

bankruptcy laws.<sup>21</sup> The Legal Risk Review Committee was set up in London in 1991 to identify areas of legal obscurity and uncertainty with respect to British laws affecting financial markets, and to propose remedies. Given the international nature of derivatives markets, it would be useful for an international organization to perform a similar function, with a specific focus on international legal inconsistencies.

In addition to contributing to the debate on the direction of an internationally coordinated and consistent approach to the overall supervision of financial institutions, a nonbank supervisors' forum could also provide the impetus for discussions regarding the compatibility of international legal and accounting systems, at least with respect to their impacts on international capital movements and the activities of international financial service providers. A forum could stimulate research, collate its results and develop an international consensus with respect to the appropriate legal and accounting standards to ensure an efficient financial services market based on a predictable set of rules.

### **What Would a Nonbank Forum Mean for Market Volatility?**

There is no reason to believe that financial market volatility is caused directly by international inconsistencies in the way that markets or participant firms are supervised. Thus, it would be unrealistic to expect an international forum for nonbank supervisors to be the primary means of directly reducing financial market volatility. However, the forum could provide some indirect benefits with respect to volatility. For example, to the extent that internationally consistent accounting rules and legal interpretations increase transparency and confidence in the financial system, and, in turn, indirectly enhance liquidity via an increase in financial market activities, there could be a link drawn between the work of the forum and a reduction in volatility.

Although there may be a link between a nonbank supervisory forum and financial market volatility, it should not be overstated. The forum should be considered a means of deepening the understanding of financial markets and the interactions of different commercial institutions involved therein, and a means of promoting an even more internationally integrated financial system.

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<sup>21</sup> A netting agreement between two counterparties provides for the exchange of a single closeout amount for all covered transactions if one party defaults on its contracts. It effectively amalgamates all payment obligations into a single net amount.