# Bank of England Banking Act report for 1992/93

# Banking Act 1987

## Annual report under the Banking Act for 1992/93

*This report on the exercise of the Bank's functions under the Banking Act 1987 during the year to 28 February 1993 is presented to the Chancellor of the Exchequer, and by him to Parliament, pursuant to section 1(3) of the Act.*

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## Contents

*1992 was an exceptionally busy year for Banking Supervision Division. Absorbing the lessons from the collapse of Bank of Credit and Commerce International SA (BCCI) was a major priority within the Bank and in G10 and EC supervisory committees. The Bank also provided evidence to the Bingham and parliamentary enquiries into the supervision of BCCI. A number of important changes to the system of banking supervision, both in the United Kingdom and internationally, have been introduced following the BCCI episode. These are described in Part II of the Report.*

*These policy developments were accompanied by the most extensive supervisory action since the Bank commenced statutory banking supervision in 1979. This action was primarily a response to the recession, which was longer and deeper than expected and caused difficulties for many banks. Supervisory concern initially centred on the smaller banks, especially those dependent on the wholesale money markets for their funding, but banks more generally were affected as the recession deepened and asset values declined.*

*Although losses have been sustained, the UK banking system has withstood the effects of the recession, and is well placed to meet the needs of a growing economy. International and domestic supervisory standards have been confirmed as both necessary and realistic.*

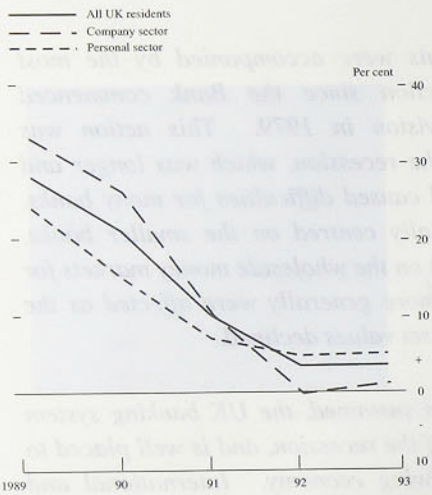
# Part I
# Market developments

## Overview

The continued recession in the domestic economy made 1992 another difficult year for UK banks. Their results were once again dominated by high levels of provisioning against bad and doubtful debts, which more than offset another strong operating performance. As in the previous year, the operating profits of several large banks were boosted by cost cutting and efficiency measures and higher non-interest income.

A number of smaller banks were particularly vulnerable to the effects of the recession owing to the concentration of their business and, in some cases, their dependence on wholesale funding. The Bank has worked closely with them over the past two years to help them to re-order their affairs or wind down their business in an orderly manner. This supervisory effort averted a potential systemic disturbance, and allowed an

## Chart 1
## UK banks: lending to UK residents




## Table I
## UK banks: lending to UK residents[a]

Annual growth rates for year to end-February except as otherwise stated (per cent)

| | 1988/89 | 1989/90 | 1990/91 | 1991/92 | 1992[b] |
|---|---|---|---|---|---|
| Lending to UK residents | 28.0 | 21.0 | 10.0 | 3.4 | 3.5 |
| *of which:* | | | | | |
| *Lending to the company sector* | *33.0* | *26.0* | *10.0* | *-0.2* | *1.1* |
| *Lending to the personal sector* | *24.0* | *15.0* | *7.0* | *4.7* | *5.0* |
| *Lending to the non-bank financial sector* | *21.0* | *19.0* | *13.0* | *13.0* | *5.8* |

(a) Loans, advances, acceptances and sterling commercial paper in both sterling and other currencies, the latter adjusted to remove the estimated effects of exchange rate movements. No account is taken of changes in either reporting population or reporting dates.
(b) Year to end-November.

orderly consolidation of capacity in this sector of the industry. The Bank's supervision of small banks has represented a major call on the Division's resources in recent years, and is described more fully in the Box on page 7.

The small banks' difficulties were initially linked to the progressive withdrawal of wholesale funding which occured after British and Commonwealth Merchant Bank was placed in administration in June 1990. They were compounded, however, by the sharp fall in some asset values, notably those of commercial and residential property, as the recession deepened. The decline in asset values subsequently affected the large banks. At end-February 1993, their domestic commercial provisions stood at 4.2% of customer lending— a level which is exceptionally high by the standards of the previous recession in the early 1980s. These developments —which have been mirrored in many overseas countries—have given rise to concerns about possible financial fragility. Comparisons have been drawn with the collapse of property prices in the mid-1970s and ensuing problems in the 'secondary' banking sector.

There are, however, important differences between the two periods. In contrast to the early 1970s, larger, well diversified banks accounted for most of the increase in property lending in the 1980s. Moreover, the tighter capital standards now required by supervisors internationally and in the United Kingdom have ensured that the large UK banks are well placed to cope with the effects of recession. The group capital ratios of these banks are now at their highest level since 1989, and are comfortably above the Basle minimum of 8%. Whilst loan losses have been substantial, the stability of the banking system and its capacity to finance an economic recovery remain unimpaired.

Nonetheless, the scale of recent loan losses has underlined the need for bank management to give careful attention to credit control and the pricing of risk, and the large banks are reviewing their policies and practices in this area with the Bank's encouragement.

The banks' efforts to increase revenue at a time of financial difficulty for both personal and corporate borrowers continued to strain relationships with customers. Further interest rate reductions in the autumn of 1992 led to renewed concern about whether banks were passing on the full benefit of base rate cuts to their small business customers. In response to a request from the Chancellor, the Bank examined the matter but, as in a similar exercise the previous year, found that banks were, in the majority of cases, passing on the full benefit of interest rate

## Financial pressures on smaller banks

### Background

The financial position of the UK small bank sector deteriorated with the onset of the current recession in 1990. Many small banks have traditionally been heavily involved in the property market, both as direct lenders to commercial and residential property companies and by taking property as security for mortgage and consumer lending. This left them highly exposed to the effects of the recession, particularly the personal and small business sectors' reduced ability to service debt and the decline in property prices.

Although many small banks have a significant proportion of deposits from the public, most are also dependent on more volatile wholesale funding. The depression in the property market and rising arrears on consumer lending caused a number of small banks to record overall losses in the second half of 1990. This contributed to a progressive withdrawal of wholesale funding. Some overseas institutions facing difficulties at home were particularly reluctant to renew funding. The closure of a number of small banks in late 1990 and early 1991, followed by the closure of BCCI, added to the general nervousness of the wholesale funding markets and, in particular, prompted a withdrawal of local authority and public corporations' deposits on maturity. Some institutions lost overdraft and short-term banking lines, and found it increasingly difficult to secure longer-term funding.

### The Bank's response

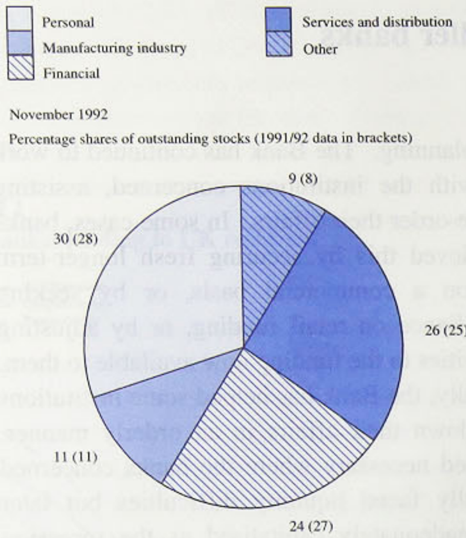
The Bank kept 40 small banks under particularly close review. These were either dependent on the wholesale markets for more than 20% of their funding, or gave rise to other concerns. In all cases, management was required to provide regular additional information, especially relating to liquidity and cash flow, and to undertake detailed forward planning. The Bank has continued to work closely with the institutions concerned, assisting them to re-order their affairs. In some cases, banks have achieved this by securing fresh longer-term funding on a commercial basis, or by seeking greater reliance on retail funding, or by adjusting their activities to the funding now available to them. Additionally, the Bank has helped some institutions to wind down their affairs in an orderly manner. This proved necessary where the banks concerned had initially faced liquidity difficulties but later became inadequately capitalised as the recession deepened.

In addition to this supervisory action, the Bank established arrangements during a period following the middle of 1991 to provide liquidity support to a few small authorised banking institutions. The Bank's support, provided with the Government's knowledge but without a Government guarantee, was designed to prevent problems in those institutions from developing into a wider systemic disturbance. Further details of the Bank's support operations are contained in the Bank's 1992/93 Annual Report and Accounts.

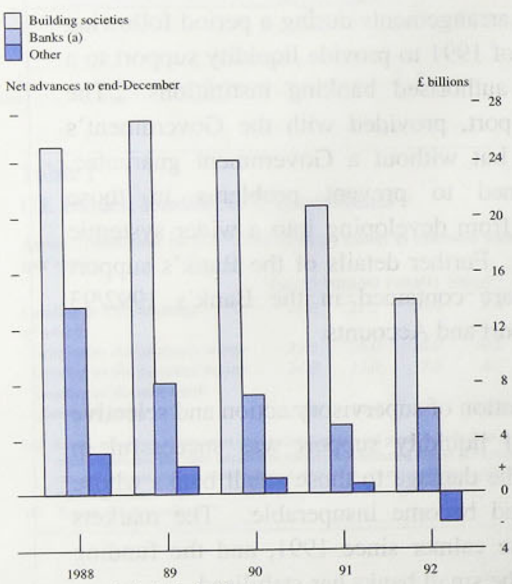
The combination of supervisory action and selective provision of liquidity support was successful in containing the damage to those small banks whose problems had become insuperable. The markets have become calmer since 1991, and the funding position of the small banks has stabilised.

Separately, a number of smaller banks have decided to wind down their business and surrender their authorisation following the introduction of new EC minimum capital requirements under the Second Banking Co-ordination Directive from 1 January this year. The Bank has sought to ensure as smooth a departure as possible for such institutions.

## Chart 2
## Bank lending by sector to UK residents




## Chart 3
## Loans for house purchase




(a) Including non-bank subsidiaries of banks.

## Table II
## Large British banks: sources of income

| £ billions | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Net interest | 12.32 | 13.92 | 13.97 | 14.45 | 14.82 |
| Non interest | 7.02 | 8.44 | 8.95 | 10.42 | 11.54 |
| **Total income** | **19.34** | **22.36** | **22.92** | **24.87** | **26.36** |
| *Non-interest income as percentage of total income* | *36.3* | *37.7* | *39.0* | *41.9* | *43.8* |

reductions. Subsequently, the major banks agreed to extend the Banking Ombudsman Scheme to cover incorporated businesses with a turnover of up to £1 million per annum (unincorporated businesses are already covered by the Scheme).

The banks also took steps to improve their service to customers. Minimum standards of good banking practice for dealings with personal customers were laid down in a voluntary Code of Banking Practice (entitled 'Good Banking'), which came into force in March 1992. In addition, the large banks drew up individual codes for dealings with small business customers. In some cases, these have been supplemented by internal codes setting standards of service for staff, and by closer monitoring of service quality through the use of customer surveys and external audit.

A further major development during the year was the merger between Midland Bank and HongKong and Shanghai Banking Corporation (HSBC) in July 1992. The merger has created the largest banking group in the United Kingdom.

# Bank lending

The growth of bank lending to UK residents remained very subdued, following the sharp slowdown of the previous two years (Table I and Chart 1). Lending to non-financial companies was little changed from the previous year, as corporate borrowers maintained efforts to reduce their level of gearing and banks paid increased attention to asset quality and the pricing of new lending. The rate of growth of bank lending to the non-bank financial sector also declined steeply from the more buoyant levels of recent years. Bank lending to the personal sector grew by only 5%, reflecting the weak state of consumer confidence and the housing market. There was, however, a slight recovery in bank lending for house purchase during the year as some large banks used their strength in the money markets to offer attractive fixed-rate mortgages (Chart 3).

# Bank earnings

Loss of income on non-performing loans, together with weak demand for new lending, continued to limit the growth of net interest income at the large banks (Table II). As a result, net interest income grew only slightly to £14.8 billion from £14.5 billion the previous year. Margins on loans to the large corporate sector widened during the year as competition in international banking became less intense whilst, on the

**Table III**
**Four largest banks: interest margins[a]**

| Percentages | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Domestic | 5.0 | 4.7 | 4.3 | 4.0 | 3.8 |
| International | 1.8 | 1.8 | 1.9 | 2.1 | 2.3 |
| **Overall** | **3.6** | **3.4** | **3.3** | **3.3** | **3.3** |

(a) Net interest income/average interest-earning assets.

liabilities side, falling interest rates and an abundance of retail deposits enabled the banks to reduce deposit rates on some saving products earlier and by more than lending rates. Although rising spreads placed upward pressure on the domestic interest margin, this was more than offset by the impact of non-performing loans and the continuing loss of 'endowment income' from interest-free funds. Consequently, the domestic interest margin fell to 3.8% from 4.0% in 1991, although overall margins were unchanged from the previous year (Table III).

Increased competition in traditional areas of business has prompted the large banks to seek other sources of operating income which require less capital as well as being less sensitive to recession. Non-interest income has grown substantially as a proportion of total income in recent years, and this trend continued in 1992 (Table II). The main sources of growth were trading commissions in the foreign exchange and money markets and the further development of life assurance business. Selling life assurance products enables the large banks to make fuller use of their extensive branch networks and access to customers. Recent investment in information technology has been partly for this purpose.

The UK merchant banks also found their opportunities for income growth restricted by the difficult economic climate. As in 1991, corporate finance earnings were depressed by a very low level of UK mergers and acquisitions. Earnings from securities trading were also affected by low volumes, although the UK equity markets were more buoyant towards the end of the year. In contrast, the treasury operations of the larger houses had another good year. Earnings from commercial banking business generally remained modest, although a firming of margins on corporate lending and easing of competitive pressures prompted some revival of new activity.

**Table IV**
**Large British banks: costs**

| £ billions | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Staff | 7.56 | 8.50 | 8.92 | 9.26 | 9.55 |
| Premises and equipment | 2.21 | 2.56 | 2.95 | 3.36 | 3.52 |
| Other | 3.09 | 3.93 | 3.71 | 3.98 | 3.99 |
| **Total operating costs** | **12.86** | **14.99** | **15.58** | **16.60** | **17.06** |
| *As percentage of total income* | *66.5* | *67.0* | *68.0* | *66.7* | *64.7* |

## Costs

Last year's Report described the steps being taken by the banks to reduce their costs. The large banks made continued progress on this in 1992 (Table IV). Further measures were taken to rationalise branch networks and reduce staff numbers, and several banks simplified their staffing structures and took steps to introduce systems of performance-related pay. New expenditure on information technology also levelled off at some banks following the heavy investment of recent years. These measures together were sufficient to reduce costs in real terms and, as a result, the large banks' combined cost: income ratio fell for the second year running. Whilst this progress is welcome, the large banks still face the challenge of ensuring that they can compete effectively with, for example, the building societies and some overseas banks.

Controlling or reducing costs is one of the key means by which banks can influence operating profitability in a recession. But recent cost control programmes are also a response to competitive pressures, which have intensified following the deregulation of the 1980s. There is therefore a growing recognition that progress on cost control will need to be sustained beyond the current recession if it is to yield the desired longer-term benefits. One way in which banks are achieving this is by increased automation of labour intensive activities such as credit assessment, data processing and storage of customer information; automation also expands the scope for banks to match products more closely with the demands of customers, thereby improving service. Some banks are combining this with a more streamlined organisational structure in which each major business line is managed separately, but with shared IT support and risk management systems.

**Table V**
**Large British banks: domestic bad debt provisions and charges**

| £ billions | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Stock of domestic commercial provisions (a) | 2.3 | 2.7 | 4.1 | 6.8 | 7.9 |
| *As percentage of customer lending* | *1.3* | *1.3* | *1.9* | *3.4* | *4.2* |
| Charges to domestic commercial provisions | 0.6 | 1.1 | 3.5 | 5.7 | 6.5 |
| *As percentage of customer lending* | *0.3* | *0.5* | *1.6* | *2.9* | *3.5* |

(a) All figures for stocks are year-end; charges are gross charges during the year.

