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Overview of Banking Supervisory History: Necessity and Implications of Study on Global Banking Supervision regarding the Bank of England and Basel Committee

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Overview of Banking Supervisory History: Necessity and Implications of Study on Global Banking Supervision regarding the Bank of England and Basel Committee

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1. Introduction: Research Questions and Background

Modern financial markets vary day-to-day. We have obviously recognised that at the moment the US and Swiss authorities faced their impending responses to the financial turbulence such as the US small and medium sized regional banks, namely, Silicon Valley Bank (SVB), Signature Bank (SBNY), and First Republic Bank (FRB), and the Swiss second largest bank, or Credit Swiss. Although these crises in 2023 were occurred approximately fifteen years after the Global Financial Crisis (GFC) expanded broadly in 2008, there have been a plenty of uncertain elements for discussion in order to build soundness of financial markets and financial systems across the world. This study considers implications for historical research to grasp the quintessence of international cooperation, seeking for global financial supervision, especially for coordination of banking supervision.

Originally, policies of financial and banking supervision have been attributed to intrinsic features of individual nation states. We are not able to deny that monetary policy aiming at price stability should be traditionally the most important cornerstone in our central banking. However, it is a fact that prudential policy has been increasingly strengthening its position, aiming at financial stability as a whole. The prudential regulatory policy has become the second indispensable pillar for the central banking operations, as well as the monetary policy as the first one that we mentioned.

Monetary policy is generally attracted with extreme keen attentions from the market via a short-term perspective, therefore, market participants watch every move that central banks make, which definitely change market sentiment. Statistics unveiled by central banks sometimes surprise the market through a 'gap' of cognition between the estimated information and real results, otherwise, they did not surprise the market participants due to being already considered by themselves. Ultimately, the extent of impact for financial market relies on the anticipated information's accuracy.

On the other hand, prudential policy is generally based on mid- and longer-term perspectives. The essence of prudential policy would stem from a "micro-prudence" which monitors soundness of 'individual' financial institutions. By contrast, a "macro-prudence" monitors a 'whole' framework of financial system in order to prevent a 'systemic risk'. It is apparently seen that the macro-prudence is more prioritised rather than the micro-prudence, especially aftermath of the GFC in 2008. We are currently in a world where a contagion would occur and expand immediately and globally, through a progress of globalisation and financial technology with an artificial intelligence (AI). It should be rational that macro-prudence is rising in terms of its significance in tandem with the mutually interplaying of systemic risks beyond our borders in order to prevent them.

As additional discussion to micro- and macro-prudential policies, we need to cognise a distinction between national and global levels. As I mentioned, the field of financial regulation and supervision has been placed initially in the national political level. However, a transnational political cooperation has been necessitated after a global systemic risk occurred in the middle of 1970s. In a nutshell, it is the birth of the BCBS (Basel Committee on Banking Supervision). As we will lay out as below, the BCBS was established in December 1974, and 2024 sees its 50th anniversary. Its history of half a century is profound, and it embraces quite a few experiments of political cooperation by a usage of grand design and technical tools[1]. This paper describes a fundamental research awareness

[1] As a comprehensive research achievement, we can see these publications: Goodhart, C. (2011). *The Basel Committee on Banking Supervision: A History of the Early Years 1974-1997*, Cambridge: Cambridge University Press; Wood, D. (2005). *Governing Global Banking: The Basel Committee and*

of the origin of international banking supervision by the BCBS.

Table 1 shows the acronyms of this paper.

