lake 2002 etc.) and global banking standards (Oatley and Nabors 1998; Singer 2004). Unlike more functionalistic perspectives on regulation of banking and finance, neoliberal perspectives does not view regulatory processes and outcomes as effective solutions to problems relating to information asymmetries and coordination difficulties (c.f. Mattli and Woods 2009). Thus, unlike Kapstein's works on Basel I, which emphasise that a consensual understanding that banks were undercapitalized led to a global agreement on banking standards, this paper's framework emphasises that regulatory processes and outcomes that are characterized by the involvement of multiple stakeholders with different preferences; that the power of stakeholders to influence processes and outcomes is not evenly distributed, but contingent on institutional and structural conditions at different social scales; and that differences in preferences, efforts and powers to influence regulatory processes ultimately shapes regulatory outcomes, which has distributional consequences among the involved stakeholders and beyond (c.f. Mattli and Woods 2009, Milner and Moravcsik 2009 ; Singer 2004; Gerding 2010; Barr and Miller 2006; Tarullo 2008; Lall 2011 etc.).

This chapter outlines the main theoretical propositions, empirical evidence and counter-evidence on: Stakeholders' divergence in preferences in regulation of banking and finance (Section 2.1); how institutional and structural conditions impact on stakeholders' abilities to influence regulatory processes in finance and banking; (Section 2.2); and how such institutional and structural conditions can explain variations among stakeholders' in their efforts to influence (Section 2.3) and outcomes (Section 2.4). The chapter ends with a summary that also sets out a number of hypotheses that are subsequently empirically investigated (Section 2.5).

### **2.1 Multiple stakeholders with divergent preferences**

The importance of a multitude of stakeholders in global financial regulation and governance is often highlighted in neoliberal IPE literature. According to this literature, regulation is developed, maintained and changed through interactions between public and private actors, but also quasi-public actors, such as the BCBS. In fact, the literature often highlights the increasing prominence of such actors in recent decades. A central – although often implicit - assumption of most IPE literature is that these stakeholders typically harbour divergent or conflicting preferences that they pursue by influencing regulatory development (Hall and Biersteker 2002; Milner and Moravcsik 2009; Mosley 2009).

In the more specific IPE literature on global banking regulation, research documents considerable divergence but also alignment in preferences among regulators involved in BCBS regulatory processes (Singer 2004). The degree to which preferences differ is typically attributable to influence from various external stakeholders. In prior research, the type of stakeholders and how they have influenced the process throughout the history of BCBS and in the development of the three Basel accords varies considerably.

A considerable body of IPE literature traces such differences to geographical dimensions, such as countries or geographical regions. A common perspective in the neoliberal strand is that preferences are shaped by domestic pressures from the financial sector and the public. This often means that commercial interests and political interest have become intertwined and difficult to separate in practice (Tsingou 2003), but that there may also be situation when regulators and politicians face competing demands from voters and banks (Oatley and Nabors 1998; Mattli and Woods 2009). Since domestic stakeholder's preferences differ over time and space, regulators are likely to face different pressures which can lead to divergence in preferences among them (Mosley 2009).

Differences in preferences across geographical dimensions are also well documented in research on BCBS. Much alike the more general IPE literature (e.g. Eichengreen 2003; Claessens et al. 2008), an important geographical dimension is the divide between advanced economies on one side, and emerging markets and developing countries on the other. In essence, advanced economies tend to have very different preferences over regulatory issues compared to emerging markets and developing countries. Singer (2004) shows that UK and US regulators managed to reach bilateral agreement on capital adequacy standards, since their domestic stakeholders had similar preferences. This agreement, in turn, forced BCBS to adopt capital adequacy requirements based on the UK-US agreement, against the will of the Japanese BCBS representative. Another example is Barr and Miller (2006), who document that Germany was able to lower capital charges for SME lending, despite concern from stakeholder from less developed countries who worried that the standard would be too complex for their supervisors and banks to manage. Similarly, Underhill and Zhang (2006), Claessens et al. (2008) and Lall (2012) account for differences among stakeholders' preferences by focusing mainly on the stakeholders' regional location, and whether they are based in advanced economies or not. In addition, Griffith-Jones and Persaud (2003) and Chalmers (2015) traces regulatory influence and efforts among banks, and distinguished between banks based in large and advanced economies, and those based in smaller countries, emerging markets or developing countries. Oatley and Nabors (1998) focus on how Basel I was shaped by governments, who derive their preferences based on domestic interest groups and voters. These governments, in turn, seek to pursue regulatory outcomes to benefit of their domestic stakeholders, at the expense of those in other jurisdictions.

Divergent preferences among stakeholders in financial regulation have also been attributed to sectoral determinants. The IPE literature is ripe with examples of how private sector actors tend to serve private interests that can differ substantially from public interest (e.g. Slaughter 2004; Mosley 2009). Such differences have also been demonstrated in research on global banking standards. For instance, Barr and Miller (2006) show how views on the merits of the IRB differed substantially between large financial firms on one side, and academics and other stakeholders on the other. Another example is Blom (2009), who looks onto how various private and public stakeholder

categories from different regions and types of economies sought to influence Basel II.

Research has even documented differences in preferences among stakeholders on the subsectoral level. Specifically on Basel accords, Pagliari and Young (2014) show how private sector stakeholders outside the financial industry form coalitions with their financial sector counterparts to pursue desirable regulatory outcomes in banking regulation. The neoliberal institutional IPE literature also offer insights in this respect; for instance, Mattli and Woods (2009) theory of regulatory changes categorizes private stakeholders of various (sub-)sectors are based on their different preferences regarding regulation and regulatory change. The theory of regulatory change highlight “corporate consumers” which may diverge from the preferences of the regulated, since they may face higher prices or supply constraints as a result of too much preference alignment between regulators and the regulated. Another category is “corporations at risk” whose preferences may support particular regulatory changes, since this would benefit their particular business model. Finally, “corporate levellers of playing field” are corporations that prefer level playing fields, in that equal regulation should apply to all market actors. This could, for instance, be corporations who would prefer domestic deregulation, but facing cross-border competition from less strict regulation abroad (Hall and Biersteker 2002).

## **2.2 Stakeholders’ power and ability to influence**

The neoliberal institutional framework of this study assumes that the power or ability of stakeholders to influence processes and outcomes is not evenly distributed, but contingent on institutional and structural conditions at several social scales. *Ability to influence* in this study means effective or efficient pursuit of preferences. Again the IPE literature on the abilities of stakeholder to influence regulation can be distinguished in terms of geographical, sectoral and sub-sectoral dimensions.

A large amount of research in IPE demonstrates that geography matters - great economic powers are able to exert considerable influence international regulatory processes and outcomes. Cohen (2008) argues that the distribution of power among the countries of the global financial system is skewed in favour of leading advanced economies. Similar patterns also characterise findings from research on global banking standards. Representatives from developing countries and emerging markets have traditionally exerted limited influence on BCBS standards (Claessens et al. 2008). In addition, Singer (2004) shows how Basel agreements have been adapted to maintain the competitiveness of domestic industries in powerful economies.

In addition to geographical explanations, private interest has also been associated with strong abilities in influencing financial policy processes. In fact, some see the increasing influence of private sector stakeholders in the policy process as one of the most important changes in global financial system in recent decades (Underhill and Zhang 2008; Cohen 2008). Some claim that such “special interest politics” has meant that the financial industry has become a dominant force in influencing regulatory processes and outcomes (Tarullo 2008; Blom 2009; Verdier 2013). For instance, Underhill and Zhang (2008) argue that BCBS is far more likely to take into account views of the private sector in their standard setting. In particular, the views of the private sector in advanced economies are particularly likely to be reflected in regulatory outcomes. Within the private financial sector, banks



are often seen as more powerful in influencing financial regulation than other private stakeholders within the financial sector (Tarullo 2008; Gerding 2010; Verdier 2013).

The IPE literature also suggests that abilities to influence increase when stakeholders' preferences are aligned (Mattli and Woods 2009, Milner and Moravcsik 2009). This also characterises stakeholders' influence on global banking standards; research shows that Basel agreements were adapted to maintain the competitiveness of domestic industries in powerful economies through coalitions between national authorities and domestic political bodies. For example, Singer (2004) attributes the adoption of the Basel I accord to an alignment of interest and thus joint forces between UK and US regulators. Also, Barr and Miller (2006), Tarullo (2008) and Verdier (2013) show how preference alignment between politicians and large internationally active banks enabled them to achieve less stringent regulatory standards in areas such as credit losses, asset securitization, credit cards and risk mitigation. Goldbach (2015) reports similar evidence of how private and political actors in the US and Germany formed successful coalitions to influence Basel standards. Another example is Pagliari and Young (2014), who show that the banking industry has leveraged the pursuit of their interests by liaising with actors in the private non-financial sector and the political sphere. The more general IPE literature sometimes explains the relatively limited ability of public and non-private actors to influence regulation by their lack of resourceful and committed allies (Mattli and Woods 2009). Also, the public often lack sufficient information to articulate their preferences on financial regulation. However, major "disasters or demonstrations" of failure can trigger demand for better regulation among such less informed and resourceful stakeholders (Eichengren 2003; Mattli and Woods 2009).

### **2.3 Structural and institutional determinants of power**

A neoliberal framework emphasises a wide set of structural and institutional conditions that affect stakeholders' ability to influence regulation. These conditions are typically broadly defined, and includes formal institutional factors (laws, regulation and similar), but also conventions, practices norms, ideational convergences and shared mind-sets. Such structural and institutional conditions can either provide or constrain stakeholders' abilities to influence regulation through various channels, such as providing access, strengthening arguments or making credible threats (Mattli and Woods 2009; Milner and Moravcsik 2009; Hall and Biersteker 2002). Since these conditions vary across spatial dimensions and constrain or enable stakeholder groups in different ways, the relative ability of different stakeholders to influence regulation will also vary across countries and geographical regions.

One structural factor that has been shown to reinforce stakeholders' abilities to influence, is the "structural power". Such power follows from a particular stakeholder's (or stakeholder group's) importance for a country and its economy. In the IPE literature on financial regulation, strong structural power is typically associated with banks and other important financial firms, since they provide central services to the real economy. Moreover, these companies are often sources of considerable wealth accumulation and government revenue. For these reasons, policy makers have incentives to refrain from introducing policies that may disrupt the operations and prosperity of the financial sector (Baker 2013).

