New Members and the Basel Committee: Domestic Politics and Convergence on Basel III[1]

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Abstract

This paper studies 'how' Turkey achieved convergence on Basel III. The policy convergence literature dominantly studies the 'direct' channels of convergence, viz. socialisation, learning, competition and coercion. Policy convergence on international standards is argued to stem from structural forces. This paper introduces capacity in both the private and the public sectors, which intermediates interactions between the two actors to justify policy convergence. The paper illustrates that Turkey's membership to the Basel Committee on Banking Supervision triggered dynamism for capacity-building in the regulatory agency, while this dynamism was lacking in the Turkish banking sector. The divergence in capabilities resulted in the imposition of the regulatory agency's will on the banking sector as the sector could not influence the adoption and implementation of the Basel regulatory standards. Therefore, the paper underlines that capacity and asymmetry in capacity among domestic actors can explain convergence on Basel III, as the convergence process was driven by a capable and determined regulatory agency.

Keywords: Policy convergence, Domestic politics, International organisations, the Basel Committee, Turkey

Introduction

In 2009, the Basel Committee on Banking Supervision (hereafter "the BCBS") expanded its membership with the inclusion of the remaining Group of Twenty (G-20) countries (e.g. Indonesia, Mexico, Turkey), and non-G-20 countries (e.g. Singapore, Hong Kong). After the global financial crisis, the BCBS also established a peer review system which is called the Regulatory Consistency Assessment

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Programme (RCAP). The peer review of the new members assessed these members as being 'fully compliant' with Basel III.[2]

Turkey is one of the new members of the BCBS, and the country was assessed as being 'fully compliant' with Basel III in 2016.[3] The paper studies how the country achieved 'full compliance' as most of the new members, including Turkey, are observed to lack financial and human resources and technical know-how even to effectively participate in the BCBS policymaking process (Walter 2015).[4] The paper seeks to answer the following two questions: Under what conditions and through which mechanisms is policy convergence on international regulatory standards more likely? And how can countries with a relatively low level of human and financial resources, and technical know-how converge on international (banking) regulatory standards?

The policy convergence literature emphasises that policy convergence occurs through several mechanisms: *imposition*, mostly by the leading economies (Drezner 2001; 2005; 2007), *peer competition* (Simmons and Elkins 2004), *international harmonisation* (Holzinger and Knill 2005), and *learning* (Dolowitz and Marsh 1996; 2000). The literature expects that convergence becomes more likely through these 'direct' channels, which are also structural forces that drive States to adopt similar policies. Moreover, the expected mechanisms in the literature on policy convergence

[2] For further details of the RCAP process, see http://www.bis.org/bcbs/implementation/l2.htm, accessed on September 1, 2016.

[3] See the RCAP report online at http://www.bis.org/bcbs/publ/d359.pdf, accessed on September 2, 2016.

[4] Implementing bank regulatory standards in developing countries can be problematic for several reasons. For instance, Murinde (2012) demonstrate that these countries may lack modelling skills, professional training, technological infrastructure, reliable data to evaluate riskiness in banking and finance.

resonate in the policy transfer and diffusion literature as well. The transfer and diffusion literature also predicts that transfer or diffusion of policies could occur under similar conditions and through similar mechanisms (see Dolowitz and Marsh 1996; 2000; Dolowitz and Sharman 2009).

Such an approach to policy convergence does not seem to consider 'indirect' and complex mechanisms of policy convergence. In addition to the neglect of more complex mechanisms of policy convergence, what also seems to be missing in the literature is a deeper understanding of how policy convergence could occur. By solely examining the 'direct' mechanisms, we are overlooking the capacity dimension for policy convergence, which is a necessary, if not a sufficient, condition for policy convergence. Solely assuming that being coerced, socialised into an environment, or self-driven for learning might cause policy convergence does not take into account other crucial elements. Therefore, this paper offers an alternative account of policy convergence. The literature neglects the capacity dimension[5] both in the private and the public sector, which regulates relations between domestic actors. Thus, this paper argues that the capacity to adopt, implement and enforce policies (hereinafter "policy capacity"; see Peters 2015; Wu, Ramesh, and Howlett 2015) could have a strong effect for convergence, which conditions the interactions between the local regulators and the local banking sector.

Capacity in both the private sector and the public sector could be applied to the case of convergence in a technical and complex regulatory policy area, such as international banking regulation. The literatures on the BCBS and how the BCBS

[5] In this paper, "capacity" refers to actors' (i.e. the private and public sectors) possession of necessary resources (e.g. human, financial, access to data) and technical and procedural skills to adopt, implement and enforce international regulatory standards.

achieves the formulation of and convergence of various regulatory frameworks across jurisdictions (e.g. the Concordat, Basel I, the Core Principles of Effective Banking Regulation, Basel II, Basel 2,5, and Basel III), put too much emphasis on the mechanisms of convergence. Those mechanisms involve the role of leading countries, such as the United States and the United Kingdom, forcing other jurisdictions such as Germany and Japan to adopt a similar regulatory framework (i.e. Basel I) (Kapstein 1989; 1992; 1994; Mattli and Woods 2009; Walter 2008; Wood 2005).[6] Others have highlighted that domestic politics (e.g. electoral politics) could be the motivating source of convergence on the Basel regulatory standards (Goldbach 2015a; 2015b; Oatley and Nabors 1998; Rosenbluth and Schaap 2003).

While noting such 'direct' mechanisms leading to the formulation and the adoption of international banking regulatory standards since the 1970s, the literature does not focus on the capacity dimension. The lack of focus on the capacity dimension could probably be due to the assumption that capacity both in private and public sectors had not been a major concern for most of the 'old' members who are advanced countries.[7]However, policy capacity both in the private and public sectors can be a concern for some of the new members of the BCBS.

Here, the involvement of international organisations in the domestic regulatory policy process could play an essential role not only by assisting capacity-building, but

[6] Contrary to the expectations in the literature about the banking sector to emerge as an influential partner in the regulatory process, this paper presents a different picture where the Turkish banking sector appears to be marginalised by the local banking regulatory agency.

[7] As Jones and Knaack (2017: 7) have recently pointed out Basel standards were designed for advanced countries. Since the BCBS was formed by G-10 central bank governors, the primary concern of Basel standards can be interpreted as to address common challenges to advanced economies. Next to the policymaking concern, Chalmers (2017) suggests that international banks are the ones that are mostly mobilised in Basel compared to domestically-oriented smaller banks. We can call these banks globally systemically important banks (GSIBs). Most of the GSIBs are owned and based in advanced countries except several Chinese GSIBs.

also by altering the relations between domestic actors (see Andrews 2013a; 2013b; Arezki, Quintyn, and Toscani 2012; Baccini and Urpelainen 2015; Mumssen et al. 2013). By changing the way the international and domestic actors play the “two-level game” (Putnam 1988), international organisations can empower one actor vis-à-vis the other(s). The banking sector could emerge as a skilful lobbyist at both international and local levels (Baker 2010; Dewatripont, Rochet and Tirole 2010; Lall 2012; 2013; Johnson and Kwak 2013; Young 2013). Thus, convergence on the Basel standards could be achieved especially if the membership to the BCBS could empower local regulators vis-à-vis the local banking sector by assisting capacity-building in the public sector in the new members. This, in turn, could de-politicise the regulatory policy process in the new BCBS member States and ensure compliance with Basel III.