Table 1：Acronyms

Acronym	Nomenclature
AI	Artificial Intelligence
BAC	Banking Advisory Committee
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BISA	Bank of International Settlements Archives
BOE	Bank of England
BOEA	Bank of England Archives
BOJ	Bank of Japan
CBRSP	Committee on Banking Regulations and Supervisory Practices
CCC	Competition and Credit Control
DTI	Department of Trade and Industry
EA	Euro Area
EBA	European Banking Authority
EBU	European Banking Union
EC	European Community
EEC	European Economic Community
ESAs	European Single Authorities
EU	European Union
FSA (JP)	Financial Services Agency
FSB	Financial Stability Board
G10	Group of Ten
GFC	Global Financial Crisis
HM Treasury	Her/His Majesty Treasury
IMF	International Monetary Fund
LoLR	Lender of Last Resort
RTS	Regulatory Technical Standards
SIs	Significant Institutions

the Politics of Financial Globalisation, Aldershot: Ashgate.

SNB	Swiss National Bank
SNS	Social Network Service
SRB	Single Resolution Board
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SSB	Single Supervisory Board
TNA	The National Archives

2. Implication of Historical Research View: The Three Focal Points

What is the implication of history on global cooperation of banking supervision? What does it mean the focus on history, not current status? Is it useful for adopting a long-term perspective, not a short-term one, in order to prevent financial crises of onward plausible resemble crises and totally different turbulence? What is the difference or commonality of responses between current crises and historical ones which occurred in fifty years ago? It would be hard to discard the experiential knowledge that we could acquire from global history. In order to utilise for present and future our human beings' wisdom by archival records through which we have a possibility to obtain, exploring the origin of international harmonisation of banking supervision must imply for our future lives.

Prudential policy is a major political discipline what central banks and financial regulatory authorities have as their mandates. However, it depends on nation states in any periods whose governmental authorities have a responsibility for it, such as Ministry of Finance (Treasury) or Ministry of Economy and Industry. For instance, in Japan the Ministry of Finance had kept a mandate of financial supervision prior to the separation of fiscal and supervisory policies as the establishment of FSA (Financial Services Agency). As beforementioned, in general, central banking has two responsibilities: first, it is price stability; secondly, it is financial stability. Prudential policy falls in the second aim as a vital tool. With respect to the background, an intrinsic banking system or, more broadly, financial system of a nation state exists persistently in its policy-making process. It is mostly impossible to unite these diversified systems beyond borders which reflect on each nation's features. Therefore, it has been struggled to hammer out how they wrapped up the characteristics of member states' banking systems which had been traditionally forged, and how they adjusted the conflicts of interests of them on banking regulation and supervision, and how they eventually construct a foundation of international standpoint. Consequently, they reached to proposals at the end of strenuous efforts with discussions. This process represents the BCBS' fundamental role and its raison d'être.

Specifically, this study has a keen attention for the following three points.

The first point is that banking supervisory system and policy are intrinsically in the range of each nation state's sovereignty. As we mentioned, the prudential policy embraces financial regulation and supervision.

Initially, regulation indicates a stipulation based on "rule", which exemplified a fundamental law, a detail law, or a more modest directive. These are composed of motherboard of regime design. These are discussed and drafted, and ultimately are enacted through approvement of legislative organisation such as respective parliaments. Naturally, they attribute to the sovereign right of jurisdiction in the rule-making, therefore, it is not easy to converge them internationally. Legislation is forged by a nation state's jurisdiction.

On the other hand, supervision indicates a monitoring whether these rules are complied or not. Even though a rule is enacted, it is not necessarily to be implemented by private banks or authorities such as a central banks or financial supervisor. For instance, Basel III which was unveiled by the abovementioned BCBS aftermath the GFC has been checked by the BCBS to what extent it has been put in place actually and monitored by on the differentiation of extent. The results are published by the usage of heatmap (matrix) in its report. For example, In Japan, banking sectors are watched by the FSA's inspections and BOJ's on-site examinations. In a sense that to what extent private banks comply the directions of supervisory authorities, supervisory policy is affiliated in the polity area which has a plausibility of a "gap of recognition" between the authorities and private institutions.

The second point is on the methodology of international cooperation. The first point as we mentioned is the diversity of banking regulation and supervision based on each original banking system. The second point is supposed to be a viewpoint on what kinds of *modus operandi* we should adopt for adjusting their diversity and forging a common foundation. An intrinsic right of each member state, or 'sovereign' is not definitely able to be restricted with uniformity. There exists a law which each member state primarily has a mandate and its responsibility.