This, in turn, implies a preference alignment between banks and politicians, with their interest being intertwined and difficult to separate in practice (Tsgintou 2003).

Due to international expansion, consolidation and other factors, many banks and other financial firms have become increasingly large and resourceful in recent decades. These developments, in turn, have increased their systemic importance for the real economy, and thereby their structural power (Bengtsson et al. 2011). In addition, larger size and concentration improves banks' chances of successfully coordinate themselves to overcome collective action problems associated with influencing regulatory outcomes (Verdier 2013).

Other commonly mentioned structural factors relate to organisational capacities, such as financial resources, technical expertise or access to information. Since financial regulation and standards are becoming increasingly technical and complex, only stakeholders with sufficient resources are often claimed to have a realistic chance in truly exerting influence (Tarullo 2008; Blom 2009; Verdier 2013; Igan and Mishra 2014). Such organizational capacity is typically not evenly distributed across countries and stakeholder groups (Underhill and Zhang 2003). In particular, the abovementioned structural trend towards larger and more concentrated financial systems, have further consolidated resources and skills among banks and other financial institutions.

The role of technical skills deserves some additional elaboration. Mosley (2009) argues that the interests of politicians and regulators tend to reflect the demands of the domestic financial sector particularly when regulatory issues are highly technical. This could be driven by either "surrender" to complexity among politicians and regulators. However, another well-covered factor in the IPE literature is that of "cognitive alignment". This implies that discourses, concepts and terminologies of both the regulators and the regulated have become institutionalised. This also means that terminologies and concepts used by regulators and the regulated are less accessible or understood by the public or other stakeholders, which thereby limits their abilities to influence (Mattli and Woods 2009). In the development of Basel I and II, such "cognitive capture" enabled private sector actors to articulate clear preference and exert considerable influence on the outcomes at the expense of other stakeholder categories (Underhill and Zhang 2008; Baker 2010; Buitier 2012).

Braun and Raddatz (2010), Seabrooke and Tsingou (2008) Johnson and Kwak (2010) and others demonstrate that cognitive captures are reinforced through repetitive interactions between actors in the political sphere and the financial industry. Such repetitive interactions are also related to institutional conditions which grant financial sector actors privileged access to regulators, such as governance structures, mandates and operational characteristics of regulatory bodies. Privileged access may also be granted through so-called "revolving doors", when individuals with particular political connections are hired as lobbyist to pursue the agendas of their financial industry employers (Igan and Mishra 2014). Apart from fostering cognitive capture, and perhaps more importantly, privileged access provides opportunities to informally influence regulatory processes (Pagliari and Young 2014). Access to regulators has also enabled the financial industry to provide input in the initial and important agenda-setting phase of regulatory processes, where much of the scope and directions of regulatory processes are determined (Krawiec 2012; Verdier 2013). Such privileged access thereby creates conditions for conducive regulatory influence even in contexts that offer formalized due process and access for all stakeholders (Mattli and Woods 2009).

Structural and institutional conditions tend to be relatively stable over time (Scott 1995), and are often (as exemplified above) mutually reinforcing. This implies that, in the realm of financial regulation, stakeholder groups favoured and empowered by current conditions tend to be concentrated in advanced economies and major financial centres and regions; and – in increasing order - the private sector, the financial sector and the banking subsector (Braun and Raddatz 2010; Seabrooke and Tsingou 2008; Johnson and Kwak 2010; Underhill and Zhang 2008; Baker 2010; Buiters 2012; Barr and Miller 2006; Tarullo 2008 and Verdier 2013). Evidence of the uneven distribution of power across stakeholder groups is reviewed further in the two subsequent sections, focusing on efforts to influence regulation and regulatory outcomes respectively.

#### **2.4 Stakeholders' different abilities to influence: Evidenced in efforts**

Some IPE literature on global banking regulation is oriented towards illustrating and explaining the *efforts* of various stakeholders to influence standards. Focusing primarily on formal processes rather than outcomes, this literature demonstrates that large financial firms in advanced economies account for the bulk of external inputs into formal processes of regulatory developments in finance. Smaller financial firms, consumer groups or the public typically provide few, if any, inputs (cf. Barr and Miller 2006).

These patterns also characterised the Basel II process. Four consultative papers (CPs) were issued in the regulatory process, each attracting around 200 responses (Barr and Miller 2006). For all these CPs, responses were dominated by financial services companies and their industry associations (accounting for 74 % of all responses (Blom 2009)).<sup>vi</sup> In line with the propositions of the previous section, very few financial firms in emerging or developing countries submitted comments; nor did stakeholders representing broader social constituencies (Claessens et al. 2008; Underhill and Zhang 2008). These results are especially striking, since the BCBS abandoned the process of closed dialogue with the financial industry used in developing Basel II, and opted for an open consultation process to increase involvement by other stakeholder categories (Blom 2009).

The explanations for the low involvements and limited efforts by stakeholders outside the banking industry and advanced economies are closely related to those structural and institutional conditions (discussed above) that limit these actors' ability to influence. For example, structural characteristics may influence the benefits from engaging in efforts to influence regulation; global standards are likely to influence the often more diverse lines of business of large banks, which implies that their stakes from various potential regulatory outcomes are higher. This is reinforced by the fact that many larger banks are active across several jurisdictions.

In addition, the positions of stakeholders in particular jurisdictions affect the probability of successfully influencing standards. For instance, without privileged access, stakeholders do not benefit from informal channels (c.f. Pagliari and Young 2014), and may also refrain from engaging in formal lobbying activities. This may explain the maintained power of large private financial stakeholders, even in context of BCBS's more formal due process and access (Verdier 2012). It may also explain why banks domiciled in BCBS member countries were more likely to lobby the Committee in developing Basel I and II (Claessens et al. 2008; Griffith-Jones and Persaud 2003).

While research on the Basel II efforts appears to support these structural and institutional explanations, more recent research on the Basel III process portrays a somewhat different picture. In a quantitative investigation on which banks sought to influence Basel III through the consultation process, Chalmers (2017) demonstrate large, wealthy and internationally active banks were more likely to submit consultation responses than other banks. However, Chalmers found no differences between banks located in advanced economies or emerging markets. Moreover, banks domiciled in BCBS member countries were not more likely to submit consultation responses than banks based in other countries.

## **2.5 Stakeholders' different abilities to influence: Evidenced in outcomes**

If preferences differ, and if structural and institutional conditions empower or weaken particular stakeholders, the regulatory systems that emerge and prevail are likely to benefit some stakeholders at the expense of others. In other words, the regulatory outcomes typically have distributional consequences, both internationally and within societies (Krasner 1991; Mattli and Büthe 2003; Rosenbluth and Schaap 2003; Kahler and Lake 2003). Such distributional consequences can therefore illustrate the relative abilities of various stakeholders in influencing regulation.

Generally, BCBS's bank regulation standards have tended to favour large advanced banks, and create competitive disadvantages for smaller and less sophisticated banks (Kapstein 1994; 2006; Alexander 2005; Claessens et al. 2008; Underhill and Zhang 2008; Blom 2009). The previously discussed diverging views on the IRB approach in the development of Basel II may serve as an example: large financial firms promoted the IRB approach in their responses to BCBS's consultative document, while academics and other individuals questioned its merits. In subsequent consultative papers and indeed the final Basel II accord, the proposals of the financial industry were largely incorporated and two IRB approaches were allowed (Barr and Miller 2006).

There is also ample evidence that international financial institutions, and their regulatory standards, have tended to serve the interests of powerful states, and powerful constituencies within them (Mosley 2009). This also applies to global banking standards, where BCBS's standards has historically and continuously been oriented towards major global financial centres (Eatwell and Taylor 2002; Griffith-Jones and Ocampo 2003; Oatley and Nabors 1998; Mosley 2009). The general notion in the IPE literature is that the US occupies a particularly privileged role, due to its central role in the world economy and the global financial system (Kahler and Lake 2003), and due to its capacity as a regulatory innovator (Mattli and Woods 2009). Others also consider stakeholders based the UK (Simmons 2001) or the EU (Drezner 2007) to be relatively privileged in this respect.<sup>vii</sup>

Research on global banking standards largely supports this notion. For example, Oatley and Nabors (1998) shows that US used its financial market power to redistribute income from Japanese to US banks through BCBS negotiations. Singer (2004) similarly demonstrates how US and UK reached a bilateral agreement that subsequently influenced Basel II. While this provided with mutual benefits for US and UK, it was disadvantageous to many other countries and banks located elsewhere. Regulators and stakeholders in other powerful states also appear to be relatively abler in influencing regulatory outcomes in global banking. In the Basel II proposal, German concerns with capital adequacy requirements for lending to small and medium size enterprises (SMEs) eventually resulted

in lower capital charge for lending to SMEs with potentially detrimental effects to stakeholder from less developed countries (Barr and Miller 2006). Barr and Miller (2006) also demonstrate how alliances influence regulatory outcomes in banking; Following continued pressure from German politicians and US senators - the final Basel II accord offered considerable reliefs on the treatments of asset securitization and risk mitigation to the benefit of banks based in those jurisdictions.

Other studies have devoted more attention to potential divides between advanced economies on one side, and emerging markets and developing countries on the other. Griffith-Jones and Ocampo (2003) and Vojta and Uzan (2003) find that developing nations had little input into the design of the FSF's global financial standards.<sup>viii</sup> In term of negotiations and outcomes, Mosley (2009) similarly reports that the views of developed nations often dominate. That BCBS's standards typically favour large, advanced and internationally active banks (Alexander 2005; Claessens et al. 2008; Blom 2009) also has implications from a geographical perspective; banking industries in emerging markets and developing countries are typically less developed and have fewer large international firms compared to banking industries in advanced economies. As a consequence, the Basel accords have tended to disadvantage developing countries and emerging market economies (Bailey 2005).

## **2.5 Discussion and hypotheses**

The theoretical framework outlined in this section emphasises the structural and institutional conditions that empower or constrain stakeholders' abilities to influence regulation based on their preferences. This corresponds somewhat to the view that regulators simply carry out the wishes of powerful stakeholders (Oatley and Nabors 1998). However, our framework also emphasises diverging preferences, as well as uneven distributions of power and potential coalitions among stakeholders. Also, it also acknowledges that BCBS is a quasi-governmental actor (Mosley 2009), constituted by central banks that typically are politically independent to various extents. This in turn grants them considerable freedom in negotiating standards (Singer 2004). Nevertheless, the general IPE literature and research on BCBS and its capital accords provides cues on likely outcomes in terms of standards. A list of hypotheses relating to the arguments outlined in this section is provided in Box 1.