Based on an exploratory case study of Turkey, the paper argues that Turkey’s membership to the BCBS seems to have induced efforts to build capacity particularly in the Banking Regulation and Supervision Agency (“BDDK” in Turkish, hereafter “the BRSA”). The paper demonstrates that while both the Turkish banking sector and the BRSA shared an understanding of the necessity to comply with Basel III, a determined and capable regulatory agency led the compliance process. The process is facilitated by the Turkish banking sector lacking some of the components of policy capacity (e.g. human resources, access to data) and “negotiation knowledge” (Ruffing 2015), as the sector is not involved in the BCBS policy process. The divergence in policy capacity and superior “negotiation knowledge” results in de-politicisation of the regulatory process, as the Turkish banking sector observes a decline in its relative influence over the policy process, which also contributes to ‘full compliance’ and the implementation of the Basel framework in Turkey.

Finally, the contributions of this paper are fourfold. First, the paper contributes to the policy convergence literature by highlighting that policy convergence could take place through 'indirect', more complex mechanisms with the involvement of external actors and the interactions between domestic actors. Second, the paper highlights the role of policy capacity in both the private sector and the public sectors as an important condition for convergence. Third, by focusing on both motivations and capacity dimensions, the paper demonstrates that capacity-building in the public sector which empowered the local regulators vis-à-vis the local banking sector, facilitated the adoption of the regulatory framework. Fourth, the paper expands the geographical coverage of how Basel regulatory framework is adopted beyond the advanced part of the world, especially following the membership of new members to the BCBS. This contributes to the general literature on adoption of the Basel standards outside the developed world, since the literature can be further informed with insights about how a new member or a non-member State converges on those standards (see Chey 2007; Claessens, Underhill, and Zhang 2008; Grynberg and Silva 2006; Xi 2016).

The remainder of the paper proceeds as follows. The first section briefly revisits the history of the Basel Committee and the relationship between the BCBS and Turkey. The second section reviews the literature on the causes and conditions of policy convergence, the role of international organisations in leading to capacity-building, and the effect of their involvement in the domestic (regulatory) policy processes in altering relations between domestic actors. Methodology, data collection and analysis are introduced in the third section. The fourth section discusses the findings on "how" Turkey converged on Basel III, which is followed by the concluding remarks.

I.The Evolution of the Basel Committee and Relations with Turkey

An Overview of the Evolution of the Basel Committee

The origins of the BCBS can be traced to the foundation of the Bank for International Settlements (BIS) in 1930. BIS had been mandated to oversee German reparation payments in the interwar period (Goodhart 2011; Simmons 1993). Its role changed as the international economy evolved. With greater openness and internationalisation of the banking sector since the 1970s, the regulators of the G-10 countries, who regularly met at the BIS, formed the BCBS as an informal transnational executive network whose primary objective was information exchange and policy coordination (Goldbach 2015a; 2015b; Goodhart 2011; Kapstein 1992; 1994). The BCBS had been founded on the basis of 'soft law' (Abbott and Snidal 2000; Avgouleas 2012; Brummer 2015), without a formal legal status with sanctioning powers. Since its foundation, the BCBS crafted several regulatory standards such as the Concordat, Basel I, the Core Principles for Effective Banking Regulation, and Basel II before the global financial crisis in 2008.

In the wake of the crisis, the BCBS turned its attention from solely being a discussion forum with 'soft law' arrangements to crafting international standards for member States and other nations around the world in the 1980s (Kobrak and Troege 2015). After the global financial crisis, the BCBS also expanded its membership with including the rest of the G-20 countries (e.g. Indonesia, the Russian Federation, Turkey), and other jurisdictions such as Hong Kong and Singapore.[8] While the BCBS has been working on amendments to Basel II by updating the framework with Basel 2.5, Basel III and currently Basel IV (Taniguchi, Flynn, and Brush 2016), the BCBS

[8] The BCBS was formed in 1974 by the G-10 countries (Germany, Belgium, Canada, United States, United Kingdom, France, Italy, Switzerland, Sweden and Japan). After the global financial crisis in 2008, the members of the BCBS involve the G-20 countries, Luxembourg, Hong Kong, Singapore and the European Union. Malaysia, Chile and the United Arab Emirates are observer countries.

has evolved from a mere 'soft law' orientation to a 'hybrid system'. This 'hybrid system' involves a peer review system called Regulatory Consistency Assessment Programme (RCAP) (Goldbach 2015a; 2015b), which operates as a peer review of compliance with the agreed framework. The peer review system operates as a mechanism to ensure compliance with agreed international standards.[9] The RCAP process brings regulators from selected member jurisdictions together as they form an auditing group. The group visits the reviewed jurisdiction. During these visits, regulators meet with local stakeholders to discuss and evaluate the consistency of the domestic banking regulatory framework with the Basel framework. In brief, with RCAP, the BCBS has established a system through which it can control regulatory consistency across member jurisdictions. By doing so, the BCBS has taken a path through which its 'soft law' basis of merely being an informal information-exchange forum for policymakers is evolving into a more institutionalised and more plural international organisation with the inclusion of more partners into the BCBS in 2009.

The Basel Committee and Turkey

The relationship between the BCBS and Turkey is an underresearched area. The literature only discusses the potential impact of convergence in the regulatory framework for the Turkish banking sector and Small-and-Medium-sized enterprises (SMEs) (see Bayraktar 2015, Hassan, Unsal, and Tamer 2016, Karacal, Can, and Arslan 2013).[10] However, it is a trackable relationship.

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[9] See http://www.bis.org/bcbs/implementation/l2.htm, for further details of the RCAP process, accessed on September 1, 2016.

[10] The BRSA publishes an academic journal, *Journal of BRSA and Financial Markets*. A quick search of "Basel" as a keyword reveals that even the studies published in this journal are not directly related to the BCBS and the policy convergence process except a few studies interested in stress tests, risk management, credit risk and other Basel-related areas. The latest and previous issues of the journal are accessible online at, http://www.bddk.org.tr/WebSitesi/english/Reports/BRSA_Journal/BRSA_Journal.aspx, accessed on August 31, 2016.

Külahi, Türyaki, and Yılmaz (2013) point out that the Treasury – the banking regulator before institutional reforms in the early 2000s – incorporated Basel I standards into the Turkish regulatory framework in the early 1990s, which indicates that the 'formal' exchanges with the BCBS began at least in the 1990s. After the local crisis in 2000-01, the country underwent a reform process during which the financial regulatory governance structure was redesigned. An independent banking regulator, the BRSA, replaced the Treasury in the supervision and regulation of the banking sector and non-bank financial institutions (Atiyas 2012; Bakir 2009). The crisis also was a critical juncture for the restructuring of the banking sector and the regulatory system in the country, which was accompanied by the incorporation of Basel II in the new Banking Law in 2006.[11]

The new law imposed an eight-percent capital adequacy ratio, improved corporate governance and accountability, and more importantly, aimed to make the banking sector internalise the logic of risk management and a robust internal auditing system (Külahi, Türyaki, and Yılmaz 2013: 190-191). The primary missing dimension in the adherence to Basel II was the introduction of internal-based risk assessment (IRA) models. There was a delay in the full adoption of the Basel II with the late implementation of IRA models; however, in the last survey of the BRSA, the sector reports that it has been investing in the technological infrastructure and human resources (BDDK 2013a).