On the other hand, we are not able to deny the existence of uniformity of banking regulation. In fact, in the European Union (EU), the European Banking Union (EBU) whose core is the Euro Area (EA) was proposed for the first time in June 2012[2]. In practice, the Single Supervisory

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[2] A recent study of the EBU in Japanese, See: Sato, H. (2023). *The Dynamics of Banking Supervision: Advances in Europe and Global Challenges*, Tokyo: Maruzen Publishing.

Mechanism (SSM) was established in November 2014. As a framework of the SSM, Single Supervisory Board (SSB) was created within the European Central Bank (ECB)[3], and the SSB directly supervises the 113 significant institutions (SIs) in the EA, as of January 2024[4]. The headquarters of the SSB of the ECB is located in Frankfurt. By contrast, the headquarters of the Single Resolution Board (SRB) in the framework of the Single Resolution Mechanism (SRM) was located in Brussels. The SRM was launched in January 2015 and started as a full-fledged system in January 2016. The SRB mandates the European internal resolution issues based on the uniformed benchmark by the usage of the Single Resolution Fund (SRF). The SRB holds a legal conference regularly to discuss substantive agendas and publishes the articles in an extremely insightful journal[5]. As its foundation, the European Banking Authority (EBA), launched in 2010 as one of the European Supervisory Authorities (ESAs), makes the Single Rulebook and designs a single regulation system buttressed by the extremely detailed and myriad of regulatory technical standards (RTS). In that sense, it is the practical example to form the transnational banking regulations by adoption of "hard-law[6]" which has a legal power of restriction[7].

Now, could we make single the regulatory framework among outsiders of the EU countries, such as the United States, Canada, Switzerland and Japan? The short answer is no. Otherwise, how about coordination and cooperation in order to make close to commonality? The institution which purposes this aim is the BCBS as a global banking supervisory organisation as we mentioned. The BCBS adopts a "soft-law" approach to banking regulation, not based by "hard-law" approach. In a nutshell, it is a gentleman agreement, which has no legal-binding. If a member state could not comply a soft-law regulation, the BCBS is not able to punish it with an enforcement. In that sense, it does not have any stringent restrictions, however, it aims to construct a "de facto standard". It means that it delegates its supervisory framework on a peer pressure among the member states and a self-

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[3] Since the launching of the SSM in 2014, ten years will be passed in 2024. The speech by the Chair of the Supervisory Board was insightful, focused on the first decade of the EBU and future perspective. See: Buch, C. (2024). "Financial integration in Europe: where do we stand after the banking union's first decade?", speech at the "Globalisation: What's Next?", conference co-organised by the Banque de France, the Centre for Economic Policy Research, the World Bank and the University of Surrey, Paris, 30 April.

[4] European Central Bank/Banking Supervision. (2024). *List of supervised entities*, 1 January.

[5] For instance, the latest SRB Legal Conference 2023 is informative to delve the resolution issues into detail, such as the relations with the UK and cross-border resolution.

[6] As recent research on the *hard-law* and *soft-law* in the banking supervisory field, see: Goodhart, C. and Sato, H. (2024). "A Note on the Differences between European and International Methodologies of Banking Regulation and Supervision", *CEPR (Centre for Economic Policy Research) Discussion Paper Series*, DP18840, 16 February.

[7] The EBU was stemmed from the *de Larosière Report*, which was published in February 2009 aftermath of the GFC. As its background, there is an impending circumstance, or a reality which necessitates a delink, or, in practice, an attenuation of the link of banking and sovereign crises.

regulation by themselves. We reckon that credence which is buttressed by an interrelation and mutual understanding is substantively important in the field of banking regulator and supervisory policies.

