

# Contents

Preface	xvii
1. Introduction and Overview	1
The Internationalization of Finance: Implications for Regulation	4
Harmonization of Financial Rules: Opportunities and Limits	7
Recommendations	9
2. International Financial Integration: The Continuing Process	13
Effect on Users of Financial Services	14
Effect on Financial Service Institutions	18
Effect on Regulators	19
Expanding International Flows of Capital	23
Increasing International Asset Price Integration	29
Covered Interest Rate Parity in the Eurocurrency Market	29
Conclusion: The Extent of International Financial Integration	44
3. Financial Regulation in Domestic and International Environments	49
Rationales for Financial Regulation in a Domestic Setting	49
Financial Regulation in an International Environment	64
The Appropriate Size of the Supervisory and Regulatory Domain	79

4. International Efforts in Financial Regulation to Date	86
Rights of Access	88
Systemic Risk and Solvency	95
Common Bank Capital Standards: The Basel Accord	107
Consumer Protection	113
Other Objectives	115
5. Prospects for International Cooperation in the Regulation and Supervision of Financial Services	120
The Willingness to Cooperate	121
Emergency Liquidity Assistance for Internationally Active Banks	126
Refinements and Extensions of the Basel Concordat and Accord	132
Rules for Securities Firms	137
Dealing with Financial Conglomerates	142
Market Alternatives to Regulatory Harmonization	147
Competitive Equity	151
Comments	153
Yasuhiro Maehara	153
Richard Webb	163
Appendix: Permissible Activities for Banking Organizations in Various Financial Centers	167
References	171
Index	179
Tables	
2-1. Costs of Air Transportation and Telephone Calls, Selected Years, 1930–90	14
2-2. Five Levels of International Financial Integration	30
3-1. Objectives and Tools of Financial Regulation	50
3-2. Illustrative List of Bank Deposit Insurance Schemes	54
3-3. Permissible Activities for Banking Organizations in Various Financial Centers	58
4-1. International Financial Regulatory Initiatives	87

## Figures

2-1. Direct Issues of Securities in International Flows of Credit, 1981-92	15
2-2. Life Insurance, Pension, and Mutual Fund Assets as a Percentage of Household Assets, Selected Countries, 1980, 1985, 1990	17
2-3. Indexed Value of World Exports and World GDP, 1963-90	23
2-4. Indexed Value of World Exports and CHIPS Payments, 1970-92	24
2-5. Daily Turnover in Foreign Exchange, Selected Countries, 1986, 1989, 1992	25
2-6. International Bank Lending, 1973-92	26
2-7. International Issues of Bonds, 1981-92	27
2-8. Gross Cross-Border Equity Flows, 1979-90	27
2-9. Swap Market Growth, 1987-92: Outstanding Notional Principal of Interest Rate and Currency Swaps	28
2-10. External and Internal Money Markets in the Deutsche Mark, January 1973-August 1974	33
2-11. External and Internal Money Markets in the French Franc, 1982-91	35
2-12. Uncovered Interest Differentials, Four Countries, 1973-92	38
2-13. Real Interest Rate Differentials, United States and Four Other Countries, 1977-92	41
4-1. The Corporate Structure of Banco Ambrosiano	102