While the country was adopting Basel II, the BCBS amended Basel II with the introdction of Basel 2.5 and Basel III. As mentioned earlier, Turkey and several other jurisdictions became members of the BCBS, which included the harmonisation of

[11] Banking Law No 5411, published in the *Official Gazette* on November 19, 2005.

domestic regulatory frameworks with Basel III. Therefore, the country took steps to comply with Basel III. The RCAP of Turkey evaluated the country as fully compliant with the Basel III framework in 2016.[12] The Tenth Progress Report of the BCBS also reports that additional measures were introduced to bring Turkey's regulatory framework in line with Basel III in 2015 and 2016.[13]

In brief, since the early 1990s, Turkey has had ‘formal’ relations with the BCBS. However, the nature of the interactions evolved from a voluntary basis to a much stricter and institutionalised basis in 2009 after the country gained membership in the BCBS. The subsequent analysis studies the implications of the BCBS membership for capacity-building, the effect of membership on the relations between the Turkish banking sector and the BRSA, and how relations between domestic actors led to convergence on Basel III.

II.Literature Review

Direct and More Complex Mechanisms of Policy Convergence

The policy convergence literature emphasises that convergence becomes more likely through various causal mechanisms. First, leading countries might impose their preferences on other States (Drezner 2001; 2005; 2007), which may emerge through the foreign market closure (Chey 2007). Second, convergence is more likely if there is competition among peers. Simmons and Elkins (2004), for example, claim that States liberalise economies due to competition in world markets. Third, countries might converge on similar policies when there is an international trend in harmonisation

[12] See the RCAP report online at http://www.bis.org/bcbs/publ/d359.pdf, accessed on September 2, 2016.

[13] See the Tenth Progress Report on the Adoption of the Basel Regulatory Framework online at http://www.bis.org/bcbs/publ/d366.pdf, accessed on September 2, 2016.

(Holzinger and Knill 2005). International harmonisation also could be conceived as socialisation. Dobbin, Simmons and Garrett (2007) and Risse-Kappen (1994) highlight that countries convergence on similar policies due to socialisation which leads to a shared understanding how certain policies could be addressed. Finally, one can expect policy convergence when countries aim to address a policy problem by searching for relevant policies which had been successful in addressing a similar problem elsewhere (Holzinger and Knill 2005), which is called "learning" in policy transfer and diffusion literature (Dolowitz and Marsh 1996).

These mechanisms are 'direct', and the literature seems to overlook more complex mechanisms, while putting too much emphasis on structural forces (e.g. trade and financial liberalisation, leading countries imposing their preferences on others, or the threat of foreign market closure). The literature therefore seems to expect convergence to occur when at least one of the drivers, such as learning, coercion, competition and socialisation (Benson and Jordan 2011; Dobbin, Simmons and Garrett 2006; Drezner 2001; 2005; 2007; Simmons and Elkins 2004; Risse-Kappen 1994), induce a State towards convergence. This means that when we observe such drivers, we can expect convergence to be more likely. However, the literature appears not to open the 'black box' and examine if there might be other factors besides structural forces that could determine how convergence emerges.

A more complex mechanism could involve domestic politics, in which relations and interactions between the domestic actors could determine whether convergence occurs or not; and if it occurs, then how it occurs. To draw an analogy from the two-level game (Putnam 1988), policy convergence could be the result of a bargaining process both within and outside the State at the local and international levels. For example, policy convergence could interpret the cause of convergence on Basel I as the leading countries, the United States and the United Kingdom, imposing a regulatory framework on other countries unilaterally, particularly on Japan and Germany (Drezner 2001; 2007; Kapstein 1989). However, as Wood (2005) documents, following the Latin American debt crisis, the regulators in the United States had imposed stricter regulations on local banks. Being concerned with their international competitiveness, the local banking sector forced the regulators to induce convergence on similar regulations around the world to "level the playing field". While satisfying the needs of the local banking sector, the leading countries' regulators negotiated at the international level for an agreement that could reduce the domestic negative effects of a common framework.

This example demonstrates that policy convergence resulted not solely from the leading countries' motivating others to adopt a similar regulatory framework; rather the relations between the domestic actors in a leading country and negotiations at the international level led to convergence across jurisdictions.

The Role of Policy Capacity for Policy Convergence in Banking Regulation

The above-mentioned drivers of convergence, transfer or diffusion are valid conditions for us to expect the rising or declining likelihood of convergence on similar policies across jurisdictions. However, one should note that capacity also is a necessary condition for policy convergence. For example, if a State does not have sufficient capacity, the structural forces triggered for policy convergence could only be a necessary, if not a sufficient condition for policy convergence (see Besley and Persson 2009; Lodge and Wegrich 2014; Marcoux and Urpelainen 2012; Pritchett, Woolcock, and Andrews 2013; Urpelainen 2010; VanDeveer and Dabelko 2001).

Here, policy capacity, which is a multi-dimensional concept to analyse overall capacity of an organisation or a State, could be useful when examining capacity in the private and public sectors. Policy capacity is defined as "[t]he set of skills and resources – or competences and capabilities – necessary to perform policy functions" (Wu, Ramesh, and Howlett 2015: 166). It has three dimensions: analytical, political and operational capacity. Analytical capacity refers to access to data, skills to process that data, and finally apply the knowledge produced out of data processing in the design and implementation of a given policy. Political capacity involves learning and understanding others' interests for successful management of the policy process. Finally, operational capacity refers to human and financial resources required for the functioning of an organisation.

One should here note that the policy capacity literature only focuses on the public sector (see the Special Issue on policy capacity in *Policy & Society* in 2015). However, we can also apply policy capacity in the private sector. This could be appropriate particularly in a technical and complex regulatory policy area such as banking regulation and compliance with international standards. Policy capacity is necessary not only for the public sector to comply with international regulatory standards and enforce these standards (see MacRae 1991; Mosley 2014; Radaelli 2005), but is also necessary for a banking sector to internalise these standards in its practices to make sure the standards are implemented. Moreover, policy capacity could regulate how the interactions between domestic actors take place; power dynamics could be determined by access to data, knowledge, human and financial resources.

The governance of international standards requires a compliant banking sector. The local banking sector is the arena where the international standards are implemented.

If the local banking sector does not have the capacity to implement the standards by adopting them in the regulation of its business practices, convergence might not be fully carried out. Here, policy capacity, in the form of access to data, adequate human resources and technical know-how, could be important for the banking sector to implement international regulatory standards. Consequently, the private sector needs to have a certain level of policy capacity in the form of expertise, knowledge and capacity to internalise the standards in its business practices.[14]

The adoption and implementation of international standards in the local arena could require negotiations among the local regulators and the local banking sector. During the negotiations, relative bargaining power comes into play. Therefore, the local regulators may require policy capacity through the acquisition of technical know-how and investing in human resources to counter or balance the banking sector's potential influence in the adoption and/or enforcement stages to ensure 'full compliance' with international regulatory standards (see Atkinson and Coleman 1989; Maggetti and Gilardi 2014; Skocpol 1985). The acquisition of better policy capacity could in turn enable the regulators to impose *power over*[15] the sector for it to implement the standards. Capacity-building in the local regulatory agency could be crucial for convergence and enforcement, especially in cases where the banking sector resists international regulatory standards or emerges as a significant 'veto player' against enforcement.

[14] A somewhat negative side of high capacity in the banking sector could mean the sector acquiring resources that can undermine the effectiveness of regulatory standards. Financial innovation, for instance, could provide the banking sector an advantage against the regulators. Thiemann (2014) shows that securitization resulted in weakening of Basel regulations. Mariathasan and Merrouche (2014) highlight that the banking sector could be seen to implement the rules, while manipulating risk weights through the internal risk assessment method.

[15] *Power over* is the relational dimension of the concept of power. It refers to an actor's power imposed on others to force them to achieve the actor's objectives despite the other actor's resistance. See Göhler (2009) for a review of the concept.