Thirdly, it is that we could observe this global banking supervision via a viewpoint of a specified country. We chose the United Kingdom[8]. The UK played an indispensable role in the BCBS at their early years as well as its original membership. Within the BCBS, the intrinsic British approach to banking regulation works well. In fact, George Blunden and Peter Cooke were key figures, who were both from the Bank of England (BOE). They organised the Blunden Committee and Cooke Committee respectively, and took initiatives of the international cooperation from the mid-1970s to over the course of 1980s. However, for the UK, the international coordination was not easy and simple story. For the British stand, it had to be in tandem with European Economic Community (EEC), which was a centrepiece of the European Community (EC), since its joining into the EC in 1973. Therefore, the UK took a leadership in the international political cooperation, on the other hand, it needed to be hand in hand with the EEC. Hence, the huge dilemma existed there. We need to clarify how the UK and EEC conflicted towards banking supervision and how the UK had to keep a right balance between the EEC and BCBS. Then, as we described thus far, we could redeem that analytical dynamics would be generated by pursuing the global political cooperation through a lens of a specific view, namely, the British standpoint.

3. Methodology of Research

Moving on, we introduce several research methodologies. Firstly, it is about an analytical method. The arena of this study is affiliated in the field of financial history, history of central banks, central banking theory, theory of international finance, and theory of financial regulation. This research uses archival records exemplified by central banks' archives and national archives, then we seek for the them by analytics of these archives. Specifically, we would use the Bank of England Archives (BOEA) in London, the UK National Archives (TNA) in Richmond, the Bank for International Settlements Archive (BISA) in Basel, Switzerland. These archival document centres are essential reading locus points for this study which deals with the 1970s and 1980s. These records are not only public archives but also documents in ongoing preparation. Historiology might be progressive with disclosure in line with passing time. We also use other archives such as the archives of Bank of Japan (BOJ) and Swiss

[8] Gardener (1986) delineates the UK's banking supervisory system at the time of mid-1980s as a concurrent analysis. See: Gardener, E.P.M. (Ed.), (1986). *UK Banking Supervision: Evolution, Practice and Issues*, London: Allen & Unwin.

National Bank (SNB) archives.

The second point is restriction of targeting period. One thing has a cause and background, and we could trace the background up to the origin. It has an analogy of operation of seeking an origin of our human beings. We focus the target from 1972 to 1989 in terms of research on origin of global banking supervision. Initially, the antecedence at the beginning of the 1970s prior to 1972, comparing with the 1960s before it, might be interrelated with each other and be helpful for following period by considering its pre-background. This study includes prerequisites at the beginning of the 1970s, prior to the establishment of the BCBS in 1974. Particularly, we lay out two points: (1) controlling the Euro-currency, and (2) Groupe de Contact, which consisted of six EEC member states. It should be difference between the ramifications of the EEC and global organisation, in the obvisous point whether the outsiders, especially the UK is included or not. The research is demanded to mull over what is the originated character of each state's banking supervisory policy reflected by its banking system, and what are the common and differentiated points of its individual criteria of supervision at the moment. What implications could we acquire to observe the quintessential points during these 18 years? What is a focal fact which could imply for our modern world? These research questions would intertwine with current and future solutions.

As we mentioned, we would like to set up the future subjects for the sake of searching for modern global banking supervision focused from 1972 to 1989. The subjects will be through the two views as below: (1) exploring the origin of global banking supervision and its new development via archival records, and (2) focusing the target period.

4. Basel Committee on Banking Supervision: The Establishment in December 1974

It is the Basel Committee on Banking Supervision (BCBS) that is a pivot to implement banking supervision based on a global perspective, and to make a design for sound financial system and to put policies in place. The BCBS is under the Bank for International Settlements (BIS)[9] where central banks gather and discuss monetary and financial issues. As the BIS is an assemblance of central banks' experts, the BCBS is also the same place, hence, it is different from the International Monetary Fund (IMF) in which each member state's ministry of finance has a key responsibility. In other words, the

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[9] The BIS which was established in 1930, has a longer history than the IMF, that was launched in 1944 by the Bretton Woods Conference. The motivation of the BIS' creation was, however, German reimbursement aftermath of the First World War, hence, it has a ramification interwoven with international relations and international politics.

