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HARMONIZATION OF INTERNATIONAL ADEQUACY RULES FOR SECURITIES FIRMS: AN ARGUMENT TO IMPLEMENT THE VALUE AT RISK APPROACH BY ADOPTING BASLE'S INTERNAL MODEL METHODOLOGY

INTRODUCTION

Capital adequacy has been defined as the "extent of capital that should be required of brokers or others carrying on the business of trading in securities." Regulatory capital requirements "protect customers or depositors" and contribute to "the stability of financial markets to which they apply by limiting firm failures and resulting losses to customers, depositors, or other firms." While global banking supervisors have been successful in obtaining international capital adequacy standards, global securities regulators have failed to accomplish this goal. There are three reasons which may explain this regulatory failure. In the past, the traditional separation between banking and securities in the United States and Japan has impeded any regulatory harmonization with institutions who are constituents of a universal banking regulatory regime. Two, since securities markets compete against one an-

1. HAROLD S. BLOOMENTHAL & SAMUEL WOLFF, SECURITIES AND FEDERAL CORPORATE LAW § 27.72 (2d ed. 1998).
3. Joseph J. Norton, Structuring the Banking Regulators and Supervisors: Developed Country Experiences and Their Possible Implications for Latin America and
other, there is an incentive not to cooperate with their regulatory colleagues because "such cooperation might undermine their country's competitive position in the international markets." However, by adhering to this competitive position, the regulator may operate to the "detriment of [its] country's interests." Three, the Securities & Exchange Commission's (SEC) "predominant doctrinal approach" to international securities regulation has been "unilateral." Thus, the "hallmark of this unilateral approach" has been the SEC's "extraterritorial application of American laws to foreign issues, whether they involve foreign companies, foreign transactors, or any other foreign element." Therefore, the unilateral approach may impede any attempt to "harmonize" regulations when one key regulator compromises only by applying its national securities laws.

While these reasons may explain the failure of international securities regulators to implement a global capital adequacy requirement, this paper will argue for the need for uniform international capital adequacy standards for securities firms. To effect a harmonization of international capital adequacy rules, global securities regulators should implement the Value at Risk (VAR) Approach by adopting the Basle Committee on Banking Supervision's (BASLE) internal model methodology. Part I will discuss: (a) background of capital standards developed by BASLE, (b) different approaches to capital adequacy, (c) attempts at global harmonization by the International Or-

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5. Id.

6. Id. at 66.

7. Id.

8. The Committee consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, Netherlands, Sweden, Switzerland, the United Kingdom and the United States. See The Bank for International Settlements, *Profile of an International Organisation* (visited Jan. 16, 1999) <http://www.bis.org/about/prof-gh.htm>. However, the Group of Ten includes all of the aforementioned countries except Luxembourg. See id.
ganization of Securities Commissions (IOSCO), and (d) recent changes to the securities laws by the SEC. Part II will explore the reasons why capital adequacy rules should be harmonized. Part III presents the recommendation for global securities regulators to implement the VAR approach by adopting BASLE's internal model methodology.

I. DIFFERENT APPROACHES TO CAPITAL ADEQUACY

Bank and securities regulators currently employ several different approaches to capital adequacy. BASLE developed the global capital adequacy requirements for banks. BASLE first implemented the building block approach by developing the standardized methodology. After the advent of VAR risk management, BASLE also developed the internal model methodology. Even though the Federal Reserve Bank (FRB) adopted BASLE's internal model methodology for capital adequacy, it has recently been testing an alternative method, the Pre-Commitment Approach (PCA). While European Union (EU) banks and securities firms employ BASLE's methodology, the SEC insists on the stringent comprehensive approach. The SEC's insistence may explain why IOSCO failed to obtain a uniform global capital adequacy requirement for securities firms. However, when the SEC promulgated the Over the Counter (OTC) Derivatives Dealers rule, it conceded that harmonization may be necessary to allow the U.S. capital markets to be competitive.

A. The Background of the BASLE Accord

The Basle Committee on Banking Supervision is a committee of the Bank of International Settlements, an organization founded to "foster international financial stability" and serves as an "important forum for international monetary and financial cooperation between central bankers." In July 1988,

9. The Technical Committee of IOSCO is a committee of supervisory authorities for securities firms. It includes senior representatives of Australia, France, Germany, Hong Kong, Italy, Japan, Mexico, the Netherlands, Canada (Ontario & Quebec), Spain, Sweden, Switzerland, United Kingdom and the United States. See International Organization of Securities Commissions, Trading and Derivatives Disclosures of Banks and Securities Firm, Results of the Survey of Public Disclosures in 1998 Annual Reports (visited Feb. 12, 2000) <http://www.iosco.org/docs-public/1999-derivatives_disclosures-document05.html>.

representatives of bank supervisory authorities from twelve countries meeting in Basle, Switzerland, agreed to uniform capital requirements as reflected in the “Basle Accord on International Convergence of Capital Measurement and Capital Standards.” BASLE developed a “framework for assessing an institution's capital adequacy by weighing its assets and off-balance sheet exposures on the basis of counterparty credit risk.” One of the “articulated purposes” of the Capital Guidelines was to “achieve greater consistency in the evaluation of the capital adequacy of major banks throughout the world.” The Capital Guidelines apply a risk weighting to different categories of on and off balance sheet assets, and compare each institution's total risk adjusted assets to total qualifying capital. In early 1989, the FRB implemented the “Final Risk-Based Capital Guidelines for State Member Banks and Bank Holding Companies.” In the early 1990s, BASLE recognized the need to develop risk management principals for market

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The Basle Committee on Banking Supervision ... encompasses three main areas. Firstly, the Committee provides a forum for discussion on the handling of specific supervisory problems. Secondly, it coordinates the sharing of supervisory responsibilities among national authorities in respect of banks’ foreign establishments with the aim of ensuring effective supervision of banks' activities worldwide ... Thirdly, it seeks to enhance standards of supervision, notably in relation to solvency, so as to help strengthen the soundness and stability of international banking ... The best known of these is the agreement in 1988 to achieve international convergence in the measurement of the adequacy of banks' capital and to establish minimum capital standards.

Id.

   i. Make regulatory capital requirements more sensitive to differences in risk profiles among banks,
   ii. Factor off balance sheet exposures into the assessment of capital adequacy,
   iii. Minimize disincentives to holding liquid, low risk assets, and
   iv. Achieve greater consistency in the evaluation of the capital adequacy of major banks throughout the world.

