

Cambridge University Press

978-1-107-00723-9 - The Basel Committee on Banking Supervision: A History of the Early Years, 1974–1997

Charles Goodhart

Frontmatter

[More information](#)

The Basel Committee on Banking Supervision

The Basel Committee on Banking Supervision (BCBS) sets the guidelines for worldwide regulation of banks. It is the forum for agreeing international regulation on the conduct of banking. Based on special access to the archives of the BCBS and interviews with many of its key players, this book tells the story of the early years of the Committee from its foundation in 1974/5 right through until 1997 – the year that marks the watershed between the Basel I Accord on Capital Adequacy and the start of work on Basel II. In addition, the book covers the Concordat, the Market Risk Amendment, the Core Principles of Banking and all other facets of the work of the BCBS. While the book is primarily a record of the history of the BCBS, it also provides an assessment of its actions and efficacy. It is a major contribution to the historical record on banking supervision.

CHARLES GOODHART CBE, FBA is Emeritus Professor of Banking and Finance and a member of the Financial Markets Group at the London School of Economics and Political Science, having previously served as the Group's Deputy Director from 1987 to 2005. From 1985 until his retirement in 2002 he was the Norman Sosnow Professor of Banking and Finance at LSE. Before moving into academia he worked at the Bank of England for seventeen years as a monetary advisor, becoming a chief advisor in 1980.

Cambridge University Press

978-1-107-00723-9 - The Basel Committee on Banking Supervision: A History of the Early Years, 1974–1997

Charles Goodhart

Frontmatter

[More information](#)

The Basel Committee on Banking Supervision

A History of the Early Years, 1974–1997

Charles Goodhart



CAMBRIDGE
UNIVERSITY PRESS

Cambridge University Press

978-1-107-00723-9 - The Basel Committee on Banking Supervision: A History of the Early Years, 1974–1997

Charles Goodhart

Frontmatter

[More information](#)

CAMBRIDGE UNIVERSITY PRESS

Cambridge, New York, Melbourne, Madrid, Cape Town,
Singapore, São Paulo, Delhi, Tokyo, Mexico City

Cambridge University Press

The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press,
New York

www.cambridge.org

Information on this title: www.cambridge.org/9781107007239

© Charles Goodhart 2011

This publication is in copyright. Subject to statutory exception
and to the provisions of relevant collective licensing agreements,
no reproduction of any part may take place without the written
permission of Cambridge University Press.

First published 2011

Printed in the United Kingdom at the University Press, Cambridge

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data

Goodhart, C. A. E. (Charles Albert Eric)

The Basel Committee on Banking Supervision : a history of the early
years, 1974–1997 / Charles Goodhart.

p. cm.

Includes bibliographical references and index.

ISBN 978-1-107-00723-9

1. Banks and banking—State supervision. I. Title.

HG1725.G66 2011

332.1—dc23

2011017975

ISBN 978-1-107-00723-9 Hardback

Cambridge University Press has no responsibility for the persistence or
accuracy of URLs for external or third-party internet websites referred to in
this publication, and does not guarantee that any content on such websites is,
or will remain, accurate or appropriate.

Contents

<i>List of figures</i>	page vii
<i>List of tables</i>	viii
<i>Foreword by Dr Nout Wellink, President of De Nederlandsche Bank, and Chairman of the BCBS</i>	ix
<i>Preface</i>	xi
1 Introduction	1
2 The antecedents of the BCBS	10
3 Modus operandi: Chairmen; Secretariat; members; structure of meetings	51
4 The Concordat	96
5 External and foreign exchange issues	127
6 Capital adequacy and the Basel Accord of 1988	146
7 The Market Risk Amendment	224
8 The Core Principles of Banking Supervision	286
9 Liquidity	317
10 Off-balance-sheet exposures and derivatives	351
11 Other topics addressed by the BCBS	372
12 The relationship of the BCBS with banks and other banking regulators	413
13 Relationships with other non-bank oversight and supervisory bodies	465
14 The legal position of the BCBS	542
15 The international relations of the BCBS	560
	v

Cambridge University Press
978-1-107-00723-9 - The Basel Committee on Banking Supervision: A History of the Early Years, 1974–1997
Charles Goodhart
Frontmatter
[More information](#)

vi	Contents	
16	The BCBS and the social sciences	572
17	Epilogue	581
	<i>Bibliography</i>	583
	<i>Index</i>	589

Figures

3.1 Participation record	<i>page</i> 66
3.2 Number of participants at each meeting	71
9.1 The changing composition of the UK banking system’s assets	334