In sum, for policy convergence and enforcement of policies on which a State converges to be guaranteed, we need to observe the capacity to implement that policy. Moreover, in a technical and complex policy area such as banking regulation, at least the regulators might need to have a higher level of policy capacity for convergence and enforcement (Baker 2010; Dewatripont, Rochet and Tirole 2010; Johnson and Kwak 2013; Lall 2012; 2013; Young 2013). A relatively higher capacity could enable the local regulators to realise convergence as they can exert *power over* the local private sector to adopt and implement the international regulatory standards. Here, the involvement of international organisations in the domestic policy process could be essential not only for capacity-building, but also altering the relations between the local regulators and the local banking sector, as discussed below.

International Organisations, Capacity-building and Relations between Domestic Actors

In a polyarchic (global) public policymaking environment (Cerny 1994; 1995; 2010; Miller 2014; Oatley 2011; Rosenau and Czempiel 1992; Stone 2008; Soroos 1990; Stone and Ladi 2015), the internationalisation of the domestic policy process enables various actors such as policy activists (Keck and Sikkink 1998; Stone 2008), technocrats and epistemic communities (Haas 1992), non-governmental organisations (NGOs) (Kastner 2014; 2017), and international organisations (Baccini and Urpelainen 2015; Singer 2004; Wood 2005) to take part in the domestic policy process.

International organisations deserve a special status for two main reasons. First, they have various ways to cause changes in domestic policies and domestic politics (Caporaso 1992; Finnemore 1993; Weber 1997). Second, a polyarchic global public policymaking environment enables international organisations to get more involved in domestic policy process with the transfer of policymaking processes to supra-national levels. As they can get more involved in domestic politics and domestic policy processes, their involvement could be expected to trigger improvements in domestic capacity-building.

The literature on capacity-building and institutional development expresses scepticism about the effectiveness of international organisations' engagement to bring about improvements in the institutional infrastructure that regulates interactions between domestic actors (see Andrews 2013a; 2013b; Arezki, Quintyn, and Toscani 2012; Mumssen et al. 2013). Nonetheless, one can still expect positive outcomes. To give an example, Baccini and Urpelainen (2015) document that international organisations' engagement in doemstic politics can overcome collusion between policymakers and the domestic constituency, which can impede policy reforms.

Another example could be the International Monetary Fund (IMF), the World Bank, and the World Trade Organization (WTO), which are influential in global public policymaking. Policies formulated by and transferred from the IMF and the World Bank did have a crucial impact on domestic policies and relations between domestic actors in the policy transferring jurisdictions (Kentikelenis, Stubbs, and King 2016; Rodrik 2006; 2007; 2011; Stiglitz 2002; Wade 2003; Woods 2006). For instance, when a country allows foreign bank entry due to IMF conditionality, the relations between the local regulators and the local banking sector could change in a way that 'rent-seeking' might not exist after foreign bank entry (Haggard and Maxfield 1996).

Foreign bank entry may in turn lead to a decline in the influence of local banks on the local regulators and the regulatory policy process.

Thus, the changes in the way domestic actors interact with the engagement of an international organisation could occur by empowering one actor against the other. When we apply this insight to the case of BCBS and convergence on the Basel framework, the process leading to convergence may empower either the local regulators or the local banking sector vis-à-vis the other. The contestability in the process leading to stricter regulations is intrinsic as the financial and banking sectors lobby against stricter standards in the Basel framework or make attempts to shape the framework according to their preferences (Lall 2012; 2013; Young 2013). A higher level of policy capacity could enable the financial and banking sectors to resist the adoption of international standards, or reshape regulations closer to their preferences (Baker 2010). To counteract the influence of the banking sector so as to ensure convergence on international standards, the involvement of international organisations in the domestic policy processes could help empowerment of the local regulators vis-à-vis the local banking sector.

In short, while the policy convergence literature focuses more on the 'direct' channels (i.e. structural forces) without much attention to domestic politics, one should note that domestic politics could be an important factor when analysing convergence or even divergence. Additionally, since domestic politics cannot be fully isolated from the policymaking process at the supra-national level, the role of international actors should be incorporated in an analysis as their involvement in the domestic policy process could alter the relations between domestic actors.

III.Methodology, Data Collection and Analysis

This paper uses an exploratory case study method. A case study is an appropriate methodological choice for the focus and aim of this paper because case studies allow an in-depth treatment of a phenomenon being researched (George and Bennett 2005). As a particular type of case study, exploratory studies are helpful in studying relatively under-researched areas, while allowing researchers to construct hypotheses for further studies (Strebbins 2001; Yin 2014). Since the literature on the political economy of policymaking in the BCBS lacks insights about the inclusion of new members in 2009, this paper seeks to provide hypotheses for further studies that could shed light on how the new members achieve compliance with Basel III.

This study used field research and interviews with key informants, namely policymakers and bankers. The motivation to use that method was to meet practitioners and policymakers in person for a better-informed research (Kapiszewski, Maclean, and Lead 2015, Ch. 1; Mosley 2013). The authorization from the Internal Review Board (IRB) of the National University of Singapore was received on December 17, 2015. The field research took place between early January and late March in 2016. The field research involves 22 semi-structured, open-ended, in-depth interviews with 29 interviewees. 10 of the 22 interviews were conducted in the banking sector (B1, B2, B3, B4, B5, B6, B7, B8, B9, B10),[16] one with two officials in the Banks' Association (B11), eight were with senior officials at the BRSA (R1, R2, R3, R4, R5, R6, R7, R8),[17] and the two remaining interviews with senior officials at the

[16] One interview at Ziraat Bank involved four officials because the main interviewee invited three other colleagues. Another interview at Akbank involved two officials, as did one interview at Finansbank.

[17] The study interviewed two senior bankers in the largest privately-owned bank, T. Is Bankasi. This was because the bank hosts senior officials who used to be head of the Banks' Association for more than a decade. The second official discussed the bank's perspective on compliance with Basel III.

Central bank (CB1, CB2).[18] Four interviews were initially intended to be conducted to be in person similar to other interviews. However, the interviewee invited colleagues so that the in person interview turned out to be a focus group interview. These four interviews include three interviews in the banking sector. In these interviews one focus group involved four senior officials at the State-owned bank (Ziraat Bank), two senior bankers in a privately-owned bank (Akbank) and two senior officials at the Banks' Association. The other focus group consisted of three senior officials at the Central bank. Focus groups were useful to cross-check the accuracy of data gathered during the meeting and with some of the other interviews. The interview guide involved questions on regulatory governance, the policy capacity in both the private sector and public sector to manage the compliance process, and the relative weight of the banking sector to influence the compliance process.

Each interview, on average, lasted about 45 minutes. The average interview length is shorter than the hour interview length, the *rule of thumb* in qualitative research. Some of the interviews were shorter than an hour. Nine of the 21 interviews were shorter than the average of 45 minutes, ranging between 30 to 40 minutes. These interviews were not able to reach at least an hour due to interviewees' time constraints. To overcome that challenge and to have a thorough and diverse picture, the study had a larger sample of bankers with the aim of cross-checking and complementing other interviews. In the public sector, interviews that lasted less than an hour were the result of limited time of the senior officials.

[18] One of the two interviews at the Central bank was conducted with three officials because the main interviewee invited two colleagues to the interview.

Interviews with bankers were conducted in Istanbul at banks' headquarters. Interviews with bank regulators and two central bankers took place in Ankara at the headquarters of the BRSA and the Central Bank of the Republic of Turkey. Those with a central banker and two former bank regulators were conducted in Istanbul. The field research ended after the "saturation point" was reached (Guest, Bunce, and Johnson 2006; O'Reilly and Parker 2013).