## Bad debts and provisioning

Charges for bad and doubtful debts continued to be a major factor affecting the performance of the large banks (Table V). Total charges to domestic commercial provisions rose from £5.7 billion in 1991 to £6.5 billion in 1992. Within this total, individual banks' experiences varied somewhat, mainly reflecting their different levels of exposure to medium-sized and large companies. As in the previous year, the most pronounced asset quality problems were in South East England, particularly on loans to small businesses, property and construction companies. Problem loans also continued to affect the performance of the UK merchant banks although, in aggregate, their bad debt charges were little changed from 1991.

Whilst recent loan losses partly reflect the unexpected length and depth of the recession, they have also prompted the banks to review their credit assessment procedures. Many banks are now placing greater emphasis on borrower cashflow rather than the level of collateral, which in current market conditions has often become insufficient to cover the value of loans outstanding. Recent experience has also underlined the need for banks to pay close attention to the prudent pricing of loans over the economic cycle. Some banks have responded by developing new information systems to enhance their capacity to monitor and manage loanbooks on a portfolio basis. Banks

### Table VI
### Large British banks: earnings

£ billions

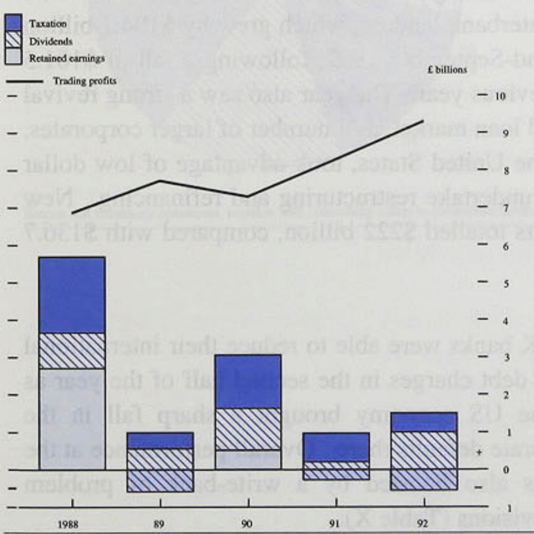
| *Percentages in italics* | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Trading profits before bad debts | 6.86 | 7.72 | 7.29 | 8.28 | 9.30 |
| Pre-tax profits | 5.67 | 0.86 | 2.81 | 1.62 | 1.56 |
| Post-tax profits | 3.68 | 0.50 | 1.36 | 0.97 | 0.77 |
| *Pre-tax return on equity* | *27.50* | *3.80* | *11.70* | *7.18* | *6.83* |
| *Post-tax return on equity* | *17.80* | *2.20* | *5.70* | *4.27* | *3.39* |
| *Return on total assets* | *1.51* | *0.19* | *0.60* | *0.34* | *0.29* |

### Table VII
### Large British banks: sources of new capital[a]

| £ billions | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Retained earnings | 2.74 | -0.57 | 0.52 | -0.24 | -0.58 |
| Perpetual debt | 0.14 | 1.52 | -0.81 | 0.22 | 1.47 |
| Term subordinated debt | 2.06 | 0.66 | -0.51 | 1.17 | 1.02 |
| Ordinary share issues | 0.49 | 2.39 | 0.52 | 0.14 | 0.06 |
| **Total** | **5.43** | **4.00** | **-0.28** | **1.29** | **1.97** |

(a) Excludes certain items affecting reserves, such as surpluses on property revaluations.

### Chart 4
### Large British banks' retained earnings




are also making greater use of sensitivity analysis to model borrowers' capacity to service debt across a range of possible economic scenarios. The Bank welcomes these and other initiatives. In a speech to the Institute of Bankers in Scotland in January,[1] the Governor examined the causes of recent loan losses and emphasised the need for careful attention to credit control, particularly by senior and experienced staff.

Concern continues to be expressed that banks' recent bad debt experience might lead them to be excessively cautious about new lending, thereby impeding economic recovery. There is some evidence that banks are being more cautious and selective in new lending against the recessionary background, and that some customers are finding it more difficult than in the past to demonstrate an ability to generate sufficient cashflow to repay borrowings. On the other hand, many borrowers have been anxious to reduce their indebtedness, following the sharp increase in gearing ratios of the past decade, to lessen their vulnerability to financial difficulty.

## Capital and risk management

Retained earnings at the large banks remained negative for the second year running, reflecting the continued high level of domestic bad debt provisions and banks' desire to maintain their dividends to shareholders (Chart 4). Details of the sources of new capital are contained in Table VII; and constituents of capital in Table VIII. Total capital rose from £38.1 billion to £40.2 billion, although this was largely due to the effect of sterling's depreciation against the dollar on the sterling value of dollar-denominated hybrid capital and subordinated debt. There were few new capital issues during the year, but they included a perpetual loan stock convertible into preference shares at the issuing bank's option, the first of its kind. Several of the large banks disposed of overseas assets to improve their capital ratios. Risk-weighted assets were boosted in sterling terms by the depreciation of sterling, but the banks' combined risk asset ratio nonetheless rose to 9.9% from 9.7% the previous year, well above the Basle minimum of 8% and the highest level since 1989 (Table IX). The large banks therefore retain sufficient headroom to enable them to accomodate any increased demand for lending that may accompany an economic upturn.

Whilst capital provides banks with a valuable safety cushion in times of difficulty, it is no substitute for effective internal risk

(1) 'Recent banking difficulties', *Bank of England Quarterly Bulletin*, February 1993, pages 103-5.

## Table VIII
## Large British banks: capital constituents

| Convergence basis (a) £ billions | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| **Tier 1** | | | | | |
| Shareholders' funds excluding property revaluation reserves | 19.54 | 20.08 | 20.35 | 20.32 | 20.07 |
| Preference shares | 0.01 | 0.41 | 0.47 | 0.47 | 0.50 |
| Minorities | 0.50 | 0.59 | 0.63 | 1.11 | 1.22 |
| **Total Tier 1** | **20.05** | **21.08** | **21.45** | **21.91** | **21.79** |
| **Tier 2** | | | | | |
| Property revaluation reserves | 3.04 | 2.22 | 1.47 | 0.65 | 0.21 |
| Hybrid capital | 5.20 | 6.67 | 5.40 | 5.56 | 7.33 |
| General provisions | 1.07 | 1.10 | 1.48 | 1.72 | 2.00 |
| Tier 2 minorities | 0.07 | 0.08 | 0.01 | — | 0.01 |
| Qualifying subordinated loan stocks | 7.21 | 7.61 | 7.63 | 8.41 | 9.34 |
| Headroom deduction | -0.42 | -0.53 | -0.49 | -0.17 | 0.50 |
| **Total Tier 2** | **16.17** | **17.15** | **15.50** | **16.18** | **18.39** |
| **Total capital** | **36.22** | **38.23** | **36.95** | **38.08** | **40.18** |

(a) The convergence figures for 1988 are not strictly comparable with those for subsequent years, as banks were only required to meet the new capital requirements from 1989 onwards.

## Table IX
## Large British banks: capital ratios[a]

| £ billions | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Total assets | 392.8 | 461.7 | 471.1 | 476.8 | 535.6 |
| Weighted assets | 315.4 | 377.1 | 374.9 | 364.8 | 378.5 |
| Adjusted capital base (b) | 31.6 | 34.7 | 34.5 | 35.5 | 37.4 |
| **Risk asset ratio** (per cent) | **10.0** | **9.2** | **9.2** | **9.7** | **9.9** |

(a) On the convergence basis from 1989: the capital base is adjusted to allow for deductions from the capital constituents when calculating the risk asset ratio.
(b) Total capital (from Table VIII) minus deductible holdings.

management. This applies not just to credit risk—which continues to be the single major cause of bank problems and failure—but also to other risks likely to be incurred on banking business, notably interest rate and foreign exchange risk. Last September's turbulence in European foreign exchange markets was a good test of the systems and controls which banks have developed for managing trading portfolios, especially derivatives. Over the past decade, banks and other market participants have made increasing use of derivative markets to hedge risk, offer new services to customers, and take positions at less cost. Although in general the markets coped well in September, liquidity was a problem in certain derivative markets (such as those for foreign exchange options), with some market participants unable to obtain hedges as required. Banks' risk management systems appear on the whole to have withstood the difficult market conditions. Nonetheless, the authorities in several countries are seeking to improve understanding of the risks in derivatives business. The work undertaken by the Bank in this area is described further in Section II of the Report.

## International developments

With difficult economic conditions persisting in many countries, banks have generally been scaling back their overseas ambitions to concentrate on protecting their domestic business. This trend has been evident for several years and continued in 1992. International banking activity remained generally subdued throughout the year. There was, however, a modest rise in interbank lending, which grew by $104.1 billion in the year to end-September 1992, following a fall of $101.5 billion in the previous year. The year also saw a strong revival in the syndicated loan market, as a number of larger corporates, particularly in the United States, took advantage of low dollar interest rates to undertake restructuring and refinancing. New syndicated credits totalled $222 billion, compared with $136.7 billion in 1991.

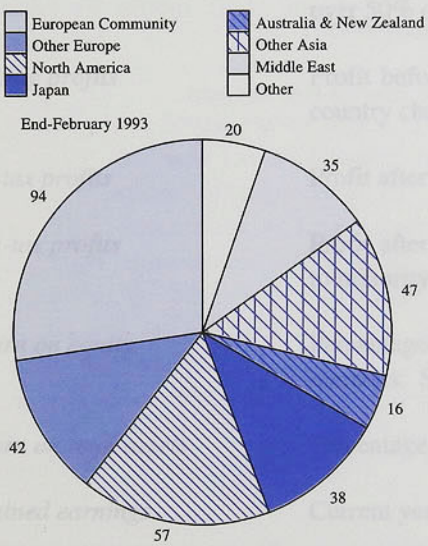
Several large UK banks were able to reduce their international commercial bad debt charges in the second half of the year as an upturn in the US economy brought a sharp fall in the number of corporate defaults there. Overall performance at the large banks was also boosted by a write-back of problem country debt provisions (Table X).

Many foreign banks in the United Kingdom continue to be affected by losses on their corporate and property lending books. Last year's Report noted that many foreign banks were scaling down their UK lending activities, and re-focusing their

### Table X
### Large British banks: country provisioning

| £ billions (end-year)<br>*Percentages in italics* | 1988 | 1989 | 1990 | 1991 | 1992 |
|---|---|---|---|---|---|
| Total assets | 392.8 | 461.7 | 471.1 | 476.8 | 535.6 |
| Shareholders' funds | 22.6 | 22.3 | 21.9 | 20.3 | 21.1 |
| Gross exposure to problem country debtors | 15.8 | 15.2 | 11.5 | 10.1 | 10.9 |
| Provisions | 5.1 | 9.2 | 6.5 | 6.0 | 5.7 |
| *as a percentage of gross exposure* | *32.3* | *60.3* | *56.5* | *59.6* | *52.8* |
| Unprovided exposure | 10.7 | 6.0 | 5.0 | 4.0 | 5.1 |
| *as a percentage of total assets* | *2.7* | *1.3* | *1.1* | *0.8* | *1.0* |
| *as a percentage of shareholders' funds* | *47.3* | *27.1* | *22.8* | *19.9* | *24.4* |

### Chart 5
### Geographical representation of overseas institutions




Branch and subsidiary operations, together with controlling stakes in consortium banks.

efforts on areas of comparative advantage, such as trade finance and other home country business. This strategic shift continued in 1992, and appears to have helped some institutions to achieve better operating profitability.

Despite the economic climate, London continues to attract foreign banks. A number of non-EC banks with UK branch presences have established new subsidiaries in order to be able to take advantage of the single passport arrangements of the Second Banking Co-ordination Directive; these arrangements are described more fully in Parts II and III of the Report. Conversely, some EC banks have been restructuring their operations in the United Kingdom, with several closing their UK subsidiaries and transferring the business to their branch operations which, under the new EC arrangements, are directly supervised by the home-state authority. Chart 5 shows a geographical breakdown of overseas institutions as at end-February 1993.

The departure of US banks from London observed in recent years continued in 1992, with five US banks surrendering their Banking Act authorisation. However, three of these arose from a restructuring of business at head office, and none will significantly affect the volume of business conducted here. The two new authorisations of US banks were both linked to restructurings of banks already established in London.

Although the number of Japanese bank branches in the United Kingdom remains unchanged, their aggregate UK balance sheet continued to contract, mainly reflecting a curtailment of interbank business. With difficult market conditions persisting in the United Kingdom, the banks as a group adopted a cautious attitude to new corporate lending and instead concentrated on developing off-balance-sheet business.

Previous Reports have touched upon the involvement of local authorities in the swaps market, and the concerns about legal risk to which this gave rise. The Governor established a Legal Risk Review Committee composed of financial market and legal practitioners in April 1991 to examine possible areas of legal uncertainty affecting the UK wholesale markets, and the Committee published its final report to the Governor in October 1992. The main conclusion was that the legal underpinning of these markets was basically sound, but that market techniques and practices can run ahead of the legal framework, creating uncertainty. The Committee therefore recommended that a new permanent body should be established to ensure that any problems of legal uncertainty are tackled speedily as they emerge.

The Bank welcomed and supported this recommendation, and a Financial Law Panel has now been established under the chairmanship of the Rt Hon The Lord Donaldson of Lymington. The Corporation of London has agreed to support the work of the Panel and to join the Bank in contributing to its initial funding. A substantial number of leading financial firms have agreed to become inaugural subscribers.

## Glossary of terms for Part 1

| | |
|---|---|
| *Sources of data:* | Audited financial statements for the large British banks; tables on capital ratios, lending to UK residents and mortgage lending are from Bank of England statistical returns. The tables relating to loan portfolios adopt the sectoral classifications used in the *Bank of England Quarterly Bulletin* and in the Central Statistical Office's *Financial Statistics*. Because of rounding, the columns in the tables may not balance. |
| *Large British banks* | Barclays, Lloyds, Midland and National Westminster together with Bank of Scotland, The Royal Bank of Scotland, Standard Chartered and the TSB. All data for these banks are consolidated. Calendar year-end information except for Bank of Scotland (1992 data are based on interim figures), The Royal Bank of Scotland (end-September) and the TSB (end-October). |
| *Four largest banks* | Barclays, Lloyds, Midland and National Westminster. |
| *Consortium banks* | Institutions majority-owned by two or more banks but none individually holding over 50% of the equity. |
| *Trading profits* | Profit before taxation and bad debt provisions (including the exceptional problem country charges in 1989). |
| *Pre-tax profits* | Profit after bad debt provisions but before taxation. |
| *Post-tax profits* | Profit after taxation and before extraordinary items; includes amounts attributable to minority shareholders in subsidiary operations. |
| *Return on equity* | Percentage ratio of pre/post-tax profits to average shareholders' funds plus minority interests. Shareholders' funds defined as paid-up share capital and reserves. |
| *Return on total assets* | Percentage of pre-tax profits to average total assets. |
| *Retained earnings* | Current year's post-tax profits after extraordinary items and distributions. |
| *Term subordinated debt* | Subordinated debt with a fixed maturity and satisfying the Bank of England's conditions for Tier 2 capital. |
| *Hybrid (debt/equity) capital* | Perpetual cumulative preferred shares, including such shares redeemable at the option of the issuer and with the prior consent of the Bank, and such shares convertible into ordinary shares; and perpetual subordinated debt meeting the requirements for primary perpetual subordinated debt. |
| *Primary perpetual debt* | Perpetual debt eligible for inclusion as primary capital under Bank of England rules. Qualifying criteria require that the debt can only be converted into equity, is available at all times to absorb losses, and provides for the deferment of interest payments in certain circumstances. |
| *Weighted assets* | Total assets adjusted in accordance with the risk weightings as set out in the supervisory notice, *Measurement of Capital* (as amended); for 1989, |

*Implementation of the Basle Convergence Agreement in the United Kingdom (BSD/1988/3);* and for 1990 and 1991, *Implementation in the United Kingdom of the Solvency Ratio Directive* (BSD/1990/3).

| | |
|---|---|
| *Adjusted capital base* | Total capital (Tier 1 and Tier 2) less: goodwill, connected lending of a capital nature, investments in subsidiaries and associates, and holdings of bank paper in excess of market dealing concession. |
| *Risk asset ratio* | Percentage ratio of adjusted capital base to weighted assets. |
| *Tier 1 and Tier 2 capital* | As defined in the Bank's notice to institutions *Implementation in the United Kingdom of the Directive on Own Funds of Credit Institutions* (BSD/1990/2). |
| *Headroom deduction* | Tier 2 capital which cannot count towards capital because of insufficient Tier 1 or upper Tier 2 on an institution's books. |
| *Net interest income* | Gross interest income less interest paid on borrowings. |
| *Other income* | Includes investment income. |
| *Interest margin* | Net interest income/average interest-earning assets. |
| *Endowment effect* | Net interest income earned by employing interest-free deposits. |

# Part II
# Policy developments

## Introduction

This year's Report is published against a background of significant changes in the framework of banking supervision, both in the United Kingdom and internationally, which will have implications and set the agenda for supervisors for some time to come. Some of these changes result directly from the creation of the Single European Market; others reflect the wider effort to ensure that internationally active banks and banking groups are subject to effective supervisory oversight. This has been a concern for supervisors since the rapid expansion of the euromarkets and growth of cross-border banking business in the early 1970s. It has received a further impetus from the discovery of serious fraud and false accounting in BCCI in 1991.

