

losses of Orange County still fresh, the development of improved internal risk management programs is already underway.<sup>23</sup>

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In summary, there is evidence to suggest that derivatives can increase financial market volatility in some cases, and reduce financial market volatility in others. Accordingly, suggested reforms to reduce derivatives trading in order to reduce volatility (such as the introduction of a Tobin Tax) should be abandoned, at least until it can be proved that they do not interfere with the efficient functioning of markets.

The creation of a forum for nonbank supervisors to exchange views, work closely with the Basle Committee and develop a more consistent international supervisory framework will not directly address concerns over financial market volatility or systemic risk. However, there are a number of indirect means by which a nonbank forum can modestly contribute to a reduction in systemic risk. Given the pressures on the G-7 leaders to provide a "solution" to the "disorder" in the world financial system, an initiative to establish a nonbank forum could be a useful step forward.

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<sup>23</sup> See "Danger -- Kids at Play", in *Euromoney*, March 1995, pp. 43-6.