The study used both purposive and snowball sampling strategies. The interviews with senior-level bureaucrats consisted of interviews with those at the BRSA and the Central bank. The interviewees were targeted according to their expertise and being active in representing Turkey in the BCBS and/or in the design and/or implementation of the Basel framework in Turkey. As for snowball sampling, a senior-level official at the BRSA (R3) was first contacted who connected the researcher with another senior-level official at the BRSA (R4). The senior official at the BRSA (R4), helped the researcher contact other former (R1 and R2) and current senior officials (R5, R6, R7 and R8) at the BRSA.

Interviews with senior officials working in the Risk Management or Internal Systems and Compliance departments in nine banks complemented the interviews with senior-level policymakers. The study used purposive sampling strategy in making up the list of interviewees. The bankers were chosen according to their seniority and expertise in the departments mentioned above. The study targeted banks according to the total assets in the Turkish banking sector whose data had been gathered from the website of the Banks' Association of Turkey in September 2015.[19] The rankings have not changed since then. The list of initially targeted largest ten banks with respect to total assets comprised three State-owned, three privately-owned banks, and four foreign-owned banks.[20] Since the largest bank in the country is a State-owned bank, the two other State-owned banks were eliminated from the final list as it was considered that one State-owned bank as the largest bank in the country could be representative of a sample of three State-owned banks. As a result, the final list of targeted banks included one State-owned bank, three privately-owned banks and six foreign-owned banks. The study interviewed nine banks out of the ten targeted due to the unavailability of a senior banker in one foreign-owned bank (Garanti) for an interview.[21] Additionally, an interview with officials in the Banks' Association was added to the interview sample of targeted bankers.

The study used voice recording and concurrent note-taking. The former was used whenever the interviewees agreed on recording the interview. The interviewees had the right to decline voice recording without reason. Additionally, there were also impediments on voice recording both in private and public sectors which required the researcher to opt for note-taking. In private sector, either the subject stated that s/he would not be comfortable with the recorder or the firm-level rules would not allow the interview to be recorded. In the public sector, the field research took place when

[19] The data is accessible online at: https://www.tbb.org.tr/en/banks-and-banking-sector-information/statistical-reports/june--2015---turkish-banks---ranked-by-total-assets---usd/1077, accessed on September 10, 2015.

[20] The three State-owned banks are Ziraat Bank, Vakifbank and Halkbank. The privately-owned banks are T. Is Bankasi, Akbank, Yapi Kredi. The foreign-owned banks are Finansbank, Garanti, ING, HSBC, Denizbank, TEB.

[21] The study interviewed senior level bankers in one State-owned bank (Ziraat Bank), three privately-owned banks (T. Is Bankasi, Yapi Kredi and Akbank) and five foreign-owned banks (Finansbank, ING, TEB, Denizbank and HSBC).

the bureaucrats were wary of being identified with an interview due to the fragile political and bureaucratic conditions.

Regarding data analysis, it should be first noted that the interviews were conducted in Turkish except with one with a senior-level official in a foreign-owned bank. For transcription, the interviews in Turkish were first translated into English by the researcher, and then uploaded on NVivo 11 Pro for data analysis. The collected data was transcribed the same day an interview was conducted, which allowed the researcher to reflect on the interview to take further notes to be cross-checked with the next interview subjects. The transcribed interview data was uploaded on NVivo 11 Pro first to find out emerging themes that would make the researcher discover a consistent pattern in the data. The coding process continued until a coherent theoretical and empirical framework emerged. The coding process yielded 15 themes such as "regulators' capacity", "private sector capacity", "the BCBS", "motivations", which constituted the theoretical framework and highlighted the findings in this study.

IV. The Basel Committee, Motivations and Capacity, and the De-politicisation of the Regulatory Process

The Basel Committee and Capacity-Building in Public and Private Sectors

As argued above, policy convergence requires policy capacity both in private and public sectors, while in a highly technical and contestable regulatory policy area, the capacity to adopt and enforce standards could be needed especially in the public sector. Policy capacity is a multi-dimensional concept that aims to capture the overall capacity of an organisation to apply a given policy. These dimensions involve political, analytical and operational capacity. Political capacity requires the actors having the skills to learn others' interests and preferences so as to achieve what is aimed with implementation. In the case of convergence on Basel III in the Turkish context, the political dimension could be less of a concern because both the local regulators and the local bankers agreed on the importance of convergence on Basel III despite criticism in the banking sector. For example, a senior banker notes that "[W]e are transferring the framework like a software programme", while adding that "we have to be compliant with the framework for two reasons. First, we need to attract foreign capital. Second, international investors know the differences between being fully compliant, materially compliant and non-compliant."[22] A senior regulator mentions that "if you want to remain an open economy and be part of the international system and attract capital, you have to adopt the framework."[23] These two views are representative of the overall understanding of the interviewed local regulators and the bank officials. There seems to be an overlap between the two actors' preferences regarding convergence on Basel III.

However, it must be noted that the senior banker's view conveyed above, while representing an overall understanding among the interviewed bankers, also implies scepticism about convergence on Basel III. This is supported, for example, by senior bankers in the State-owned bank. They mention that "[T]he country is still developing, so the standards applied in a developed country should not be the same [in a developing country]. For instance, in project finance, loans are used to finance large infrastructure projects. If we have to set aside a higher capital buffer [for these

[22] Interview, Senior Official (B3), T. Is Bankasi, Istanbul, March 1, 2016.

[23] Interview, Senior Official (R6), Banking Regulation and Supervision Agency, Ankara, January 22, 2016.

projects], our capacity to lend definitely declines."[24] Thus, we might conclude that the banking sector has reservations about convergence on Basel III. On the other hand, the policymakers seem resolute on convergence. For example, a senior central banker, who attends the BCBS meetings in Basel, emphasises that "[I]f you do not want to comply with the standards, you will be assessed as non-compliant. No one would like to be assessed non-compliant. Furthermore, if you are not going to comply with the rules, your motivation to be part of the organisation can be questioned by your peers."[25] This brings us to the point that while political capacity might be less of a concern for each actor in the domestic arena, other dimensions of policy capacity, namely operational and analytical capacities, could be more important, particularly for the BRSA to ensure the country is 'fully compliant' with Basel III.

With respect to analytical and operational capacities, which are measured through human and financial resources, and access to data and information, the role of international organisations could be crucial, at least to trigger capacity-building, which shapes the relations between the BRSA and the Turkish banking sector. Following Turkey's membership in 2009, the BRSA appears to have been focusing more on building its policy capacity. A former senior official of the BRSA states that "[W]e recognised the needs to invest in human resources and adapt the organisation according to the needs of the domestic and international economy".[26] For example, the BRSA formed the Risk Management Department in 2008 before BCBS membership (BDDK 2008). The Department was established to address the need for regulations and auditing in risk management in 2008. Since its establishment, the

[24] Interview, Four Senior Officials (B1), Ziraat Bank, Istanbul, February 25, 2016.

[25] Interview, Senior Official (CB2), The Central Bank of Republic of Turkey, Ankara, January 28, 2016.