The advent of the Single European Market in banking on 1 January this year has necessitated agreement on minimum standards of supervision by all Member States. The Second Banking Co-ordination Directive places legal responsibility for most aspects of supervision of EC banks with the 'home' EC country rather than with the countries which are 'host' to bank branches. A new Consolidated Supervision Directive will help to ensure that this home-country supervision takes full account of financial business being conducted throughout a banking group.

Banks incorporated in one EC country are now able to carry on banking business in other Member States without obtaining authorisation from the banking supervisory authorities of the 'host' country; previously, they needed to obtain local authorisation. Under the new arrangements, the 'host' supervisor's prudential responsibility is largely confined to supervising local branches in respect of liquidity, in consultation with the home supervisor.

The new EC framework has two main consequences for the Bank's supervisory role. First, the Bank now has virtually sole operational responsibility for supervising the EC branch operations of UK-incorporated banks. Secondly, the Bank is no longer able, on prudential grounds, to prevent a bank authorised in another Member State from establishing branches in the United Kingdom, and its role in the on-going supervision of such branches is greatly reduced. The Banking Act 1987 and related policy notices were substantially amended during the year to reflect these new arrangements; these changes are described further in Part III of the Report. The Bank's supervisory responsibilities in relation to non-EC banks remain unchanged.

The past year has also seen wider international initiatives to tighten the supervision of banks' cross-border business. In July last year, the Basle Supervisors' Committee announced new minimum standards for the supervision of banks with global operations, building on the earlier 1983 Basle Concordat. The key requirement is that all such banks must have a home-country supervisor capably performing consolidated supervision of the bank's worldwide operations. The Bank fully supports the new standards.

The publication in October last year of Sir Thomas Bingham's Report on the supervision of BCCI is leading to further changes. Sir Thomas Bingham concluded that the BCCI episode did not support a case for radical changes in the basic system of supervision employed in the United Kingdom. But he drew a number of lessons. Some of these relate to the framework of domestic and international supervision, others to the Bank's own supervisory practice. The measures being taken to implement in full Sir Thomas Bingham's recommendations are described in greater detail below. They include steps to increase the Bank's capacity for identifying and investigating cases of suspected fraud in banks, and a strengthening of the Bank's internal legal expertise. In addition, auditors will be placed under a statutory duty to report relevant information to banking and other financial services regulators. The Government also intends to amend the Banking Act to place beyond doubt the Bank's power to refuse or revoke authorisation where a bank's corporate structure impedes effective supervision.

## A. Development of the supervisory framework

### Lessons from BCCI

Last year's Report explained the circumstances which made it necessary for banking supervisors to close BCCI in July 1991, following the Bank's receipt of a report from Price Waterhouse under Section 41 of the Banking Act. The closure was co-ordinated internationally by the Bank, and was achieved smoothly, without systemic disruption. However, liquidation and enforcement proceedings are still under way in a number of countries where BCCI had a presence, and are likely to take many years to complete. The progress made in dealing with UK depositors' claims is described separately in the Annual Report of the Deposit Protection Board.

Whilst BCCI was a unique case in many ways, the history of fraud and false accounting uncovered there naturally prompted widespread public concern. Over the past year, studies have been undertaken in a number of fora to consider the supervisory issues raised and identify possible lessons for the future. Although these studies differ to some extent in their conclusions, all give emphasis to the following points:

- supervisors need to be vigilant against financial fraud and other malpractice;
- banks should be prevented from developing corporate structures that undermine effective supervision;
- all banks should have a lead supervisor performing effective consolidated supervision of their cross-border business.

### The Bingham Report

Following the closure of BCCI, the Chancellor of the Exchequer and the Governor appointed Sir Thomas Bingham to conduct an independent inquiry into the supervision of BCCI. Its terms of reference were 'to inquire into the supervision of BCCI under the Banking Act; to consider whether the action taken by all the UK authorities was appropriate and timely; and to make recommendations'. The Inquiry was held in private to avoid any prejudice to criminal proceedings, and to encourage witnesses to give evidence. The Government and Bank co-operated fully with the Inquiry.

Sir Thomas Bingham's Report was published on 22 October 1992. What follows is a summary of the Report's main recommendations and the measures which the Government and Bank are taking to implement them.

The main focus of the Report was the Bank's supervision of BCCI under the Banking Acts of 1979 and 1987. Sir Thomas Bingham concluded that nothing in the BCCI episode called for a radical change in the basic system of supervision employed in the United Kingdom, or for a different approach to the supervision of banks generally, or for a change in the Bank's own responsibilities. He also noted that BCCI's opaque group structure was established before the creation of a statutory system of banking supervision in the United Kingdom, and that a similar structure would not be permitted today. He also considered that the Bank's action in closing BCCI in July 1991 was an appropriate course of action in the circumstances, although it was not the only possible option.

Sir Thomas Bingham nonetheless made significant criticisms of the Bank's supervision of BCCI, and drew attention to a number of lessons, resulting in a series of important recommendations. The Government and Bank have accepted all of these, and are taking steps to implement them. The lessons drawn by Sir Thomas Bingham can be grouped under five main headings:

(i) It would be a mistake to respond to BCCI by intensifying supervision of all banks. But the Bank should give particular attention to suspect banks, be alert to evidence of fraud and other forms of malpractice and, where appropriate, take vigorous action. In response, the Bank has made a number of changes aimed at strengthening its administration of supervision:

- a new Special Investigations Unit has been established under Ian Watt CBE, FCA, a former partner at KPMG Peat Marwick. Mr Watt has direct access to the Governors and to the Executive Directors responsible for banking and wholesale markets supervision, and attends meetings of the Board of Banking Supervision. The Unit is specifically responsible for pursuing any indication received by the Bank of fraud or other criminal activity affecting the financial sector, and for ensuring that other authorities are involved as appropriate;

- a new Legal Unit has been established under Peter Peddie CBE, a former partner at Freshfields. He also has direct access to the Governors and to the Executive Directors responsible for banking and wholesale markets supervision, and attends Board of Banking Supervision meetings. The Legal Unit will help to ensure that the Bank, in all of its supervisory roles, takes full account of the powers available to it under the law. The Bank will, however, continue to retain outside legal advice;

- procedures for involving the Board of Banking Supervision—whose role was commended by Sir Thomas Bingham—in the Division's work have been strengthened;

- training of supervisors is being extended to enhance their alertness to indications of fraud and malpractice;

- steps are being taken to strengthen the systems for communication both within the Bank and between the Bank and HM Treasury and other Government Departments.

These high-level appointments and administrative changes will strengthen the Bank's ability to investigate, promptly and thoroughly, cases where it has doubts about the conduct of an authorised institution.

(ii) Banking structures which deny supervisors a clear view of how business is conducted should not be permitted. In response:

- the Government has agreed to introduce a new explicit Banking Act power to refuse or revoke authorisation on the sole ground that an applicant or authorised bank cannot be effectively supervised. It is intended that this will put the legal position in the United Kingdom beyond any doubt. Use of this power would be particularly associated with unsatisfactory group structures, including where a bank changes its structure after authorisation or develops an active presence in secretive or poorly supervised jurisdictions;

- the United Kingdom is urging its EC partners to agree that banking supervisors in all Member States should have a similar power, strengthening the framework laid down in the Second Banking Co-ordination and Consolidated Supervision Directives. The EC Commission has drafted proposals to address this;

- the Bank is continuing to press for full implementation of the minimum standards for the supervision of international banking groups, announced by the Basle Supervisors' Committee in July 1992. These should result in all international banks having a home- country supervisor which performs effective consolidated supervision.

(iii) Communication and co-operation between supervisors internationally should be improved. In response, the United Kingdom:

- is seeking amendments to EC banking directives to enable a fuller exchange of information between supervisory and other authorities;

- has proposed a system of peer group review to encourage high international supervisory standards.

(iv) There is a need to ensure that the domestic authorities responsible for supervision and for combating fraud and other financial crime work together to maximum effect. In response:

- a Financial Fraud Information Network has been established under the chairmanship of Ian Watt, with a secretariat provided by SIB, to facilitate exchanges of information and to co-ordinate action in the United Kingdom between supervisors, investigatory and prosecution authorities.

(v) Auditors should have a statutory duty to report relevant information to the Bank. (Under existing UK legislation, auditors of banks are expected, but not required, to disclose such information.) In response:

- the Government has issued a consultative document to prepare for the introduction of a statutory provision placing auditors and reporting accountants of a bank under a duty to report relevant information to the Bank;

- the Government intends that this statutory duty will apply to the auditors of building societies, friendly societies, insurance companies and financial services firms as well as banks. It has emphasised, however, that the creation of the new duty is not intended to change fundamentally the relationship between auditors and their banking clients; nor is it intended that the cost of audits should increase as a result of the duty. The consultation paper—which was issued in early March—was prepared following informal discussions with the accountancy bodies, the British Bankers' Association and other industry bodies. Comments are invited by 1 June 1993.

## Treasury and Civil Service Committee Reports on BCCI

During the year, the Governor and other Bank officials gave evidence to the Treasury and Civil Service Committee, which conducted its own examination of events surrounding the closure of BCCI. These culminated in the publication of two reports: the Fourth Report on 'Banking Supervision and BCCI: international and national regulation' on 4 March 1992; and the post-Bingham Report. The first Report drew a number of lessons, including the following:

- banking supervisors should not accommodate inadequate banking structures, but should force a bank which cannot be regulated effectively to change under the threat of closure;

- the existence of two sets of auditors at BCCI, whilst not contravening any law or accounting guideline, helped BCCI to conceal the true facts;

- a formal mechanism is needed to assess supervisory standards at home and internationally;

- the Bank should commission an annual report, covering all aspects of accounting and other controls, from the reporting accountant of a bank incorporated outside the United Kingdom. It is frequently the case at present that such reports are produced on a rolling four to five-year basis;

- section 47 of the Banking Act 1987 should be amended so as to leave no doubt about an auditor's duty to report relevant information to the Bank;

- on-site examination of banks should be extended in particular cases;

- the Bank should carry out a special study into mandatory incorporation of branches.

Several of the Committee's specific recommendations have been, or will be, addressed by the changes announced by the Government and the Bank following the Bingham Report. The Bank responded to the general policy issues concerning international and national supervisory practice raised in the Committee's first Report in a memorandum published on 8 July 1992. This was followed by a further response on 22 October 1992, which addressed those parts of the Committee's Report dealing specifically with the Bank's supervision of BCCI. The Committee's final Report, published on 10 February this year, followed the publication of the Bingham Report and addressed some of its findings. This Report underlined earlier criticisms of the Bank, but made no new recommendations.

## Other studies on BCCI

The Basle Supervisors' Committee is conducting its own wide-ranging review of the lessons to be drawn from BCCI. This has resulted in the introduction of a set of minimum standards of supervision, building on the earlier Basle Concordat. The Concordat was originally drawn up by the Committee in 1975 in response to the growth of cross-border banking business. It was subsequently revised in 1983 to reflect a growing consensus that banking supervision should be conducted on a consolidated basis. The Concordat has played an important role in helping to raise standards of supervision internationally, and remains valid as a statement of best supervisory practice. The decision to translate its key principles into minimum standards of supervision will strengthen the arrangements for supervising international banking groups, by increasing the assurance that all such groups have a lead supervisor conducting consolidated supervision.

Four minimum standards have been set:

- all international banks and banking groups should be supervised by a 'home'-country authority that capably performs consolidated supervision;
- the creation of an overseas branch or subsidiary should receive the prior consent of both the 'host'-country supervisory authority and the bank's or banking group's home-country authority;
- supervisory authorities should grant each other the right to gather information directly from cross-border banking establishments;
- if a host-country authority, in reviewing a foreign bank's proposal to create a cross-border establishment, determines that any of these standards is not met, it could impose restrictive measures necessary to satisfy its prudential concerns, including refusal of authorisation.

It is recognised that, where a particular country does not meet all the standards, consideration will need to be given to whether the authorities are working to establish the capability to do so. The standards are, in any event, expressed in general terms to allow a measure of flexibility in interpretation to reflect different supervisory systems; for example, the framework established by the EC Second Banking Co-ordination Directive is fully consistent with the standards. The minimum standards, and the effectiveness of international supervisory co-operation more generally, were topics of discussion at the Seventh International Conference of Banking Supervisors held in Cannes on 7 and 8 October 1992.

In its own separate study, the EC Banking Advisory Committee focused on the question of whether the minimum supervisory standards in force or to be adopted at Community level remained adequate in the light of the BCCI affair. It concluded that the episode had reaffirmed the two key principles of home-country control (underpinned by agreed minimum prudential standards) and consolidated supervision on which the European Community's banking legislation is based. Other topics covered in the Committee's discussions were the need to prevent banking groups from adopting structures which undermine effective supervision; co-operation and exchange of information between supervisors and with auditors and law enforcement agencies; and the desirability of a single 'lead' auditor for international banking groups.

## B. Other policy developments

### (i) Changes implemented in the United Kingdom[1]

#### Second Banking Co-ordination Directive

The Second Banking Co-ordination Directive was implemented in the United Kingdom by the Banking Co-ordination (Second Council Directive) Regulations 1992 (Statutory Instrument 1992 No 3218) which came into force on 1 January 1993. The resulting legislative changes are set out in Part III of the Report.

The Directive is the most important piece of legislation in the establishment of the EC Single Market in banking services. Together with other related directives, it establishes common standards of prudential supervision in each Member State so that, henceforward, a bank authorised in any Member State where it is incorporated is permitted to branch, or provide services on a cross-border basis, throughout the European Community without further authorisation, on

(1) A list of policy and practice notices issued by Banking Supervision Division which are currently in force is contained in Appendix 2.

the basis of its home State authorisation. Certain subsidiaries of authorised institutions which fulfil strict criteria (which include being incorporated in the home Member State, at least 90% owned by the parent, and having a full parental guarantee with the home State supervisor's consent) will also be able to take advantage of the ability to operate throughout the European Community without further authorisation.

Under the Directive, prudential supervision of EC banks is the responsibility of the home Member State authority. The Bank retains prudential responsibility over EC branches only in relation to liquidity. However, host Member States also retain powers to impose measures which can be justified on grounds of the 'general good'; in the United Kingdom this will principally involve the adherence by EC banks to conduct of business and other non-prudential rules made under the Financial Services Act 1986.

In order for a UK bank to benefit from the passport, it must be authorised, incorporated and have its principal place of business in the United Kingdom. Various notification procedures must also be followed. The Bank has sole responsibility for the prudential supervision of UK banks' branches in other Member States, subject to the host State's responsibility for the liquidity of branches in their territory.

All banks incorporated in the United Kingdom must abide by the minimum criteria for authorisation, as amended by the Directive, whether they wish to use the passport or not. The most important change to these criteria is the introduction of a requirement to maintain regulatory capital ('own funds') at or above ECU 5 million at all times. However, there is scope for an institution already authorised under the Banking Act immediately before the Regulations came into force to continue to be authorised even if it does not attain this minimum level, if its own funds do not fall below the highest level reached since 22 December 1989 (the date of notification of the Directive), and there is no change of parent controller.

Enhanced supervisory co-operation between home and host supervisory authorities is a key feature of the new EC regime. To facilitate information flows between home and host authorities, and to ensure that responsibilities are clearly defined, the Bank has been involved in a series of bilateral negotiations with its EC supervisory counterparts, and Memoranda of Understanding formalising these arrangements are being drawn up between each pair of EC supervisory authorities. These Memoranda will include coverage of notification procedures, ongoing information exchange and supervisory co-operation in crises.

