

Big Unease at the Tower of Basel

BY KLAUS C. ENGELEN

*Once a European
fortress, the BIS is
about to experience
a Canadian takeover.
Is this an emerging
Anglo-Saxon Trojan
horse? TIE's
Klaus Engelen goes
behind the scenes.*

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A major top reshuffling is underway these days at the Bank for International Settlements (BIS) in Basel. Two outstanding leaders of the international financial world—Andrew Crockett and William McDonough—have announced their intentions to step down.

On April 1 of this year, Malcolm D. Knight (58), senior deputy governor of the Bank of Canada since 1999, will succeed Andrew Crockett as managing director of the BIS, an institution that acts as “Bank of Central Banks.” And on July 1, Jaime Caruana, governor of the Bank of Spain, will take over the chair of the Basel Committee on Banking Supervision from McDonough, who negotiated the new global risk-based accord for bank capital (Basel II) and who will retire as president of the New York Federal Reserve in the middle of this year.

Another Canadian, Nick LePan, superintendent of financial institutions, will serve in the newly established position of vice chairman of the Committee on Banking Supervision. And Roger W. Ferguson, Jr., the Fed’s vice chairman, has taken over as chairman of the Committee on the Global Financial System (CGFS). Since the bank’s high-caliber team of economists is headed by William White, another Canadian, three key positions at the bank will be in Canadian hands.

At first glance these leadership changes at the center of the world of central banking in Basel have been accomplished without much visible collateral damage. Central bankers—in contrast to finance ministers and finance officials—are

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The Big-Time Players



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Malcolm Knight, in his short stint at the Bank of Canada, made a name for himself in one area only: by reducing staff and cutting costs. Knight spent most of his professional career at the IMF.



G7 finance ministers recognized the role of the BIS in reforming and strengthening the international financial architecture by asking **Andrew Crockett** to head the newly formed Financial Stability Forum. The BIS, under Crockett, understood the need to establish a dialogue with the private sector.

known to work under a veil of secrecy. In particular, when choosing one of their peers for a major international position, they try hard to keep any discord among themselves from the public eye.

FINANCE OFFICIALS WITH A BIG STAKE

This time around things didn't go that smoothly if one looks a bit behind the veil. As the central bank governors of the major industrial countries were working to replace the two outstanding financial leaders, their internal squabbling and their jostling for the new positions leaked out. The reasons were obvious. Who gets the top-management post at the BIS is an issue that goes beyond the world of central banking, because Crockett also has been chairing the Financial Stability Forum (FSF), today's important platform for central bankers, financial market supervisors and finance officials.

The major task of the FSF is to improve international financial stability through timely information exchange and better co-operation in financial supervision and surveillance. Formed in April 1999 with the blessing of G7 finance ministers and following the recommendations of Hans Tietmeyer, the former president of the Deutsche Bundesbank, the FSF has done a lot to bring together, on a regular basis, national authorities responsible for financial stability in significant international financial

History: General Managers of the Bank for International Settlements

The French (the major beneficiaries of Germany's reparation payments of World War I) dominated the old BIS.

Name	Home Country	Time
Pierre Quesnay	France	1930–37
Roger Auboin	France	1938–58
Guillaume Guindey	France	1958–63
Gabriel Ferras	France	1963–70
René Larre	France	1971–81
Günther Schleiminger	Germany	1981–85
Alexandre Lamfalussy	Belgium	1985–94
Andrew D. Crockett	United Kingdom	1994–2003
Malcolm D. Knight	Canada	



Left, the Bank of International Settlements building in Basel, and above, BIS's second Basel building (the so-called "Botta building," as it was designed by architect Mario Botta).

centers, sector-specific international groupings of regulators and supervisors and committees of central bank experts. With a small secretariat at the BIS in Basel, the FSF is setting the agenda to cope with financial market shocks or fragilities of the international financial system. Assessing the damage of the September 11 attacks on the insurance sector and looking into the implications of corporate scandals such as Enron and WorldCom were high on the Forum's agenda.

Last year, when Crockett signaled that he would like to step down from his position by the end of March, 2003, the G7 deputy finance minister sounded a warning to the G10 central bank governors that are calling the shots at the "Tower of Basel": that the chairmanship of the Financial Stability Forum was given to Crockett "ad personam" and that, therefore, the G7 ministers would like to preserve the option to come up with a high-caliber finance official to chair the Forum.

A EUROPEAN JOB FOR A CANADIAN?

Some European finance officials, supervisors, and regulators didn't like what they saw happening at Basel's central bank tower. And they didn't mince their words. Some accuse key European central bankers of having committed a major strategic blunder in a financial world of escalating transatlantic rivalry and tensions. "By choosing a non-European IMF veteran to run the BIS and possibly the FSF, the governors may have undermined Europe's position," laments a high finance official from a smaller EU member country. He asks: "Didn't they think of the likelihood that a new BIS managing director would be asked to chair the FSF

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