Id.


15. Id.
risks. Banks and securities firms are exposed to market risks through their trading activities. Market risk is the "potential for financial losses due to the increase or decrease in the value or price of an asset resulting from broad movements in prices, such as interest rates, commodity prices, stock prices, or the relative value of currencies (foreign exchange)." Because all financial firms hold assets, they all encounter market risks. However, they may not all encounter all types of market risks. Market risk occurs when the price of an equity security declines based upon concerns regarding the financial performance of the corporate issuer, or when a fixed income security declines in value based upon a change in interest rates.

In January 1996, the world's twelve major financial centers as members of the BIS signed the Basle Accord to Incorporate Market Risk. In order to manage market risk by setting regulatory capital requirements for trading positions, BASLE used the building block approach and the VAR approach to develop two alternative methodologies. The building block approach assigns "risk charges to specific instruments and specifies how these charges must be aggregated into an overall market risk capital requirement." Based on the building block approach, BASLE developed its standardized methodology which established fixed risk charges and mandatory calculations to ascertain a bank's regulatory capital requirement. As an alternative to the building block approach's fixed capital charges, the VAR approach allows a bank's internal risk measurement model to produce potential loss estimates. Based

17. GAO Report, supra note 2, at 23.
18. See id.
19. See id.
21. See id.
22. See Basle Committee on Banking Supervision, Amendment to the Capital Accord to Incorporate Market Risks (last modified Sept. 1997) <http://www.bis.org/publ/bcbs24a.htm> [hereinafter BASLE Accord].
24. See id. VAR refers to the following: 1) the risk management philosophy of computing the maximum possible loss through modeling techniques in an
upon the VAR approach, BASLE developed its internal model methodology which allows banks to use their proprietary models to measure capital provided that the model satisfies minimum standards and receives the national banking regulator's approval. In its 1996 proposal, BASLE determined that a bank would be permitted to choose between the standardized methodology and the internal model methodology.

B. Approaches to Market Risk

1. The Building Block Approach-BASLE's Standardized Methodology

The BASLE Committee first developed the standardized methodology for measuring market risks based upon the building block approach. The building block approach sets capital requirements by isolating broad classes of risk such as interest rate, equity position, foreign exchange and commodities risk. Each category of risk is attributed a "separately calculated charge." The specific risk applies to each security whether "it is a short or long position." Specific risk reflects the changes in the market value of an institution's individual holdings such as the creditor risk of an instrument's issuer. The general market risk charge applies to each security and the "long and short positions in different securities can be offset." General market risk reflects changes associated "with global capital markets or world economies." These broad market movements may affect the general level of interest rates, equity prices, foreign exchange rates and commodity prices. The total capital requirement reflects the sum of institution's portfolio, and 2) the actual maximum possible loss. I have attempted to distinguish the different meanings of VAR by referring to BASLE's interpretation of VAR as the "internal model methodology." Id.

25. See BASLE Accord, supra note 22, at 44.
26. See id. at 3.
27. See SCOTT & WELLONS, supra note 16, at 259.
28. See GAO REPORT, supra note 2, at 94.
29. BASLE Accord, supra note 22, at 9.
30. Id.
31. See GAO REPORT, supra note 2, at 50.
32. Id.
33. Id.
34. See id. at 49 n.18.
both general and specific risk. For example, using the standardized methodology for equity position risk, a liquid and well-diversified portfolio will have a specific capital charge of 4%. Otherwise, the capital charge will be 8%. The general market risk charge for equity is 8%.

The EU issued the Capital Adequacy Directive (CAD) "nearly contemporaneously" with the BASLE proposal. The CAD espoused the same building block approach and standardized methodology as BASLE. The CAD attempted to create a "level playing field" for both securities firms and banks by treating banks’ securities portfolios and securities firms’ proprietary positions in the same manner. Furthermore, the CAD attempted to harmonize the rules regulating banks and securities firms in EU countries to stabilize the EU market. The major difference between CAD and BASLE is the selection of equity capital charges for specific risks. The CAD provides a 2% capital charge for diversified and liquid portfolios and a 4% capital charge for undiversified and illiquid portfolios.

While both BASLE and the EU adopted the building block approach, strong criticism of this approach propelled the FRB to abandon it as an alternative to the internal model meth-

35. See id. at 51.
36. See id.
37. See BASLE Accord, supra note 22, at 19.
39. See Council Directive 93/6, 1993 O.J. (L 141) 1 [hereinafter CAD]. Prior to the CAD, UK regulators utilized the portfolio approach to regulating capital adequacy. See SCOTT & WELLONS, supra note 16, at 267. This approach "lowers capital requirements as a portfolio of securities becomes increasingly balanced in long and short positions and increasingly diversified." Id. The portfolio approach recognizes how by "netting long and short positions in the same stock, which hedges market risk, and by determining the extent to which a portfolio is diversified." Id. at 268. The residual risk, is the "function of each security’s share in the portfolio and the relationship between returns on each security in the portfolio." Id. Since the parameters for a portfolio for 2000 stocks may be extensive, the cost to implement the theory was great. See id. Thus, the UK regulators simplified the parameters. This method of calculating capital requires less capital than the building block approach. See id.
41. See Norton & Olive, supra note 38, at 300.
42. See SCOTT & WELLONS, supra note 16, at 260; CAD, supra note 39.
In the FRB’s concept release proposing both the standardized methodology and the internal model methodology, “several commentaries expressed concerns about the accuracy of the standardized approach and urged for its elimination.”44 These critics of the internal model methodology believed that “inaccurate estimates of the risk exposures” could lead to reduced “economic efficiency by distorting banks’ investment decisions and creating incentives for unproductive regulatory arbitrage activities.”45 In the final rule, the U.S. banking agencies stated that they “concur with commentaries that an institution with significant exposure to market risk can most accurately measure that risk using the detailed information available to the institution about its particular portfolio processed by its own risk measurement model.”46 By abandoning the building block approach, the FRB acknowledged that “no single or specific technique is best for everyone.”47 Another major criticism of the building block approach involved its treatment of derivatives. The building block approach (as well as the internal model methodology) does not account for netting arrangements and relies upon notional values which makes it ill suited for derivative positions.48 Therefore, the enormous growth of derivatives also propelled the development of a risk management approach (VAR) that could handle derivative positions.49

2. The VAR Approach and BASLE’s Internal Model Methodology

The VAR approach represents an estimate of the maximum amount by which the value of an “institution’s positions could decline due to general market movements during a fixed holding period, measured with a specific confidence level.”50

43. See Market Risk, supra note 12, at 47,362.
45. Id.
46. Market Risk, supra note 12, at 47,362.
49. See id. at 8. Dowd argues that the growth of derivatives instruments was one of the reasons for the development of VAR risk management. Id.
50. GAO REPORT, supra note 2, at 50. The holding period is the period of rate
The VAR approach permits the use of various modeling techniques such as the variance-covariance matrices, historical simulations or Monte Carlo simulations. Based upon the VAR approach, BASLE developed the internal model methodology. However, BASLE set specific minimum standards for each institution's internal model.

