

standards, but also to strengthen the capital position of the international banking system by explicitly linking banks' capital needs to their risk profiles.¹⁴

Given the dynamism of international financial markets, including the rapid emergence of new products and the development of new roles for banks, there will be a continuous need for refinements to the Basle Accord. In addition, the evolving linkages between banks and other financial institutions require strong and growing linkages between their respective supervisors. Both the Basle Accord refinements and the bridge-building between supervisors are already underway. In July 1994, the Basle Committee on Banking Supervision released a revised framework for calculating banks' credit risks that accounts for their exposure to derivatives.¹⁵ At the same time, the Committee and the International Organization of Securities Commissions issued complementary guidelines for the risk management of derivatives.

Although there has been some progress in adapting banks' capital requirements to account for derivatives activities and in drawing together the supervisors of banks and nonbanks, much work still needs to be done. In the U.S., for example, there are no examination requirements and no capital requirements for securities and insurance firm affiliates engaged in OTC derivatives markets.¹⁶ Internationally, the drive to set up global capital standards for securities firms has been the subject of major disagreements between supervisors.¹⁷

Presently, there is no international forum for nonbank supervisors to gather and review market developments, or to exchange information regarding potential systemic risks. This Commentary suggests that such a forum should be established to allow an international group of nonbank supervisors to meet regularly and to maintain a close association with the Basle Committee on Bank Supervision. One of the new body's important tasks would be to decide collectively (with the Basle Committee) whether to take the overall international supervisory framework in a new direction. Two options include an extension of the system already in place for banks (focusing on prudential considerations), and a more functional approach in which institutions are supervised based on the financial services they provide and the functional activities

¹⁴ See P.C. Hayward, "Prospects for International Cooperation by Bank Supervisors", in *The International Lawyer*, Vol. 24, No. 3, American Bar Association Press, Chicago II, Fall 1990, pp. 788-9.

¹⁵ See Bank for International Settlements, *International Banking and Financial Market Developments*, Basle Switzerland, November 1994, p. 23.

¹⁶ See General Accounting Office, *op. cit.*, p. 11.

¹⁷ The biggest difficulty is in setting the appropriate capital charges for equity trading books. See M. Goldstein and D. Foikerts-Landau, *International Capital Markets: Developments, Prospects and Policy Issues*, International Monetary Fund, Washington DC, September 1994, p. 12.