However, there are also a number of counterarguments to those underlying the hypotheses; while path-dependencies resulting from stable structural and institutional conditions have been demonstrated to determine regulatory outcomes in the Basel II and III processes (Lall 2012), there are also factors and some evidence pointing towards systemic change: As discussed earlier, major disasters or crises (such as the global financial crisis) may alter preferences of various stakeholders by revealing shortcomings and bridging information asymmetries. In addition, the BCBS has recently undergone changes in terms of due processes, access and constitutional set-up (Bengtsson 2013). Furthermore, regulatory measures beyond the remit of BCBS have been introduced in many jurisdictions to curb the systemic importance of large banks (such as resolution schemes, restrictions on certain activities etc.). Finally, many large advanced economies have declined economically in recent years (especially since the global financial crisis), while many emerging markets have remained in expansionary secular and cyclical phases. In fact, Chalmers (2017) finds that while large international banks are still more likely to lobby the BCBS, there are not significant differences between banks located in emerging markets or advanced economies, or between banks located in

BCBS member jurisdictions or not. Such changes and early highlights the need to empirically investigate and potentially revise the hypotheses underlying the present study.

### Box 1 Hypotheses

**H1a:** Preferences on global banking standards differ between stakeholders based in BCBS member countries and stakeholders not based in BCBS member countries.

**H1b:** Preferences on global banking standards differ between stakeholders based in advanced economies and stakeholders based in emerging markets/developing countries.

**H1c:** Preferences on global banking standards differ between private and public stakeholders.

**H1d:** Preferences on global banking standards differ between private financial sector and private non-financial sector stakeholders.

**H1e:** Preferences on global banking standards differ between banks and other financial industry stakeholders.

**H1f:** Preferences on global banking standards differ depending on the regional location of stakeholders.

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**H2a:** The relative ability of stakeholders based in advanced economies to exert influence on global banking standards is higher than that of stakeholders in emerging markets and developing countries.

**H2b:** The relative ability of stakeholders based in BCBS member countries to exert influence on global banking standards is higher than that of stakeholders in other countries.

**H2c:** The relative ability of private sector stakeholders to exert influence on global banking standards is higher than that of public stakeholders.

**H2d:** The relative ability of financial industry stakeholders to exert more influence on global banking standards is higher than that of other private sector stakeholders.

**H2e:** The relative ability of banks to exert influence on global banking standards is higher than that of other financial industry stakeholders.

**H2f:** The relative ability of stakeholders based in the US and Europe to exert influence on global banking standards is higher than that of stakeholders based elsewhere.

### 3 Research design

The Basel III consultation process forms the basis for this paper's research design. BCBS issued its first consultative paper (CP) on Basel III in December 2009. Interested parties were invited to provide written comments on it, with a consultation period stretching from 17 December 2009 - 16 April 2010 (BCBS 2009). In total, BCBS received 276 responses. BCBS presented its final Basel III accord through a list of several separate documents, published between June 2011 and January 2014.<sup>ix</sup> Using the BCBS's CP, the responses received and the final Basel III accord, this paper follows a four step approach in order to test the hypotheses (H1a-f and H2a-f) developed in the previous section:

1. Coding of consultation *respondents*
2. Coding of consultation *responses*
3. Developing proxies for respondents' abilities to influence
4. Database construction and statistical analysis

The four steps are each described in more detail below (sections 3.1-3.4), followed by a methodological reflection (Section 3.5).

#### 3.1 Coding of consultation responses

The initial step was to categorize responses in the consultation process in terms of *respondents* (step 1) and *content* (step 2). BCBS received 276 responses, which were made public on the website of Bank for International Settlement.<sup>x</sup> Several respondents submitted two separate responses – typically one providing comments on the proposals for capital adequacy, and one for the proposed liquidity and funding standards. Such responses were treated a single response. A few joint replies from several respondents (typically public authorities) were submitted, and were treated as a single response. Two submissions were not made in English (one in German and one in Spanish). These were not categorized and do not form parts of the final data set. Taken together, this limited the total number of respondents (and responses) included in the analysis to 214.

In the *respondent* coding of these documents, each response was assigned a number of binary and categorical codes depending on the location, type and characteristic of its respondent. The categories included: location of respondent by type of economy (Advanced economy – AE or Emerging market and developing countries - EM); location in geographic region (Americas- AM, Europe- EUR or Asia-Pacific- AS); location of respondent in BCBS membership countries (M); economic sector (Public sector- PUB); private financial sector (FS), private non-financial sector (NFS); and whether the private financial sector respondent was a bank (B).<sup>xi</sup> Since the coding was binary or categorical, this implies that for example if a respondent was *not* coded as advanced economy BCBS member and public sector, it meant the respondent would be located in an emerging market or developing country that was not member of BCBS. It would also signal that the respondent represented the private sector. Annex A provides more details on the definitions of the *stakeholder categories*.

Since each respondent was assigned to this variety of stakeholder categories, the coding provided a rather detailed account of stakeholder plurality.<sup>xii</sup> However, not all respondents received a coding for all categories. For instance, global industry associations containing members from different

geographical regions did not receive a coding for that dimension. Similarly, only private sector respondents (i.e. not being categorised as PUB) were assigned codes for financial sector (FS) and non-financial sector (NFS). Also, only financial sector respondents (FS) were coded for banks (B), rendering a residual category labelled non-bank financial institutions (NBFI). The coding of respondents was subsequently used for two purposes; to outline patterns in the consultation process and comparing them to those of the two previous Basel accords; and to provide independent variables to assess the abilities of various stakeholder groups to influence banking standards (i.e. the dependent variable).

Table 1 displays the distribution of respondents to the Basel III consultation based on stakeholder categories. It is clear that respondents based in advanced economies and BCBS member jurisdictions vastly dominated the responses received. Respondents based in BCBS member countries, these accounted for 182 or 85% of all responses. In terms of distribution of respondents across types of economies, 185 responses were posted by respondents in advanced economies, compared to a mere 29 from emerging markets and developing countries. The financial industry also had a very large footprint with 157 submitted responses, thereby submitting around twice as many responses than all other sectors (public and non-financial private sector) combined. Of all responses from the financial industry, banks and their industry associations represented over two thirds. In terms of geographic region, respondents from Europe submitted just over half of all consultation responses, followed by respondents from the Americas (23%) and Asia-Pacific (18%).

**Table 1** Respondents to the Basel III consultation by stakeholder categories

<b>Stakeholder categories</b>	<b># Responses</b>	<b>Responses (% of total)</b>
BCBS Membership (M)	182	85,0%
Non-BCBS Membership	32	15,0%
Advanced economy (AE)	185	86,4%
Emerging market & developing countries (EM)	29	13,6%
Public institutions (PUB)	46	21,5%
Private sector	168	78,5%
Non-financial sector (NFS)	11	5,1%
Financial sector (FS)	157	73,4%
Bank (B)	103	48,1%
Non-bank financial institution (NBFI)	54	25,2%
Americas (AM)	50	23,4%
Europe (EUR)	108	50,5%
Asia-Pacific (AS)	38	17,8%

### **3.2 Coding of consultation responses**

In the *content* coding, each response was reviewed and coded in terms of *policy areas* in the Basel III proposal on which its respondent expressed major concern or support. This coding covers the number of more detail policy areas that were most frequently commented upon by respondents:



capital adequacy requirements (CAP), the liquidity coverage ratio (LCR), the net stable funding ratio (NSFR), the leverage ratio (LR), risk metrics (RM) and the role of credit rating agencies (CRA). For these categories, respondents were coded depending on whether they expressed *concern* or *support*. Support was only mentioned for two policy areas: capital adequacy requirements (CAP S) and leverage ratio (LR S). In order to control for achieving arbitrary categorizations (a risk inherent when using soft qualitative data), a complementary classification of a subset of 20 respondents and their responses was made by a researcher not involved in the project. This robustness check rendered the same categorizations as the initial one.

Table 2 provides the number of respondents within each stakeholder category expressing concern or support for the policy areas. Most responses to the Basel III consultation covered several of the areas of concern or support, with an average of 1.6 policy areas by respondent. The most frequent area of concern was LCR (emphasised by 42.5% of all respondents). Concern with this policy area was also the highest for all individual stakeholder categories, apart from banks (slightly behind capital adequacy requirements) and non-financial sector respondents. In terms of geographical patterns, a notable observation is the relatively high level of support for the leverage ratio (LR) among respondents from the Americas, relating to support from many US banks. The support for higher and better quality capital adequacy requirements among public institutions is not surprising. More surprising, however, is perhaps the relatively high level of support for those policy areas among non-financial sector respondents, given that such requirements are likely to increase their borrowing costs (see further analysis in Chapter 4).

**Table 2** Basel III Policy areas – Expressions of concern or support by stakeholder categories

Stakeholder categories	Policy areas – Concern						Policy areas – Support	
	CAP	LCR	NSFR	LR	RM	CRA	CAP S	LR S
BCBS Membership (M)	36.3%	43.4%	33.0%	25.8%	18.1%	2.7%	2.2%	2.7%
Non-BCBS Membership	12.5%	37.5%	21.9%	28.1%	15.6%	3.1%	15.6%	3.1%
Advanced economy (AE)	34.6%	41.6%	33.5%	28.6%	17.8%	3.2%	3.2%	3.2%
Emerging market & developing countries	20.7%	48.3%	17.2%	10.3%	17.2%	0.0%	10.3%	0.0%
Public institutions (PUB)	15.2%	28.3%	8.7%	13.0%	15.2%	2.2%	15.2%	2.2%
Private sector	37.5%	46.4%	37.5%	29.8%	18.5%	3.0%	1.2%	3.0%
Non-financial sector (NFS)	0.0%	9.1%	0.0%	18.2%	45.5%	0.0%	9.1%	0.0%
Financial sector (FS)	40.1%	49.0%	40.1%	30.6%	16.6%	3.2%	0.6%	3.2%
Bank (B)	45.6%	44.7%	43.7%	36.9%	18.4%	0.0%	0.0%	4.9%
Non-bank financial institution (NBFI)	22.2%	48.1%	27.8%	16.7%	13.0%	9.3%	1.9%	0.0%
Americas (AM)	44.0%	46.0%	44.0%	22.0%	16.0%	4.0%	0.0%	8.0%
Europe (EUR)	33.3%	46.3%	34.3%	32.4%	21.3%	2.8%	5.6%	1.9%
Asia-Pacific (AS)	26.3%	39.5%	15.8%	13.2%	10.5%	0.0%	2.6%	0.0%
Total	32.7%	42.5%	31.3%	26.2%	17.8%	2.8%	4.2%	2.8%

Note: CAP – Capital adequacy requirements; LCR – Liquidity coverage ratio; NSFR – Net stable funding ratio; LR – Leverage ratio; RM – Risk metrics ; CRA – Credit rating agencies; CAP S – Capital adequacy requirements (support); LR S – Leverage ratio (support).