The BASLE Committee set minimum qualitative requirements for the internal model methodology. Supervisors would authorize banks based on the following: an active independent risk control unit with actively involved directors and senior managers, a model closely integrated to daily risk management, regular stress tests for exceptional plausible conditions, thorough compliance procedures, and regular internal review by the bank's internal audit unit. The qualitative standards would ensure that the VAR models are "conceptually sound and implemented with integrity."

BASLE also required quantitative requirements to ensure that the "capital charges are sufficiently consistent with institutions with similar exposures." While the standardized methodology applies fixed capital charges for each risk category, the internal model methodology calculates the required capital charge as a "conservative estimate of possible losses due to market volatility." The internal model methodology specifies common parameters such as: daily calculation of VAR, assumed holding period of 10 days, a 99% confidence level, the use of empirically verified correlation between and across risk types, and the use of one year of historic data, with data updated every three months. Thus, the computation for the

and price movements upon which the model is based. The confidence level refers to the specific probability of the profit and loss distribution occurring, thus a 99% confidence level means that the VAR estimate covers all but the largest 1% of losses. See DOWD, supra note 48, at 39.

51. See DOWD, supra note 48, at table of contents. See also BASLE Accord, supra note 22, at 44.

52. See generally Norton & Olive, supra note 38, at 303.
53. BASLE Accord, supra note 22, at 38, 39.
55. BASLE Accord, supra note 22, at 39.
56. GAO REPORT, supra note 2, at 51.
57. See id.
58. Id. at 51 n.22.
59. See BASLE Accord, supra note 22, at 44. "The supervisory authority may
VAR would be the previous day's value at risk and the average daily value at risk of the preceding sixty days multiplied by a minimum multiplier of three. 60 BASLE participants believed that "modeling oversimplifies volatilities" because "VAR estimates use end-of-day positions and miss intra-day trading risk" causing models to miss "exceptional circumstances." 61 The internal model methodology requires that institutions multiply the VAR by three or more "to adjust for these shortcomings." 62

The internal model methodology also requires that the internal model contain an appropriate set of general market risk factors such as interest rates, equity prices, exchange rates and commodity prices, and the specific "market rates and prices that affect the value of the bank's trading positions." 63 Institutions must also have a "rigorous and comprehensive stress testing program" to "identify events or influences that could greatly impact" their portfolios. 64 The internal model methodology sets out how the stress test should be conducted: to cover extraordinary losses and gains, quantitative and qualitative in nature, and "combine the use of supervisory stress scenarios with stress tests developed banks themselves." 65

In August 1996, U.S. bank regulators amended their capital standards with measures for market risk based largely on the internal model methodology recommended by the BASLE Committee. 66 The new rules took effect January 1, 1997. 67 As
permitted by the BASLE Accord, the FRB permitted only the internal model methodology to be used.\footnote{68}

The EC did not reach political agreement regarding the internal model methodology until December 1997 (CAD II).\footnote{69}

\footnote{67. See id. The purpose section states the general application of the regulation.}

\footnote{68. See id. However, the banking agencies recently changed the calculations for specific risk so that all aspects of the internal model's methodology would utilize the bank's internal model. When the agencies initially adopted the market risk rules, an institution using its internal model to measure specific risk was required to hold capital for specific risk equal to at least 50 percent of the specific risk charge calculated using the standardized approach (minimum specific risk charge). If a portion of the institution's VAR attributable to specific risk did not equal the minimum specific risk charge, the institution's VAR based capital charge was subject to an add on charge of the difference between the two. In practice, this required an institution employing an internal model to measure specific risk to also calculate the specific risk charge using a standardized approach. When the agencies included the minimum specific risk charge as part of the market risk rules, they recognized that dual calculations of specific risk—that is, calculating specific risk with internal models as well as using the standardized approach to establish the minimum specific risk charge—would be burdensome. However, the agencies' decision to include the minimum specific risk charge was consistent with the Basle Committee's belief that a minimum charge was necessary to ensure that modeling techniques for specific risk adequately measured that risk. After the Basle Committee adopted the market risk amendment, many institutions improved their modeling techniques and, in particular, their modeling of specific risk. Recognizing these improvements in September 1997 the Basle Committee decided to eliminate the use of the minimum specific risk charge and the burden of a separate calculation. The Basle Committee revised the market risk amendment so that an institution using a valid internal model to measure specific risk could use the VAR measures generated by the model without comparing the model-generated results to the minimum specific risk charge calculated under the standardized approach. The revisions specified that the specific risk elements of such models through backtesting and review by the relevant agency. See Risk-Based Capital Standards: Market Risk, 64 Fed. Reg. 19,034, 19,035 (1999).}

\footnote{69. See SCOTT & WELLONS, supra note 16, at 276.}
On June 22, 1998, the EC passed CAD II to allow institutions to develop "their own risk-management systems (internal models) designed to measure more accurately than the standardized method the market risks incurred by investment firms and credit institutions."70

The major criticism of BASLE's internal model methodology has been the 3x multiplier applied to the VAR. In a General Accounting Office (GAO) study, several bankers commented that the new requirement requires "unrealistic levels of capital due to the multipliers imposed on the bank's internal model."71 While weighing the pros and cons of the multiplier approach, an IOSCO study remarked that the multiplier may "encourage firms that would otherwise take a conservative approach to calculating VAR to be less conservative in order to reduce the impact of the multiplier."72 Therefore, the multiplier could create a "perverse incentive to design a model to minimize the regulatory effects rather than optimize its use as a risk management tool."73 Thus, the particular multiplier "is open to the charge that it is arbitrary."74 One commentator even referred to the multiplier as the "hysteric factor."75 Described as "pulled out of thin air," the commentator alleges that "industry legend" claims that the number arose as a "compromise between U.S. regulatory authorities who wanted a multiplier of one and German authorities who wanted a multiplier of five."76 Finally, industry participants have observed that the models are "limited by the quality of the data available, the computation power available, and the ability of analysts to develop mathematical models to accurately reflect financial risks and returns as economic conditions change."77 Regulators have echoed this concern regarding the "dependability of the results from the firms' risk measurement systems, in terms of the accuracy of the results and the transpar-