## Capital adequacy

In August 1992, the Bank published a notice (BSD/1992/5) on the verification of interim profits, to take account of the requirements of the EC Own Funds Directive. The notice changed the previous policy which had permitted published current year profits to be included in Tier 1 capital and unpublished profits to be included within Tier 2 capital. With effect from 1 January 1993, current year profits may be included in Tier 1 capital only if they have been verified by external auditors, and in Tier 2 capital only if they have been verified by a bank's internal audit department.

The notice also outlines the scope of the work which the Bank expects auditors to perform in verifying current year profits.

## Consolidated supervision

In March 1993, the Bank issued a notice (BSD/1993/1) concerning the implementation of the second EC Directive on the supervision of credit institutions on a consolidated basis, adopted in April 1992. This notice replaced three earlier notices.

In line with the requirements of the Directive, the new notice extends consolidated supervision to include banks' parents (within the European Community) and the 'financial' subsidiaries of parents where the majority of a group's activities are financial in nature; for these purposes, insurance subsidiaries are not classified as 'financial'. This does not mean that the Bank assumes responsibility for the supervision of the whole financial group; rather it enables a better assessment to be made of the risks to the bank arising from other parts of the group. The threshold for consolidation is reduced from ownership of 25% to 20% of the voting rights or capital, and a requirement is introduced that banks have systems and controls which are adequate for the production of data and information on a consolidated basis.

Consolidated supervision will henceforth encompass both capital adequacy and large exposures. The assessment of capital adequacy will include the market risks incurred by banks and securities companies in the same group. Pending implementation of the EC Capital Adequacy Directive (see page 24), the Bank will apply an interim system to assess market risks on a consolidated basis. This will make use of the various capital adequacy regimes applied to companies regulated under the Financial Services Act 1986, on the basis that these approximate closely to the risk measurement framework of the Capital Adequacy Directive.

A further provision of the Directive allows the EC Commission to negotiate information-sharing agreements with third countries to assist consolidated supervision of EC banks with large presences outside the Community; and of third country groups with financial sub-groups within the European Community. Discussions are currently taking place in Brussels on how the Commission might exercise this mandate.

## Controls in an information technology environment

In July 1992, the Bank published an amendment (BSD/1992/4) to its notice on accounting and other records and internal control systems. This amended the original notice to include details of the controls which should be considered in an electronic information systems environment.

## Country debt provisioning

In February 1993, the Bank issued a revised version of its country debt provisioning matrix which makes a number of changes to the version issued in January 1990. The changes simplify the structure and application of the matrix. The revised matrix will be applied as from 30 June 1993. The Inland Revenue has issued draft regulations, reflecting these changes.

## Mortgage-backed securities

In December 1992, the Bank issued an amendment (BSD/1992/6) to its 1990 notice implementing the Solvency Ratio Directive, to clarify the treatment of holdings of mortgage-backed securities. The notice sets out the conditions an issue has to meet in order to qualify for a 50% risk weighting under the Directive.

## Work of other bodies

### Accounting developments

The British Bankers' Association published a Statement of Recommended Practice (SORP) on Advances in September 1992. This SORP sets out the accounting framework for loans, overdrafts and other methods of extending credit to borrowers. The SORP gives guidance on valuation, provisioning, the netting of accounts, the treatment of interest and disclosure aspects.

The British Bankers' Association also published a SORP on Segmental Reporting in January 1993. This provides guidance on geographical segments, classes of business and disclosure issues. It has been developed to provide guidance on both the statutory requirements of the new Schedule 9 of the Companies Act, introduced by the Companies Act 1985 (Bank Accounts) Regulations 1991, and Statement of Standard Accounting Practice No 25.

Banks are encouraged to apply the provisions of both SORPs in respect of the first accounting period beginning on or after 23 December 1992, the same date that the new Companies Act Regulations become mandatory.

In December 1992, the Accounting Standards Board issued Financial Reporting Exposure Draft 3 on Accounting for Capital Instruments. The exposure draft proposes greater sub-classification within the statutory categories of disclosure, separating shareholders' funds and minority interests into equity and non-equity elements, and liabilities into convertible and non-convertible.

In February 1993, the Accounting Standards Board issued Financial Reporting Exposure Draft 4 on Reporting the Substance of Transactions. Two proposals are of particular interest to banks. The exposure draft proposes that no offset should be allowed between debit and credit balances where there is a foreign exchange or interest rate risk. In addition, the Board's proposed treatment of revolving credit securitisations would require a separate presentation of the assets and liabilities on the originator's balance sheet. Both proposals have capital adequacy implications for banks.

## (ii) Implementation in progress

### Capital Adequacy Directive

The European Community reached agreement during the year on a Capital Adequacy Directive setting minimum capital requirements for the trading books of banks and non-bank investment firms. The Directive is scheduled to be implemented by 1 January 1996. As well as setting capital requirements to cover counterparty and price risk on market positions, the Directive will allow the introduction of new forms of capital to back these positions, notably two-year subordinated loans (known as Tier III capital). The Directive will also cover foreign exchange positions.

Implementation of the Capital Adequacy Directive for banks will be complex because it will entail the designation of a trading book and a banking book, into which the bank's activities will be allocated for the purposes of determining capital adequacy. The banking book will continue to be covered by the credit risk requirements set out in the Solvency Ratio Directive, whilst the trading book will be covered by the Capital Adequacy Directive requirements. The Bank has started to consider how this segregation can be achieved. A working group has been established to provide a forum for discussion between the Bank and practitioners.

### Investment Services Directive

The Investment Services Directive gives non-bank investment firms in the European Community a 'passport' similar to that provided to banks under the Second Banking Co-ordination Directive. This will allow investment firms to offer services throughout the European Community on the basis of a single authorisation in their home Member State. Final adoption of the Directive is likely to be in mid-1993, with entry into force at the beginning of 1996, at the same time as the Capital Adequacy Directive.

Political agreement on the Directive was finally reached during 1992. Progress had been blocked for eighteen months by disagreement over the so-called 'regulated markets' package, covering post-trade publication; the right of Member States to require investment business to be carried out on official exchanges; and direct access of banks to stock exchanges. The eventual compromise reached in June last year secured all major UK objectives and, in particular, will allow the United Kingdom to retain its market-making structure for securities and gilts.

### Large Exposures Directive

An EC Directive on the monitoring and control of credit institutions' large exposures was adopted in December 1992. The Directive establishes common limits for all banks on credit exposures to individual customers (or groups of closely related counterparties). The Directive, which is scheduled to be implemented by 1 January 1994, is broadly in line with the Bank's existing large exposures policy. However, its requirements differ in some respects. The Directive sets limits on the size of exposures rather than thresholds for notification; it also extends the definition of an exposure to include exposures on interest rate and foreign exchange related contracts.

### Money Laundering Directive

During the year, the Bank contributed to the work which is underway to ensure full UK implementation of the EC Money Laundering Directive. The Bank has also continued to monitor the adequacy of banks' relevant systems and controls against the minimum standards set out in the Joint Money Laundering Working Group's Guidance Notes. These notes are to be revised to reflect the requirements of the new legislation.

## (iii) Areas under discussion

### Capital

In July 1992, the Bank issued a consultative paper on subordinated loan capital which clarified its views on requirements for the subordination provisions of loan capital agreements. The paper sought comments from interested parties. A broad range of respondents offered views on the proposals and raised a number of issues. Although the Bank does not expect any fundamental change to its proposed approach in this area, work is now under way to develop the proposals further, to take into account the responses received. It is the Bank's intention to issue a revised policy notice on subordinated loan capital later this year.

### Deposit protection

Negotiations continue in Brussels on a proposed deposit protection Directive which would affect the protection arrangements for depositors in both banks and building societies.

Under the latest draft of the proposed Directive, the Member State in which an EC bank is incorporated (the home country) would be responsible for protecting depositors with any EC branches of that bank. This is a change from the current position, in which deposit protection (if any) is provided by the host country. The proposed change reflects the new division of supervisory responsibilities under the Second Banking Co-ordination Directive. The proposed Directive would make the introduction of protection arrangements compulsory for Member States, and set minimum standards for those arrangements. The main implications for the UK banks' scheme are that depositors entitled to protection would be able to receive compensation to the value of 90%, rather than the current 75%, of their aggregate deposits, subject to the existing ceiling of £20,000; deposits in EC currencies other than sterling would be eligible for protection; and the trigger conditions for claims on the scheme would be broader (it is likely, for instance, that the scheme would be triggered if a bank went into provisional liquidation).

## Derivatives

In November 1992, the Bank for International Settlements (BIS) published the report of a working group, chaired by Mr Larry Promisel, on recent developments in international interbank relations. The report, which followed two earlier studies on international banking developments, examined in particular the growth and implications of derivatives business. Material for the study was drawn from interviews conducted by a working group with market participants, including some UK banks.

The report drew attention to a number of issues, and made some broad suggestions concerning risk management practices, the improvement of the legal and institutional underpinnings of wholesale markets, the resolution of legal uncertainties, and the improvement of accounting and disclosure standards. It also emphasised the scope for improved central bank understanding of these new instruments and markets.

In the wake of the Promisel Report, the Bank set up a working group, with the participation of the SFA, to examine derivatives business in the United Kingdom, and to identify any supervisory and systemic issues arising. A report was subsequently produced which underlined the need for adequate supervisory and management understanding of derivatives.

In response to the growing importance of derivatives business for many banks, as well as projected needs for implementing the Capital Adequacy Directive, the Division is creating a new specialist derivatives team through outside recruitment and training and outward secondments of existing staff. This reflects a recognition that specialised supervisory skills are necessary for the oversight of banks' trading books (whether derivatives or on-balance-sheet instruments).

The Box on page 26 gives some further explanation of where risks lie in derivatives activity.

## Market risk

In parallel with the European Community's work on market risk, the Basle Supervisors' Committee has been addressing the question of how the present Basle standards should be supplemented with new capital requirements for market risk. In April 1993, the Committee issued a consultative paper setting out proposals in this area. The Basle proposals are similar to the requirements of the Capital Adequacy Directive, reflecting the close cooperation between Basle and the European Community in this area.

The Basle Supervisors' Committee had hoped that joint proposals could be issued by both the Basle banking supervisors and the securities supervisors in the International Organisation of Securities Commissions (IOSCO). However, IOSCO was unable to reach agreement among its members, although it remains possible that an agreement between Basle and IOSCO might be reached at a later stage.

Work has also been progressing in Basle on a measurement system for interest rate risk across a bank's whole balance sheet. Proposals for a measurement system which would enable supervisors to identify banks running large amounts of interest rate risk were released for consultation in April this year.

## Risks in derivatives business

Derivatives markets are divided into two broad categories: exchange-traded derivatives with standard terms, and off-exchange, or 'over-the-counter' (OTC) instruments without standard terms. Two main types of instrument are traded on organised exchanges—futures and options. The range of OTC instruments is larger, although most types of contract can be analysed as either a forward/future or an option or a combination of the two. The underlying markets on which derivatives are based include those for foreign exchange, interest rates, equities and commodities, with some of the OTC products in most common use being forward foreign exchange instruments and currency and interest rate swaps.

### Nature of risks

The risks arising from these instruments are, generally speaking, not unique to derivatives, although derivatives can serve to isolate or combine risks in new ways. Credit and settlement risk, currency risk, interest rate risk, basis risk, other market price risk, liquidity risk, legal and operational risk can all be incurred in on-balance-sheet activities, particularly trading activities. Indeed, one of the main uses of derivatives is to control or hedge the market risks being run in other areas of the book. However, options do give rise to distinctive risks—most notably an exposure to the speed of change in the market price (market volatility) as well as to the direction of such change (price risk). As a consequence, option portfolios are particularly difficult to hedge since they require constant monitoring and attention, including adjustment to hedges, and traders are very exposed to changes in market liquidity. Moreover, although the other types of risk are familiar to banks through their on-balance-sheet trading activities, they nevertheless require highly sophisticated management and control, with a substantial investment in both human and computer resources.

### Supervisory response

The growth in use of derivatives, together with recognition of the complexity of risk management, has led to an intensified interest being shown by supervisors. Attention has also focused on the relatively concentrated nature of the markets — which can result in large gross credit exposures being built up between the most active participants — and on the 'leverage' possibilities of derivatives. This latter term refers to the way in which a position can be taken through derivatives at relatively low initial cost (and without showing up on the balance sheet). This could potentially allow some less experienced institutions to take on risks which they do not fully understand.

As described elsewhere in the Report, capital requirements are in the process of being extended to cover trading risks, whether run in the derivatives book or on-balance-sheet. This will help to prevent shortfalls of regulatory capital in relation to market risks. However, the capital framework will not be a substitute for effective management of derivatives portfolios, and the Bank will continue to place emphasis on banks' systems and controls in this area. The Bank's current strengthening of its in-house specialist expertise on derivatives will help to supplement the examinations of systems and controls already carried out by means of review team visits, and by the reporting accountants on behalf of the Bank. In the area of counterparty risk, the Large Exposures Directive will extend the scope of supervisory safeguards against risk concentrations to derivative instruments. The markets themselves are putting substantial effort into finding ways of reducing credit risk, notably through signing netting agreements. Further impetus will be given to this process if, as proposed, amendments to the Basle Accord to give wider recognition of valid netting arrangements are agreed.

### Off-balance-sheet netting

The Basle Supervisors' Committee also released in April a consultative paper containing proposals to amend the 1988 Capital Accord in respect of recognition of netting arrangements for off-balance-sheet contracts. The paper followed an earlier informal discussion paper which was given a restricted circulation in April last year.

The 1988 Accord allows risk weighting of the net rather than gross claims arising out of foreign exchange and interest rate related contracts only where the netting agreement takes the form of bilateral netting by novation. Under the new proposals, other forms of bilateral netting would be recognised to the extent that such arrangements are effective under relevant law. This revision reflects the analysis of a BIS report of November 1990 (the Lamfalussy report), which concluded that some form of bilateral netting is likely to be effective in each G10 country.

The Committee's view is that it would be premature to put forward any firm proposals for the supervisory treatment of multilateral netting arrangements. However, the consultative paper discusses the considerations which would influence a possible supervisory approach to multilateral netting.

Since the United Kingdom, in common with a number of other G10 countries, is bound by the treatment of netting outlined in the Solvency Ratio Directive, there can be no change to the Bank's current approach unless and until similar revisions are made to this Directive.

## (iv) Liaison with other supervisors

### The Basle Committee on Banking Supervision

The Committee met four times during the year. As highlighted earlier, the Committee has undertaken a review of international supervisory co-ordination in the light of the collapse of BCCI.

Whilst no amendments were made during the year to the 1988 Convergence Agreement, the Committee has continued to monitor the progress of implementation and the impact of the Agreement.

On 7 and 8 October 1992, the Seventh International Conference of Banking Supervisors was held in Cannes. The main themes for discussion were the role of supervisory authorities in the control of systemic risk and the strengthening of international supervisory co-operation.

A third joint meeting was held with insurance regulators in December 1992. The meeting once again focused on work being done to develop the supervision of financial conglomerates.

### EC supervisory bodies

The Banking Advisory Committee (BAC) and the Contact Group of EC Supervisory Authorities ('Groupe de Contact') have both met regularly during the year to discuss a range of legislative and practical supervisory matters.

Both groups have been involved in work to establish the Single European Market in banking, which came into force on 1 January 1993. The BAC considered a number of technical adaptations of the directives implementing the Single Market, and advised on new directives in the field of large exposures and consolidated supervision. The BAC once again commissioned Community-wide solvency and profitability observation exercises, with the emphasis now falling on developments in the solvency position of national and EC banking systems as a whole rather than individual credit institutions. Other issues discussed include financial conglomerates and lessons to be learned from the BCCI case.

The Groupe de Contact has likewise devoted much of its time to the Second Banking Co-ordination Directive and its practical implications, including technical discussion of interpretational difficulties, and work on the development of bilateral arrangements for supervision. A working party was established by the BAC to examine issues of interpretation. Other subjects considered by the Groupe de Contact include the application of the 'fit and proper' criteria in the assessment of directors, managers and shareholder controllers of credit institutions, the treatment of revaluation reserves and the acquisition of credit institutions' own funds by companies in the same group.