### 3.3 Proxies for respondents' abilities to influence

To develop proxies for respondents' abilities to influence the Basel III outcome, measures for the extent to which their comments were incorporated in the final Basel III documents were developed. This was accomplished by identifying the areas in which the BCBS made significant adjustments, through a comparison between the Basel III consultation document issued in December 2009 with the final Basel III accord.<sup>xiii</sup> Each policy area received a grade of either +1, 0 or -1 in order to account for the (lack of) changes made by the BCBS (see table 3). This grading meant that respondents that expressed support (CAP S or LR S) for the original proposal in policy areas that were significantly modified (CAP, LR) received minus one point for each of those areas. Conversely, respondents who expressed concern with policy areas that were substantially revised, postponed or granted substantial phase-in arrangements (NSFR, LR, CAP, LCR) received positive scores. Zero points were assigned to respondents expressing concern for policy areas that remained largely unchanged. Annex B provides a brief rationale for the grading of the individual policy areas.

Table 3 Grading of policy areas

Concern/support for Basel III Policy areas	Score	Justification
CAP, LCR, NSFR, LR	1	Significant modifications of the original proposal and/or postponing the final standard and/or extending phase in arrangements.
RM, CRA	0	No major revision, phase in arrangements or postponing.
CAP S, LR S	-1	Significant modifications of the original proposal and/or postponing the final standard for policy areas supported by respondents.

Note: See Annex B for a brief rationale for the grading of the individual policy areas.

Using the grades for the policy areas, two proxies for each actor's ability to influence the final standard were developed. The first one – effectiveness – was calculated by summing the grades for all policy areas any respondent expressed concern or support. Low efficiency grades were thus given respondents who expressed support for such policy areas, or for respondents expressing concern with areas that remained largely unchanged (RM, CRA).

The second proxy – *efficiency* – seeks to capture the ability to influence in relation to the number of policy areas respondents commented upon. By dividing the effectiveness score by the number of areas for which respondents expressed support or concern, it proxies the respondents' ability to influence standards in relation to their "efforts" spent on doing so. This means that while a resourceful respondent that expressed concern for many policy areas that were substantially changed will attain a high effectiveness score, that respondent will still score lower than a respondent which submitted targeted comments of concern only for those particular areas that were most significantly modified or postponed (CAP, LCR, NSFR, LR).

### 3.4 Database construction and statistical analysis

A database was constructed using the two influence proxies, and the categorical variables for all stakeholders based on the coding of respondents and responses. Table 4 provides descriptive data for all variables. The lower number of observations for certain variables relate to the coding of

stakeholders, which did not cover the whole set of respondents for all dimensions (see Section 3.1). For instance, the subcategories private sector (FS and NFS combined) and financial subsector (FS) category only applies to 168 private sector and 157 financial sector respondents respectively. Missing observations relate to effectiveness and efficiency, which is due to certain respondents not expressing any clear support or concern for any particular policy area.<sup>xiv</sup>

Table 4 Descriptives

Variables	Mean	Min	Max	Std. Dev.	C.V.	Skewness	Ex. kurtosis	Observations	Missing obs.
M	0,850	0	1	0,357	0,420	-1,965	1,863	182	0
AE	0,864	0	1	0,343	0,397	-2,130	2,536	185	0
EM	0,136	0	1	0,343	2,532	2,130	2,536	29	0
PUB	0,215	0	1	0,412	1,916	1,387	-0,074	46	0
FS	0,734	0	1	0,443	0,604	-1,057	-0,883	157	0
NFS	0,051	0	1	0,221	4,306	4,063	14,509	11	0
B	0,481	0	1	0,501	1,041	0,075	-1,994	103	0
NBFI	0,224	0	1	0,418	1,864	1,321	-0,252	54	0
AM	0,234	0	1	0,424	1,815	1,258	-0,415	50	0
EUR	0,505	0	1	0,501	0,993	-0,018	-1,999	108	0
AS	0,178	0	1	0,383	2,157	1,687	0,847	38	0
Effectiveness	0,122	-1	4	1,283	1,144	0,253	-0,698	208	6
Efficiency	0,492	-1	1	0,633	1,286	-1,042	0,109	168	46

Statistical analyses were then performed to reveal patterns in how preferences, effectiveness and efficiency vary across stakeholder groups. Difference in proportion tests (z-tests) were used to determine differences in preferences among stakeholder groups. Standard univariate and multivariate OLS regressions were applied in search for relations between stakeholder categories and their abilities to influence banking standards (using the influence proxies as dependent variables). None of the models or results displayed multicollinearity and heteroscedasticity, which was verified through testing vector inflation factors and through Breusch-Pagan tests.

### 3.5 Methodological reflections

In terms of methodology, this paper continues the rather limited research that quantitatively analyses interest groups influence on banking regulation (such as Pagliari and Young (2014), Goldbach (2015) and Chalmers (2017)). As discussed in Section 1, the main benefit of the research design is that it provides detailed accounts of and combining information on differences among stakeholders in terms of their preferences, their efforts to influence and their relative ability to influence standard settings outcomes. It thereby paints a more disaggregated picture on differences between stakeholders than commonly found in the IPE literature on financial regulation. It also enables to empirically test the extent to which preferences of various stakeholder groups are differ. In contrast, such preference divergence is typically assumed in the IPE literature but rarely tested.

An important challenge, however, is that the research approach fails to capture any informal influence on the Basel III process. This mode of influencing financial standard- and rule setting is well

documented (Dür 2008; Fordham and McKeown 2003). A related problem is the multistage process of standard setting (Buthe and Mattli 2011; Avant et al. 2010).<sup>xv</sup> Informal influence could of course also affect the formulation of the reform agenda in the first place, even before any concrete proposal is made.<sup>xvi</sup> This research design in this paper assumes that official statements – such as consultation responses – at least to a considerable extent reflect preferences pursued through informal influence. Also, the outcome dependent variable is also likely to capture efforts to informally influence the standard setting. In addition, the BCBS membership variable (M) can also be viewed as a proxy for respondents’ abilities to exert informal influence, either directly towards their BCBS representative or indirectly through domestic channels such as resourceful financial institutions or the political sphere (that in turn exert influence on BCBS).

Another challenge that relates to the multistage process is the fact that BCBS has undertaken reviews at later stages of particular topics included in the influence proxies (as scores for “policy areas”) used in the analysis.<sup>xvii</sup> However, this study covers only the influence exerted in the consultation process, visible only through the process outcome. It cannot measure whether efforts to influence by respondents had an impact on later policy outcomes. The methodological problems outlined above are not unique to this study, but are common to most IPE research on the influence on regulatory processes in finance.

## 4 Results and analysis

This chapter describes the empirical findings and the analysis. Initially, correlations between different groups of stakeholders responding to the Basel III consultation and the proxies for their abilities to exert influence on the final standards are presented and discussed (Section 4.1). Thereafter, differences in stakeholders' preference are explored (Section 4.2). This is followed by a number of regressions on how abilities to influence standards varies across stakeholders of different types of economies, geographical regions and economic (sub)sectors (Section 4.3). Finally, the results are interpreted in light of prior research and the hypotheses presented in the previous chapter (Section 4.4).

### 4.1 Correlations

Table 5 displays correlations between all main variables. There are several notable correlations between the explanatory variables. These include those between BCBS membership (M) and the various types of respondents: the positive and significant correlations for financial sector companies (FS), and its subcategory banks (B) reveal that most of these respondents are based in BCBS membership countries. Conversely, public institutions and individuals (PUB) is significantly negatively correlated with BCBS membership. This may indicate that the relevant public bodies in BCBS membership countries are already represented on the committee itself, or are seeking to influence standards by other modes than through formal consultations. Public bodies and individuals (PUB) also display significant negative correlation to type of economy (AE), perhaps for the same reason.

The categorical regional variables (AM, EUR, AS) are significantly negatively correlated, whereas the correlation between advanced economies (AE) and membership in BCBS (M) is significant and positive. While these are natural results driven by geographical facts and BCBS's constitution, the correlations with the regional variables and those pertaining to type of economy and BCBS membership reveal some noteworthy patterns. This includes a significant positive correlation between both the variables Americas (AM) and BCBS membership (M) on one hand, and between Americas (AM) and advanced economies (AE) on the other (the latter also being true for the variable Europe (EUR)). This shows that most respondents in the Americas were based in advanced BCBS membership economies. The opposite is true for Asia-Pacific respondents, which is significantly negatively correlated with the variables BCBS membership and Advanced economy. These results may reflect that a larger proportion of countries in the Americas are advanced economies (US, CA) and BCBS members (US, CA, MX), compared to Asia-Pacific.

However, there are fewer significant correlations relating to types of respondents (FS, NFS, PUB, B) and the regional variables (AM, EUR, AS). One exception is the variable Americas, which is significantly positively correlated with financial sector and banks, and significantly negative with public bodies (PUB) and non-financial sector (NFS). The regional variable for European respondents (EUR) displays significant negative correlation with financial sector (FS) and banks (B). However, there are no significant correlations between economic sectors and the regional variable for Asia-Pacific (AS).