71. GAO REPORT, supra note 2, at 69.
73. Id.
74. Id.
75. DOWD, supra note 48, at 213.
76. Id.
77. GAO REPORT, supra note 2, at 82.
ency in the firms' use of internal models.\textsuperscript{78}

3. The VAR Approach—Pre-Commitment Approach

In response to a perceived high level of capital required by the internal model methodology, some regulators have expressed concerns regarding the bank's incentive to implement accurate internal models.\textsuperscript{79} Due to this concern, the FRB proposed an alternative to the internal model methodology, the Pre-Commitment Approach (PCA).\textsuperscript{80} The PCA would provide "an explicit incentive mechanism for committing adequate capital to cover a level of market risk that is known only to the bank."\textsuperscript{81} Using the bank's proprietary model to develop its value at risk in its trading portfolio, the PCA allows banks "to pre-commit to a maximum loss exposure."\textsuperscript{82} Under the PCA, the bank would "specify an amount of capital it believed was adequate to cover its risk exposure over a fixed subsequent interval and would commit to manage its trading portfolio to limit losses over the interval to this amount."\textsuperscript{83} If the bank's losses exceed the pre-committed amount, the bank would "face penalties that could range from public disclosure to additional capital requirements or monetary fines."\textsuperscript{84} This maximum loss pre-commitment would be the bank's market risk capital charge rather than developing the capital charge through the internal model methodology.\textsuperscript{85} Several representatives of the U.S. bank regulatory agencies have cited the PCA as a proposed method because it provides banks with an "incentive" to establish the capital adequacy level in a "prudent fashion."\textsuperscript{86}

\textsuperscript{78} Id. at 97.
\textsuperscript{79} See Kupiec & O'Brien, supra note 23, at 3.
\textsuperscript{80} See id. at 31.
\textsuperscript{81} Id.
\textsuperscript{82} Id.
\textsuperscript{83} GAO REPORT, supra note 2, at 110.
\textsuperscript{84} Id.
\textsuperscript{85} See id.
\textsuperscript{86} See Phillips & Rechtschaffen, supra note 47, at 1756. See also Jill Considine, Pilot Exercise—Pre-Commitment Approach to Market Risk, 4 FED. RESERVE BANK N.Y. ECON. POL'Y R. (Oct. 1998). Ten banking organizations participated in a pilot for this approach to capital requirements for market risks. They were: BankAmerica Corp., Bankers Trust New York Corp., Chase Manhattan Corp., Citicorp, First Chicago NBD Corp., First Union Corp., Fuji Bank Ltd., JP Morgan & Co., NationsBank Corp., and Swiss Bank Corp. See id. The Pilot demonstrated that the Pre-Commitment Approach "is a viable alternative to the inter-
The PCA may be criticized for its counterproductive impact on banks during stressful market conditions. In addition, an "appropriate penalty" must present an adequate deterrent to future unlawful activity. Therefore, the penalty must be "bank specific" and "depends on characteristics that regulators cannot precisely measure." Finally, the PCA also assumes a "forward looking" reaction to "potential penalties." Weak banks may not be deterred by "future penalties that, in the extreme, might not be enforceable if the bank is insolvent."  

4. The Comprehensive Approach  

The SEC's approach to capital requirements (comprehensive approach) reflects its "emphasis on customer protection" to ensure that "broker-dealers have adequate liquid assets to meet their obligations to investors and creditors." The SEC protects the "liquidation value" of the firm rather than "going concern" valuation. The SEC's Net Capital Rule (15c3-1) computes capital as "net worth" less deductions (haircuts) for securities positions "minus non-liquid assets, like buildings, plus certain subordinated debt." Haircuts are "designed to provide protection from the market risk, credit risk, and other risks inherent in various positions." Securities are valued at market price (marked to market). The theory behind the hair-

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87. See GAO REPORT, supra note 2, at 111.  
88. Id.  
89. Id.  
90. Id.  
91. Id.  
92. SCOTT & WELLONS, supra note 16, at 263; See also Norton & Olive, supra note 38, at 307 (referring to 17 C.F.R. § 240.15c3-1).  
93. SCOTT & WILLIAMS, supra note 16, at 263.  
94. Worth, supra note 40, at 147 (citing 17 C.F.R. § 240.15c3-1).  
cuts is that by discounting the value of a broker-dealer’s proprietary positions, a capital cushion will be provided in case the value of the broker-dealer’s portfolio declines. There are two types of financial ratio computations specified: (1) an “aggregate indebtedness standard” which generally prohibits the broker or dealer from permitting its aggregate indebtedness to exceed 1500% of its net capital and (2) an “alternative standard” which requires that a broker not permit its net capital to be less than the greater of $250,000 or 2% of aggregate debit items to be computed under the rule. A broker dealer who carries customer accounts must also maintain net capital of not less than $250,000. The SEC also has rules that require the segregation of customer funds from firms’ funds. The SEC rule complements the Net Capital Rule and is designed to prevent the misallocation or misuse of customer funds and securities.

As conceded by the SEC, the critical weakness of the comprehensive approach is its failure to recognize several “specified hedging activities” and “historical correlations between foreign securities and U.S. securities” or “between equity securities and debt securities.” By failing to recognize these offsets, the haircut method “may cause firms with large, diverse

96. See id. Thus, the Rule “requires a broker dealer to compute its haircuts by multiplying the market value of its securities positions by prescribed percentages.” Id. at 3. For example, a broker-dealer’s haircut for equity securities is equal to 15 percent of the market value of the greater of the long or short equity position plus 15 percent of the market value of the lesser position, but only to the extent this position exceeds 25 percent of the greater position. In contrast to the uniform haircut for equity securities, the haircuts for several types of interest rate sensitive securities, such as government securities, are directly related to the time remaining until the particular security matures. The Rule uses a sliding scale of haircut percentages with these securities because changes in interest rates will usually have a greater impact on the price of securities with longer remaining maturities compared to those securities with shorter remaining maturities.

