

The Concordat of 1975 and its revision after Banco Ambrosiano

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The first substantive product of the Committee was a short paper approved by the G10 governors in December 1975, which became known as the Concordat. It allocated supervisory responsibility for the foreign establishments of banks between the host authority, in whose territory a branch or subsidiary operated, and the parent authority, in whose territory the head office was situated. The basic principle was that no foreign banking establishment should escape supervision. Responsibility for liquidity was assigned primarily to the host authority, while responsibility for the solvency of foreign branches was assigned primarily to the parent authority because a branch was legally part of the parent bank.¹

The Concordat was deliberately silent on the question of lender-of-last-resort support. The governors were unwilling to commit themselves to rescuing the foreign establishments of banks headquartered in their jurisdictions, which is why the paper dealt with supervision only. This reticence would prove significant when the next large cross-border failure occurred. The document was also confidential at first, which reflected the cautious, club-like character of the Committee in its early years.²

That failure came in 1982 with the collapse of Banco Ambrosiano, the largest private bank in Italy, whose chairman Roberto Calvi was found dead under Blackfriars Bridge in London in June of that year. Banco Ambrosiano controlled a holding company in Luxembourg, Banco Ambrosiano Holding, which in turn had subsidiaries in Latin America. When the group collapsed, the Italian authorities took the view that they were not responsible for the Luxembourg holding company because it was not a bank under Italian law, while the Luxembourg authorities regarded it as a holding company outside their banking supervision. Creditors of the foreign entities found that no authority accepted responsibility.³

The Committee drew the consequences in May 1983 with a revised Concordat, formally entitled "Principles for the Supervision of Banks' Foreign Establishments". It introduced the principle of consolidated supervision, under which the parent supervisor was to monitor the risk exposure of the banking group as a whole, including its holding companies and non-bank subsidiaries. It also introduced the concept of dual key supervision, which allowed each authority to assess the adequacy of supervision exercised by the other and, where it found the other wanting, to take measures of its own.⁴ The revised Concordat still contained gaps that became visible when the Bank of Credit and Commerce International was closed in July 1991.

BCCI was a bank registered in Luxembourg with its main operations in London and a holding structure in the Cayman Islands, which meant that no single authority had a full picture of the group. Its closure by coordinated action of several supervisors revealed fraud on a large scale. The Committee responded in July 1992 with "Minimum Standards for the Supervision of International Banking Groups and their Cross-Border Establishments", which required that every international banking group be supervised by a home authority capable of performing consolidated supervision. Host authorities received the right to refuse or restrict the establishment of a bank whose home supervision did not meet the standards.⁵ With these standards, the Concordat line of work reached a provisional conclusion. A later paper on the supervision of cross-border banking, published in 1996 together with the offshore group of banking supervisors, extended the principles to offshore centres.

1 Notes

1. Committee on Banking Regulations and Supervisory Practices, Report to the Governors on the Supervision of Banks' Foreign Establishments (Concordat, September 1975), endorsed by the G10 governors in December 1975. To be verified. ↩
2. On the deliberate omission of lender-of-last-resort responsibilities from the Concordat, see Goodhart (2011), chapter 4. To be verified. ↩
3. On the Banco Ambrosiano failure and the dispute between the Italian and Luxembourg authorities, see Goodhart (2011), chapter 4, and contemporary press reporting. To be verified. ↩
4. Basel Committee, Principles for the Supervision of Banks' Foreign Establishments (May 1983). To be verified. ↩

5. Basel Committee, Minimum Standards for the Supervision of International Banking Groups and their Cross-Border Establishments (July 1992); on BCCI, see the report of Lord Justice Bingham, Inquiry into the Supervision of the Bank of Credit and Commerce International (HMSO, 1992). To be verified. ↩

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