Tables

3.1 Long-serving members of the BCBS	<i>page</i> 65
3.2 Number of BCBS meetings each year	73
3.3 External issues	79
3.4 Discussions on own regulatory practices	80
3.5 Measuring and influencing bank practices	81
3.6 Scheduled discussions of bank failures	82
3.7 Relationships with other groups connected with financial oversight	82
3.8 Infrastructural issues	83
3.9 General issues	83
4.1 Matrix of suggestions for sharing of responsibilities	98
6.1 Elements of capital in a tiered framework	161
6.2 Suggested tabular format for submitting responses to Secretariat	162

Foreword

In May 2004 Professor Charles Goodhart wrote to the then General Manager of the Bank for International Settlements (BIS), Dr Malcolm Knight, proposing that he would compose a history of the early years of the Basel Committee on Banking Supervision (BCBS), 1975–97, with the cut-off date excluding all discussions on Basel II. He asked for permission to see the files from the archives in the BIS for these years, while at the same time offering to show all his drafts to the relevant central banks and supervisory experts prior to publication, and to take into account their comments.

This was, in several respects, a difficult issue. While the BIS is, in principle, in favour of providing such historical assessments, in practice it does not control the copyright to the archives of the BCBS. The BCBS is a standing committee of the central bank Governors of the G10 countries, who meet at the BIS in Basel. Copyright and access to the archives rests with the BCBS itself and through it to the G10 Governors and central banks.

In the event these central banks, and members of the BCBS, were willing to give permission to view the relevant archives, subject to having the opportunity to review the archives beforehand and to remove from them such documents as they regarded as still being inappropriate for historical reporting in public, as well as having the opportunity to review and to comment on the draft in advance of publication.

Some papers were thus winnowed, but only a very small minority. When reading the early drafts, every attempt has been made to ensure the accuracy of the factual reporting. The interpretation of such facts, and the judgements about the merits, or otherwise, of the work of the BCBS remain, however, with the individual author, that is Professor Goodhart. The fact that the author has been given (restricted) access to these archives, and support by the BIS, does not imply that the BIS, BCBS or the member central banks would necessarily share those interpretations and judgements. Indeed in a few cases they almost certainly would not do so. Even so, we believe that this work will provide

Cambridge University Press

978-1-107-00723-9 - The Basel Committee on Banking Supervision: A History of the Early Years, 1974–1997

Charles Goodhart

Frontmatter

[More information](#)

x Foreword

a useful background and extension to the understanding of the history and conduct of financial regulation in general, and of the work of the BCBS in particular.

NOUT WELLINK

*Chairman of the Basel Committee on
Banking Supervision*

Preface

I became 65 in October 2001 and retired from my position, as Norman Sosnow Professor of Banking and Finance at the London School of Economics (LSE), in July 2002. By 2004 I was beginning to wonder how I might usefully fill the many prospective years of retirement that enhanced life expectancy indicated might lie ahead.

So in 2004 I took the initiative of writing to the then General Manager, Malcolm Knight, of the Bank for International Settlements (BIS) to propose that I prepare a history of the early years of the Basel Committee on Banking Supervision (BCBS). I had always been fascinated by financial history; my Harvard PhD had been about the 1907 banking crisis in the USA. The historical development of financial regulation in general and of the BCBS in particular were important topics that had not, in my view, been sufficiently researched.

Malcolm Knight was both welcoming and supportive and my first thanks are to him. Indeed all the staff of the BIS were equally welcoming and I was even given a room there for my work. I am particularly grateful to Elizabeth Koehl for handling the administration details so efficiently. But there was a problem. The archives of the BCBS were not the property of the BIS. The BCBS was a standing subcommittee of the G10 governors of central banks, who meet regularly at the BIS at Basel (see Toniolo and Clement 2005). While the BIS provided the meeting place and administrative and secretarial support functions, the BCBS' papers and archive belonged to the BCBS itself and through them to the G10 central banks.

My request to access their papers needed to be passed on to the BCBS itself and to their parent central banks. So my second set of thanks is to the BCBS itself, its chairmen, Jaime Caruana and Nout Wellink, and its Chief Secretary, Stefan Walter, and through them also to the parent central banks. I had promised to send all the central banks a copy of my text, which I did in July 2009, though only a few came back to me with any comments. There was, however, one proviso, that all members of the BCBS could preview the archives and remove, in advance of my use

Cambridge University Press

978-1-107-00723-9 - The Basel Committee on Banking Supervision: A History of the Early Years, 1974–1997

Charles Goodhart

Frontmatter

[More information](#)

xii Preface

of them, any which were felt, by any one of them, to be too sensational or still too confidential for my eyes.