97. See Richard W. Jennings et al., Securities Regulation 692-93 (8th ed. 1998) (citing rule 17 C.F.R. § 240.15c3-1(a)(1)(i) & (ii)).
98. See id. (citing rule 17 C.F.R. § 240.15c3-1(a)(2)(ii)).
100. See id.
101. Net Capital Rule, supra note 95, at 12.
portfolios to reserve capital that actually overcompensates for market risk.\textsuperscript{102}

C. Failure of IOSCO

Based upon the success of BASLE and the divergent capital adequacy requirements between the United States and EU securities firms, IOSCO\textsuperscript{103} accelerated its efforts to coordinate its positions on capital adequacy with other international regulatory authorities in the 1990s.\textsuperscript{104} In 1993, IOSCO's Technical Committee indicated to BASLE that "it would adopt the building block approach to capital adequacy."\textsuperscript{105} The SEC also indicated that it would not "oppose this approach as a minimum standard but would retain its current Net Capital Rule for equities which would require a higher standard."\textsuperscript{106}

However, at a subsequent meeting, SEC Chairman Richard Breeden called IOSCO's proposal "highly unsafe."\textsuperscript{107} This "notable battle" pitted the SEC Chairman against the other members of IOSCO, primarily the European countries.\textsuperscript{108} The disagreement involved how the haircut should be applied to equity securities in a securities firm's portfolio when calculating the net capital.\textsuperscript{109} Chairman Breeden believed that the building block approach espoused by BASLE and IOSCO "would result in a significant weakening of the protection against insolvency of securities firms."\textsuperscript{110} According to one

\textsuperscript{102} Id. In the GAO REPORT, supra note 2, at 69, industry officials stated that "the current net capital rule does not deal well with hedging or other risk reducing strategies which are based on price volatility and correlation." The 100% haircut rule can only "allow limited types of hedges without becoming unreasonably complicated." Id.

\textsuperscript{103} See IOSCO, supra note 9.

\textsuperscript{104} See BLOOMENTHAL, supra note 1, § 27.72.

\textsuperscript{105} Id.

\textsuperscript{106} Id.

\textsuperscript{107} See id.


\textsuperscript{109} See Kang, supra note 108, at 242.

\textsuperscript{110} Id. See also SCOTT & WELLONS, supra note 16, at 261. Apparently, Chairman Breeden suggested that the BASLE Committee was "partially responsible for the recession in the early 1990s." David Zaring, International Law by Other Means: The Twilight Existence of International Financial Regulatory Organizations, 33 TEX. INT'L L.J. 281, 283 (1998).
commentator, "the SEC's refusal to endorse the standards proposed by IOSCO has harmed the organization severely."\textsuperscript{111} IOSCO has not achieved any regulatory success in implementing global capital adequacy standards for securities firms.\textsuperscript{112} Therefore, the efforts of banking and securities regulators toward regulatory convergence in the area of market risk management have been described as "unbalanced."\textsuperscript{113} IOSCO abandoned its effort to harmonize these standards and has focused on supervisory reports for securities firms and regulators.\textsuperscript{114} IOSCO recently published a study "to provide guidance to those supervisors which have decided in principle that VAR models for market risk have a part to play in their regulatory framework."\textsuperscript{115} However, IOSCO made it clear that "IOSCO is not by means of this paper seeking to endorse the

\textsuperscript{111} Licht, supra note 4, at 128.

\textsuperscript{112} See Zaring, supra note 110, at 295.


\textsuperscript{114} See Zaring, supra note 110, at 295. For a different interpretation of the EU's adoption of the CAD, see Barbara Matthews, Capital Adequacy, Netting and Derivatives, 2 Stan. J. L. Bus. & Fin. 167 (1995).

In 1988, two countries devised an approach to capital adequacy for which they sought international acceptance through the BASLE Committee process. By [the] early 1990s however, BASLE Committee members began seeking to conclude the debate (and/or strengthen their bargaining position) by issuing potentially preemptive national legal rules prior to the development by the BASLE Committee of an international consensus. For example, because EU member states comprise the majority of votes on the BASLE Committee, agreement within the EU before the agreement in BASLE could shape the substance and structure of internationally agreed bank supervision rules that will likely be implemented widely both within and outside the EU. In contrast, the individual states of the U.S. do not participate and vote in the BASLE Committee. In this manner, the BASLE process may provide the EU with the impetus to move quickly on the issue in order to simultaneously increase EU bargaining power and to decrease EU member state flexibility in BASLE. The pre-emption occurred in March 1993, when the EU promulgated the capital adequacy directive which issued final capital adequacy rules for market risks incurred by banks and other financial institutions through their trading activities.

particular standards laid down in BASLE and CAD II."\textsuperscript{116}

\textbf{D. SEC Concept Release, Net Capital Rule \& OTC Derivatives Dealers}

In the SEC's concept release, Net Capital Rule, the SEC announced proposed amendments to the Net Capital Rule.\textsuperscript{117} First, the SEC proposed modifying the current haircut approach to incorporate the use of VAR models for interest bearing instruments to allow for the correlations and hedges in a firm's fixed income portfolio.\textsuperscript{118} The proposed amendments are intended to "better match capital charges with actual market risk hedging practices employed by broker-dealers."\textsuperscript{119} Second, the SEC proposed to relax margin requirements and to adopt the VAR approach to capital adequacy for OTC Derivatives Dealers.\textsuperscript{120} The SEC eventually passed the OTC Derivatives Dealers rule, hoping to encourage broker-dealers to register as derivatives dealers under 15(b) of the Exchange Act.\textsuperscript{121} However, the SEC has not promulgated a rule to amend the capital requirements for interest bearing instruments or equities.

The OTC Derivatives Dealers rule allows for "a form of limited broker-dealer regulation that would give firms an op-

\textsuperscript{116} Id.
\textsuperscript{117} See Net Capital Rule, \textit{supra} note 95.
\textsuperscript{118} See \textit{id.} at 12, 14-17. In December 1997, the SEC proposed to adopt a standard similar to the BIS building block method to calculate capital for market risk on interest bearing instruments.