## The EC Governors' Banking Supervisory Sub-Committee

The Sub-Committee, which is chaired by Brian Quinn, met four times last year. In May, it presented to the Committee of Governors a statement of principles for the monitoring and supervision of financial conglomerates providing financial services.

The Sub-Committee discussed the implications of the closure of BCCI for international banking supervision. It also continued to review progress in the introduction of the single 'passport' arrangements under the Second Banking Co-ordination Directive. It has also prepared a report for EC Governors on the implementation of the Maastricht Treaty's provisions for a supervisory role for the proposed European Central Bank. Two working groups were set up during the year, one to look at credit registers, with a remit to consider whether there would be a case for developing them on a Community-wide basis, and the other to address the perceived causes of financial fragility and resulting concerns for banking supervisors.

# Part III
# The legal framework and operational supervision

## A. The legal framework

### The Banking Co-ordination (Second Council Directive) Regulations 1992

The Banking Co-ordination (Second Council Directive) Regulations (Statutory Instrument 1992 No 3218) ('the Regulations') implementing the Second Banking Co-ordination Directive came into force on 1 January 1993. The Regulations were made under the European Communities Act 1972. The implications of the Directive for the UK supervisory framework are described in Part II of the Report.

Among other changes, the Regulations:

(i) amend the Banking Act 1987;

(ii) set out the notification procedures which have to be followed by UK-incorporated authorised institutions which are credit institutions[1] proposing to carry on certain banking and other financial services in another Member State; and equivalent procedures for credit institutions incorporated in other Member States proposing to carry on home-regulated[2] activities in the United Kingdom. They also enable certain subsidiaries of EC-incorporated credit institutions which meet specified conditions to follow a similar procedure in order to be able to carry on these activities in other Member States (ie to use the 'passport' under the Second Banking Directive);

(iii) give the Bank certain limited powers over institutions from other Member States which propose to exercise their rights under the Second Banking Directive to carry on home-regulated activities in the United Kingdom.

Credit institutions incorporated in other Member States and their subsidiaries which have completed the notification procedures in the Regulations are described in the Regulations as European authorised institutions and European subsidiaries respectively. These categories of institution, which are together described as European institutions, are not authorised under the Banking Act but are 'recognised' under the Regulations.

The following sections set out in more detail the main changes implemented by the Regulations.

(i) *Amendments to the Banking Act 1987*

The Regulations amend the Banking Act 1987[3] in order to disapply the authorisation requirement under the Banking Act for credit institutions incorporated in another Member State wishing to accept deposits in the United Kingdom. Such institutions are entitled to accept deposits and to conduct certain other listed activities in the United Kingdom, provided they comply with the Regulations. The Regulations also *inter alia* make the following amendments to the Act which affect all UK-incorporated credit institutions:

- institutions are now required to have own funds (ie capital) of not less than ECU 5 million (or its equivalent) at the point of initial authorisation, and to maintain own funds at not less than this level on a continuing basis. Credit institutions which were authorised under the Banking Act immediately before the Regulations came into force, but whose own funds did not amount to ECU 5 million at this time, are required to maintain own funds of not less than the highest level attained since 22 December 1989 or ECU 5 million (whichever is the lower amount), provided that there has been no change of parent controller since 1 January 1993;
- new pre-notification thresholds of shareholding at which shareholder controllers must obtain the Bank's non-objection are introduced. The thresholds are now at 10%, 20%, 33%, 50% and 75% of the institution's share capital;

(1) The First Banking Co-ordination Directive defines a credit institution as an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account. Nearly all institutions authorised under the Banking Act are credit institutions.

(2) As defined in the Regulations.

(3) The Regulations also amend other UK legislation, including the Financial Services Act 1986.

- the definition of a shareholder controller is extended to include holders of non-voting share capital;
- shareholders are now required to pre-notify the Bank before passing below certain of the new thresholds;
- institutions must provide a list of their shareholder controllers (and the extent of their shareholding) to the Bank on an annual basis;
- new categories of 'parent controller' and 'minority shareholder controller' are introduced. These are derived from the seventh EC Company Law Directive, and introduce into the Banking Act the revised definition of a parent/subsidiary undertaking and the test of significant influence for shareholders;
- institutions are required to give prior notice to the Bank of their intention to carry on in the United Kingdom or elsewhere a listed activity;
- the grounds for the revocation of authorisation are extended to include inter alia a failure to adhere to the requirements of the Regulations; to maintain the institution's principal place of business in the United Kingdom; and where the Bank is informed by an authority in the institution's home State that it has failed to comply with the Second Banking Directive in that State.
- The Regulations also make other changes to the Banking Act, including to Section V dealing with restrictions on the disclosure of information.

(ii) *Notification procedures*

The Regulations set out the requirements and notification procedures which have to be followed by UK-incorporated credit institutions proposing to carry on listed activities in another Member State. Broadly, institutions may establish a branch in another Member State unless the Bank doubts the adequacy of the administrative structure or financial situation of the institution. The Bank has three months to consider notifications of intention to branch into another Member State, during which time it must consult with other authorities responsible for the supervision of the institution. UK institutions wishing to carry on listed activities on a cross-border basis must notify the Bank before doing so. The Regulations also enable certain subsidiaries of UK-incorporated institutions ('UK subsidiaries') to follow similar procedures for carrying on listed activities in other Member States.

The Regulations set out the procedures which credit institutions incorporated in another Member State (and which have their principal place of business in and are authorised in that State) are required to follow in order to carry on home-regulated activities in the United Kingdom. The Bank cannot prevent an EC credit institution establishing a branch in the United Kingdom, provided that its home supervisory authority is content for it to do so, although the Bank has two months in which to prepare for the supervision of the branch.

(iii) *The Bank's powers in relation to European institutions*

European institutions are not authorised by the Bank, and responsibility for their prudential supervision generally rests with the authorities in their home Member State. The Bank does, however, have certain powers over their activities in the United Kingdom, and a responsibility (in co-operation with the home authorities) to supervise the liquidity of UK branches of such institutions.

The Regulations give the Bank the power to prohibit the acceptance of deposits in the United Kingdom by a European institution. The power is exercisable in the circumstances specified in the Regulations, for example where the Bank is informed by the home State supervisory authority that the institution has failed to take sufficient steps to cover market risks in the United Kingdom, and where it appears to the Bank that the institution has provided it with false or inaccurate information. This power is also exercisable where a UK branch of a European authorised institution is not maintaining adequate liquidity in the United Kingdom. In certain circumstances, the Regulations require the Bank to request the supervisory authority in the institution's home State to take appropriate remedial measures. In such cases, the Bank is only able to take action if that authority has failed to take action or any measures taken by that authority have proved to be inadequate. However, the Bank is not required to follow this procedure where it considers that action should be taken as a matter of urgency.

Where the Bank's power to prohibit the acceptance of deposits is exercisable, the Bank is also able to restrict home-regulated activities carried on by the institution in the United Kingdom. This power may be exercisable instead of or as well as imposing a prohibition.

## Statutory instruments

In the year to end-February 1993, no statutory instruments were made under the Act.

## Statement of principles

The following papers are added to the table in paragraph 2.5 of the Statement of Principles published in May 1988 under section 16 of the Act. [A revised Statement of principles is being published simultaneously with this Report. The revision takes into account the amendments to the Act made by the Regulations and changes in the Bank's supervisory approach resulting from the implementation of the EC directives described in this Report. It also reflects a small number of changes clarifying the Bank's approach to particular aspects of its supervisory requirements, and contains a new section dealing with the position of the discount houses. The Bank is also publishing a Statement of principles in relation to European institutions and UK subsidiaries respectively, as required by Schedule 7 (paragraph 6) of the Regulations. These are available separately on request.]

(i) Guidance note on accounting and other records and internal control systems and reporting accountants' reports thereon (BSD/1992/4) (Amendment to the 1987 paper). Issued July 1992.

(ii) Verification of interim profits in the context of the Own Funds Directive (BSD/1992/5). Issued August 1992.

(iii) Implementation in the United Kingdom of the Solvency Ratio Directive (BSD/1992/6) (Amendment to the 1990 paper). Issued November 1992.

(iv) Implementation in the United Kingdom of the Directive on the Consolidated Supervision of Credit Institutions (BSD/1993/1). Issued March 1993.

# B. Operational supervision

## The authorised 'population'(1)

Institutions incorporated in another Member State which were authorised under the Banking Act immediately prior to the coming into force of the Regulations became European authorised institutions on 1 January 1993 and ceased to be authorised under the Banking Act. Such institutions are authorised by the relevant home State authority and are recognised under the Regulations. They are not authorised by the Bank.

### Institutions authorised under the Banking Act

In the year to end-February 1993 ('1992/93'), twenty-six applications for authorisation under the Banking Act were granted by the Bank—thirteen to UK-incorporated institutions and thirteen to institutions incorporated overseas which wished to open branches in the United Kingdom. The level of authorisations was the highest since 1986/87.

**Table XI**
**New authorisations under the Banking Act**

| Year to end-February | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|---|
| Authorisations | 37 | 21 | 12 | 15 | 15 | 25 | 26 |

There were 429 institutions authorised under the Banking Act at the end of February 1993. 176 of these institutions were represented in the United Kingdom by branches of institutions incorporated outside the European Community and 253 were incorporated in the United Kingdom. Of the UK-incorporated institutions, 83 were subsidiaries of overseas companies and 8 were joint ventures involving overseas institutions.

### European authorised institutions

As at end-February 1993, there were 79 institutions recognised under the Regulations as European authorised institutions. All these institutions are entitled to establish branches for the purpose of accepting deposits in the United Kingdom.

(1) Consisting of institutions authorised under the Banking Act 1987 and European authorised institutions (see above).

**Table XII**
**The authorised 'population'**

| End-February | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|---|
| UK-incorporated | 334 | 313 | 295 | 289 | 275 | 263 | 253 |
| Incorporated outside the United Kingdom | 254 | 254 | 256 | 259 | 255 | 255 | 255 |
| **Total** | **588** | **567** | **551** | **548** | **530** | **518** | **508** |
| *of which, European authorised institutions* | | | | | | | 79 |

## Surrenders[1]

Thirty-three authorisations were surrendered in the year 1992/93, compared with thirty-six in 1991/92. Restructurings and rationalisations of banking groups and mergers between banking institutions accounted for 20 of these. In one case an institution surrendered because it had reached a voluntary arrangement with its creditors, whilst another surrendered after receipt of a notice of intention to restrict authorisation. In one case an institution surrendered and another group company was authorised following a group restructuring in the home country. Ten other institutions surrendered their authorisation because they no longer wished to accept deposits in the United Kingdom for other reasons.

In cases where an institution surrenders its authorisation but retains deposits, the Bank's supervisory role continues until such time as all depositors are repaid—such institutions are 'former authorised institutions' within the meaning of section 106 of the Banking Act. The Bank has the power to give such directions to former authorised institutions as it considers necessary in the interests of its depositors. Two such directions were given in 1992/93.

No institution ceased to be a European authorised institution during the year.

## Revocations, prohibitions and restrictions

Sections 11 to 14 of the Banking Act provide the Bank with powers to take action against an authorised institution if it appears to the Bank that any of the minimum criteria set down in Schedule 3 to the Act is not or has not been fulfilled, or may not be or may not have been fulfilled, in respect of the institution. In the year 1992/93, two institutions had their authorisations revoked; another lost its authorisation as a result of the expiry of a time-limited authorisation. Two other notices of intention to revoke were issued by the Bank; in one case the institution in question surrendered its authorisation before the revocation procedure was completed. The Bank restricted the authorisations of twelve institutions by imposing conditions on their businesses, a substantial increase on the previous year. In two of these cases, restrictions were imposed as a matter of urgency under section 14 of the Banking Act.

**Table XIII**
**Revocations and restrictions [a]**

| Year to end-February | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|---|
| Revocation of authorisation (b) | 2 | — | — | 3 | 1 | 3 |
| Restriction of authorisation | 5 | 2 | 2 | 4 | 4 | 12 |
| Revocation of restricted authorisation | — | — | — | — | — | 2 |

(a) The table records cases in the year that the Bank's formal notice of revocation or restriction was given. In some cases the revocation did not take effect until the following year and in a few cases the institution surrendered its authorisation or a conditional authorisation expired, before the revocation took effect. It is not therefore a record of authorisations revoked or restricted but of the use of the Bank's powers.
(b) Including the expiry of a time limited authorisation.

## Appeals

Two appeals were lodged against the Bank's decisions to exercise its powers in 1992/93. Both appeals were subsequently withdrawn.

## Administration orders and liquidations

Three authorised institutions became subject to formal insolvency procedures in the year to end-February 1993. One institution resolved to go into voluntary liquidation. Provisional liquidators were appointed by the High Court in relation to one institution as a consequence of a petition presented by the Bank under section 92 of the Act; subsequently this institution went into administration. One institution went into administration as a result of an application made by the company following the revocation of its authorisation.

# Supervision and enforcement

## Interviews, visits and prudential/statistical returns

During 1992/93, over three and a half thousand meetings were held. The most frequent—over 2,000—were non-routine meetings held to discuss specific issues. The Bank's routine meetings fall into two main types: the prudential interview to discuss the

(1) Including institutions ceasing to be European authorised institutions.

institution's performance and supervisory issues arising therefrom; and the trilateral meeting attended by the Bank, the institution and its reporting accountants where reports under section 39 of the Act produced by the reporting accountants are discussed. There were 439 prudential interviews with institutions incorporated in the United Kingdom, 296 routine interviews with branches and 320 trilateral meetings. These meetings were evenly split between those held on institutions' own premises and those held at the Bank.

The Bank continues to operate its review team system, whereby Bank staff, together with bankers and accountants seconded to the Bank, visit the premises of authorised institutions to assess the quality of their lending and the adequacy of their systems and controls. In addition, visits are conducted to review the foreign exchange operations of institutions and assess them in terms of the guidelines set by the Bank for foreign exchange positions. These visits are conducted with the co-operation of the institution and do not involve the use of the Bank's statutory powers. They include both planning and follow-up visits. The total number of such visits during the year was 57.

Bank officials regularly undertake visits to the head offices of institutions, overseas branches and subsidiaries of UK institutions, and for discussions with overseas supervisors. 83 meetings were held at home and abroad with overseas supervisors.

## Use of investigatory powers

Section 39 of the Act gives the Bank powers to require an institution to commission reports from reporting accountants, to establish *inter alia* the adequacy of its systems and controls and the accuracy of its prudential returns. In addition to routine section 39 reports, special reports may be commissioned if a specific area of concern is identified. Section 39 also allows the Bank to require an institution or former authorised institution, or other persons (for example, an institution's controllers), to provide documents and information to the Bank.

In the year 1992/93, 681 section 39 reports were commissioned (414 of them on foreign branches), including special reports on four institutions.

Section 41 of the Act empowers the Bank to commission reports from competent persons on authorised institutions or former authorised institutions where areas of concern have been identified, where it is in the interests of depositors to do so. This occurred five times in the year 1992/93.

The Bank did not exercise its formal investigatory powers under the Act in relation to European institutions during the course of the year.

## Shareholder controllers of authorised institutions

The Banking Act provides that persons must notify the Bank of their intention to become a shareholder controller of an authorised institution which is incorporated in the United Kingdom. Since 1 January 1993, there has also been a requirement for persons ceasing to be a controller of a UK-incorporated credit institution to notify the Bank. The Bank assesses, inter alia, their fitness and properness to become shareholder controllers at the proposed threshold. 52 notifications for new or increased control were received in 1992/93, some on behalf of more than one person. 50 of these were passed without objection by the Bank, and 2 are still to be considered.

## Representative offices of overseas institutions

In 1992/93, 23 overseas institutions notified the Bank of their intention to establish representative offices in the United Kingdom, and 4 institutions notified the Bank of their intention to change the name used by them in the United Kingdom.

The Bank remained alert to, and investigated, suggestions of overseas institutions establishing UK representative offices without notifying the Bank contrary to section 75 of the Act. Almost without exception, investigation found that, if such offices existed, they briefly used UK accommodation address/mail drop facilities arranged by entities incorporated in, and with bank licences purchased from, centres where there is little or no banking supervision. In several cases, the Bank's prompt action clearly forestalled illegal establishment.

## Banking names and descriptions

Twenty-eight institutions changed their registered names during the year after giving notice to the Bank under section 70 of the Act. No notices of objection to the proposed name changes were issued.