Table 5 Correlation matrix

	M	AM	EUR	AS	EM	AE	FS	NFS	PUBIND	B	NBFI	Effectiveness	Efficiency
M	1												
AM	<b>0,232***</b>	1											
	<i>0,001</i>												
EUR	<b>-0,022</b>	<b>-0,5573***</b>	1										
	<i>0,746</i>	<i>0,000</i>											
AS	<b>-0,1480**</b>	<b>-0,2565***</b>	<b>-0,4690***</b>	1									
	<i>0,030</i>	<i>0,000</i>	<i>0,000</i>										
EM	<b>-0,3316***</b>	<b>-0,2186***</b>	<b>-0,2631***</b>	<b>0,6734***</b>	1								
	<i>0,000</i>	<i>0,001</i>	<i>0,000</i>	<i>0,000</i>									
AE	<b>0,3316***</b>	<b>0,2186***</b>	<b>0,2631***</b>	<b>-0,6734***</b>	<b>-1,000</b>	1							
	<i>0,000</i>	<i>0,001</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>								
FS	<b>0,3401***</b>	<b>0,2327***</b>	<b>-0,1317**</b>	<b>0,003</b>	<b>-0,1320**</b>	<b>0,1320**</b>	1						
	<i>0,000</i>	<i>0,001</i>	<i>0,054</i>	<i>0,961</i>	<i>0,054</i>	<i>0,054</i>							
NFS	<b>0,038</b>	<b>-0,1285**</b>	<b>0,104</b>	<b>-0,053</b>	<b>-0,030</b>	<b>0,030</b>	<b>-0,3863***</b>	1					
	<i>0,578</i>	<i>0,061</i>	<i>0,131</i>	<i>0,442</i>	<i>0,659</i>	<i>0,659</i>	<i>0,000</i>						
PUBIND	<b>-0,3866***</b>	<b>-0,1813***</b>	<b>0,086</b>	<b>0,025</b>	<b>0,1584**</b>	<b>-0,1584**</b>	<b>-0,8684***</b>	<b>-0,122</b>	1				
	<i>0,000</i>	<i>0,008</i>	<i>0,210</i>	<i>0,719</i>	<i>0,020</i>	<i>0,021</i>	<i>0,000</i>	<i>0,075</i>					
B	<b>0,2727***</b>	<b>0,1753**</b>	<b>-0,1305*</b>	<b>0,091</b>	<b>0,028</b>	<b>-0,028</b>	<b>0,5804***</b>	<b>-0,2242***</b>	<b>-0,5040***</b>	1			
	<i>0,000</i>	<i>0,010</i>	<i>0,057</i>	<i>0,186</i>	<i>0,679</i>	<i>0,679</i>	<i>0,000</i>	<i>0,001</i>	<i>0,000</i>				
NBFI	<b>0,037</b>	<b>-0,006</b>	<b>0,017</b>	<b>-0,074</b>	<b>-0,1474**</b>	<b>0,1474**</b>	<b>0,3240***</b>	<b>-0,1251*</b>	<b>-0,2813***</b>	<b>-0,5179***</b>	1		
	<i>0,591</i>	<i>0,934</i>	<i>0,800</i>	<i>0,281</i>	<i>0,031</i>	<i>0,031</i>	<i>0,000</i>	<i>0,068</i>	<i>0,000</i>	<i>0,000</i>			
Effectiveness	<b>0,101</b>	<b>0,103</b>	<b>0,072</b>	<b>-0,092</b>	<b>-0,102</b>	<b>0,102</b>	<b>0,3626***</b>	<b>-0,2369***</b>	<b>-0,2628***</b>	<b>0,3979***</b>	<b>-0,016</b>	1	
	<i>0,140</i>	<i>0,134</i>	<i>0,294</i>	<i>0,181</i>	<i>0,139</i>	<i>0,139</i>	<i>0,000</i>	<i>0,001</i>	<i>0,000</i>	<i>0,000</i>	<i>0,816</i>		
Efficiency	<b>0,069</b>	<b>0,057</b>	<b>-0,083</b>	<b>0,111</b>	<b>0,003</b>	<b>-0,003</b>	<b>0,3420***</b>	<b>-0,3105***</b>	<b>-0,1944**</b>	<b>0,3190***</b>	<b>0,134</b>	<b>0,7385***</b>	1
	<i>0,237</i>	<i>0,429</i>	<i>0,889</i>	<i>0,714</i>	<i>0,475</i>	<i>0,475</i>	<i>0,000</i>	<i>0,000</i>	<i>0,002</i>	<i>0,000</i>	<i>0,102</i>	<i>0,000</i>	<i>0,000</i>

Note: \*/\*\*/\*\* denote significance at 10%/5%/1% levels; p-values in italics.

#### 4.2 Difference in proportion tests - Stakeholder preferences

Table 6 outlines the results of the z-tests for difference in proportions in preferences between different stakeholder groups (to test Hypotheses H1a-f). The results show that stakeholders within and outside BCBS jurisdictions display few divergences in preferences; the only difference is that stakeholders in the former were more concerned about the capital requirements, whereas the latter were more supportive. There were also few regional differences between stakeholders based in Europe or Asia-Pacific compared with their counterparts. Stakeholders in Europe were more sceptical towards the leverage ratio(LR), whereas Asia-Pacific stakeholders were less sceptical on the liquidity and funding requirements (LCR and NFSR). Stakeholders in the Americas – where the vast majority of stakeholder were US based – display diverging preferences in relation to other stakeholders in four areas. However, the statistically significant differences between stakeholders in the regional dimension were typically not high in terms of magnitude (ranging from 0.055 to 18.9).

But across the other dimensions of the stakeholder categorization, considerable differences in preferences across many policy areas were apparent. Such differences were particularly pronounced between public and private stakeholders, and between financial and non-financial private sector stakeholders; both in terms of number of areas and the magnitude of differences. Statistically significant differences in five out of the seven policy areas (CAP, LCR, NSFR, LR, CAP S) were documented between public and private stakeholders; in all cases did private stakeholders express more concern or less support (CAP S). For financial and non-financial private stakeholders, the former were more concerned for three areas (CAP, LCR, NSFR) and less supportive on capital

requirements (CAP). Non-financial stakeholders expressed considerably more concern regarding risk metrics (RM) and were less supportive of the leverage ratio (LR S).

Table 6 Differences in proportions - Stakeholder preferences

H1a-b	M n=182	NonM n=32	$\Delta$ N-NonM	z-value	p-value	AE n=185	EM n=29	$\Delta$ AE-EM	z-value	p-value
CAP	0.363	0.125	0.238***	2.642	0.008	0.346	0.207	0.139	1.484	0.138
LCR	0.434	0.375	0.059	0.624	0.533	0.416	0.483	-0.066	-0.674	0.500
NSFR	0.330	0.219	0.111	1.248	0.212	0.335	0.172	0.162*	1.757	0.079
LR	0.258	0.281	-0.023	-0.274	0.784	0.287	0.103	0.183**	2.086	0.037
RM	0.181	0.156	0.025	0.341	0.733	0.178	0.172	0.006	0.079	0.937
CRA	0.027	0.031	-0.003	-0.119	0.733	0.032	0.000	0.032	0.984	0.325
CAP S	0.022	0.156	-0.134***	-3.490	0.000	0.032	0.103	-0.070*	-1.770	0.077
LR S	0.027	0.031	-0.003	-0.119	0.905	0.032	0.000	0.032	0.984	0.325
H1c-d	PUB n=46	PRIV n=168	$\Delta$ PUB-PRIV	z-value	p-value	FS n=157	NFS n=11	$\Delta$ FS-NFS	z-value	p-value
CAP	0.152	0.375	-0.222***	-2.853	0.004	0.401	0.000	0.401***	2.658	0.008
LCR	0.283	0.464	-0.181**	-2.208	0.027	0.490	0.091	0.399**	2.562	0.010
NSFR	0.087	0.375	-0.288***	-3.732	0.000	0.401	0.000	0.401***	2.719	0.007
LR	0.130	0.298	-0.167**	-2.285	0.022	0.306	0.182	0.124	0.862	0.389
RM	0.152	0.185	-0.032	-0.508	0.611	0.166	0.455	-0.288**	-2.078	0.038
CRA	0.022	0.030	-0.008	-0.291	0.770	0.032	0.000	0.032	1.112	0.266
CAP S	0.152	0.012	0.140***	4.200	0.000	0.006	0.091	-0.084***	-3.407	0.001
LR S	0.022	0.030	-0.008	-0.291	0.770	0.032	0.000	0.032**	2.239	0.025
H1e-f	B n=103	NBFI n=48	$\Delta$ B-NBFI	z-value	p-value	AM n=50	NonAM n=164	$\Delta$ AM-NonAM	z-value	p-value
CAP	0.495	0.229	0.266**	3.093	0.002	0.440	0.293	0.1473*	1.943	0.052
LCR	0.495	0.521	-0.026	-0.294	0.769	0.460	0.415	0.045	0.568	0.570
NSFR	0.466	0.292	0.174**	2.027	0.043	0.440	0.274	0.165**	2.210	0.027
LR	0.379	0.188	0.191**	2.348	0.019	0.220	0.274	-0.054	-0.766	0.444
RM	0.185	0.146	0.039	0.587	0.557	0.160	0.183	-0.023	-0.371	0.711
CRA	0.000	0.000	0.000	-	-	0.040	0.024	0.016	0.585	0.559
CAP S	0.000	0.021	-0.021	-1.470	0.142	0.000	0.055	-0.055*	-1.692	0.091
LR S	0.049	0.000	0.049	1.552	0.121	0.080	0.012	0.0678**	2.542	0.011
H1f	EUR n=108	NonEUR n=106	$\Delta$ EUR-NonEUR	z-value	p-value	AS n=38	NonAS n=176	$\Delta$ AS-NonAS	z-value	p-value
CAP	0.324	0.330	-0.006	-0.0951	0.924	0.290	0.335	-0.045	-0.544	0.586
LCR	0.463	0.387	0.076	1.127	0.260	0.395	0.432	-0.037	5.000	0.678
NSFR	0.343	0.283	0.060	0.940	0.347	0.158	0.347	-0.189**	-2.174	0.030
LR	0.324	0.198	0.126**	2.097	0.036	0.132	0.290	-0.158*	-1.899	0.058
RM	0.213	0.142	0.072	1.368	0.171	0.105	0.193	-0.088	-1.195	0.232
CRA	0.028	0.028	-0.000	-0.023	0.982	0.000	0.034	-0.034	-1.051	0.293
CAP S	0.056	0.028	0.027	0.993	0.321	0.026	0.045	-0.019	-0.486	0.627
LR S	0.019	0.038	-0.019	-0.851	0.394	0.000	0.034	-0.034	-1.050	0.294

Note: \*/\*\*/\*\* denote significance at 10%/5%/1% levels.