The amendments proposed in this release would change the haircuts applicable to most interest rate instruments held in a broker-dealer's proprietary account. The proposed amendments are on Banking Supervision in its amendments to the BASLE Capital Accord for market risk arising from interest rate products. The Proposed Amendments would treat most types of interest rate products as part of a single portfolio. Under the Proposed Amendments, the net capital rule would recognize various hedges among a portfolio of government securities, investment grade non convertible debt securities, pass through Mortgage Backed Securities, repurchase and reverse repurchase agreements. The amendments should better match capital charges with actual risk hedging practices employed by broker dealers.

\textsuperscript{119} GAO REPORT, \textit{supra} note 2, at 108.
\textsuperscript{120} See Net Capital Rule, \textit{supra} note 95.
opportunity to conduct business in a vehicle subject to modified regulation appropriate to the OTC derivatives market.\footnote{122} The new rule went into effect on January 4, 1999.\footnote{123} The SEC adopted “rules and rule amendments that will allow U.S. securities firms to establish separately capitalized entities that may engage in dealer activities in eligible OTC derivative instruments, which include both securities and non-securities OTC derivative instruments.”\footnote{124} These margin requirements allow securities firms to be authorized by the Commission to use VAR models\footnote{125} to calculate capital charges for market risk.\footnote{126} An OTC Derivatives Dealer’s VAR model must “meet certain qualitative and quantitative requirements” currently followed by the U.S. banking agencies.\footnote{127}

With this new rule, the SEC acknowledged the effects of excessive regulation in a competitive global marketplace. OTC derivatives are mobile and profitable.\footnote{128} Rather than derivatives dealers enduring the stringent Net Capital Rule, firms have divided “their activities, placing non-securities activities in separate, unregistered affiliates located in the United States, and conducting their securities activities abroad.”\footnote{129} In a GAO study, industry officials also commented that the

\begin{footnotes}
\item[122] Id.
\item[123] See id.
\item[124] Id.
\item[125] Id.
\item[127] Id. (emphasis added).
\item[129] Id.
\end{footnotes}
Net Capital Rule “constrains business decisions” and forces some institutions to conduct derivatives businesses “in unregulated entities due to the high haircuts imposed by the Net Capital Rule.”\textsuperscript{130} The SEC conceded that “fragmenting a firm’s OTC derivatives business in this manner may hinder its ability to manage risk and compete for business.”\textsuperscript{131} The Securities Industry Association (SIA) warmly embraced the changes to the Net Capital Rule as “a major step by recognizing that reform was needed to make U.S. firms competitive in this important market segment.”\textsuperscript{132} The SEC also acknowledged the influence of IOSCO in its decision to change capital requirements from the Net Capital Rule to the VAR approach used by BASLE and the FRB.\textsuperscript{133}

On November 12, 1999, Congress also passed the Gramm-Leach-Bliley Act, Financial Modernization Act of 1999 (FMA) to “enhance competition in the financial services industry.”\textsuperscript{134} The bill allows “banks and securities firms to affiliate through a ‘financial holding company’ structure—the Federal Reserve will serve as the so-called ‘umbrella’ regulator, but the affiliates will be subject to functional regulation.”\textsuperscript{135} In addition, banks that meet certain requirements (i.e., well managed, well capitalized) will be able to establish “a new type of bank subsidiary to engage in securities underwriting.”\textsuperscript{136} This new bank subsidiary will be able to engage in “activities that are financial in nature” as provided by the Secretary of the Treasury.\textsuperscript{137} In addition, the FRB will “apply capital and managerial standards comparable to those pertaining to U.S. banking

\begin{thebibliography}{9}
\bibitem{130} GAO REPORT, supra note 2, at 69.
\bibitem{131} Final Rule, supra note 121, at 6.
\bibitem{133} \textit{See} Final Rule, supra note 121 (amendment to rule 17 C.F.R. § 240.15c3-1, reasons for allowing OTC Derivatives Dealers to use Value at Risk Models).
\bibitem{134} Gramm-Leach-Bliley Act, supra note 3.
\bibitem{136} \textit{Id.}
\bibitem{137} Gramm-Leach-Bliley Act, supra note 3.
\end{thebibliography}
organsiations."138 In response to the new statute, some commentators have "questioned whether independent securities firms can survive in this environment."139

While the SEC's OTC Derivatives Dealers rule suggests that there may be hope for the harmonization of capital adequacy rules between U.S. and EU securities firms in the future, U.S. broker-dealers' activities (not subject to the OTC Derivatives Dealers option) are still subject to the Net Capital Rule.140 By adhering to BASLE's internal model methodology which requires less capital than the Net Capital Rule, EU securities firms and banks and U.S. banks maintain an unfair advantage of additional capital for proprietary trading, underwriting activities and derivatives transactions. Since the FMA will allow U.S. and foreign banks to participate in underwriting securities, U.S. securities firms will face additional pressure. In addition, the OTC Derivatives Dealers rule only provides broker-dealers with the "option" to register derivative subsidiaries with the Commission under 15(b).141 Therefore, U.S. broker-dealers may still maintain separately capitalized entities off shore to conduct derivatives activities beyond the purview of regulators. Finally, without global capital adequacy standards for securities firms, the world financial system remains exposed to the systemic risk created by undercapitalized brokerage firms.

II. THE GOALS OF HARMONIZING CAPITAL ADEQUACY STANDARDS

There are two arguments in support of harmonization of capital adequacy standards. One, given the dynamic nature of contemporary capital markets, uniform capital adequacy acts as a preventive measure against systemic risk. Second, securities regulators must seek to achieve the appropriate balance between responsible regulation and fair competition. Capital adequacy must be in place to protect investors and prevent the "race to the bottom," but the regulation must not be so obtru-

139. Johnson, supra note 135.
140. See SCOTT & WELLONS, supra note 16, at 266.
141. See Final Rule, supra note 121.
sive as to prevent securities firms from competing with other jurisdictions and other financial institutions within their own jurisdiction.

