across countries to dampen credit and leverage cycles. The IMF or a beefed up FSB/BIS should have the mandate to assess financial stability risks across borders and make recommendations to national supervisors on the level at which to set a relevant macroprudential tool.

5. Some countries will benefit more than others from the use of macroprudential tools and may also face lower costs of implementation. Coordination may be especially hard, however, when different countries see very different costs and benefits. This suggests the multilateral institution responsible for assessing financial stability should:

    a. Persuade all countries to put macroprudential measures on the books, even if the measures are initially levied at zero rates.
    b. Focus less on coordination at the initial stages, which will allow experience to be built up on the use of the tools in different settings.
    c. Encourage supervisory authorities to expend greater effort to find tools that are lower cost relative to efficacy and therefore more widely acceptable.
    d. Encourage greater dialogue as systemic risks build up so as to create the possibility of greater coordination.

6. The importance of cross-border spillovers associated with intermediation practices and conditions of systemically relevant financial institutions (SIFIs) was highlighted by the recent crisis. Macroprudential tools tailored to contain these risks include significantly higher capital buffers for SIFIs (the new Swiss regime proposes about 19%), contingent capital requirements, and possibly a Financial Stability Contribution along the lines proposed by the IMF. While a start in implementing these measures should be made now, the precise form of such levies should be allowed to develop in light of experience. Unfortunately, because any such standard will be subject to extensive lobbying, the ideal requirement may be hard to attain, and the initial standards likely to be sticky. This suggests building flexibility into the initial standards so there are alternative ways to meet the requirements.

7. Although there has been some progress on cross-border supervision (through the creation of colleges of supervisors, for example), there has been little progress on mechanisms for resolving failures of cross-border financial institutions. Efforts to harmonize national bankruptcy and resolution regimes should therefore be redoubled. Explicit loss-sharing protocols need to be negotiated, informed by the (soon-to-be-written) living wills of large cross-border banks.[30] If no progress is made in addressing cross-border spillovers, countries will be inclined to protect themselves by mandating that foreign institutions place their domestic activities into separately incorporated and capitalized domestic subsidiaries, thereby partially reversing the globalization of finance. The committee recognizes that this is a second-best option, and while it may be what the world will settle for, urges the regulatory community to be more ambitious.

8. Even vigorous countercyclical macroprudential measures such as those recommended here cannot neutralize the effects of incompatible macroeconomic policies. In a number of situations, macroeconomic

[30] A living will is a document prepared by the bank that explains to its supervisors where its assets and liabilities are, and how they will be sorted out in a bankruptcy.