The Bank also examined 144 names submitted during the year by persons who were not authorised under the Banking Act or European authorised institutions, in order to consider whether such names would be likely to breach the prohibition on the use of banking names as set out in section 67 of the Act. The Bank indicated that 50 of the proposed names would (or might be likely to) breach the Act.

During the year, the Bank also became aware of, and pursued, a number of cases where names and descriptions were being used in a manner that appeared to breach the prohibitions in section 67 and 69 of the Act. Such cases were either resolved without formal action being required or else no physical presence of the entities in question or their representatives could be identified.

## Prohibition on unauthorised deposit-taking

The number of new investigations of unauthorised deposit-taking commenced fell to 30 (37 in 1991/92). As in recent years, the bulk of resources was committed to a relatively small number of major cases.

The Bank's powers under section 42 of the Banking Act 1987, which require the person on whom they are served to provide relevant documents, information and answers to the investigators, were exercised in 11 new investigations (21 in 1991/92) with a total of 41 individual notices being served (42 in 1991/92). Four cases involved a total of 30 notices, reflecting both the extent and the complexity of the enquiries sometimes involved. In the course of one of these investigations the Bank executed arrest warrants on two directors who were charged with destroying documents relevant to the investigation, contrary to section 44 of the Banking Act 1987.

In two cases the Bank made use of injunctive powers, both to restrain suspects from further unauthorised deposit-taking [section 93(1)], and to freeze the assets of those involved [section 93(2) and the Supreme Court Act 1981 section 37)]. In both cases applications to the Courts for the repayment of deposits under section 48 were made but not pursued when it became apparent that the defendants had insufficient assets to repay all their creditors. No successful application for repayment of unauthorised deposits under the provisions of section 48 was made in the year.

The Bank also petitioned under section 92 for two unauthorised deposit-taking operations to be wound up. In both cases provisional liquidators were appointed. In a third case where the Bank petitioned for a compulsory winding-up the Bank withdrew its petition in favour of a Company Voluntary Agreement overseen by an independent supervisor.

A prosecution for offences under sections 3, 35 and 94 which was commenced last year led to the conviction and sentencing of the individual concerned to two years' imprisonment. Two new prosecutions were commenced during the year; in one case the defendant has pleaded guilty to section 3 charges and is awaiting sentence. A number of further prosecutions by the Bank are likely to be considered in the near future.

Where the Bank's investigators identify serious non-Banking Act offences, information is passed to the Crown Prosecution Service. A number of prosecutions are in train as a result, with the Bank's investigators likely to give evidence. The total value of possible deposits involved in current cases, both where the Bank is the lead investigator and where other prosecuting authorities are taking cases forward, is estimated at £55 million.

## Discount houses

There was only one change in the market during the year, when in September the gilt-edged market-maker S G Warburg, Akroyd, Rowe & Pitman, Mullens (Gilt-Edged) Ltd withdrew from its counterparty relationship with the Bank in its money-market dealing operations. As a result, the Bank has a direct dealing relationship in the sterling money market with seven discount houses authorised under the Banking Act and one gilt-edged market-maker.

The discount houses are supervised by the Wholesale Markets Supervision Division of the Bank. As indicated last year, the supervisory arrangements are largely unchanged from those set out in the Bank's 'Red Paper' of October 1988 *(Bank of England operations in the sterling money market),* although minor refinements are made as necessary. Over the past year the Bank has continued to pay particularly close attention to credit issues, the management of liquidity, particularly in respect of unsecured deposits, and systems and controls necessary to counter money laundering.

The Bank is implementing the EC Second Banking Co-ordination Directive and the EC Consolidated Supervision Directive with respect to the discount houses. The Bank continues to monitor the compliance of the discount houses with the terms of their exemption from the full provisions of the EC Solvency Ratio Directive. In view of this exemption, the Bank includes the discount houses in the consolidation which the Consolidated Supervision Directive requires on the basis of the solvency test set out in the Red Paper. The Bank is consulting with the discount houses about the implications of the EC Capital Adequacy Directive.

# Part IV
# Organisation and staffing of Banking Supervision Division

## Staff

Overall staff numbers remained broadly similar to those of recent years. For the year to end-February 1994 the budgeted number is 192, a small increase on the previous year. With effect from 1 March 1993 the Special Investigations and Legal Units, as recommended in the Bingham Report into the supervision of BCCI, were formally established outside Banking Supervision Division. Some of the Division's staff have been transferred to these new functions (which are described on pages 18-19). The Division continues to benefit from, and attaches great importance to, the contribution of its inward secondees, of whom three are from clearing banks and five from firms of chartered accountants.

### Table XIV
### Allocation of Banking Supervision Division staff

| End-February | 1989 | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|---|
| Managers | 32 | 35 | 34 | 32 | 30 |
| Analysts and assistants | 151 | 147 | 149 | 147 | 146 |
| Inward Secondees | 10 | 10 | 11 | 10 | 10[(a)] |
| **Total** | **193** | **192** | **194** | **189** | **186** |

(a) Includes two staff who have subsequently been transferred to the Legal Unit.

| | Staff | | Institutions | |
|---|---|---|---|---|
| | 1992 | 1993 | 1992 | 1993 |
| UK Retail & merchant banks (a) | 23 | 25 | 72 | 73 |
| Small & medium-sized UK institutions (b) | 34 | 37 | 111 | 96 |
| UK branches and subsidiaries of overseas banks (c) | 71 | 65 | 328 | 332 |
| Policy and legal matters (d) | 43 | 42 | — | — |
| Administration | 18 | 17 | — | — |
| **Total** | **189** | 186 | **511**[(e)] | **501**[(e)] |

(a) Groups 3-5 on the organogram at Appendix 1.
(b) Groups 6-9.
(c) Groups 11-18.
(d) Groups 1-2, 10, Information Technology.
(e) Excluding the discount houses, which are supervised by Wholesale Markets Supervision Division.

## Training

The Division's commitment to training has continued. In addition to an extensive programme of external courses in accountancy, banking and legal issues, staff also attended internal courses covering specific areas. New graduate recruits participated in a Bank-wide graduate training programme and, together with other new entrants to the Division, received an introductory course on banking supervision. The Division is also instituting training for staff on alertness to signs of financial fraud and malpractice.

The Division continues to have staff on overseas secondments. Within the United Kingdom, two managers returned to the Bank from secondments to a clearing bank and a merchant bank, whilst two other staff started secondments at banks to gain experience in derivative products in which the Division is taking a closer supervisory interest (see page 25). The Division welcomes the opportunity presented by secondments to broaden the experience of the staff concerned.

## Visits to Banking Supervision Division

The number of visitors to the Division totalled 30, a small increase over the previous year. These visitors are mostly on short-term visits to familiarise themselves with the Bank's supervisory work.

The demand for the Bank's assistance in providing advice and training for overseas supervisory authorities continues to increase. It comes not only from the emerging economies of the former Soviet Union and Eastern Bloc, but also from more traditional contacts in the developing world. In 1992/93 the technical assistance manager undertook 16 projects involving the running of formal training programmes and, more generally, provided advice on the implementation of new or improved supervisory procedures. In some cases, the Bank provides such assistance under the auspices of the International Monetary Fund. In view of the level of demand, the Division decided to increase the resources devoted to technical assistance, and created a second full-time managerial position with effect from March 1993.

## Information technology

A major project to transfer the Division's information systems from mainframe to a local area network of personal computers began in the summer of 1992. This project followed a Bank-wide review of information technology strategy which recommended local area systems as easier and cheaper to operate. This transfer should be completed during the summer of 1993. It will provide the Division with a new statistical database (developed in conjunction with the Bank's Financial Statistics Division) as well as tools for the analysis and graphical presentation of data. The office automation facilities, including word processing, will also be replaced.

Work is also under way to develop a database system for textual information. This project aims to provide a rapid and more convenient means of handling the very large body of written information held by the Division.

# Appendix 1

## Banking Supervision Division organogram

As at 1 May 1993

**The Governors** — **Board of Banking Supervision**

- **Brian Quinn**, *Executive Director*
  - R A Barnes [1], *Assistant Director*, Head of Banking Supervision
    - R H Farrant, *Deputy Head, Policy, Statistical reporting*
      - R A Allen, D Holt, J C W Osborn, *Managers, Group 2, General policy, Market trading, Statistical reporting*
      - W D R Swanney, *Manager, Accountancy & special issues, Secretary of Board of Banking Supervision, Secretary of Deposit Protection Board*
      - A J Bailey, *Manager, Information technology*
    - C F Sergeant, *Deputy Head, United Kingdom retail and merchant banks*
      - J Fischel, *Manager, Group 3, Major English clearers*
      - W M Hyde, *Manager, Group 4, Scottish and other UK clearers*
      - C J Thompson, *Manager, Group 5, Major UK merchant banks*
    - D W Green, *Deputy Head, Medium and smaller UK banks, Investigations*
      - C M Miles, *Manager, Group 6, A-B & T-Z*
      - D A Reeves, *Manager, Group 7, C-E*
      - A E Pack, *Manager, Group 8, F-L*
      - J R Cooper, *Manager, Group 9, M-S*
      - P W Filmer, *Manager, Group 10, Investigations*
    - J Bartlett, *Deputy Head, Overseas banks, North America & West Europe*
      - J C Cleland, *Manager, Group 11, Austria, Belgium, France, Germany, Luxembourg, Switzerland*
      - P A C Smout, *Manager, Group 12, Canada, USA*
      - K S Pooley, *Manager, Group 14, Denmark, Finland, Gibraltar, Greece, Ireland, Italy, Malta, Netherlands, Norway, Portugal, Spain, Sweden*
    - D J Reid, *Deputy Head, Overseas banks, Rest of the world*
      - R E P Diggory, *Manager, Group 15, Japan*
      - J A Hoskins, *Manager, Group 16, Afghanistan, Australasia, Eastern Europe, Indian sub-Continent, Israel, South Africa*
      - P L Fox, *Manager, Group 17, Cyprus, Middle East, Turkey*
      - M J Fuggle, *Manager, Group 18, Bermuda, Caribbean, Far East, Latin America, Other Africa*
    - C M D Bird, *Manager, Administration, Staff training*
    - P J Marr, *Manager, Review team visits*
    - R J MacDonald, D A Ware, *Managers, Technical assistance*

(1) M D K W Foot takes over from Mr Barnes on 31 August.

## Current supervisory notices

*The following is a list of policy and practice notices issued by Banking Supervision Division which are currently in force.*

| Title | Date of issue |
|---|---|
| Foreign currency exposure | April 1981 |
| Measurement of liquidity | July 1982 |
| Connected lending; accounts; large exposures; fraudulent invitations; floating charges (BSD/1983/1) | April 1983 |
| Foreign currency options | April 1984 |
| Note issuance facilities/ revolving underwriting facilities (BSD/1985/2) | April 1985 |
| Statistical notice to monetary sector institutions (released in conjunction with previous paper) | April 1985 |
| Large exposures in relation to mergers and acquisitions (BSD/1986/1) | February 1986 |
| Subordinated loan capital (BSD/1986/2) | March 1986 |
| Statistical notice to monetary sector institutions | June 1986 |
| Large exposures (BSD/1987/1) | September 1987 |
| Guidance note on accounting and other records and internal control systems and reporting accountants' reports thereon (BSD/1987/2) | September 1987 |
| Guidance note on reporting accountants' reports on Bank of England returns used for prudential purposes (BSD/1987/3) | October 1987 |
| The Bank of England's relationship with auditors and reporting accountants (BSD/1987/4) | December 1987 |
| Large underwriting exposures (BSD/1987/1.1) (to be read in conjunction with the large exposures paper) | February 1988 |
| Advertising for deposits (BSD/1988/1) | April 1988 |
| Banking Act 1987 Section 16: Statement of principles | May 1988 |
| Supervisory treatment of ECU Treasury bills (BSD/1988/2) | October 1988 |
| Letter to authorised institutions concerning money laundering | January 1989 |
| Loan transfers and securitisation (BSD/1989/1) | February 1989 |

| | |
|---|---|
| Further letter to authorised institutions concerning money laundering | November 1989 |
| Letter to authorised institutions concerning debt provisioning (the new matrix) | January 1990 |
| Large exposures (BSD/1990/1) (amendment to the 1987 paper) | February 1990 |
| Letter to authorised institutions concerning advertising of interest bearing accounts | December 1990 |
| Letter to authorised institutions concerning guidance notes issued by the Joint Money Laundering Working Group | December 1990 |
| Code of conduct for the advertising of savings and deposit accounts and money-market accounts | December 1990 |
| Implementation in the United Kingdom of the directive on own funds of credit institutions (BSD/1990/2) | December 1990 |
| Implementation in the United Kingdom of the solvency ratio directive (BSD/1990/3) | December 1990 |
| Statistical notice to reporting banks on capital adequacy treatment of deferred tax assets | December 1990 |
| Implementation in the United Kingdom of the directive on own funds of credit institutions (BSD/1992/1) (amendment to the1990 paper) | January 1992 |
| Large exposures (BSD/1992/2) (amendment to the 1987 paper) | February 1992 |
| Loan transfers and securitisation (BSD/1992/3) (amendment to the 1989 paper) | April 1992 |
| Guidance note on accounting and other records and internal control systems and reporting accountants' reports thereon (BSD/1992/4) (amendment to the 1987 paper) | July 1992 |
| Verification of interim profits in the context of the own funds directive (BSD/1992/5) | August 1992 |
| Implementation in the United Kingdom of the solvency ratio directive (BSD/1992/6) (amendment to the 1990 paper) | November 1992 |
| Implementation in the United Kingdom of the directive on the consolidated supervision of credit institutions (BSD/1993/1) | March 1993 |

# Geographical representation of overseas institutions

*The following table shows the geographical origins and status of foreign institutions represented in the United Kingdom at end-February 1993.*

| Geographical origin of ownership | Branch of an overseas bank (1) | UK incorporated subsidiary of an overseas Bank (1) | UK incorporated subsidiary of an overseas Non-bank | Controlling (15% or more) stake in a consortium bank | Representative offices (2) | Total |
|---|---|---|---|---|---|---|
| Afghanistan | — | 1 | — | — | — | 1 |
| Argentina | 1 | — | — | — | 1 | 2 |
| Australia | 8 | 7 | — | — | — | 15 |
| Austria | 4 | — | — | — | 1 | 5 |
| Bahamas | — | — | — | — | 2 | 2 |
| Bahrain | 2 | 1 | — | — | 2 | 5 |
| Bangladesh | 1 | — | — | — | 1 | 2 |
| Belgium | 6 | — | — | — | — | 6 |
| Bermuda | 1 | — | — | — | 1 | 2 |
| Brazil | 4 | — | — | — | 5 | 9 |
| Bulgaria | — | — | — | — | 1 | 1 |
| Canada | 6 | 6 | — | — | — | 12 |
| China | 1 | — | — | — | 2 | 3 |
| Croatia | — | — | — | — | 1 | 1 |
| Cuba | — | 1 | — | — | — | 1 |
| Cyprus | 2 | 2 | — | — | — | 4 |
| Czech Republic | 1 | — | — | — | — | 1 |
| Denmark | 2 | 2 | — | — | 1 | 5 |
| Ecuador | — | — | — | — | 2 | 2 |
| Egypt | 2 | 1 | — | — | — | 3 |
| Finland | 3 | 1 | — | — | 2 | 6 |
| France | 14 | 6 | 1 | — | 9 | 30 |
| Germany | 15 | 1 | — | — | 2 | 18 |
| Ghana | 1 | — | — | — | — | 1 |
| Greece | 2 | — | — | — | 2 | 4 |
| Hong Kong | 4 | 3 | — | — | 1 | 8 |
| Hungary | — | 1 | — | — | — | 1 |
| India | 6 | 1 | — | — | — | 7 |
| Indonesia | 2 | — | — | — | 3 | 5 |
| Iran | 5 | — | — | — | 1 | 6 |
| Iraq | 1 | — | — | — | — | 1 |
| Ireland | 7 | 2 | — | — | 3 | 12 |
| Israel | 2 | 2 | — | — | 3 | 7 |
| Italy | 15 | 2 | — | — | 26 | 43 |
| Jamaica | — | — | — | — | 1 | 1 |
| Japan | 28 | 6 | 4 | — | 16 | 54 |
| Jordan | 1 | — | — | 1 | — | 2 |
| Kenya | — | — | — | — | 1 | 1 |
| Kuwait | 1 | 1 | — | 1 | 6 | 9 |
| Lebanon | 1 | — | — | — | 2 | 3 |
| Libya | — | — | — | 1 | — | 1 |
| Luxembourg | 1 | — | — | — | 1 | 2 |
| Former Yugoslav Republic of Macedonia | — | — | — | — | 1 | 1 |
| Malaysia | 2 | — | — | — | 2 | 4 |
| Mexico | 4 | — | — | 1 | 2 | 7 |
| Montenegro | — | — | — | — | 1 | 1 |
| Netherlands | 6 | — | — | — | 2 | 8 |
| New Zealand | 1 | — | — | — | 1 | 2 |
| Nigeria | 2 | — | — | — | 4 | 6 |
| Norway | 2 | 1 | — | — | — | 3 |
| Pakistan | 4 | — | — | — | — | 4 |
| Panama | — | — | — | — | 1 | 1 |