BIS/BCBS is the place where assures its neutrality in order to discuss international financial agendas through objective viewpoints, which is distinguished from each governmental standpoint, namely, politics.

Nowadays, the Basel Committee of Banking Supervision is recognised for the BCBS, however, from the establishment in December 1974 to the latter of 1980s, it had been known the name of Committee on Banking Regulations and Supervisory Practices (CBRSP). Initially, the Stirring Committee on Euro-Currency Markets of the Group of Ten (G10)[10] was reckoned as an origin. In 1974, West Germany's Bankhaus Herstatt was collapsed and, so to speak, the "Herstatt risk" appeared whose risks expanded as a cross-border basis. Therefore, the transnational cooperation was necessitated for prevention of systemic risk.

However, the banking system of each member state was quite different, hence, its respective banking supervisory systems, aims, and choices of eyes were differentiated. The first BCBS/CBRSP meeting was held in February 1975. We look into the document on 26th of September 1975, after half a year of the first meeting, named "Report to the Governors on the supervision of banks' foreign establishments"[11].

This report raised two large points, although it was written in the early years of the BCBS' establishment. First of all, there are three kinds of style for bank to establish a foreign branch, etc. The first style is a branch, which is composed of an essential part of its parent bank. The second style is a subsidiary, which is organised as a legal company in its host (business) country and a legally independent organisation from the control of its foreign parent bank. The third style is a joint venture, which is organised as a legal company in its host (business) country and legally independent from the control of its two or more numbers of parent banks. Most of these joint ventures are foreign owned companies, and all of them are not necessary banks[12].

The second large point is that there are three elements as follows. The first element is liquidity, the second element is solvency, and the third element is foreign exchange operations and

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[10] The member states of the G10 in an alphabetical order are twelve countries as below: Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States. Spain joined on 1st of February, 2001. See: Bank for International Settlements. (2001). *History of the Basel Committee and its Membership*, March.
[11] Committee on Banking Regulations and Supervisory Practices. (1975). *Report to the Governors on the supervision of banks' foreign establishments*, BS/75/44e, Confidential, 26th September 1975.
[12] *Ibid.*, p. 1.

positions[13]. The third one should be understood the transaction and the consequent "position".

Particularly, we consider that the former two elements, namely, the liquidity and solvency are the concepts of ultimate notions in the field of prudential policy. When it comes to current financial crises, controlling of liquidity is one of the most important prudential regulatory policies in term of the following two points: (1) central bank's frequent liquidity supply of foreign currency, especially, the US dollar via the swap agreement, (2) central bank's mandate to provide a special loan as a function of the Lender of Last Resort (LoLR). In addition, solvency should be a vital key word which shows the competence for payment onwards. The benchmark of solvency would be utilised when they redeem a bank which is close to crisis or in a crisis, whether it is failing (facing to collapsed but not collapsed yet) or failed (already collapsed). In that sense, the liquidity is supervised by a macro-prudential viewpoint and the solvency is controlled by a micro-prudential perspective. Both of the supervision of liquidity and solvency are substantive issues in a period not only prior to a crisis but also after a crisis as a resilience.

As for the third element abovementioned "foreign exchange operations and positions", reflects the change of environment spontaneously, after each member state transformed naturally and consequently to floating exchange regime (Japan transformed in spring of 1973), aftermath of the collapse of the Bretton Woods. On the other hand, the floating arrangement provided a promotion of active speculation[14] by a deliberating leaning of position and of more and more progress of derivative transactions motivated by risk hedge, in tandem with an instability for markets that it brought. These movement related with the occurrence of hedge funds' activities and the consequent series of international currency crises in the 1990s.