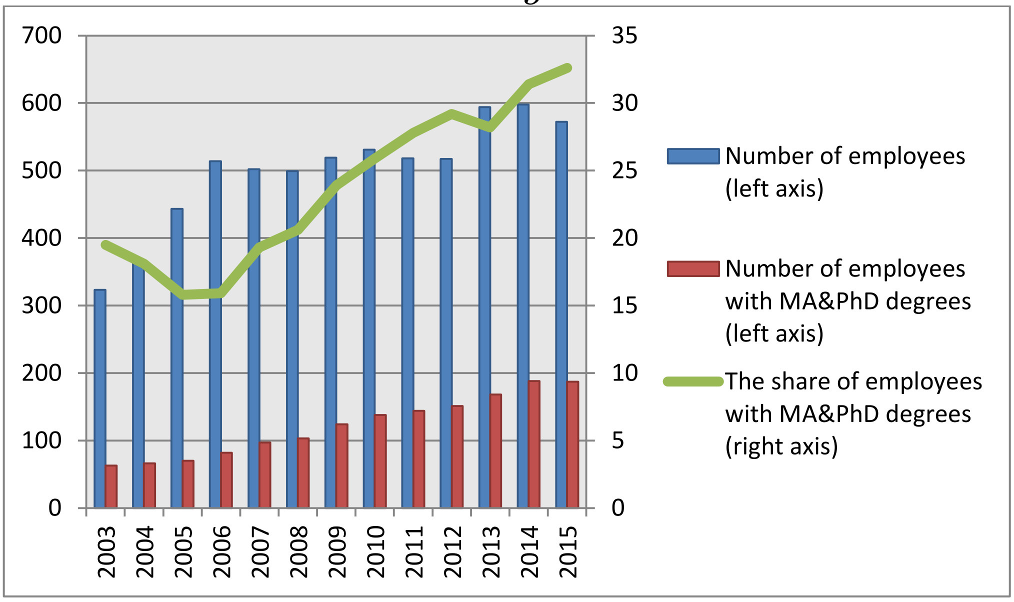
[26] Interview, Former Senior Official (R1), Banking Regulation and Supervision Agency, Istanbul, March 4, 2016.

Risk Management Department became the main department within the BRSA to support the BRSA's technical work on the Basel framework by participating in the BCBS policy process and contributing to the regulations transferred into the domestic regulatory framework.[27] The statement of the former senior official points out the BRSA's readiness to build better capacity through investments in human resources by hiring more employees with postgraduate education, investing more in professional training, expanding information and knowledge sources, and making changes in its organisational structure.

The BRSA has hired more employees with postgraduate degrees (see Figure 1) following BCBS membership. In 2003, a few years after the establishment of the BRSA, there were 323 employees, 63 out of whom had a postgraduate degree, which was 19.3 percent of number of employees in that year. In 2008, the year before the membership, the BRSA had 499 employees, and 20.6 percent of those employees had a postgraduate degree. Following membership, the number of employees with a postgraduate degree has increased from 103 in 2008 to 187 in 2015.

[27] Interview, Senior Official (R8), Banking Regulation and Supervision Agency, Istanbul, February 11, 2016.

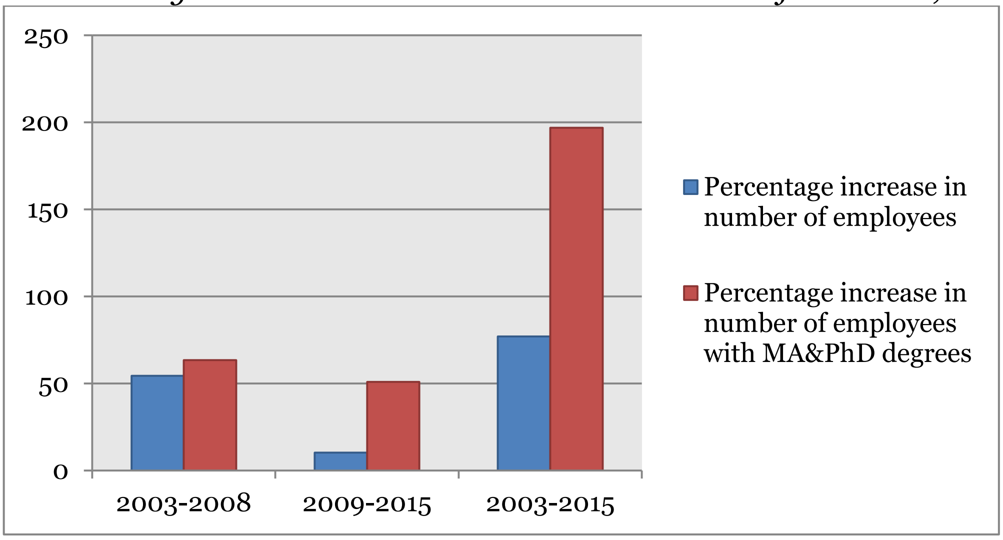
Figure 1: Number of Employees and Number of Employees with Postgraduate Degrees, BRSA, 2003-2015



Source: Banking Regulation and Supervision Agency, Annual Reports, 2003-2015

To put it another way, the percentage rise in the number of employees with a postgraduate degree has outpaced the percentage increase in the number of employees overall. However, what is striking is that the gap between the two indicators is larger in the period following BCBS membership (see Figure 2). For instance, between 2003 and 2008, the number of employees increased by 54.4 percent while the number of employees with a post graduate degree increased 63.4 percent. Between 2009 and 2015, the number of employees increased by 10.2 percent, whereas that of those with a postgraduate degree increased by 50.8 percent. Finally, since 2003, the BRSA's human resource base has expanded by 77 percent. However, the human resource base with a postgraduate degree has risen by 196.8 percent. Employees with degrees in economics, finance, mathematics/statistics fields constitute more than 80 percent of the education background (BDDK 2014b; 2015), which could be considered as very critical in the adoption and governance of the Basel framework.

Figure 2: Percentage Increase in the Human Resource Base of the BRSA, 2003-2015



Source: Banking Regulation and Supervision Agency, Annual Reports, 2003-2015

Second, the BRSA has been investing in on-site professional training and postgraduate education. The BRSA documents that training expenses, on average, consume 4.9 percent of annual expenses between 2009 and 2015 (BDDK 2014b: 136; 2015: 134). The training at the BRSA is mostly in banking, auditing, risk and macro-economy (BDDK 2015: 132). The reports indicate that BRSA personnel are trained primarily by the Federal Deposit Insurance Corporation (FDIC), the International Monetary Fund and the Bank for International Settlements (BDDK 2014b: 135; 2015: 133).

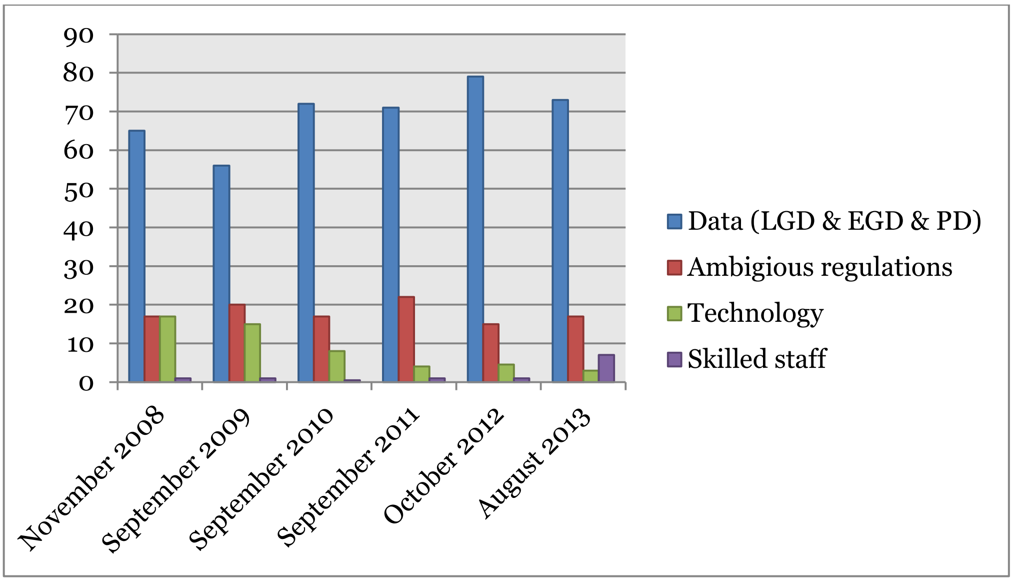
Third, the BRSA has invested in its databases. A former senior official stated that "[I] requested all colleagues to purchase books that are relevant to our work whenever they went abroad, and the Agency reimbursed them."[28] The expansion of information sources is indicated in the number of foreign academic and professional databases, the number of books in the BRSA library, and the periodicals both in Turkish and foreign languages to which the personnel has access. For instance, in 2007, the BRSA

[28] Interview, Senior Official (R1), Banking Regulation and Supervision Agency, Istanbul, March 4, 2016.

had access to 14 foreign and five Turkish databases which included EBSCO Business Source, OECD Library among others. By 2015, the number has risen to 33 foreign and seven Turkish databases (BDDK 2008; 2015).