| Geographical origin of ownership | Branch of an overseas bank (1) | UK incorporated subsidiary of an overseas Bank (1) | UK incorporated subsidiary of an overseas Non-bank | Controlling (15% or more) stake in a consortium bank | Representative offices (2) | Total |
|---|---|---|---|---|---|---|
| Philippines | 1 | 1 | — | — | 1 | 3 |
| Poland | 1 | — | — | — | — | 1 |
| Portugal | 4 | — | — | — | 1 | 5 |
| Qatar | 1 | — | — | — | — | 1 |
| Romania | — | — | — | 1 | — | 1 |
| Russia | — | 1 | — | — | — | 1 |
| Saudi Arabia | 3 | 2 | — | 1 | 3 | 9 |
| Serbia | — | — | — | 1 | 3 | 4 |
| Singapore | 4 | — | — | — | — | 4 |
| Slovenia | — | — | — | — | 1 | 1 |
| South Africa | 3 | 1 | — | — | 2 | 6 |
| South Korea | 7 | 3 | — | — | 8 | 18 |
| Spain | 7 | 1 | — | — | 10 | 18 |
| Sri Lanka | 1 | — | — | — | — | 1 |
| Sweden | 5 | 2 | — | — | 1 | 8 |
| Switzerland | 10 | 1 | — | — | 15 | 26 |
| Taiwan | 2 | — | — | — | 3 | 5 |
| Thailand | 3 | — | — | — | — | 3 |
| Turkey | 2 | 1 | — | — | 6 | 9 |
| Uganda | — | — | — | — | 1 | 1 |
| UAE | 4 | — | — | — | 1 | 5 |
| USA | 25 | 11 | 6 | 3 | 8 | 53 |
| Venezuela | — | — | — | — | 2 | 2 |
| Zambia | 1 | — | — | — | — | 1 |
| **Totals** | **255** | **72** | **11** | **11** (3) | **178** | **527** (4) |
| *of which* | | | | | | |
| EC countries (5) | 79 | 14 | 1 | — | 57 | 151 |
| Other Europe | 30 | 10 | — | 2 | 32 | 74 |
| North America | 31 | 17 | 6 | 3 | 8 | 65 |
| Japan | 28 | 6 | 4 | — | 16 | 54 |
| Australia & New Zealand | 9 | 7 | — | — | 1 | 17 |
| Other Asia | 38 | 9 | — | — | 21 | 68 |
| Middle East | 23 | 7 | — | 5 | 17 | 52 |
| Other | 17 | 2 | — | 1 | 26 | 46 |

(1) Includes institutions authorised to conduct banking business in the country of origin.

(2) This covers only those representative offices included in the list published at the end of January 1993.

(3) Representing 8 institutions.

(4) Representing 524 institutions.

(5) Other than the United Kingdom.

# List of institutions authorised at 28 February 1993 — Appendix 4

*This list is made available pursuant to section 17(2) of the Banking Act 1987 as amended by the Banking Co-ordination (Second Council Directive) Regulations. The inclusion of an institution does not, of course mean that the Bank of England in any way guarantees its obligations. The list includes institutions authorised by the Bank of England under the Banking Act 1987 and European authorised institutions.*

## (i) Institutions authorised by the Bank of England

### 1 UK-incorporated[(1)]

ABC International Bank plc
ANZ Grindlays Bank plc
AY Bank Ltd[(2)]
Abbey National plc
Abbey National Treasury Services plc
Adam & Company plc
Afghan National Credit & Finance Ltd
Airdrie Savings Bank
Aitken Hume Bank plc
Ak International Bank Ltd
Albaraka International Bank Ltd
Alexanders Discount plc
Alliance Trust (Finance) Ltd
Allied Bank Philippines (UK) plc
Allied Trust Bank Ltd
Anglo-Romanian Bank Ltd[(2)]
Henry Ansbacher & Co Ltd
Assemblies of God Property Trust
Associates Capital Corporation Ltd
Avco Trust plc

BNL Investment Bank plc
Bank Leumi (UK) plc
Bank of America International Ltd
Bank of Boston Ltd
Bank of Cyprus (London) Ltd
The Bank of Edinburgh plc
Bank of Montreal Europe Ltd
Bank of Scotland
Bank of Scotland Treasury Services plc
Bank of Tokyo International Ltd
Bank of Wales plc
Bankers Trust International plc
Banque Nationale de Paris plc
The Baptist Union Corporation Ltd
Barclays Bank plc
Barclays de Zoete Wedd Ltd
Barclays Bank Trust Company Ltd
Baring Brothers & Co Ltd
Belmont Bank Ltd
Beneficial Bank plc
British & Commonwealth Merchant Bank plc (in administration)
The British Bank of the Middle East
The British Linen Bank Ltd
British Railways Savings Company Ltd
Brown, Shipley & Co Ltd
Bunge Finance Ltd

CIBC Bank plc
CLF Municipal Bank plc
Caledonian Bank plc
Cater Allen Ltd
Central Hispano Bank (UK) Ltd
The Charities Aid Foundation Money Management Company Ltd
Chartered Trust plc
Chartered WestLB Ltd
Charterhouse Bank Ltd
Chase Investment Bank Ltd
Chemical Investment Bank Ltd
Chesterfield Street Trust Ltd
Citibank Trust Ltd
Citicorp Investment Bank Ltd
City Merchants Bank Ltd
City Trust Ltd
Clive Discount Company Ltd
Close Brothers Ltd
Clydesdale Bank plc
Clydesdale Bank Finance Corporation Ltd
Combined Capital Ltd
Commercial Bank Trust plc
Commercial Bank of London plc
Confederation Bank Ltd
Consolidated Credits Bank Ltd
The Co-operative Bank plc
County NatWest Ltd
Coutts & Co
Credit Suisse Financial Products

Daiwa Europe Bank plc
Dalbeattie Finance Co Ltd
Dao Heng Bank (London) plc
Darlington Merchant Credits Ltd
Davenham Trust plc
Den norske Bank plc
The Dorset, Somerset & Wilts Investment Society Ltd
Dryfield Finance Ltd
Dunbar Bank plc
Duncan Lawrie Ltd

Eccles Savings and Loans Ltd
Enskilda Securities-Skandinaviska Enskilda Ltd
Equatorial Bank plc
Exeter Bank Ltd

FIBI Bank (UK) Ltd
Fairmount Trust Ltd
Family Finance Ltd
FennoScandia Bank Ltd
Financial & General Bank plc
James Finlay Bank Ltd
First National Bank plc
First National Commercial Bank plc
The First Personal Bank plc
First Trust Bank (AIB Group Northern Ireland plc)
Robert Fleming & Co Ltd
Ford Credit plc
Foreign & Colonial Management Ltd
Forward Trust Ltd
Forward Trust Personal Finance Ltd
Frizzell Banking Services Ltd

Gartmore Money Management Ltd
Gerrard & National Ltd
Girobank plc
Goldman Sachs Ltd
Granville Trust Ltd
Gresham Trust plc
Greyhound Bank plc
Guinness Mahon & Co Ltd

HFC Bank plc
Habibsons Bank Ltd

(1) Including partnerships formed under the law of any part of the United Kingdom.
(2) Consortium banks

Hambros Bank Ltd
Hampshire Trust plc
The Hardware Federation Finance Co Ltd
Harrods Bank Ltd
Harton Securities Ltd
Havana International Bank Ltd
The Heritable & General Investment Bank Ltd
Hill Samuel Bank Ltd
C Hoare & Co
Julian Hodge Bank Ltd
Holdenhurst Securities plc
HongkongBank London Ltd
Humberclyde Finance Group Ltd
Hungarian International Bank Ltd

3i plc
3i Group plc
IBJ International plc
International Mexican Bank Ltd(2)
Iran Overseas Investment Bank Ltd(2)
Italian International Bank plc

Jordan International Bank plc(2)
Leopold Joseph & Sons Ltd

KDB Bank (UK) Ltd
KEXIM Bank (UK) Ltd
King & Shaxson Ltd
Kleinwort Benson Ltd
Kleinwort Benson Investment Management Ltd
Korea Long Term Credit Bank International Ltd

LTCB International Ltd
Lazard Brothers & Co Ltd
Lloyds Bank plc
Lloyds Bank (BLSA) Ltd
Lloyds Bowmaker Ltd
Lloyds Merchant Bank Ltd
Lloyds Private Banking Ltd
Lombard Bank Ltd
Lombard & Ulster Ltd
Lombard North Central plc
London Scottish Bank plc
London Trust Bank plc
Lordsvale Finance plc

McDonnell Douglas Bank Ltd
McNeill Pearson Ltd
Manchester Exchange and Investment Bank Ltd
W M Mann & Co (Investments) Ltd
Marks and Spencer Financial Services Ltd
Mase Westpac Ltd
Matheson Bank Ltd
Matlock Bank Ltd
Meghraj Bank Ltd
Mellon Europe Ltd
Mercury Provident plc
Merrill Lynch International Bank Ltd
The Methodist Chapel Aid Association Ltd
Midland Bank plc
Midland Bank Trust Company Ltd
Minories Finance Ltd
Minster Trust Ltd
Samuel Montagu & Co Ltd
Morgan Grenfell & Co Ltd
Moscow Narodny Bank Ltd
Mount Banking Corporation Ltd (in administration)
Mutual Trust & Savings Ltd

NIIB Group Ltd
NWS BANK plc
National Bank of Egypt International Ltd
National Bank of Kuwait (International) plc
The National Mortgage Bank plc
National Westminster Bank plc
NationsBank Europe Ltd

The Nikko Bank (UK) plc
Noble Grossart Ltd
Nomura Bank International plc
Northern Bank Ltd
Northern Bank Executor & Trustee Company Ltd
Nykredit Mortgage Bank plc

Omega Trust Co Ltd

PaineWebber International Bank Ltd
Peoples Bank Ltd
Pointon York Ltd
The Private Bank & Trust Company Ltd
Provincial Bank plc

Ralli Investment Company Ltd
R Raphael & Sons plc
Rathbone Bros & Co Ltd
Rea Brothers Ltd
Reliance Bank Ltd
Riggs A P Bank Ltd
Riyad Bank Europe Ltd
N M Rothschild & Sons Ltd
Roxburghe Bank Ltd
Royal Bank of Canada Europe Ltd
The Royal Bank of Scotland plc
Royal Trust Bank
RoyScot Trust plc

SBI European Bank Ltd
Sanwa International plc
Saudi American Bank (UK) Ltd
Saudi International Bank (Al-Bank Al-Saudi Al-Alami Ltd)(2)
Schroder Leasing Ltd
J Henry Schroder Wagg & Co Ltd
Scotiabank (UK) Ltd
Scottish Amicable Money Managers Ltd
Seccombe Marshall & Campion plc
Secure Homes Ltd
Security Pacific Trust Ltd
Singer & Friedlander Ltd
Smith & Williamson Securities
Société Generale Merchant Bank plc
Southsea Mortgage & Investment Co Ltd
Standard Bank London Ltd
Standard Chartered Bank
Standard Chartered Bank Africa plc
Svenska International plc

TSB Bank plc
TSB Bank Scotland plc
Tokai Bank Europe Ltd
Toronto Dominion Bank Europe Ltd
Turkish Bank (UK) Ltd
Tyndall & Co Ltd

UBAF Bank Ltd(2)
UCB Bank plc
ULC Trust Ltd
Ulster Bank Ltd
Unibank plc
Union Discount Company Ltd
The United Bank of Kuwait plc(2)
United Dominions Trust Ltd
Unity Trust Bank plc

Wagon Finance Ltd
S G Warburg & Co Ltd
Western Trust & Savings Ltd
Whiteaway Laidlaw Bank Ltd
Wimbledon & South West Finance plc
Wintrust Securities Ltd
Woodchester Credit Lyonnais plc

Yamaichi Bank (UK) plc
Yorkshire Bank plc

## 2 Incorporated outside the EC

ABSA Bank Ltd
Allied Bank of Pakistan Ltd
American Express Bank Ltd[3]
Arab African International Bank
Arab Bank plc
Arab Banking Corporation BSC
Arab National Bank
The Asahi Bank, Ltd[3]
The Ashikaga Bank Ltd[3]
Australia & New Zealand Banking Group Ltd[3]

BSI-Banca della Svizzera Italiana[3]
Banca Serfin SA
Banco de la Nación Argentina
Banco do Brasil SA
Banco do Estado de São Paulo SA
Banco Mercantil de São Paulo SA
Banco Nacional de México SNC
Banco Real SA
Bancomer SA
Bangkok Bank Ltd
Bank Julius Baer & Co Ltd[3]
Bank Bumiputra Malaysia Berhad
Bank Ekspor Impor Indonesia
Bank Handlowy w Warszawie SA
Bank Hapoalim BM
Bank Mellat
Bank Melli Iran
PT Bank Negara Indonesia (Persero)
Bank of America NT & SA[3]
Bank of Baroda
The Bank of NT Butterfield & Son Ltd
Bank of Ceylon
Bank of China
The Bank of East Asia Ltd
The Bank of Fukuoka Ltd[3]
Bank of India
Bank of Montreal[3]
The Bank of New York[3]
Bank of New Zealand[3]
The Bank of Nova Scotia[3]
Bank of Oman Ltd
Bank of Seoul
The Bank of Tokyo, Ltd[3]
The Bank of Yokohama, Ltd[3]
Bank Saderat Iran
Bank Sepah-Iran
Bank Tejarat
Bankers Trust Company[3]
Beirut Riyad Bank SAL
Boston Safe Deposit and Trust Company[3]

CBI - TDB Union Bancaire Privée [3]
Canadian Imperial Bank of Commerce[3]
Canara Bank
Chang Hwa Commercial Bank Ltd
The Chase Manhattan Bank, NA[3]
Chemical Bank[3]
The Chiba Bank Ltd[3]
Cho Hung Bank
Christiania Bank og Kreditkasse[3]
The Chuo Trust & Banking Co, Ltd[3]
Citibank NA[3]
Commercial Bank of Korea Ltd
Commonwealth Bank of Australia[3]
Continental Bank, National Association[3]
CoreStates Bank NA[3]
Crédit Suisse[3]
Creditanstalt - Bankverein[3]
Cyprus Credit Bank Ltd
The Cyprus Popular Bank Ltd

The Dai-Ichi Kangyo Bank, Ltd[3]
The Daiwa Bank, Ltd[3]
Den norske Bank A/S[3]
The Development Bank of Singapore Ltd
Discount Bank and Trust Company[3]

Fidelity Bank NA[3]
First Bank of Nigeria plc
First Commercial Bank
First Interstate Bank of California[3]
The First National Bank of Boston[3]
The First National Bank of Chicago[3]
Fleet Bank of Massachusetts, NA[3]
French Bank of Southern Africa Ltd
The Fuji Bank, Ltd[3]

Ghana Commercial Bank
GiroCredit Bank Aktiengesellschaft der Sparkassen (3)
Gota Bank[3]
Gulf International Bank BSC

Habib Bank AG Zurich[3]
Habib Bank Ltd
Hanil Bank
Harris Trust and Savings Bank[3]
The Hiroshima Bank Ltd[3]
The Hokkaido Takushoku Bank Ltd[3]
The Hokuriku Bank Ltd[3]
The Hongkong and Shanghai Banking Corporation Ltd

The Industrial Bank of Japan Ltd[3]

The Joyo Bank Ltd[3]

Kansallis-Osake-Pankki[3]
Korea Exchange Bank
Korea First Bank

The Long-Term Credit Bank of Japan Ltd[3]

Malayan Banking Berhad
Mellon Bank, NA[3]
Merchants National Bank & Trust Company of Indianapolis
(National City Bank, Indiana)[3]
Middle East Bank Ltd
The Mitsubishi Bank, Ltd[3]
The Mitsubishi Trust and Banking Corporation[3]
The Mitsui Trust & Banking Co Ltd[3]
Morgan Guaranty Trust Company of New York[3]
Multibanco Comermex SA

NBD Bank, NA[3]
National Australia Bank Ltd[3]
National Bank of Abu Dhabi
National Bank of Canada[3]
The National Bank of Dubai Ltd
National Bank of Egypt
National Bank of Kuwait SAK
National Bank of Pakistan
NationsBank of North Carolina, NA[3]
Nedcor Bank Ltd
The Nippon Credit Bank, Ltd[3]
Nordbanken[3]
The Norinchukin Bank[3]
The Northern Trust Company[3]

Oversea-Chinese Banking Corporation Ltd
Overseas Trust Bank Ltd
Overseas Union Bank Ltd

Philippine National Bank
Postipankki Ltd [3]

(3) Non-EC OECD institutions.

