The report should be submitted to the Group of Twenty and released more broadly with a formal public presentation.[29]

Central bankers will of course insist they have no control over one another. Some will claim that such matters are already discussed informally at BIS meetings or formally at the G20 meetings. However, the current BIS format is not conducive to accountability, and the current G20 format gives precedence to heads of government and finance ministers, not central bank governors. The discussion that takes place at the margins of the G20 meetings is informal. For these reasons, a separate forum is needed. The need to issue periodic public reports can help central bankers identify and publicly air the inconsistencies in their policies. With time, this should encourage them to internalize some of the external consequences of their policies.

The kind of report we have in mind can inform a broader discussion of how the mandates of large central banks can be altered so as to minimize the adverse spillover effects of their policies, even while their responsibilities continue to be domestic. It would have the ancillary benefit of stimulating research on the definition, determinants, and means of control of global liquidity, a notion that nowadays remains a very abstract and ill-defined concept in policy discussions.

Macroprudential Supervision under the proposed framework

Enhancing financial stability will require supplementing traditional micro-prudential measures with macroprudential tools.

1. Regulatory guidance on loan to value (LTV) and debt service to income (DTI) ratios over the cycle is useful for dampening credit booms. Countercyclical and contingent capital requirements, dynamic provisioning, liquidity buffers, and taxes on short-term funds borrowed by financial institutions are additional possible instruments. Given that there is still little evidence on the relative effectiveness and costs of each of these tools, authorities will have to learn by doing and from shared experience.

2. Supervisors will need to identify direct and indirect exposures and linkages, cross border as well as domestic. They need to identify institutions or trades where activity is disproportionately concentrated (for example, on interbank derivative exposures). While they should collect such data for their own supervisory needs, they should also release that information, in aggregated form, to the broader public, including market participants. Broader dissemination will allow market participants to better manage risks, and in turn allow the public to better monitor supervisory behavior.

3. Cross-border surveillance of conditions pertinent to financial stability should be part of the mandate of the IMF, FSB, and BIS. Such institutions should work in concert with domestic macroprudential supervisory authorities to collect and disseminate information across countries on global exposures and risks, as well as experience with macroprudential tools.

4. Macroprudential tools will be more effective if coordinated and implemented

[29] Multilateral institutions like the IMF should also, of course, continue to analyze the spillover effects of large-country policies—as part of the Mutual Assessment Process (MAP), Article IV consultations, and the World Economic Outlook and Global Financial Stability Reports—and use these in evaluating a country's overall policy stance. The IMF's newly instituted "spillover reports" are an obvious vehicle for carrying out this charge. The IMF should also analyze the collective policy stance of large central banks, and this report could be the starting point for the central bankers' discussions and report. The G-20 needs to develop a mechanism for using these reports to influence domestic assessments of central bank performance.