to avoid payment. Because of the uncertain effects of financial transaction taxes, there is no widespread support for their introduction.[21]

An area where concerted efforts should continue to be directed is in the regulation of financial institutions, especially nonbanks that are subject to no internationally coordinated supervision and are increasingly engaged in potentially risky international transactions.[22] It is not suggested that any limits be set on the foreign exchange activity of nonbanks, or that their international operations be otherwise curtailed. It is suggested, however, that the creation of a multilateral body similar in character and structure to the Basle Committee on Banking Supervision could be useful in managing the international convergence of prudential rules governing nonbanks. Although the trend is towards an increase in the overlap of products and services offered, it is recognized that the diverse nature of the core activities of nonbanks compared to that of banks requires a quite different regulatory approach. It might be overly ambitious to assume, for example, that a single body would have the expertise to simultaneously coordinate the prudential regulations of banks on the one hand, and securities firms and insurance companies on the other hand. Nevertheless, it is worth pursuing common international prudential regulations, if only to avoid "regulatory arbitrage".[23]

Suggested Reforms Related to Exchange Rate Misalignments

Since exchange rates change in response to international differences in macroeconomic policies, one of the solutions often put forward to deal with both exchange rate volatility and misalignments is an increase in international

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[21] See M. Goldstein, D. Folkerts-Landau, P. Garber, L. Rojas-Suarez and M. Spencer, *International Capital Markets Part 1: Exchange Rate Management and International Capital Flows,* IMF World Economic and Financial Surveys, Washington DC, April 1993, p. 21.

[22] Examples of nonbanks are insurance companies and securities firms. See M. Goldstein, D. Folkerts-Landau, P. Garber, L. Rojas-Suarez and M. Spencer, *op. cit.*, p. 23; and T. Padoa-Schioppa and F. Saccomanni, "Managing a Market-Led Global Financial System", in *Managing the World Economy Fifty Years After Bretton Woods*, Institute for International Economics, Washington DC, September 1994, pp. 257-64.

[23] Firms engage in regulatory arbitrage by switching locations to avoid being subject to certain regulations. Firms might agglomerate in jurisdictions with the fewest, or least intrusive, regulations.