Interview: Robert Bench

'Power must be ceded to the central banks'

Robert Bench, the former U.S. Comptroller of the Currency and a member of the Bank for International Settlements Cooke Committee, was interviewed on Aug. 2, 1991. Bench is now with Price Waterhouse accountants in Washington, D.C.

EIR: What is the role of the BIS Cooke Committee in the Bank of Credit and Commerce International (BCCI) affair? There's not much criticism of the Federal Reserve.

Bench: In fact, the BCCI events are a success for the BIS Cooke Committee. It was the cooperation and coordination among the BIS Cooke Committee members that led to the BCCI exposures. Now, a new, stronger international supervisory regime is emerging as a further result of the BCCI affair.

The BIS Basel Committee on Bank Supervision, named after Peter Cooke, its first head, was established as part of the Basel Concordat in 1975 to deal with just such problems. The Concordat came about because there was a sudden rash of collapses, the collapse of Herstatt, which was caused by the failure of the central banks to coordinate.

Then we had the collapse of Banco Ambrosiano's Luxembourg subsidiary in 1982, in which neither Italy nor Luxembourg would take responsiblity for the Luxembourg subsidiary. So we expanded the Concordat in 1983. The expansion focused on expanding powers of *consolidated regulation*. Under consolidated regulation, we set up a system in which the central bank of the parent country where a bank is headquartered, must take responsibility for the bank's entire international operations and subsidiaries. Italy, in the case of Banco Ambrosiano, for example.

Now the problem with BCCI, of course, is that it had three or more home countries, Abu Dhabi, Luxembourg, and the Cayman Islands. And there's a hole in that last 1983 version of the Concordat, which says a bank in effect can get away with three parents.

We were aware that this loophole was being deliberately utilized by BCCI. So, in 1987, when we saw BCCI was getting to be a really large bank, a BIS College of Supervisors was formed specifically to monitor BCCI. The college consisted of the central banks where BCCI had offices: Bank of England, Swiss National Bank, Spanish National Bank, and Luxembourg Monetary Authority, to start, to strengthen supervison over BCCI. Later, Hong Kong and Grand Cayman were added to the college.

EIR: No one from the U.S. Federal Reserve?

Bench: No. . . . The BIS central banks' trend is an increasing web around the banks. They are already casting a huge and tight net over these institutions.

During the post-1987 period of oversight by these supervisors, a lot more become known about BCCI. And we used it to demonstrate that our coordination and control get results. Why, even the *Washington Post* said the other day that here we have a $20 billion bank go belly up, and not even a ripple! One could argue this is a major sign that the regulators have done their job.

Now, the BIS Cooke Committee is demanding that all banks operating internationally should be *consolidated on a global basis*. We need a new expansion of the Basel Concordat, to close that loophole used by BCCI.

EIR: Wasn't New York Fed chief Gerald Corrigan just named chairman of the Cooke Committee?

Bench: Yes. Now we'll probably have to call it the Corrigan Committee. Look, the problem is, that the only reason the central banks don't have the powers they need, is the *national governments get in their way*. Every government has to go and *legislate* individually what the Basel Committee wants, in each national legislature. There's too much independence of legislatures.

There's been no "Law of the Sea Conference," or even GATT [General Agreement on Tariffs and Trade] discussion, of this level of "risk and regulatory legislation" of banks. So, Gerry Corrigan has been made the Basel chairman and he's going to deal with this. He's the right man in the right place at the right time.

EIR: How will the BIS strengthen its controls?

Bench: Governments have to give central banks cross-border inspection authority, they need absolute authority to shut banks, remove management, remove directors. You can't have this situation where the Bank of England was thwarted in doing its job by the Court. Read the London *Financial Times* yesterday. Imagine a judge in the U.S. daring to reverse the Fed's closure of the Bank of New Engand! Ridiculous.

The central banks need a lot more authority to carry out their international responsiblities. National governments have to give the central banks whatever they need.

The role and raison d'être of a bank regulator is to prevent financial meltdown, to prevent a *systemic* collapse. Any career regulator sees that as job number one. Whereas, the enforcement agent, like the Department of Justice, would *not* have that as his preoccupation. That's why there is tension between government agencies, and also across countries.

The result of the BCCI scandal will be that countries all over the world are going to start passing the laws which the central banks want. That's why the Fed has this new Senate bill (S.1019) on Foreign Bank Supervision.