

International Cooperation Among Central Banks

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Central Bank Interests: Opportunities for Cooperation

- Monetary and Financial Stability
- Monetary Policy and Exchange Rates
- Financial Institutions and Infrastructure
- Central Bank Governance

Monetary & Financial Stability

Formal Cooperation

- Historical international financial crises
 - September 11, 2001
 - Asian Financial Crisis (1997)
 - Mexican Peso Crisis (1994)
 - US, Central Bank of Canada, BIS, IMF
 - BCCI (1991)
 - Latin American Debt Crisis (1980s)
 - Debt restructuring
- Customized bilateral contingency arrangements. For example,
 - Swap agreements; Standing automatic/default investment facilities; Liquidity facilities; Kidnapping funds; Technical arrangements: contact lists, contingency procedures
- 2005 EU MOU on Cooperation between the Banking Supervisors, Central Banks and Finance Ministries of the EU in Financial Crisis Situations
- Central Bank Gold Agreement (re-signed in 2005)
 - Limits the amount of gold sales per year and per 5 year life of the agreement

Monetary & Financial Stability

Informal Cooperation

- **Derivatives/ 14 Families:** Central banks, regulators and supervisors from various jurisdictions persuaded the large players in the credit derivatives market to improve their documentation practices
- **Hedge Funds:** Emerging efforts to understand the evolving and increasingly complex relationships between hedge funds and banks and other financial institutions
- **International “War Game” exercises**
 - FRBNY Experiences
- **Central Bank Lawyer Forums**
 - **Determining what is possible given relevant legal constraints**
 - E.g., Structuring of liquidity facilities
 - **Identifying and managing challenges unique for Central Banks**
 - Sovereign immunity issues: legislation, waivers, submission to jurisdiction, choice of law
 - International arbitration
 - Political constraints

Monetary and Financial Stability Cooperative Infrastructure

- Central Bank/ Financial Supervisor Organizations
 - Through the BIS, central banks participate in a number of committees. For example:
 - Financial Stability Forum: promotes international financial stability through information exchange and international co-operation in financial supervision and surveillance.
 - Financial Stability Institute: assists the financial sector supervisors around the world in improving and strengthening their financial systems.
 - Committee on the Global Financial System: monitors developments in global financial markets for the central bank Governors of the G10 countries
 - Joint Forum: deals with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.
 - Committee on Payment and Settlement Systems: contributes to strengthening the financial market infrastructure through promoting sound and efficient payment and settlement systems.
 - Regional Central Bank Organizations (e.g., SEACEN, CEMLA)
- Central Bank Sponsorship or Participation in Private-Public or Industry Organizations
 - FMLG, EFMLG, FXC, EMTA, FX JSC
 - SIFMA, ISDA
 - Recent FRBNY experience: TMPG

Monetary Policy and Exchange Rates Exchange Rate Management

- Past: Active management (e.g., Bretton Woods)
- Current Regime: Theory, politics and practice seem to have evolved to a disfavoring of intervention and active management, so there have been limited opportunities for Central Bank cooperation
 - Last major coordinated intervention was in September 2000, when FRS, ECB, Japan's MOF supported the euro
 - Prior to that no coordinated intervention since the August 1995 support of the US dollar

Monetary Policy and Exchange Rates

Monetary Policy

- Regional Cooperation on Policy
 - Formal: European Central Bank, Central Bank of Central African States, Central Bank of Western African States, Eastern Caribbean Central Bank
 - Informal: other regional efforts
- Management of FX Settlement Risk: Establishment of CLS Bank
- Facilitating Cross-Border Transactions
 - Provide services
 - Provide technical and practical support
 - Role for Central Bank lawyers to create a favorable legal climate for cross-border transactions:
 - E.g., encourage domestic and international legal efforts to strengthen and harmonize sovereign immunity laws and collateral laws

Monetary Policy and Exchange Rates

Central Bank Services

- Payments Services
- Investment Services: Facilitate participation in the domestic securities markets
- Custodial/Safekeeping Services
- Foreign Exchange Services
- FRBNY services

Monetary Policy and Exchange Rates

Technical and Practical Cooperation

- Discussion of Tools:
 - Repo
 - Securities Lending
 - Foreign Exchange
 - Lender of Last Resort
- Documentation
 - Sharing practices
 - Participating in development of industry standard documentation
- Data collection
- Exchange Programs

Monetary Policy and Exchange Rates

Technical and Practical Cooperation: FRBNY's experience

- Discussing tools: FRBNY runs specialized training programs on
 - US Monetary Policy Implementation
 - Management and Operations
 - Portfolio Management and Market Analysis
- FRBNY shares documentation and discusses issues through legal networks
- FRBNY facilitates the meeting of industry groups (e.g., FMLG, FXC, TMPG) that, among other things, develop standard documentation and best practices
- Personnel Exchanges
 - FRBNY Legal

Financial Institutions and Infrastructure Supervision

- Information sharing opportunities and challenges
 - Formal Structures
 - Public Laws/Regulations
 - MOUs
 - BIS Report: Sharing of Financial Records between Jurisdictions in Connection with the Fight Against Terrorist Financing, April 2002
 - Ad hoc/ Informal
 - Privacy Issues
 - FRBNY experiences:
 - BCCI
 - Barings
- Movement toward supervision that is reinforcing, mutually beneficial, and converging where appropriate
 - E.g., BIS Concordats, Basel II

Financial Institutions and Infrastructure Payment Systems and other Infrastructure

- International Standard Setting
 - Committee on Payment and Settlement Systems: Core Principles for Systemically Important Payment Systems
 - Securities Initiatives
 - The Hague Securities Convention
 - Settlement Finality Directive (EC)
 - Insolvency Initiatives
 - Winding-Up Directive (EC)
 - UNCITRAL Model Law on Cross-Border Insolvency (exclusion of banks)
 - Collateral Initiatives
 - UNCITRAL Receivables Convention
- FRBNY Specialized Training Program: Payment Systems

Central Bank Governance

- Corporate Governance
 - Support Central Bank independence
 - Increase transparency
 - Develop, implement and share best practices for central bank corporate governance
 - Enable Central Banks to lead industry by example
 - Develop Central Bank Codes of Conduct/Codes of Ethics
 - FRBNY experiences
 - SarBox compliant where appropriate
 - Compliance Function
 - Annual Central Banking Seminar for central bankers and bank supervisors
- Advocacy of Central Bank Interests
 - Domestically
 - Internationally
 - FRBNY experiences
 - Domestic: UCC, NCUSL, Leadership roles in Domestic Organizations, such as Bar Associations and Industry groups
 - International: Leadership Roles in The Hague, Unidroit and UNCITRAL initiatives; BIS work

Closing

Central banks, like everyone else, operate in a global financial market. I can say with some confidence that everywhere, . . . the concept of a domestic market will have even less meaning in a decade than it does today. It is much more difficult to predict what the world will look like in all its dimensions, but my hope and expectation is that central banks will play a positive part. As all industrial countries are likely to experience similar forces, cooperation is key to our continued success.

Alan Greenspan, January 14, 1997
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Leuven, Belgium