A. Preventing Systemic Risk

Systemic risk is the risk that one party’s inability to meet its obligations could cause a domino effect amongst other parties, causing the other parties to default on their obligations.\textsuperscript{142} Systemic risks arise because “enhanced linkages across national and international financial markets increase the volatility of capital flows,” thus creating the “potential for concentrated disturbances.”\textsuperscript{143} Therefore, the entire financial system becomes exposed to the losses of one financial conglomerate.\textsuperscript{144} These losses may emerge initially in firms, domestic financial markets, international financial markets or the global economy.\textsuperscript{145} Therefore, a principal reason to harmonize capital adequacy is to prevent a “global financial meltdown by minimizing systemic risks.”\textsuperscript{146}

Recent world events provide various examples of “global financial meltdowns.” The Mexican liquidity crisis destabilized world markets from December 1994 through February 1995.\textsuperscript{147} Unsound bank lending activities and widespread market losses “contributed to bank difficulties and currency devaluation” throughout Asia in 1997.\textsuperscript{148} As Asian markets collapsed in October 1997, the effects reached the U.S. stock market which “suffered its most severe single day point decline in history, triggering circuit breakers and shutting down the New York Stock Exchange.”\textsuperscript{149} Another recent example is the Long Term Capital Management (LTCM) crisis, triggered in part by the Russian bond default. Federal banking regulators


\textsuperscript{143} Norton, supra note 113, at 141.


\textsuperscript{145} See id.

\textsuperscript{146} Worth, supra note 40.

\textsuperscript{147} See id.

\textsuperscript{148} Phillips & Rechtschaffen, supra note 47, at 1755.

\textsuperscript{149} Id.
assisted in the private rescue of the hedge fund "to avoid the distortions to market processes" created by "a fire-sale liquidation and the consequent spreading of those distortions." These distortions would have been created by the closing out of "hundreds of billions of dollars in transactions," moving markets, and an inability to "liquidate collateral or establish offsetting positions at the previously existing prices." These events could have generated several billion dollars of losses by LTCM's seventy five counterparties. These examples of the "interdependence and volatility of securities markets" provide a compelling argument for why "adequate prudential supervision of securities dealers active in the international financial markets" is as critical as the "prudential supervision of the credit and transaction risks undertaken by international banks." Thus, market losses created by the emerging economies debt crisis or other market disturbances may create large losses in brokerage firms, potentially jeopardizing investor funds. Japan, one of the world's leading capital markets, provides an example of large scale brokerage failures. In early 1997, Japan's fourth largest brokerage firm, Yamiachi Securities, and its seventh largest broker, Sanyo Securities, closed due to large losses. These recent events certainly create an incentive to strengthen international bro-


152. See id.


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B. Achieving a Balance Between Responsible Regulation and Fair Competition

Without global capital adequacy standards for securities firms, brokers in search of new markets will migrate to countries with less developed, unsafe or unenforced regulatory standards, “thereby damaging the safety and soundness of financial markets.” Regulators fear that regulatory competition could amount to “a race to the bottom” and “reduce securities regulation to a point where investors do not receive effective protection.” An example of such danger is Japan’s recent actions within its securities industry. Japan’s current securities regulatory regime has presented a danger to foreign securities firms. Foreign brokers expressed concern over joining a fund to protect the industry from brokerage failures “because it does not require brokers to segregate client assets from brokerage assets.” Smaller Japanese brokerage houses have “long used assets held on behalf of their clients as working capital,” thus foreign brokers are “concerned with expenditures to pay for losses incurred by the smaller brokerage firms.” A global standard for computing regulatory capital for securities firms would prevent such reliance on customer funds.

In addition, the continued “regulatory attempts to maintain segmented regulation between international banks and...
securities firms" will only shift activities to "more favorable jurisdictions" where it is cheaper to conduct business.\(^{161}\) The SEC's Net Capital Rule "impacts heavily on U.S. broker-dealers because they cannot easily hold securities."\(^{162}\) The Net Capital Rule "writes down such investments to a fraction of their market value."\(^{163}\) The rule also restricts the entrance into the securities industry by imposing high minimum capital requirements on broker dealers.\(^{164}\) However, the SEC recently acknowledged the costs of the lack of global harmonization of capital standards. Therefore, the SEC has begun to acknowledge that the "unilateral approach" may have some unintended anti-competitive results. Thus, as capital markets continue to innovate by creating new financial instruments, global harmonization may be the only alternative to maintaining competitive capital markets (within the purview of the SEC, of course) in the United States. Furthermore, a change in the Net Capital Rule would promote capital formation by reducing capital charges for well hedged portfolios and by better reflecting the hedging strategies actually used by broker-dealers.\(^{165}\) This should allow broker-dealers greater freedom to invest assets or support underwritings, thereby promoting capital formation.\(^{166}\) In addition, the new financial structures allowed by the FMA will present a challenge to the survival of independent securities firms who have higher capital requirements than their banking competitors. SEC Commissioner Norman S. Johnson conceded that some firms "may try to move different business segments to benefit from what they would regard as a more favorable regulatory environment."\(^{167}\) Although such a "business strategy" may be "unfortunate," it may certainly occur.\(^{168}\)

Finally, countries such as Japan maintain separate banking and securities regulation, therefore, firms may "go unregulated in a country with only a banking regulator" where the

\(^{161}\) Norton, supra note 113, at 143.
\(^{162}\) JENNINGS ET AL., supra note 97, at 692.
\(^{163}\) Id.
\(^{164}\) See id.
\(^{166}\) See id.
\(^{167}\) Johnson, supra note 135.
\(^{168}\) Id.
regulator assumes that the home regulator will regulate the securities activities. Therefore, uniform capital requirements for all securities firms would prevent such omission by regulators and would insure consistent and responsible capital adequacy.

A global capital adequacy standard remains necessary to avoid systemic risk. As recently demonstrated by various Japanese brokerage failures, the Asian currency crisis and LTCM, such events have a large impact on the world economy. Uniform capital adequacy rules for securities firms will protect investors and also promote fair competition between countries. As encouraged by the SIA, changes such as these are necessary to keep the U.S. competitive in the global capital markets.

III. HARMONIZATION MAY BE ACHIEVED BY IMPLEMENTING THE VAR APPROACH BY ADOPTING BASLE’S INTERNAL MODEL METHODOLOGY

BASLE’s internal model methodology may act as a protective measure against systemic risk, prevent global regulatory arbitrage and promote fair competition. The internal model methodology presents an improvement over the inflexibility of the standardized methodology and does not require the excessive capital demanded by the comprehensive approach. Due to enforcement issues, the PCA does not present a viable alternative for global securities regulators. Therefore, the internal model methodology should be adopted by securities regulators to achieve global harmonization of capital adequacy rules.