5. Substantive Implications of Euro-Dollar Market for London

The point in which we need to recognise when it comes to designing of banking regulation and supervision is that the UK embraces the City of London as an international eminent financial market. In the framework of the international gold standard under which the UK adopted initially as its domestic standard, the City of London was a locus point where British and foreign private banks gathered and transacted financially, which was the indispensable place where private sectors raised

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[13] *Ibid.*, p. 1.

[14] Regarding the recent research on speculation including historical experiences, see: D'Alvia, D. (2023). *The Speculator of Financial Markets: How Financial Innovation and Supervision Made the Modern World*, Palgrave Macmillan.

funds and invested.

In the City of London in the late of the 1970s, the Euro-currency market which appeared remarkably at the beginning of the 1970s, but originally generated in the 1950s and developed in the 1960s as the "third market", had an advantage in terms of lux regulation and tax regime, where private financial institutions transacted in denominated currencies except for the pound sterling as the UK's domestic currency[15].

The London market, so to speak, as the euro-currency market, has been called "euro-dollar market" as, in fact, the most important currency has been the US dollar. The genesis of the euro-currency market was around in the latter of 1950s as we mentioned. By the Bank of England Archives, banks in London had taken deposits denominated in the US dollar aimed to provide with finance for overseas trade in the US dollar, because of the restriction of UK pound transactions for external trade in the early period in 1957. In addition, the starting of convertibility of UK pound in 1958 became a powerful and new motivation for banks in London to accept deposits denominated in foreign currencies and to lend denominated in them[16].

As we can see thus far that the euro-dollar market had an advantage for the UK in order to activate the domestic market and to pave the way for domestic financial institutions. On the other hand, the concern for generation of inflation which could stem from an external factor certainly existed. However, the transatlantic connection was substantively strong, especially, the British finance tended to be affected by the trend of US commercial banks. It was not irrelevant for progress of London market as a euro-currency market with the US circumstances.

The Bank of England Archives as we citied delineated this background in the documents on Wilson Committee which analysed in 1977. For instance, the US had faced the deficit of balance of payments since 1959. Hence, traders who were outside the US acquired the large amount of US dollar balance. In other words, they did not change the US dollar balance to the UK pound or their own currencies, but kept the balance in the US dollar and held it outside the US as deposits. The expansion of euro-currency market was affected at the beginning of and mid-of 1960s by two factors: (1)

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[15] As the research publication focused on euro-currency market, we can get valuable knowledge and information from the following books: Johnston, R.B. (1983). *The Economics of the Euro-Market: History, Theory and Policy*, London and Basingstoke: Macmillan; Einzig, P. (1965). *The Euro-Dollar System: Practice and Theory of International Interest Rates*, Second Edition, London: Macmillan.

[16] The Bank of England Archives, 1A179/7. External Finance and the City, Secret, Draft, 14.7.1977, pp. 6-7.

regulation of direct capital export from the US, and (2) restriction of interests of US dollar deposits in the US under the Regulation Q. This promoted to shift from US domestic banking system to business in the US dollar outside the US, and stimulated the activities of overseas branches and subsidiaries of US banks. Remarkably, they penetrated in London and Caribbean area. The City of London was benefited by the framework of international banking businesses and, in Caribbean area, their authorities supported these American banks' activities, especially through the exemption of taxes[17].

As we mentioned, it was necessary for the City of London to promote the development of financial institutions by the progress of financial markets, especially by the euro-dollar markets. Therefore, the quintessential prowess was the US. Particularly, the American commercial banks' businesses were an interwoven spring board for the progress of the City of London.

6. Conclusion: UK Banking Act 1979 with Respect to Cross-Sector and Cross-Border

Thus far, we considered implications and necessity for the analysis of banking supervision through a lens of global and historical perspective. In terms of implications for modern world, it provided quite a lot, even though the historical moment is, to some extent, different from the current status, the study contains indispensable points on how to regulate and supervise the banks/financial institutions effectively based on a global aspect, when it comes to mulling over its meaning in a society characterised as a market economy.