Finally, as mentioned above, the BRSA established the Risk Management Department as a separate department which specialises in providing technical know-how to complement regulations that are transferred from the Basel framework, while also attending the committee meetings in the BCBS. Secondly, the BRSA formed another department in 2013, the Department of Economic Assessments, while expanding the number of departments responsible for overseeing the enforcement of regulations from three to five between 2009 and 2015 (BDDK 2013b; 2015).
While the BRSA has been making attempts to build better capacity in recent years, the Turkish banking sector seems to be lacking some requirements of policy capacity for compliance with Basel III. As is shown in Figure 3, the Turkish banking sector persistently lacks access to data to evaluate default risk in three major circumstances, namely under exposure to corresponding parties' default, the probability of default, and loss given a bank's own default.

Figure.3: Survey on Turkish Banks' Concerns for Compliance with the Basel Framework



Source: Banking Regulation and Supervision Agency, available online at: http://www.bddk.org.tr/WebSitesi/turkce/Basel/Basel_II.aspx, accessed on February 10, 2016
Note: "LGD" is loss given default; "EGD" refers to exposure given default, and "PD" refers to the probability of default.

Figure 3 documents the concerns the Turkish banking sector has identified since November 2008 until the last set of observations in the August 2013 survey. The BRSA had been conducting surveys to which at least 45 banks contributed. In the survey, the banks were asked to define the fundamental challenges they had been facing to implement the Basel II framework. Most of the banks reported that they lacked access to data to evaluate default risk; more than 60 percent of the survey sample mentioned this as the most fundamental problem for implementation since 2008 (see Figure 3). Technological concerns seem to have declined from less than 20 percent in 2008 to less than 10 percent in 2013. The Turkish banking sector was concerned about ambiguities[29] in the regulations; this concern varied around 20 percent. Finally, the lack of skilled staff had been pointed out as a marginal issue in 2008 as only one percent of surveyed banks identified it as a problem. Given the lack of access to data in the Turkish banking sector and a rising concern about a skilled

[29] The interviewed bankers mention two dimensions of ambiguities in the regulations. First, the bankers may not be able to understand how to apply the regulations. Second, the bankers may not receive guidelines about how the regulations could be applied.

human resource base, one could conclude that the banking sector has inadequate capacity to achieve convergence on Basel III on its own.

Even if the local banking sector had access to sufficient data, processing that data requires skilled staff. The interviewed bankers and officials at the BRSA frequently mentioned the lack of a skilled human resource base. The technicality and complexity of the Basel regulatory framework assumes a higher level of financial literacy to understand and implement the regulations at the firm level. A senior banker states that "not everyone [in the sector] can understand what a CoCo[30] is, so many things will be learned on the road."[31]

Postgraduate education and professional degrees that may require professionals to develop advanced analytical skills in banking and finance could indicate the level of financial literacy in the Turkish banking sector. According to the statistics of the Turkish Banks' Association, as of December 2016, there are 196,699 employees[32] in the Turkish banking sector, only 13,546 of which hold a postgraduate degree. In other words, the share of employees with a postgraduate degree is 6.8 percent.[33] In December 2008, before BCBS membership, there were 171,598 bankers, 7,163 of which had a postgraduate degree, which means that only 4.1 percent of the employees had a postgraduate degree. Between December 2008 and December 2016, the total

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[30] Convertible contingent (CoCo) is a debt instrument. It is convertible into an equity asset in case of default on debt. See http://lexicon.ft.com/Term?term=cocos, accessed on May 18, 2016.

[31] Interview, Senior Official (B10), Denizbank, Istanbul, March 9, 2016.

[32] The figures include all employees in the Turkish banking sector, including clerical/back-office personnel. This study could not have access to figures showing the number of employees in risk management and related departments to provide a clearer picture of human resources. However, it is considered to give an idea to the reader about the current level of human resources in the sector.

[33] The statistics are available online at https://www.tbb.org.tr/en/banks-and-banking-sector-information/statistical-reports/20, accessed on September 4, 2016.

number of employees increased by 14.2 percent, while those with a postgraduate has risen by 25.4 percent. On the one hand, the percentage rise is meaningful, as the banking sector seems to attract employees with a better educational background. On the other hand, the percentage increase is from a low base because only 6.8 percent of employees have an advanced educational background.

The data on educational background can be supported by the data on professional education. A senior banker notes that there are only around 200 bankers who have obtained a risk management certificate (e.g. CFA, FRM, etc.).[34] The number of bankers holding a post-graduate degree and the number of those with specialised professional degrees give us some background idea to interpret the current level of financial literacy in the Turkish banking sector. A senior banker pointed out the lack of interest to improve in financial literacy is due partly to the domestic orientation of the leading Turkish bank. The banker argues that "you observe the world from where you are sitting. Do we have a global perspective? How many products have we created with financial engineering? I would be surprised if you have met anyone during your field research who is working with a global perspective and a robust risk management orientation".[35] Since the sector is overwhelmingly serves the domestic market, its interest may lie in pursuing domestic market needs which may not require very sophisticated financial products and services.

Another banker notes that "[i]n QIS [Quantative Impact Study] assessments, there used to be seven banks when it first started. Then this number has declined to two including us. We asked the regulator to withdraw, but the officials insisted on us

[34] "CFA" refers to Certified Financial Analyst, and "FRM" is Financial Risk Manager; Interview, Senior Official, ING, Istanbul, February 16, 2016.

[35] Interview, Senior Official, Denizbank (B10), Istanbul, March 9, 2016.

staying on board because there would not be a sufficient number of banks left to represent the whole sample."[36] The same banker also notes that "when we receive a consultative document, we do not look into the details. We rather assess its methodology and coherence."[37] This is corroborated by a senior official at the BRSA, who pointed out that "[W]hen we receive a document from the BCBS, we request feedback from the sector. They [the sector] are very passive, and we sometimes have to push the sector to give us feedback."[38]

In sum, this section shows that membership of BCBS assisted capacity-building in the BRSA, whereas the Turkish banking sector appears to lack certain requisites of policy capacity. During the convergence process, the role of policy capacity becomes more important, as we will see in the following section.

The Role of Capacity-building in Public Sector and the De-politicisation of the Regulatory Process

In Turkey, the process of regulatory policymaking takes place through a so-called "feedback system." The feedback system operates as follows. When the BRSA drafts a regulation, it is announced on the BRSA's website and is shared with the Banks' Association of Turkey. The Banks' Association circulates the draft regulation in the banking sector. When it gets the feedback from the sector, the Banks' Association collates it, and shares it with the BRSA. There might be meetings between the banking sector and the BRSA to discuss the regulations, and several other stages of feedback gathering could happen as well. In the case of convergence on Basel III, the

[36] Interview, Two Senior Officials (B4), Akbank, Istanbul, March 4, 2016.