The preferences of stakeholders in advanced economies differed from those in emerging markets and developing countries in three policy areas. The former were more concerned about the new requirements on funding and liquidity (LCR and NSFR). Stakeholders based in emerging markets and developing countries, on the other hand, were more supportive of the new capital requirements.

Viewing the results by policy areas also renders some interesting observations. For the policy area of credit rating agencies, no statistically significant differences in proportions were found. Differences on concern regarding capital requirements, liquidity requirements, funding requirements and the leverage ratio, on the other hand, were found to be significantly different across five stakeholder categories. Concern with capital requirements displayed the highest magnitude of differences across three stakeholder dimensions (M-NonM, FS-NFS and B-NBFI).

### **4.3 Regressions – Abilities to influence**

Univariate models were tested for all hypotheses H2a-f (see Table 7). Regressions 1 and 2 test whether respondents based in advanced economies or BCBS membership countries are able to influence global banking standards. The coefficients for BCBS membership and type of economy (AE) were both insignificant. However, their p-values show that both are close to achieve significance at the 10%-level, suggesting that respondents from advanced economies are associated with higher influence. However, neither coefficient adds overall significant explanatory power to the mean, which also relates to the relatively low explanatory power of both regressions (0.001 for both regressions).<sup>xviii</sup>

Regressions 3 to 6 were all significant. Regression 3 reveals a significant negative coefficient for public bodies and individuals, which indicates that private sector representatives as a whole were more effective in influencing the Basel III process. However, as displayed in Regression 5, the significant coefficient of -1.37 for non-financial sector respondents (the highest coefficient reported in table 7), shows that non-financial sector companies have lower effectiveness than public bodies and individuals and financial sector companies combined. The difference between public and private sector respondents is thus driven by the strong positive coefficient for the latter (as shown in Regression 5). Regression 6 is run on the subsample consisting on financial sector companies, restricting the sample to 157 respondents.<sup>xix</sup> Its coefficient is significant and positive, and estimates that banks are more effective in influencing the Basel III process compared to other financial sector stakeholders (with average effectiveness scores of 1.65 and 0.738 respectively). The explanatory powers of regressions 3-6 range between 0.121 and 0.056, which is reasonably high given the likely large variation within the stakeholder groups in terms of preferences, efforts to influence and to the structural and institutional conditions discussed in section 2.3.



Table 7 Univariate regressions

Dep var	Effectiveness					
	1	2	3	4	5	6
Regression #	1	2	3	4	5	6
Hypothesis	H2a	H2b	H2c	H2d	H2d	H2e
n	214	214	214	214	214	151
<b>Intercept</b>	0,793***	0,813***	1,298***	1,192***	-0,182***	0,738***
	<i>0.001</i>	<i>0.000</i>	<i>1,52E-30</i>	<i>1,14E-30</i>	<i>0.623</i>	<i>0.000</i>
<b>AE</b>	0,380***					
	<i>0.001</i>					
<b>M</b>		0.363				
		<i>0.140</i>				
<b>PUB</b>			-0,819***			
			<i>0.000</i>			
<b>NFS</b>				-1,374***		
				<i>0.001</i>		
<b>FS</b>					1,583***	
					<i>0.000</i>	
<b>B</b>						0,912***
						<i>0.000</i>
<b>Overall F-value</b>	2.209	2.193	15,737***	12,610***	17,151***	22,740***
<b>Overall p-value</b>	<i>0.139</i>	<i>0.140</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>	<i>0.000</i>
<b>R2</b>	0.010	0.010	0.069	0.056	0.094	0.120
<b>Adj R2</b>	0.006	0.006	0.065	0.052	0.088	0.115

Note: \*/\*\*/\*\* denote significance at 10%/5%/1% levels; p-values in italics.

To tests for the effects revealed in regressions 1-6 after considering effects from type of economy and BCBS membership, four multivariate regressions (7-10) were performed for the various types of respondents (table 8). All regressions displayed overall significance, although the adjusted  $r^2$ s (ranging between 0.059 and 0.133) demonstrate that they add only minor explanatory power to the univariate regressions. In terms of directions, magnitudes and significances of the coefficients, the results confirm those of the univariate regressions; private stakeholders were more effective than public bodies and individuals, but this effect was confined to financial sector respondents. Again, non-financial sector respondents were associated with significant negative effects on *effectiveness*. Regression 9, on the subsample of financial sector respondents, reveals that banks are still associated with a significant positive effectiveness after taking BCBS membership and type of economy into account. The latter is also found to be significant and positive, suggesting that banks based in advanced economies were significantly more effective than both other financial sector respondents, and banks in emerging markets and developing countries, in influencing the Basel III process. Regressions were also performed with either type of economy or BCBS membership, but results were similar to those in table 8.

Table 8 Multivariate regressions – Sectors, type of economy and BCBS membership

Dep var	Effectiveness			
	7	8	9	10
Hypothesis	H2d(+a+b)	H2a+b+c	H2d(+a+b)	H2e(+a+b)
n	208	208	208	151
Intercept	1.145*** <i>0.000</i>	0.676 <i>0.339</i>	0.259 <i>0.013</i>	0.125 <i>0.760</i>
PUB	-0.813*** <i>0.000</i>			
NFS		-1.407*** <i>0.000</i>		
FS			1.071*** <i>0.000</i>	
B				0.989*** <i>0.000</i>
AE	0.253 <i>0.339</i>	0.304 <i>0.316</i>	0.256 <i>0.250</i>	0.714*** <i>0.022</i>
M	-0.079 <i>0.771</i>	0.300 <i>0.510</i>	-0.170 <i>0.237</i>	-0.078 <i>0.828</i>
Overall F-test	5.525***	5.609***	11.039***	9.545***
Overall p-value	<i>0.001</i>	<i>0.001</i>	<i>0.000</i>	<i>0.000</i>
R2	0.073	0.074	0.136	0.149
Adj R2	0.060	0.061	0.124	0.133

Note: \*/\*\*/\*\* denote significance at 10%/5%/1% levels; p-values in italics.

In order to gauge whether the regional bases of the respondents had any impact on their effectiveness, table 9 displays the results of regressions 11-22. Results reveal that no regional variable was found to be significant for public bodies and individuals and non-financial respondents' effectiveness (regressions 11-16). Corresponding models that included type of economy and BCBS membership were also performed, but failed to add significance, explanatory power or finding any significant coefficients relating to those variables. However, for financial sector firms, being located in Europe had a significant positive effect on their effectiveness (Regressions 17-19). Similarly, Regressions 20-22, run on the financial sector subsample, reveal significant negative and positive effects for Asia-Pacific and Europe respectively.

Table 9 Multivariate regressions – Sectors and regional location

Dep var Regression #	Effectiveness											
	11	12	13	14	15	16	17	18	19	20	21	22
Hypothesis	H2f			H2f			H2f			H2f		
n	208	208	208	208	208	208	208	208	208	151	151	151
Intercept	1,134***	1,133***	1,232***	1,137***	1,068***	1,256***	0,347***	0,1590	0,406**	0,889***	0,761***	0,981***
PUB	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,031</i>	<i>0,397</i>	<i>0,014</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>
NFS	<i>-0,676***</i>	<i>-0,735***</i>	<i>-0,716***</i>									
FS	<i>0,001</i>	<i>0,000</i>	<i>0,000</i>									
B												
AM												
EUR												
AS												
Overall F-value	7,484***	7,136***	7,214***	6,910***	7,405***	7,584***	16,025***	18,057***	17,199***	5,079***	6,456***	6,456***
Overall p-value	<i>0,001</i>	<i>0,001</i>	<i>0,001</i>	<i>0,001</i>	<i>0,001</i>	<i>0,001</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,007</i>	<i>0,002</i>	<i>0,001</i>
R2	0,068	0,065	0,066	0,061	0,066	0,067	0,132	0,146	0,140	0,064	0,080	0,080
Adj R2	0,059	0,056	0,057	0,053	0,057	0,058	0,124	0,138	0,132	0,052	0,068	0,068

Note: \*/\*\*/\*\* denote significance at 10%/5%/1% levels; p-values in italics.

#### 4.4 Analysis

The results of the statistical tests provide considerable support for some hypotheses, whereas others are firmly rejected. Both the overarching hypotheses – Stakeholders’ preferences on global banking standards differ (H1) and stakeholders differ in their abilities to exert influence on global banking standards (H2) - appear to be supported by the empirical results. This said, the analysis reveals notable results on their more specific sub-hypotheses (H1a-f and H2a-f).

The empirical results on stakeholders’ preferences reveal considerable differences across stakeholder categories. Differences were particularly pronounced in the sectoral dimension. Whereas the IPE literature often assumes or demonstrates differences between private and public stakeholders or between stakeholder depending on their geographical location, our results provide a more granular view by break down preferences on detailed stakeholder categories and policy areas.<sup>xx</sup> The results provide relatively weak support that preferences on global banking standards differ between stakeholders that are based in BCBS member countries or not (H1a). Statistically significant differences were only identified for two policy areas. This result does not support the notion that path-dependencies (Lall 2012)- If Basel agreements would display significant path dependencies, one would expect large differences in preferences between those benefiting from such dependencies and those who don’t. However, the results appear consistent with those of Chalmers (2017), who demonstrate the banks are equally likely to lobby the BCBS whether they are based in BCBS member countries or not.

Nor was hypothesis H1b – that preferences on global banking standards differ between stakeholders based in advanced economies and emerging markets/developing countries – strongly supported by the empirical results. For this reason, our results do not support findings in prior research that demonstrate that developed and developing nations tend to have very different preferences on

financial and banking regulation (e.g. Eichengreen 2003, Claessens et al. 2008; Singer 2004; Barr and Miller 2006).

The empirical evidence suggests relatively few differences in preferences between stakeholders depending on their regional location. Thereby, the results provide relatively weak backing of hypothesis H1f. However, the divide between stakeholders based in the Americas and stakeholders elsewhere was significant across four policy areas. Also, preferences on global banking standards differed substantially between private and public stakeholders, strongly supporting hypothesis 1c. Private stakeholders were consistently expressing more concern and less support for all policy areas, compared to public stakeholders. Our results are thus largely consistent with the literature on IPE and global banking standards (e.g. Slaughter 2004; Mosley 2009; Barr and Miller 2006).

