

result in "regulatory arbitrage," resulting in the flight of financial activities to less regulated or even unregulated markets. We must pursue these efforts while maintaining the important role of market discipline and promoting the improvement of prudential standards.

In the past year, national and international regulatory bodies, the International Monetary Fund, the World Bank and others² have continued to intensify their cooperative efforts on a national, bilateral, and multilateral basis to strengthen the international financial system. These actions have produced meaningful progress to enhance risk assessment and address possible systemic or contagion problems. We welcome the increasing degree of interaction and cooperation among all the various bodies and encourage them to continue their efforts.

OBJECTIVES

Enhancing Cooperation Among Supervisors of Globally Active Financial Institutions

Major, globally active financial institutions operate in world markets through a variety of legal entities and functional business lines and across geographic jurisdictions. Therefore, as a practical matter, supervisors of regulated entities within a financial group must be in a position to understand a firm's global operations, so that all material risks to the relevant entities within the firm and to the group can be considered. International cooperation among supervisors, including exchange of information, is an important tool in the comprehensive risk assessment of global firms, and in assisting supervisors to take timely supervisory action.

Key Areas of Progress

Substantial work to enhance regulatory cooperation is taking place on a bilateral and multilateral basis. Arrangements to exchange information in emergencies represent a significant step by securities and banking regulators to enhance the supervision of globally active financial institutions and are a building block to expand further regulatory cooperation. We welcome the important steps outlined in the reports of the international regulatory bodies to enhance cooperation among supervisors on an ongoing basis and in emergency situations.

The Joint Forum has agreed that, in appropriate circumstances, a coordinator should be identified to facilitate the exchange of information on globally active financial institutions. The Joint Forum is continuing to develop the possible menu of roles that a coordinator could assume during emergency and non-emergency situations. It is also exploring the relative merits and practical implications of each role (including legal and regulatory constraints) for the coordinator and other relevant supervisors.

² These include the International Accounting Standards Committee and the Committee on Payment and Settlement Systems of G-10 Central Banks.