[37] Interview, Two Senior Officials (B4), Akbank, Istanbul, March 4, 2016.

[38] Interview, Senior Official (R5), Banking Regulation and Supervision Agency, Ankara, January 20, 2016.

BRSA first of all translates the Basel standards. Then, the draft regulations are shared with the banking sector for feedback. The Banks' Association again plays the intermediary role between the banking sector and the BRSA.

Moreover, the "two-level game" played by regulators in the convergence process appears to be conditioned by the relative positioning of the Turkish banking sector and the BRSA in the domestic arena. The intermediary role of the BRSA establishes a mechanism that does not allow the Turkish banking sector to get mobilised for instance in Basel through which it can also contest domestic regulations as they are initially designed in the BCBS. As Ruffing (2015) argues independent regulatory agencies can boost their independence against Ministries they are reporting by attending international policymaking processes in policy areas they are mandated to regulate and supervise. In the same vein, the BRSA, by attending the policy process in the BCBS, could be said to gain leverage against the Turkish banking sector. For Ruffing (2015), the source of this type of leverage is "negotiation knowledge". Negotiation knowledge in this case could be boosted by BRSA being informed about the regulations, their technicalities, and the negotiations in Basel, which are not (directly) accessible to the Turkish banking sector, which is a domestically-oriented banking sector that cannot get mobilised neither in the domestic nor in the international level.

When the negotiation knowledge coincides with a particular policymaking process that leaves the local banking sector out of the international policy process with a relatively lower level of policy capacity, one can expect the Turkish banking sector being passive when it is asked to give feedback. This can be seen in the number of banks participating in the regulatory impact studies has been declining. Therefore, the relatively better position of the BRSA due to its capacity-building efforts, and participating in the BCBS policy process facilitated convergence, as these were also assisted by peer review.

A senior official at the BRSA refers to the membership of the BCBS and the RCAP review process as factors that locked-in the BRSA to a certain path which ended with 'full compliance' with Basel III.[39] To be assessed as 'fully compliant' with Basel III, the BRSA passed several regulations before or during Turkey's peer review process, such as the capital surcharge on domestic systemically important banks (D-SIBs), the redefinition of capital, and the leverage ratio.

A senior banker observes that "[t]he regulator [the BRSA] said, whatever the BCBS agrees on, the sector has to assume that the regulatory agency will follow the standards. So, the sector should begin working individually to be compliant with the standards even before we introduce the same regulation."[40] As noted by the officials at the Banks' Association of Turkey, "[W]e can understand that the BRSA has responsibilities, and the officials are taking compliance very seriously. That is why they are determined to be compliant with Basel III."[41] The statements indicate that the banking sector may no longer easily influence the BRSA.

Finally, regulatory capture enables the regulated to divert the policy process towards its benefits while constraining the regulator to realise necessary measures to alter the incentives of the regulated (Carpenter and Moss 2014). The process leading to

[39] Interview, Senior Official (R3), Banking Regulation and Supervision Agency, Ankara, January 11, 2016.

[40] Interview, Senior Official (B8), ING, Istanbul, February 16, 2016.

[41] Interview, Two Senior Officials (B11), the Banks' Association of Turkey, Istanbul, March 2, 2016.

convergence on Basel III in Turkey can be argued to be a de-politicised one. We may call de-politicisation of the regulatory process as an improvement in the institutional infrastructure that regulates the relationship between the regulated and the regulator.

The membership of an international organisation would be impactful at least partially in getting the local actors to develop institutions that facilitate enforcement of rules and regulations. The international organisations may emerge as an actor igniting a process of improvements in capacities and institutional infrastructure that regulates the relations between local actors. In this sense, BCBS membership and the RCAP peer review could be argued to have transformed the relations between the BRSA and the Turkish banking sector by trigger capacity-building particularly in the BRSA. This coincides with divergence in policy capacity in the private sector and public sector, regulatory policy process is de-politicised, which facilitates policy convergence on Basel III.

Concluding Remarks

This paper examines how Turkey adopted Basel III. The study reveals that membership of the BCBS and the need to be 'fully compliant' with the Basel framework, and the 'signalling effect' of 'full compliance' to attract foreign capital, were among the main reasons for convergence on Basel III. More improtantly, the paper underlines that the convergence on Basel III appears to have been led by a divergence in capacity-building efforts in the public and the private sectors. The divergence appears to intermediate the interactions between the BRSA and the Turkish banking sector when introducing the framework into the domestic banking regulatory framework. Additionally, the paper demonstrates that the Turkish banking sector could not emerge as a significant 'veto player' to influence the adoption and enforcement of Basel III for two reasons. First, despite scepticism, the interviewed bankers agree on the importance of compliance. Second, the determination of the BRSA appears to have enabled the regulatory agency to impose its will on the sector.

Despite limitations of case studies stemming from their context-specific analyses, they could still be useful to speak to a broader debate. The findings of this paper makes several contributions to the literature on policy capacity, the role of international organisations in triggering changes in the interactions between domestic actors, and capacity-building, and how policy convergence could be explained with a focus on domestic politics. This paper focused on a new member of the BCBS, so the paper aims to contribute to a broader literature that could help us better understand how other new members have achieved compliance with Basel III.

Second, the impact of membership on capacity-building efforts in the public sector is an important observation because the de-politicisation of the regulatory policy process is crucial, especially in banking and financial regulation. It is well-known and would always be expected that a regulated industry would lobby against regulatory standards unless it benefits the industry in one way or another. Therefore, although it is questionable if the domestic banking sector can fully implement international standards as long as the sector has a relatively low level of capacity, the regulator's efforts in building better capacities to follow international standards is noteworthy, at least to overcome potential regulatory capture by the Turkish banking sector.

Third, Walter (2015) observes that the new members of the BCBS are not very active in the policy process at the BCBS due to capacity concerns which involve the lack of resources (human, financial) and (technical and procedural) knowledge constraints.

Walter (2015) argues that not only are the capacity concerns impeding national policymakers' involvement, but also, a low level of engagement is observable in the private sector's participation as well. The low level of engagement of new members of the BCBS is evident from the feedback given to consultation documents (Walter 2013: Figure 4). As this paper demonstrates and was observed by Bandeira (2015) in Brazil as well, BCBS membership can indeed trigger better capacity in the regulatory agencies in the new member States of the BCBS, most of which are developing countries.

The findings in case studies may not be easily generalised. However, the Turkish case might be a case for at least partial optimism with respect to cross-border (banking regulatory) policy convergence and international regulatory cooperation. Future studies on the new members, therefore, could examine whether such capacity-building efforts are realised with a higher level of engagement in the BCBS policymaking process, and focus on the relative influence of the new members in the BCBS to see if they can change the dynamics in the BCBS.

This paper treats the local banking sector as a unitary actor. Future studies could relax this constraint and focus on differing levels of capacity and perceptions within the banking sector. During the field research, this study was able to observe such dynamics, but capturing them is beyond the aims and scope of this paper.

Finally, the literature on the BCBS could be developed with analyses of how other new members of the BCBS have achieved 'full compliance' with a focus on domestic politics and other factors that led to compliance with Basel III. Additionally, future research on how the new members of the BCBS achieved 'full compliance' could also study "why" these countries converged on the Basel framework. The "why" question is also important to contribute to the broad literature on the BCBS as future research can shed light on the causes and conditions of the adoption of the Basel framework by non-member countries.

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