The detailed breakdown of preferences by stakeholder categories also sheds additional light on the preferences of the private sector and the financial industry. The results confirm that preferences differ between both financial sector and non-financial private sector stakeholders, and between banks and other financial sector stakeholders (Hypothesis 1d and 1e). These results thus provide an alternative view to much IPE research, where homogeneous preferences of private sector stakeholders (c.f. Lall 2012; Igan and Mishra 2011; Young 2012, Hellenier and Porter 2010 etc.) or financial sector stakeholders (Hall and Biersteker 2002; Milner and Moravcsik 2009; Mosley 2009) are often assumed.

While it is outside the scope of this paper's purpose to explain why particular stakeholder harbour certain preferences on global banking standards, a few potential explications deserve mentioning. Stakeholders in regions and economies that are traditionally associated with higher dependence on deposit funding, such many countries in Asia and emerging markets (Shin and Zhao 2014), were significantly less concerned with the new liquidity and funding requirements. Conversely, stakeholders in the Americas, where reliance on market funding is typically high (Shin 2012) were significantly more concerned with those policy areas than other stakeholders. Similarly, NBFIs were significantly less concerned with the LCR and NSFR than banks. Many NBFIs relying on and prove market based funding (Adrian and Ashcraft 2012), which might incentivize them to act as "corporations at risk", and support particular regulatory changes that would increase their competitiveness in relation to banks (Hall and Biersteker 2002).

A potential explanation for the different preferences among stakeholder regarding the leverage ratio may also be induced from Hall and Biersteker (2002). Stakeholders based in the Americas displayed the highest support for the leverage ratio, with a statistically significant difference compared to other stakeholders. This may relate to stakeholders in the Americas playing the role of "corporate levellers of playing field"; US firms already faced a leverage ratio similar to the one proposed in the Basel III consultation documents (Norton 2013). By supporting the leverage ratio, US banks could potentially stifle cross-border competition from firm that otherwise would not face the leverage ratio requirement. Also, European stakeholders were particularly sceptical vis-à-vis the leverage ratio; a fact that may be partially explained by the relatively low risk weights and large exposures to SMEs and other corporates in the region (Barr and Miller 2006), which would be "punished" by a leverage based capital requirement.

Another observation relates to non-financial sector stakeholders being less concerned than financial

sector stakeholders for most policy areas. However, for risk metrics (RM) which determines the risk weights applied in calculating regulatory requirements for lending to particular sectors and borrowers, non-financial sector stakeholders were significantly more concerned than financial sector stakeholders. This may suggest that the former perceived higher borrowing costs as a consequence from higher risk weights. However, they were less concerned with potentially higher borrowing costs to transmit from higher capital, liquidity or funding requirements. Unlike the concept of “corporate consumers” in Hall and Biersteker (2002), the non-financial stakeholders rather sided with public stakeholders in those areas of banking standards that were more likely to only cause indirect effects on their borrowing costs.

Turning to abilities to influence, hypothesis (2a) - that stakeholders based in advanced economies exert more influence on global banking standards than stakeholders in emerging markets and developing countries – is not supported by the data. The only indication to support the acceptance of this hypothesis is that being located in an advanced economy increased the effectiveness of financial sector stakeholders. A potential explanation could be that activities to influence standards that are reasonably aligned with the overall Basel framework, are more likely to be effective (supporting the path-dependency and cognitive capture explanations). If this characterises efforts by advanced economy financial sector stakeholders, this provides some support of “first-mover advantages” being important determinants of regulatory outcomes in Basel processes (Lall 2012).

For other stakeholders, such as public and non-financial industry stakeholders, the notion that being located in an advanced economy increases effectiveness could not be verified. In relation to prior research, these findings reject the proposition that regulatory outcomes in the area of banking standards are disproportionately influenced by a few advanced economies (Cohen 2008; Singer 2004; Verdier 2013) and that influence from stakeholders outside advanced economies is limited (Claessens et al. 2008). This in turn indicates some support for the proposition that ability to influence global financial regulation is becoming increasingly dispersed (Veron 2012). However, our findings show that being located in Asia-Pacific was associated with lower effectiveness for both banks and other financial sector respondents, corroborating claims that US and Europe play particularly privileged roles in the global financial regulatory developments (Kahler and Lake 2003; Mattli and Woods 2009; Simmons 2001 and Drezner 2007).

This said, the figures presented in table 1 show that efforts by stakeholders outside advanced economies remain limited (corresponds to findings from research on previous consultation processes on Basel accords (Blom 2009; Claessens et al. 2008)). This implies that even if their relative ability to influence appears to be similar to advanced economy stakeholders, their actual influence is likely to be significantly lower. This study cannot assess the underlying reasons for the low response rates from outside advanced economies, but one potential cues may be found in the theoretical notions of path-dependencies or the importance of institutional and structural factors.

Hypothesis H2b – that the relative ability of stakeholders based in BCBS member countries in exerting influence on global banking standards is higher than that of stakeholders in other countries – is also rejected. No significant effects stemming from BCBS membership were found in the data, not even when the economic sector or financial industry sub-sector of respondents were taken into account. Thus, the data does not indicate that privileged access increases abilities of stakeholders to influence Basel proposal through formal consultation processes, although this may still be an important mode of informal influencing including for pre-consultation regulatory stages (Krawiec

2012; Verdier 2013). However, the lack of access due to non-BCBS membership may explain the lower response rates from outside advanced economies. Another related observation concerns the percentage of responses from public authorities and individuals. This was significantly reduced (from 30% to 12%) compared to the Basel II consultation (Blom 2009). This may be related to the expansion of the BCBS's membership (Bengtsson 2013), which may imply that a number of authorities that previously had to provide their views on BCBS proposals through consultation processes instead rely on alternative formal and informal channels.

The economic sector of the respondents does however seem to yield strong explanatory power. This supports the hypotheses that private stakeholders exert more influence on global banking standards than other stakeholders (H2c). Respondents representing the public bodies are associated with significant negative effectiveness. This holds true across all regions, and after taking the economy they are based in into account (both in terms of whether this is an advanced economy or a BCBS member jurisdiction). Thus, the Basel III case provides little support to the general notion that the influence of private interests has receded following the global financial crisis (c.f. Bengtsson 2011; Veron 2012).

The hypotheses that financial sector stakeholders and banks in particular are abler to exert influence global banking standards than other private or financial industry stakeholders (H2d and H2e) also appear to find considerable support in the data. Banks and financial industry stakeholders were positively associated with higher effectiveness for all regressions. The regressions on these stakeholder groups also consistently displayed the highest explanatory power. Conversely, other sectors (non-financial and public bodies and individuals) showed significant negative relations to effectiveness. Similar results also characterise banks as a financial industry sub-sector, which was consistently and significantly positively related to effectiveness.

These results remain after controlling for other factors. This implies that while no deep insights into the underlying structural or institutional reasons that may explain stakeholders' relative abilities to influence, the insignificance of the BCBS membership variable may offer some cues. To the extent that this variable managed to proxy privileged access, it suggests that such access is not important in the formal consultation stages of global policy formation in banking.

The particularly strong ability of the financial sector and banks to influence regulatory outcomes, confirms findings in prior research and the IPE literature (Claessens et al. 2008; Tarullo 2008; Blom 2009; Verdier 2013; Underhill and Zhang 2008). These results are particularly pronounced since the these stakeholders appear not only comparatively abler to influence regulatory outcomes, but also in absolute terms since they also dominate in terms of number of responses (see table 1). Such dominance by financial sector respondents is also documented for previous BCBS consultations (Blom 2009; Claessens et al. 2008; Underhill and Zhang 2008).

An interesting finding is the significant influence from economic regions on banks and financial sector respondents' effectiveness (significantly positive for Europe for both stakeholder categories, and significantly negative for Asia-Pacific banks). As discussed, prior research has found that BCBS are particularly responsive to the desires of major financial centres, such as the US and the EU (Kahler and Lake 2003; Drezner 2007 etc.). This notion appears to be supported by our results. However, research also shows that standards' have historically favoured large advanced banks and disadvantaged smaller and less sophisticated banks (Blom 2009; Claessens et al. 2008; Alexander 2005). If this is indicating a stronger ability to influence of the former, the results that being located

in Asia-Pacific is associated with significantly lower ability to influence pose a conundrum; the highest share of large internationally active banks (so-called Group 1 banks) are in fact located in Asia-Pacific, whereas smaller banks are particularly common in Europe (BCBS 2016).<sup>xxi</sup>

Finally, the overall picture portrayed by the data supports hypotheses H2d and H2e, which in turn corroborates Lall's (2012) finding that private and financial interests were important influences in the Basel III process. This also indicates that Basel III share important similarities with the previous Basel processes (Barr and Miller 2006; Tarullo 2008). While this cannot fully validate Cohen's (2008) claim of a steady diffusion of power towards private actors, it at least casts doubt on the notion that the influence of financial stakeholders has receded following the global financial crisis (c.f. Bengtsson 2011; Veron 2012).

## 5 Discussion

This paper uses the Basel III case to shed light on differences among stakeholders in terms of preferences and abilities to influence global banking standards. Contrary to most research, it offers a detailed breakdown of stakeholder groups along several dimensions, enabling a deeper probing into the preferences of stakeholders, and the characteristics that explain their relative success in influencing banking regulation.

The results show that stakeholders harbour both similar and different preferences for particular policy areas in Basel III. Contrary to some suggestions in the IPE literature, preferences were particularly divergent between private sector stakeholders, and only to a lesser extent between public and private stakeholders. In contrast, differences were less pronounced between stakeholders depending on their geographical location, or whether they were based in BCBS member countries or advanced economies or not. These results are interesting in the sense that they complement existing IPE research by showing that the divide between regions in terms of geography and economic development does not appear in stakeholder preferences; the results also demonstrate that private actors is a heterogeneous stakeholder group.

