A degree of volatility is always going to be a part of financial markets. The recent decline of the U.S. dollar would not have been prevented by a nonbank supervisory forum, nor would the Mexican economic crisis have been averted. There is simply no substitute for sound, consistent domestic macroeconomic management practices, including a fiscal policy aimed at maintaining sustainable public expenditure and debt levels and a monetary policy focused on price stability.

What Would a Nonbank Forum Mean for Systemic Risk?

Just as volatility will always be present in financial markets, so too will a certain level of systemic risk. Whereas it is generally agreed that the growing market for derivatives has strengthened the ties between firms and markets, and increased systemic risk, it is not concluded that the use of derivatives should be limited through further regulations or that the firms engaged in the provision of derivatives should be subject to special restrictions on their activities.

If a nonbank forum could clear up some of the accounting and legal ambiguities surrounding derivatives, there would be a corresponding increase in the transparency of derivatives markets. That increase in transparency would indirectly reduce systemic risk by reducing counterparty credit risk, although neither risk would be entirely eliminated.

The Basle Committee is continuing to work on guidelines for banks to monitor the risks they face in trading on their own accounts (known as market risk).[22] As a bank increases its trading activities, it needs to ensure its capital base is protected. A nonbank forum could perform a similar function in assisting nonbanks to manage market risk better. Again, the reduction in systemic risk is indirect and centres on helping to prevent nonbanks from entering into (or entering into without the full knowledge and understanding of) risky transactions that jeopardize their financial stability.

It should be emphasized that while there is a role for supervisors and guidelines, one of the most important factors in reducing counterparty credit risk and ultimately systemic risk is improved internal risk management programs for participants in derivatives markets. Accountability in the decision-making process of firms and institutions can be supervised best internally. With memories of Barings Bank and the

[22] See "Work Ahead for Quality Controllers", in *Financial Times*, London, 12 April 1995, p. 15.