Although this study basically focuses on the supervisory system and policy for "banking" via a historical approach, in fact, banking supervision relates with supervision of "financial markets" which includes supervision of investment banks and securities companies, and with control of "insurance company". Hence, we need to stabilise a wholistic financial system through a view of "cross-sector", in order to deal with "cross-cutting issues". This point falls in not only the status quo in 2024, such as the policy of FSB (Financial Stability Board), but also related with the viewpoints which were discussed frequently in the Wilson Committee in the latter of 1970s, that this study focuses on. To put it differently, the plenty of archives of the Wilson Committee in 1977 which the Bank of England Archives held, shows that the target of supervision at the moment was not only banking sector, but also covered the whole financial markets. In addition, banking supervisory policy was a part of British macroeconomic relations under the inflationary circumstances at the time[18].

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[17] The Bank of England Archives. 1A179/7. *Op. cit.*, p. 7.
[18] For instance, the series of archival records held in the Bank of England Archives are as below:
Bank of England Archives. 1A179 Series. Wilson Committee.

Another standpoint on which we need to consider banking regulatory and supervisory issues is an angle of "cross-border" under the floating exchange rate regime in line with globalising world. At the moment, in a course of the 1970s, the UK prudently and gradually had been dealing with the enactment of Banking Act 1979. Traditionally, the UK had embraced its original *modus operandi* of banking supervision, which were discretionary and weighting conversation with institutions and players in the financial markets[19]. For instance, France, as an advanced economy, enforced its first Banking Act in 1941, however, it was not enacted the Banking Act in Britain until closed to forty years after, namely, in 1979. It was a sense of British banking supervision based on "Common Law" to generate approximately forty years for time differentiation. In 1979, for the first time, a banking act which was based on a legal statute was built in the UK. Especially, the two points should be attended. First, the fragmented mandate of banking supervision among the HM Treasury, Bank of England, and DTI (Department of Trade and Industry) was forced to converge on the responsibility of the Bank of England "basically". Secondary, the Banking Act 1979 put in place a system of "deposit insurance".

We need to review the time at least five to six years from 1979, in order to grasp the background of this substantive epoch-making phenomenon. In other words, the Second Banking Crisis[20] which was occurred from 1973 to 1975 critically impacted on British financial market[21]. This was a crisis of fringe bank; it did not stem from a large or significant bank crisis. The prior to the crisis, the CCC (Competition and Credit Control) policy[22] which was put place in 1971, induced an easing

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[19] As an authentic and official publication on historical research by the Bank of England, see: Capie, F. (2010). *The Bank of England: 1950s to 1979*, Cambridge: Cambridge University Press. It deals with monetary policy, exchange rate phenomenon, financial crises, and banking supervision based on a comprehensive approach from the 1950s to 1979 when the Banking Act was established. In the chapter 12 titled "Banking Supervision", it delineates the process of the Banking Act 1979 via a plenty of the Bank of England's archives. Beginning with the financial situation in the 1950s and 1960s, it explores the Secondary Banking Crisis, the pressure from the EEC, legislation, and international cooperation for banking supervision which respectively relate to and imply for this study.

[20] As for the Second Banking Crisis, the documents on 17th of January 1978, namely, "The Select Committee on Nationalised Industries, Briefing Material", delineated clearly its causes and circumstances as well as the "lifeboat (which means a rescue)" of the Bank of England. See: Bank of England Archives. 2A170/1. The Selected Committee on Nationalised Industries, Briefing Material, 17. 1. 1978.

[21] In terms of research publications on the Secondary Banking Crisis, see: Reid, D. (1982. 2003). *The Secondary Banking Crisis, 1973-75: Its Causes and Course*, First published by Macmillan, London and Basingstoke, Second published by Hindsight Books with an introduction by Kynaston, D.; Capie, F. (2010). *The Bank of England: 1950s to 1979*, Cambridge: Cambridge University Press, Chapter 11, "The Secondary Banking Crisis".