This turned out to be a blessing in disguise for me. The reports of BCBS meetings virtually all had both a ‘Short Report’, setting out what was decided and why, and an ‘Informal Record’, giving a brief account of what *everyone* said at each, usually two-day, meeting. These latter had all been winnowed. The Short Reports were usually about 4–5 pages long, whereas the Informal Records were often over 50, or even 100 pages long. Since there were some 83 BCBS meetings during this period, such winnowing reduced my necessary reading load dramatically, perhaps halving it, without obscuring, I believe, my ability to follow the main lines of development and their rationale significantly.

Even so, going through the BCBS’ (winnowed) archives was quite an effort and I was privileged to have been accorded that opportunity. So, I thought it behoven to the BIS, to the BCBS and to future historians to make it less necessary for others to follow my path in this respect by reproducing what I have felt to be the key documents from the archives, mostly in long Appendices to each chapter. Future historians can read it here rather than need to go to the BIS themselves. Similarly, in the chapters themselves I have tried to present the main story as the BCBS saw it themselves. So there is much ‘cut and paste’. While I do not hide my own views, I did not want them to obtrude in the main text (except in Chapters 14–17, and at the end of most of the previous chapters).

One of the reasons for writing this history now is that most of the main protagonists are still alive and in good shape. A few had died earlier, Huib Muller and Chris Thompson, and Michael Dealtry died in 2006; and a few were in no shape to talk to me. Like most committees, the BCBS has been run by its Chairmen and secretaries. My next set of thanks is to the BCBS’ Chairmen in these years, George Blunden, Peter Cooke, Gerald Corrigan, Tommaso Padoa-Schioppa and Tom de Swaan, all of whom I bludgeoned into part-writing their own short biographies in Chapter 3, and particularly to Peter Cooke. I also got much valuable assistance from the BCBS’ Secretariat, especially Michael Dealtry before he died, Erik Musch, and especially and particularly from Charles Freeland, who really should have written this instead of me. I would like to dedicate this book to the memory of Huib Muller and Michael Dealtry, two outstanding public officials.

Being an ex Bank of England official myself and living in London, it was easiest for me to discuss the BCBS’ history with other Bank and British officials who had participated in the establishment or activities of the BCBS. In this category I am grateful to Sir Kit McMahon, Rodney Galpin, Robin Hutton, who died in 2007, Colin Powell (of Jersey) and

Cambridge University Press

978-1-107-00723-9 - The Basel Committee on Banking Supervision: A History of the Early Years, 1974–1997

Charles Goodhart

Frontmatter

[More information](#)

Preface

xiii

Brian Quinn for sharing their insights with me. If this book has an excessively British slant, so be it.

Archives do not just open up for the historian at the right page. They need to be carefully prepared. Here my thanks go to the set of archivists who helped me on my way, first and foremost to Edward Atkinson and Piet Clement at the BIS, but also to Sarah Millard at the Bank of England, to Arnoud Glaudemans of the Nedelandsche Bank and to Danielle Mander of the Commission de Surveillance du Secteur Financier in Luxembourg.

I am also grateful to Barry Johnston and his publisher Macmillan for permission to publish excerpts from his book on *The Economics of the Euromarket* (1983) in Chapter 2; to Steve Solomon and Caitlin McKenna for permission to publish excerpts from Steve's book, *The Confidence Game* (1995) in Chapter 6; to Dick Herring and Bob Litan and the Brookings Institute for permission to publish excerpts from *Financial Regulation in the Global Economy* (1994) in Chapter 14; to George Walker and Kluwer Law International for permission to publish excerpts from his book on *International Banking Regulation* (2001) also in Chapter 14; to Ethan Kapstein and Princeton University for permission to publish an excerpt from his 1991 paper, 'Supervising International Banks' in Chapter 15.

Finally my thanks go to those whom I asked to read and comment on some, or all, of the text, notably Kern Alexander and Rosa Lastra, especially on legal issues, and to Ethan Kapstein on international relations, and also to Ian Bond, Ivo Maes and Brian Quinn. I must also thank my research assistant, Burc Tuger, for checking on factual details, my secretary, Marina Emond, for the herculean task of preparing this book for publication, and my wife, Miffy, for almost everything other than this book. It goes without saying that all errors of fact and judgement remain my own responsibility.