In terms of abilities to influence, the economic sector to which stakeholders belong are strong predictors of their ability to influence. And much alike most research on the IPE of financial regulation, the findings show that private sector stakeholders are more successful than public stakeholders in influencing global banking standards; financial sector actors and banks even more so. The ranking of stakeholders' ability to influence global banking standards (with banks displaying the highest ability, followed by financial and private sector stakeholders) hold true across all regions, and after taking account whether stakeholders are based in advanced economies or emerging markets and developing countries. This is especially striking, since the BCBS opted for an open consultation process and abandoned the process of closed dialogue with the industry used in developing Basel II, precisely for the reason to increase involvement by other stakeholder categories. While the results cannot verify claims that being located in a BCBS membership jurisdiction enhances stakeholders' ability to influence, some evidence points to benefit from being located in advanced economies and in dominant economic regions. However, these results appear to be valid only for financial sector stakeholders.

Taken together, these findings shed additional light on the ongoing debate in both the political sphere and academia relating to whether power balances in global finance is changing. While it is sometimes claimed the power of the financial sector is growing, the global financial crisis is sometimes seen as a turning point; others claim that emerging markets are on the rise, whereas some assert that the traditional economic power still reign unchallenged. The findings presented in this paper offers mixed support for both claimants of stability and change; doubts are cast on the notion that the influence of private and financial stakeholders is eroding, but the findings somewhat buttress the impression that the power of traditional economic strongholds is eroding (or perhaps rather that new powers are emerging). From a theoretical perspective, these results are interesting displays of how changing institutional and structural conditions can alter stakeholders' abilities to influence global financial regulation.

This paper also offers some potentially fruitful avenues for future research. One is to continue to



venture in the relatively limited tradition quantitatively measuring stakeholder groups' abilities to influence financial regulation; another is to further investigate the relationship between efforts and abilities. This could potentially shed additional light on the conundrum why so few stakeholders coordinate and influence financial regulation, given that it is likely to have important implications on them. Continuous research activities that can offer cues on whether a new global financial architecture is emerging is also recommended. Following the global financial crisis, a wide range of regulatory reform programs have been initiated, and important constitutional reform of the global standard setting bodies have taken place. Whether pre-crisis patterns remain in the IPE of global financial regulation is thus a highly relevant topic to pursue.

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## Annex A Categories for classifying respondents to the Basel III consultation

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

Stakeholder categories	Explanation
<b>M</b> - BCBC Membership	Respondents from jurisdiction that are members in the BCBS.
<b>AE</b> – Advanced economies	All respondents that are not based in emerging markets or developing countries. Respondents from emerging markets are defined as those located in countries designated as emerging market by any of the major index providers, credit rating agencies, investment banks and other organizations that regulatory provide lists of emerging markets (IMF, Next-11/BRIC, CIVETS, FTSE, MSCI, The Economist, Standard & Poor's, Dow Jones, BBVA, Columbia University and EMGP).
<b>PUB</b> – Public	Public bodies and individuals including supervisory and regulatory agencies, multilateral public bodies and similar (such as the European Bank of Reconstruction and Development and the European Investment Fund) and respondents writing in their individual capacity.
<b>NFS</b> - Non-fin. services industry	Corporations or industry associations representing the private sector, excluding those representing the financial services sector.
<b>FS</b> – Financial services industry	Respondents providing financial services (such as banks, insurance companies or credit rating agencies (CRAs)) and industry associations representing such companies.
<b>B</b> – Banks	Privately held credit institutions or financial groups dominated by banking (excluding central banks and public institutions) and industry associations representing such companies (subsector of FS).
<b>NBFI</b> - Non-bank financial institutions	Financial services companies and groups whose main activity is not banking and industry associations representing such companies (subsector of FS).
<b>AM/EUR/AS</b>	Respondents based in the Americas/Europe/Asia-Pacific.

## Annex B Brief rationale for the scoring of the individual policy areas

Policy area	Modification	Postponement	Phase-in arrangements
CAP	Mortgage servicing rights, DTAs and minority interest no longer were subject to full deduction from capital. <sup>xxii</sup> This so-called “July compromise” was justified by fear that these deductions could have led to adverse consequences for banks with certain business models. Also, it was noted that full deduction of MSRs may not appropriately reflect evidence of positive valuations of these assets even during periods of stress.		
LR	Amendments allowing netting of certain securities financing transactions, more generous credit conversion factors for off-balance sheet exposures, and various reliefs relating to securities financing transactions (SFTs), credit derivatives and exposures to CCPs (BCBS 2014c; d).		
LCR	Definition of the LCR, include an expansion in the range of assets eligible as HQLA and some refinements to the assumed inflow and outflow rates to better reflect actual experience in times of stress.	Timetable maintained.	Slightly prolonged phase-in period (BCBS 2013) compared to original proposal.
NSFR	Review clause to address any unintended consequences of the NSFR. It also eased the NSFR requirement by raising the relative weight of retail and small and medium size companies’ deposits, and lowered funding requirements for short-term exposures to banks and other financial institutions; derivatives exposures; and assets posted as initial margin for derivative contracts (BCBS 2014a; b).	Postponed introduction of standard.	
RM	No major adjustments made.	No changes to timetable.	No additional phase-in arrangements.
CRA	No major adjustments made.	No changes to timetable.	No additional phase-in arrangements.
CAP S	Major adjustments made (see CAP above).	Timetable maintained.	No adjustment to phase-in period compared to original proposal.
LR S	Major adjustments made (see LR above).	Timetable maintained.	No adjustment to phase-in period compared to original proposal.



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## Endnotes

- <sup>i</sup> This newfound interest in systemic risk and how to mitigate such risks was even reflected in the title of Basel III - A global regulatory framework for more resilient banks and banking systems (BCBS 2010). The titles of the Basel I and II accords were '*International Convergence of Capital Measurement and Capital Standards*' (BCBC 1988; 2004). It is also important to note that unlike its preceding accords, Basel III is a direct response to a systemic crisis. One should also note that Basel III consists of a number of separate documents, including BCBS (2010; 2013, 2014a; b; c; d).
- <sup>ii</sup> In the political economy literature, regulation typically includes various phases including agenda setting, negotiating, implementing, monitoring, enforcement (Mattli and Woods 2009). This paper focuses primarily in the negotiation stages, and to lesser extent (and more implicitly) on agenda setting (see Section 2)
- <sup>iii</sup> Some research demonstrates convergence in preferences among stakeholders, in particular among financial industry and politicians (Goldbach 2015; Pagliari and Young 2014; Braun and Raddatz 2010; Seabrooke and Tsingou 2008; Johnson and Kwak 2010 and others)
- <sup>iv</sup> Market discipline is the authority of market actors to reward or punish behaviour according to their judgement. For a discussion, see Hall and Biersteker (2002).
- <sup>v</sup> Sometimes, a similar concept of influence is *capture*, defined as "control of regulatory process by those it is supposed to regulate or by a narrow subset of those, at the expense of society as a whole" (Mattli Woods 2009:12). This study makes no distinction between the motives for "influence" on the regulatory process, i.e. whether for self-serving or other ends. This also implies that this study maintains a neutral stance in terms of whether influence should be a cause for concern.
- <sup>vi</sup> Regulatory and supervisory authorities from countries not represented in the BCBS constituted the second largest group.
- <sup>vii</sup> For instance, since BCBS was established in 1974 until 2001, it was chaired by representatives from either the United States or the United Kingdom for nineteen years, from the Netherlands for eight years, and from Italy, Spain and Sweden for four years each (Simmons 2001; BIS 2016).
- <sup>viii</sup> The FSF (Financial Stability Forum) was the predecessor of the FSB (Financial Stability Board).
- <sup>ix</sup> BCBS 2010; 2013; 2014a; b; c; d.
- <sup>x</sup> The consultation responses are available for download at the Bank for International Settlements' website: <http://www.bis.org/publ/bcbs165/cacomments.htm>
- <sup>xi</sup> Unlike most IPE research on stakeholders' roles in (financial) regulation (c.f. Mosley 2009), individuals responding to the consultation were included in the category of public sector respondents (PUB). Most of these individuals were academics, writing in that capacity and expressing concerns not relating to their personal circumstances but rather to the wider economic implications of the proposals.
- <sup>xii</sup> We thereby provide a more granular view than, for instance, Chalmers (2017) who groups all banks as one category and includes central and national banks; or Pagliari and Young (2014) who cover different economic sector, but does not differentiate between stakeholders' regional locations or whether they are based in advanced economies or emerging markets.
- <sup>xiii</sup> This was published through several documents including refinements or revisions between June 2011 and January 2014 (BCBS 2010; 2013; 2014a; b; c; d). See also Governors and Heads of Supervision (GHOs) (2010).
- <sup>xiv</sup> For instance, some respondents submitted research oriented working papers on banking and financial regulation that were only loosely related to the Basel III proposal.
- <sup>xv</sup> As discussed in Section 1, this paper focuses primarily in the negotiation stages of regulation, and to lesser extent and much more implicitly on agenda setting (by including the BCBS membership variable as a proxy for privileged access). It does not cover other important stages in regulation, such as implementing, monitoring, enforcement (c.f. Mattli and Woods 2009).
- <sup>xvi</sup> Research has shown that the financial industry often plays a leading role even at the stage of agenda formulation (cf. Krawiec 2013).
- <sup>xvii</sup> This includes, for example, more recent reviews on risk metrics (c.f. BCBS 2014e).

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<sup>xviii</sup> All regressions presented in this chapter were performed with *efficiency* as the dependent variable. Both dependent variables rendered similar results, why this chapter focuses solely on *effectiveness*. The results for the dependent variable *efficiency* are provided upon request.

<sup>xix</sup> Due to six missing observations for efficiency (see Section 3.4), the sample is restricted to 157.

<sup>xx</sup> The IPE literature also documents multiple instances where various stakeholders' preferences have been aligned; often those of the private sector and the political sphere (c.f. Tsingou 2003; Goldbach 2015; Pagliari and Young 2014; Braun and Raddatz 2010; Seabrooke and Tsingou 2008; Johnson and Kwak 2010 and others).

<sup>xxi</sup> Group 1 banks including those with Tier 1 capital of more than €3 billion and/or internationally active. All other banks are considered as Group 2 banks (BCBS 2016).

<sup>xxii</sup> The new requirement means that bank need to deduct the amount by which the aggregate of the three items above exceeds 15% of its common equity component of Tier 1 (calculated prior to the deduction of these items but after the deduction of all other deductions from the common equity component of Tier 1). The items included in the 15% aggregate limit are subject to full disclosure.