Qatar National Bank SAQ

R&I Bank of Western Australia Ltd[3]
Rafidain Bank (provisional liquidator appointed)
Raiffeisen Zentralbank Osterreich AG[3]
Republic National Bank of New York[3]
Reserve Bank of Australia[3]
The Riggs National Bank of Washington, DC
Riyad Bank
Royal Bank of Canada[3]

The Sakura Bank Ltd [3]
The Sanwa Bank Ltd [3]
Saudi American Bank
Shanghai Commercial Bank Ltd
Shinhan Bank
The Siam Commercial Bank, Ltd
Skandinaviska Enskilda Banken[3]
Sonali Bank
State Bank of India
State Bank of New South Wales Ltd[3]
State Bank of South Australia[3]
State Street Bank and Trust Company[3]
The Sumitomo Bank, Ltd[3]
The Sumitomo Trust & Banking Co Ltd[3]
Svenska Handelsbanken[3]
SwedBank[3]

Swiss Bank Corporation[3]
Swiss Volksbank[3]
Syndicate Bank

TC Ziraat Bankasi[3]
The Thai Farmers Bank Ltd
The Tokai Bank, Ltd[3]
The Toronto-Dominion Bank[3]
The Toyo Trust & Banking Company Ltd[3]
Türkiye Is Bankaşi AŞ[3]

Uco Bank
Union Bank of Finland Ltd[3]
Union Bank of Nigeria plc
Union Bank of Switzerland[3]
United Bank Ltd
United Mizrahi Bank Ltd
United Overseas Bank Ltd[3]

Westpac Banking Corporation[3]
Wirtschafts- und Privatbank[3]

The Yasuda Trust & Banking Co, Ltd[3]

Z-Länderbank Bank Austria AG[3]
Zambia National Commercial Bank Ltd
Zivnostenská Banka AS

## (ii) European authorised institutions entitled to establish UK branches

| Name of institution | Country of home state supervisory authority |
|---|---|
| ABN AMRO Bank NV | Netherlands |
| AIB Capital Markets plc | Republic of Ireland |
| AIB Finance Ltd | Republic of Ireland |
| ASLK-CGER Bank NV-SA | Belgium |
| Allied Irish Banks plc | Republic of Ireland |
| Anglo Irish Bank Corporation plc | Republic of Ireland |
| BfG Bank AG | Germany |
| Banca Cassa di Risparmio di Torino SpA | Italy |
| Banca Commerciale Italiana | Italy |
| Banca di Roma SpA | Italy |
| Banca Nazionale dell'Agricoltura SpA | Italy |
| Banca Nazionale del Lavoro SpA | Italy |
| Banca Popolare di Milano | Italy |
| Banca Popolare di Novara | Italy |
| Banco Ambrosiano Veneto SpA | Italy |
| Banco Bilbao-Vizcaya | Spain |
| Banco Central Hispanoamericano SA | Spain |
| Banco de Sabadell | Spain |
| Banco di Napoli SpA | Italy |
| Banco di Sicilia SpA | Italy |
| Banco Español de Crédito SA | Spain |
| Banco Espirito Santo e Comercial de Lisboa | Portugal |
| Banco Exterior de España SA | Spain |
| Banco Nacional Ultramarino SA | Portugal |
| Banco Português do Atlântico | Portugal |
| Banco Santander | Spain |
| Banco Totta & Açores SA | Portugal |
| Bank Mees & Hope NV | Netherlands |
| The Bank of Ireland | Republic of Ireland |
| Banque Arabe et Internationale d'Investissement | France |
| Banque Banorabe | France |
| Banque Bruxelles Lambert SA | Belgium |
| Banque Française de l'Orient | France |
| Banque Française du Commerce Exterieur | France |
| Banque Indosuez | France |
| Banque Internationale à Luxembourg SA | Luxembourg |
| Banque Nationale de Paris | France |
| Banque Paribas | France |
| Banque Worms | France |
| Bayerische Hypotheken-und Wechsel-Bank AG | Germany |
| Bayerische Landesbank Girozentrale | Germany |

| | |
|---|---|
| Bayerische Vereinsbank AG | Germany |
| Belgolaise SA | Belgium |
| Berliner Bank AG | Germany |
| Berliner Handels-und Frankfurter Bank | Germany |
| Byblos Bank Belgium SA | Belgium |
| CARIPLO - Cassa di Risparmio delle Provincie Lombarde SpA | Italy |
| Caisse Nationale de Crédit Agricole | France |
| Cassa di Risparmio di Verona Vicenza Belluno e Ancona SpA | Italy |
| Commerzbank AG | Germany |
| Compagnie Financière de CIC et de l'Union Européenne | France |
| Confederacion Espanola de Cajas de Ahorros | Spain |
| Crédit Commercial de France | France |
| Crédit du Nord | France |
| Crédit Lyonnais | France |
| Crédit Lyonnais Bank Nederland NV | Netherlands |
| Credito Italiano | Italy |
| Den Danske Bank Aktieselskab | Denmark |
| Deutsche Bank AG | Germany |
| Deutsche Genossenschaftsbank | Germany |
| Dresdner Bank AG | Germany |
| Ergobank SA | Greece |
| Generale Bank | Belgium |
| Hamburgische Landesbank Girozentrale | Germany |
| Internationale Nederlanden Bank NV | Netherlands |
| Irish Permanent Building Society | Republic of Ireland |
| Istituto Bancario San Paolo di Torino SpA | Italy |
| Jyske Bank | Denmark |
| Kas-Associatie NV | Netherlands |
| Kredietbank NV | Belgium |
| Landesbank Hessen-Thüringen Girozentrale | Germany |
| Monte dei Paschi di Siena | Italy |
| National Bank of Greece SA | Greece |
| Norddeutsche Landesbank Girozentrale | Germany |
| Rabobank Nederland (Coöperatieve Centrale Raiffeisen-Boerenleenbank BA) | Netherlands |
| Société Generale | France |
| Südwestdeutsche Landesbank Girozentrale | Germany |
| Ulster Investment Bank Ltd | Republic of Ireland |
| Westdeutsche Landesbank Girozentrale | Germany |

# Changes to the list of institutions

*The following changes were made during the year to the list of institutions:*

## (i) Institutions authorised by the Bank of England

### 1. UK-incorporated

#### Additions

Allied Bank Philippines (UK) plc
Bank of Montreal Europe Ltd
Bank of Scotland Treasury Services plc
CIBC Bank plc
KEXIM International (UK) Ltd
Mellon Europe Ltd
National Bank of Egypt International Ltd
National Bank of Kuwait (International) plc
Riyad Bank Europe Ltd
SBI European Bank Ltd
Saudi American Bank (UK) Ltd
Standard Bank London Ltd
Toronto Dominion Bank Europe Ltd

#### Deletions

Banque Belge Ltd
Banque de la Méditerranée (UK) Ltd
Birmingham Capital Trust plc
Boston Safe Deposit and Trust Company (UK) Ltd
British Credit Trust Ltd
Chancery plc
Craneheath Securities Ltd
Credito Italiano International Ltd
DG Investment Bank Ltd
Dartington & Co Ltd
Deacon Hoare & Co Ltd
Edington plc (in administration)
Robert Fraser & Partners Ltd
Hill Samuel Personal Finance Ltd
Independent Trust and Finance Ltd
Mynshul Bank plc
National Guardian Mortgage Corporation Ltd (in administration)
Nordbanken UK Ltd
Norwich General Trust Ltd
Philadelphia National Ltd
Property Lending Bank plc
Sterling Bank & Trust Ltd
H F Young & Co Ltd

#### Name Changes

| | | |
|---|---|---|
| Anglo Yugoslav Bank Ltd | *to* | AY Bank Ltd |
| Avco Trust Ltd | *to* | Avco Trust plc |
| Banco Hispano Americano Ltd | *to* | Central Hispano Bank (UK) Ltd |
| Benchmark Bank plc | *to* | Dao Heng Bank plc |
| CLF Municipal Mutual Bank plc | *to* | CLF Municipal Bank plc |
| Co-operative Bank plc | *to* | The Co-operative Bank plc |
| Dao Heng Bank plc | *to* | Dao Heng Bank (London) plc |
| Goode Durrant Bank plc | *to* | The Bank of Edinburgh plc |
| IBJ International (UK) Ltd | *to* | IBJ International plc |
| KEXIM International (UK) Ltd | *to* | KEXIM Bank (UK) Ltd |
| Manufacturers Hanover Ltd | *to* | Chemical Investment Bank Ltd |
| Midland Bank Finance Corporation Ltd | *to* | Forward Trust Personal Finance Ltd |
| TSB Bank Northern Ireland plc | *to* | First Trust Bank (AIB Group Northern Ireland plc) |
| Woodchester Bank UK plc | *to* | Woodchester Credit Lyonnais plc |

### 2. Incorporated outside the EC

#### Additions

Bank Ekspor Impor Indonesia
Boston Safe Deposit and Trust Company
Chang Hwa Commercial Bank Ltd
The Hiroshima Bank, Ltd

#### Deletions

Allied Banking Corporation
The Bank of California NA
Bankorp Ltd
Manufacturers Hanover Trust Company
The National Commercial Bank
Security Pacific National Bank
United Overseas Bank (Banque Unie pour les Pays d'Outre Mer)

#### Name Changes

| | | |
|---|---|---|
| Banca Serfin SNC | *to* | Banca Serfin SA |
| Bank Negara Indonesia 1946 | *to* | PT Bank Negara Indonesia (Persero) |
| Girozentrale und Bank der österreichishen Sparkassen AG | *to* | GiroCredit Bank Aktiengesellschaft der Sparkassen |
| The Kyowa Saitama Bank, Ltd | *to* | The Asahi Bank, Ltd |
| Merchants National Bank & Trust Company of Indianapolis | *to* | Merchants National Bank & Trust Company of Indianapolis (National City Bank, Indiana) |
| The Mitsui Taiyo Kobe Bank, Ltd | *to* | The Sakura Bank, Ltd |
| Multibanco Comermex SNC | *to* | Multibanco Comermex SA |
| Nedperm Bank Ltd | *to* | Nedcor Bank Ltd |
| Scandinavian Bank (Skandinaviska Enskilda Banken) | *to* | Skandinaviska Enskilda Banken |
| Union Bank of Nigeria Ltd | *to* | Union Bank of Nigeria plc |
| Zivnostenská Banka National Corporation | *to* | Zivnostenská Banka AS |

## (ii) European authorised institutions entitled to establish UK branches

| Name of institution | | | Country of home state supervisory authority |
|---|---|---|---|
| **Additions** | | | |
| ASLK-CGER Bank NV-SA | | | Belgium |
| Banco Ambrosiano Veneto SpA | | | Italy |
| Banco Exterior de Espãna SA | | | Spain |
| Byblos Bank Belgium SA | | | Belgium |
| Cassa di Risparmio di Verona Vicenza Belluno e Ancona SpA | | | Italy |
| Compagnie Financiere de CIC et de l'Union Europeenne | | | France |
| Ergobank SA | | | Greece |
| Irish Permanent Building Society | | | Republic of Ireland[a] |
| Kas-Associatie NV | | | Netherlands |
| **Deletions** | | | |
| ASLK-CGER Bank | | | Belgium |
| Banco di Roma SpA (see also under name changes) | | | Italy |
| Banco Exterior Internacional SA | | | Spain |
| Byblos Bank SAL | | | Belgium |
| CIC-Union Européenne, International et Cie | | | France |
| The Investment Bank of Ireland Ltd | | | Republic of Ireland |
| **Name Changes** | | | |
| Banca Nazionale del Lavoro | *to* | Banca Nazionale del Lavoro SpA | Italy |
| Banco di Santo Spirito | *to* | Banca di Roma SpA | Italy |
| Hessische Landesbank-Girozentrale | *to* | Landesbank Hessen-Thüringen Girozentrale | Germany |

(a) As the Irish Permanent Building Society is registered outside the United Kingdom, it is authorised under the Banking Act 1987 rather than under the Building Societies Act 1986.

# Annual report by the Board of Banking Supervision

## Board of Banking Supervision
## Membership as at 28 February 1993

| | | |
|---|---|---|
| *Chairman:* | The Rt Hon Robin Leigh-Pemberton | ex-officio |
| | E A J George | ex-officio |
| | Brian Quinn | ex-officio |
| | P N Gerrard | |
| | Sir Alan J Hardcastle | |
| | Sir Peter Leslie | |
| | Lord Swaythling | |
| | Harry Taylor | |

This is the Board's report for the year to the end of February 1993.

## Membership

Sir Alan Hardcastle was reappointed to the Board for a five year term with effect from 4 November 1992. After a lengthy illness Mr Nigel Robson died on 25 February 1993. Mr Robson had been a member of the Board since its inception, and his contribution to the work of the Board will be greatly missed. The membership of the Board was otherwise unchanged throughout the year.

## Meetings

The Board met 19 times during the year, regularly each month and on other occasions to consider specific matters relating to particular institutions.

The Board was kept informed about the Bank's provision of information to the Treasury and Civil Service Committee and to the Bingham Inquiry into the supervision of Bank of Credit and Commerce International SA (BCCI). Independent members of the Board also gave evidence to the Bingham Inquiry. The Board gave advice on measures to improve the Bank's supervision arrangements in the light of the Bingham Inquiry's recommendations. Progress in implementing these changes was regularly reported to the Board. The Board was also kept informed of other reviews of banking supervision arrangements, particularly within the Group of 10 and the European Community. Members of the Board welcomed the proposals made by the Basle Supervisors' Committee and fully endorsed that Committee's recommendations to the G10 Central Bank Governors.

## General matters considered

The Board maintained under review all aspects of the Bank's work relating to its responsibilities under the Banking Act. The independent members gave advice to the ex-officio members on matters of supervisory policy and on the conduct of individual cases.

During the year the Board considered matters relating to a large number of authorised institutions and covering a wide range of circumstances. Reports on the work of the Banking Supervision Division are received each month, setting out matters of general policy and matters relating to specific institutions. Some matters are reported to the Board for information and in some cases the Board's advice is particularly sought on specific issues. In particular, cases in which formal action under the Banking Act might be required are reported to the Board, as are institutions where the Division has concerns or sees potential concerns. During the year the level and detail of information provided to the Board was reviewed and extended. The independent members offered advice where this was sought and in other cases where they thought it right to do so.

There were no instances of disagreement between the ex-officio members and the independent members requiring notification to the Chancellor of the Exchequer pursuant to Section 2(5) of the Banking Act 1987.

The Board was kept fully informed of the progress in the takeover of Midland Bank by HongKong and Shanghai Banking Corporation. On two occasions during the year the Board considered the supervision of UK branches of overseas banks. The Board also took note of the changes in the supervisory arrangements for branches of EC banks brought about by the Second Banking Co-ordination Directive, which was implemented in the United Kingdom from 1 January 1993.

The Board considered a report on the operations of the new Special Investigations Unit.

## Other matters

The Board advised on a number of policy issues, including matters affecting the securitisation of assets. A number of papers on individual institutions were considered, and the Board discussed five papers dealing with specific sectors of the banking industry. The Board also continued to review the staffing and training arrangements for Banking Supervision Division.

*Secretary, by order of the Board*