[22] With related to an analysis on the CCC, see: Capie, F. (2010). *The Bank of England: 1950s to 1979*,

and competitive environment for British financial markets, and consequently affected them negatively. The crisis was caused by a fact that British had not had a systemic and efficient banking supervisory regime based on a legal framework for its British intrinsic “two-tier” banking system. Eventually, the Bank of England issued a rescue, or, “lifeboat”, by the lending of a large amount of money. As we mentioned in a previous footnote, the Bank of England made a comprehensive analytical report in January 1978. In this report, the Secondary Banking Crisis was classified into three phases: the first phase was from November 1973 to March 1974; the second phase was from March 1974 to December 1974; the third phase was after January 1975[23]. The archive stated that originally, as a prerequisite, the Bank of England, from a hundred years passed hitherto the moment, initiated its pivotal mission of swift and clear measures among its various operations as a pioneer, and cooperated with other authorities in order to guard the British banking system[24].

The years of 2023 and 2024 are a period of punctuation as fifty years after the Secondary Banking Crisis occurred. The commonality between the abovementioned US medium-sized banking crisis in March 2023 and the Secondary Banking Crisis from 1973 to 1975 was a banking crisis which was not redeemed stemming from a large or significant banks’ crisis. The crisis of 2023 differs from the Secondary Banking Crisis in terms of a “digital” bank run in a fact that an instrument such as SNS (Social Network Services) accelerated incrementally the speed of contagion; however, there is a common point that these deposit-taking institutions suffered from each crisis. “Deposit” is ultimately a quintessential source of our financial transactions.

On the other hand, at the time of the 1970s, we need to recognise that EEC (European Economic Community) had prepared for its banking directive for the sake of enactment. The United Kingdom joined the EEC in 1973; however, prior to the entry, the UK participated into the discussion on EEC’s banking regulatory harmonisation in 1972. The joining of the EEC membership in 1973 meant that the UK had to relate directly not only with the formulation of EEC’s banking directives, but also had to restrain from the legal jurisdiction of EC (European Community) based on a statute rule. In fact, the EEC First Banking Directive was enacted in 1977. This was a substantive motivation for the UK to establish the first Banking Act in 1979, as a consequence of an external constraint from continental European countries which was buttressed by an axis of Franco-German relationship.

Cambridge: Cambridge University Press, Chapter 9, “The Road to Competition and Credit Control”.

[23] Bank of England Archives. 2A170/1. The Select Committee on Nationalised Industries, Briefing Material, 17. 1. 1978.

[24] *Op.cit.*, “Why the Bank Became Involved”, Central bank’s function in defence of banking system, p. 1.

The UK Banking Act was reviewed by the HM Treasury[25] in the course of the 1980s, documented as the Review of Banking Act, and it was polished and updated for the Banking Act 1987. On the other hand, EEC set up the Second Banking Directive in 1989, considering the change of the environmental situation of internal banking management. The promoter of European internal coordination of banking regulation and supervision, was organised within the European Commission at the period, which was coined as BAC (Banking Advisory Committee)[26].

As we mentioned, the both 1970s and 1980s[27] were substantive and salient background for the UK and BCBS, which took a role of global banking supervision. These periods were also placed as the indispensable early years for modern global governance through a lens of banking supervision.

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[25] In this point, the archival records held by the National Archives (TNA) in the UK are remarkably valuable as a series of HM Treasury files. See: TNA, Treasury files: Review of Banking Act, various issues.

[26] With related to the history of BAC within the European Commission, see: Mourlon-Druol, E. (2016). "Banking Union in Historical Perspective: The Initiative of the European Commission in the 1960s-1970s", *Journal of Common Market Studies*, Vol. 54, No. 4, pp. 913-927.

[27] As for the previous research on the UK banking supervisory policy in the 1980s, see: James, H. (2020). *Making a Modern Central Bank: The Bank of England 1979-2003*, Cambridge: Cambridge University Press, especially, Chapter 8 "Shaved Eyebrows: Banking and Financial Supervision".

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