Comment

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I want to congratulate Tommaso Padoa-Schioppa. I have just a little to add to his paper. There are only few remarks. They are not intended as criticism but are meant to be amendments.

First, is there such a thing as a globalized financial system? Are there global players in such fields as pension funds, insurance companies, banks, securities markets, or have we not still some kind of mixed economy in many cases still confined to the national level? How does a system function that consists of truly international business and institutions on the one hand and players, particularly in the banking and insurance fields on the other hand, that are still related with or even owned by governments?

How does the supervision work under these circumstances? How does the selection process work under these circumstances? Are there shortcomings and what are the implications for our approach in supervision?

Certainly there is a lot to be said positively about an integrated supervisory authority rather than a separate supervisory body for each financial sector function. It is very obvious that our banking business is moving in a number of directions: into security markets, into pension funds, into insurance companies. Therefore, if banking is the focus of the supervisory body, the supervision will lose clout, and banking will lose business. Therefore, we should have an integrated supervisory function. This has been understood in quite a number of countries, in quite a number of institutions that deal with the supervisory question. But I think, again, the lead is not in Europe, but in the United States. If I understand the US Congress correctly, they are moving in this direction. It would be wise if we Europeans at least ob-

☐ Deutsche Bank Group, Frankfurt a. M. (Germany).

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served this process carefully and followed suit rather than lagging behind.

Secondly, it is very obvious that those interested in the success of regulatory efforts should look into the objectives, into the functions, and not always concentrate their supervisory effort on the institutions. But on the other hand we badly need to look at the institutions because it is very difficult in the end to have a lender of last resort for a function: if someone is in bankruptcy it is an institution rather than a function.

Unfortunately, we have no world government, and there is none around the corner, so we have to live with the existing institutions. The question is: are existing institutions sufficient for the complicated tasks? Is the IMF the ideal body to do the job? The origin of the IMF is not exactly what we have in mind when thinking of the encompassing issues that have to be dealt with by supervisory authorities. The BIS has just jumped in and addressed a number of regulatory issues like the capital adequacy ratio. The Group of Thirty is an interested and engaged group that certainly has supported progress in the field lately. The IMF may be an institution that can be developed in this, additionally qualified people in academia have successfully addressed supervisory issues. While there are a multitude of sources of wisdom, I believe that probably at this moment of time the only superpower of the world will set the tone in the regulatory process: the United States, either through its legislation and supervisory authorities or through its working in the IMF or other international institutions.

So, for instance, when the Fed allows "netting of positions with counterparties" for calculating capital ratios only when the counterparty has accepted on a "master agreement" endorsed by the Fed, this indicates that the world is governed by the United States. The rest of the world has to accept the standards set by the hegemon.

There is the question of whether the emerging European Central Bank could be a contender for the Fed. Unfortunately, or factually, the European Central Bank will not be the supervisory authority. This function will still be on the national level. That, at least, is what the Maastricht Treaty has decided. Probably, however, Euroland will emerge as a junior partner for the United States in a number of fields, not just as world reserve currency, but as a supervisory agency as well. Probably, that could be an important contribution to

changing the rules of the game from US hegemony to a more competitive system. As the emergence of the airbus industry gave air travellers better airplanes, the emergence of the euro may lead to an improved supervisory system for world financial markets and thus to a better functioning of the world financial system.

Considering the size and the importance of Japan, particularly under the present circumstances, it would probably be more appropriate if we could set up something that is a kind of G3 approach in supervision. The question is whether we will be in a better position to move forward after Euroland has been created. Whether the IMF or the BIS or any other institution is the most appropriate body for such a regulatory arrangement is a question that can be discussed. In any case such an institution has to be more than a roaming conference: it has to set up a structure, a permanent office, that sets and develops the rules and oversees them.

It is very obvious that the supervisory authorities have to continue to look into the question of admission to markets, into the standards that have to be fulfilled, into capital ratios. There have recently been recommendations to correct the BIS ratios, because the existing ones give incentives for moving up the risk scale, rather than preventing risky attitudes. It is very obvious that disclosure has to play a very important role, and I want to conclude by mentioning that the interference of governments in financial institutions in a number of our countries – my own included, or Japan for example – of course has an important impact on the adequacy of international supervisory schemes.

It would be of course much better if we could have an Anglo-Saxon world where shareholder value prevails, and where there is no systematic interaction between the financial sector and the industrial sector. But if we do have such combinations, like the German system, when at the same time we have an Anglo-Saxon type of regulation, then of course the homogeneous international supervision probably does not play out, and then the lender of last resort often has to be the national institution at the end of the day, rather than the international community.