The internal model methodology presents an improvement over the comprehensive approach. As opposed to the comprehensive approach, the internal model methodology recognizes the risk management benefits of hedging and portfolio diversification. As conceded by the SEC, the comprehensive approach overcompensates for market risk, often adversely affecting a securities firm’s ability to compete. The internal model methodology would free up capital for securities firms to be used for trading and underwriting securities. By adopting the internal model approach, a level playing field would be created for U.S. securities firms.

169. Worth, supra note 40.
170. See sources cited supra note 132.
The internal model methodology also presents an improvement over the standardized methodology. First, the internal model methodology may be used for derivatives because it does not rely on notional values and accounts for netting arrangements. While the building block approach fostered concerns for its inaccurate estimates, the internal model methodology has received favorable results as a risk management tool in a BASLE study during the very volatile final two quarters of 1998. The study revealed that the "market risk capital charge provided an adequate buffer against trading losses over this period" and "none of the institutions surveyed reported trading losses over any ten-day consecutive period that exceeded the capital requirement in force at the start of the period." Therefore, the internal model methodology appears to have met the critical risk management purpose: the accurate calculation of necessary capital.

In addition, the internal model methodology presents a more flexible approach than the standardized methodology. The use of the internal model methodology for risk management recognizes that "no single or specific technique is best for


The survey compared daily trading losses to the capital charge for market risk calculated under the internal model approach, and to banks' 99th percentile value-at-risk (VaR) estimate calculated for a one-day holding period; the latter measure is the basis for the Amendment's backtesting procedures. The capital charge is calculated based on the 99th percentile VaR estimate, calculated over a 10-day holding period, and the supervisory multiplier (a number of three or higher). The capital charge would be expressed as the higher of (a) the previous day's VaR measure, calculated based on the above parameters, or (b) the average of the daily VaR measures during the preceding sixty business days, times the multiplier. The Amendment's backtesting framework involves calculating the number of times over the prior 250 business days that observed daily trading losses exceed the bank's one-day, 99% confidence level VaR estimate (so-called "exceptions"). The Amendment directly relates the size of the supervisory multiplier used to calculate the capital charge to the number of exceptions observed in the last of 250 business days. The survey results suggest that the market risk capital charge provided an adequate buffer against trading losses over this period. In particular, none of the institutions surveyed reported trading losses over any ten-day consecutive period that exceeded the capital requirement in force at the start of the period.

Id. (citations omitted).

172. Id. (emphasis omitted).
Banks criticized the standardized approach for not allowing an organization to tailor its risk management to its unique qualities and needs. The internal model methodology allows each institution to tailor its risk management to its unique operations, structure and history. The internal model methodology also allows for "a range of compatible responses to similar situations" that encourage "experimentation, innovation, and growth." By allowing the actual risk takers armed with detailed proprietary information to produce the internal models, more accurate models may be created to manage the industry's market risk. Furthermore, it is the Federal Reserve Chairman's view that "no matter how complex capital requirements become, firms will develop new products to exploit the remaining inevitable distortions in the regulations to lower their capital requirements." Therefore, it makes sense to encourage firms to continue to improve risk management methods rather than to require regulators to catch up with the institution's technology.

While the PCA provides an ostensible solution to concerns that the 3x multiplier will eliminate any incentive for banks to create accurate models, the PCA should not be considered for global capital adequacy standards for securities firms. Critics of the internal model methodology argue that the PCA provides a stronger incentive (for banks) because the PCA "could lower the bank's pre-committed capital requirement and not increase the risk of paying a penalty." Such an approach should not be considered on an international basis. Currently, no international financial regulator exists to enforce a monetary penalty on private actors or to oversee the activities of national regulators who would be enforcing the monetary fines. In difficult economic times, a fine enforced by a national regulator would be interpreted as counterproductive to national economic initiatives. Therefore, regulators would

174. See id.
175. Id.
176. GAO REPORT, supra note 2, at 99.
177. See Kupiec & O'Brien, supra note 23, at 3. The PCA should be addressed since the SEC mentioned a modified pre-commitment feature in its Net Capital Rule concept release. Net Capital Rule, supra note 95, at 18.
have a difficult time enforcing such measures. In addition, each fine must be developed to provide an adequate deterrent to future violations of the capital adequacy rules. Thus, each fine would have to be tailored to address the unique characteristics of the institution. Without international enforcement or oversight, it would be impossible to insure fairness and consistency of the fines. Furthermore, systemic risk remains a key argument for global regulatory convergence. A failing institution may be encouraged to take its chances with remaining capital to bet on the market if it had the ability to make such decisions for capital adequacy. In addition, imposing a penalty after the bankruptcy of a securities firm would only increase the market disruption and losses to creditors, investors or counterparties. For securities regulators, the focus should be to prevent such events from occurring.

Even though critics of the internal model methodology complain that the 3x multiplier leads to excessive capital, arguments may be made that the multiplier safeguards against "unavoidable shortcomings" of this approach. First, the multiplier gives additional capital to protect against "extreme circumstances such as sharp market moves or credit quality deterioration in a whole geographical region." Second, the multiplier gives additional capital against "those risks which are not included in the calculation at all, notably, operational risk." Therefore, until the technology evolves to overcome these shortcomings, a multiplier or some type of cushion to the VAR will be necessary.

By selecting the internal model methodology, the chances of attaining a uniform capital adequacy standard would be improved. Such measures have already been implemented by EU financial firms, U.S. banks and, eventually, U.S. OTC Derivatives Dealers. Therefore, the campaign to adopt the internal model methodology already has influential and vocal supporters. Finally, the world capital markets would have achieved another system of defense against systemic risk and brokerage failures.

With regulators carefully reviewing the internal model,
back testing the model's results and strictly enforcing the quantitative and qualitative standards, securities firms will have adequate incentive to implement the internal model methodology. Should securities firms fail to adhere to the capital adequacy standards, the regulators could impose the stricter of the two: the building block approach or the former approach used in their national jurisdiction. Furthermore, while some industry officials may be unsatisfied with the 3x multiplier as the solution to the limitations of risk management modeling, perhaps this perceived deficiency would present an incentive to improve technology to eventually capture unusual market swings and operational risks.

CONCLUSION

As financial firms become more diverse and global, regulators have to "catch up" with modern international financial market developments.\(^{182}\) This regulatory "catch up" will become urgent for the SEC with the enactment of the FMA. In addition, regulatory "catch up" to implement global capital adequacy standards for securities firms will be critical so securities regulators may fulfill their key mantras: protect investors, protect fair competition and promote an efficient market.

_Elene Spanakos_

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