# European Banking in the 1990s

EDITED BY

JEAN DERMINE

Basil Blackwell

First published 1990

Basil Blackwell Ltd
108 Cowley Road, Oxford, OX4 1JF, UK

Basil Blackwell, Inc.
3 Cambridge Center,
Cambridge, Massachusetts 02142, USA



*British Library Cataloguing in Publication Data*

A CIP catalogue record for this book is available from
the British Library

*Library of Congress Cataloging in Publication Data*

European banking in the 1900s/edited by Jean Dermine.
p. cm.
ISBN 0-631-17216-5
1. Banks and banking – European Economic Community countries.
2. Banking law – European Economic Community countries.
I. Dermine, Jean.
HG2980.5.A6E87 1990
332.1'094'09049 – dc20 89-28537 CIP

Typeset in 10 on 12 pt CG Times
by Advance Typesetting Ltd, Long Hanborough, Oxford
Printed in Great Britain by T. J. Press Ltd, Padstow, Cornwall

# Contents

# List of Contributors

PATRICK ARTUS, *Caisse des Dépôts et Consignations*

ERNST BALTENSPERGER, *University of Bern*

CHRISTIAN DE BOISSIEU, *University of Paris I (Panthéon-Sorbonne)*

ANTONIO M. BORGES, *INSEAD*

JORGE BRAGA DE MACEDO, *European Commission*

FRANCO BRUNI, *Università di Brescia, Centre for Monetary and Financial Economics and Scuola di Direzione Aziendale, Università Bocconi*

RAMON CAMINAL, *Instituto d'Analisi Economica (CSIC)*

NIGEL CARTER, *Bank of England*

JEAN-PIERRE DANTHINE, *Université de Lausanne*

JEAN DERMINE, *INSEAD*

GEOFFREY FITCHEW, *European Commission*

PAUL A. GEROSKI, *Centre for Business Strategy, London Business School*

DANIEL GROS, *Centre for European Policy Studies*

JORDI GUAL, *IESE*

GABRIEL HAWAWINI, *INSEAD*

RICHARD HERRING, *The Wharton School, University of Pennsylvania*

PIERRE HILLION, *INSEAD*

BERTRAND JACQUILLAT, *University of Paris I (Dauphine)*

RICHARD M. LEVICH, *New York University and National Bureau of Economic Research*

ERNST-MORITZ LIPP, *Dresdener Bank*

COLIN MAYER, *City University Business School*

DAMIEN J. NEVEN, *INSEAD*

RAFAEL REPULLO, *Bank of Spain*

WOLFGANG RIEKE, *Deutsche Bundesbank*

BERND RUDOLPH, *Goethe-Universität*

ANTHONY M. SANTOMERO, *The Wharton School, University of Pennsylvania*

ROY C. SMITH, *New York University*

ALFRED STEINHERR, *European Investment Bank*

ALEXANDER K. SWOBODA, *Graduate Institute of International Studies and International Center for Monetary and Banking Studies*

STEFAN A. SZYMAŃSKI, *Centre for Business Strategy, London Business School*

GREG UDELL, *New York University*

THÉO VERMAELEN, *INSEAD*

XAVIER VIVES, *Fundación de Estudios de Económia Aplicada and Universidad Autónoma de Barcelona*

INGO WALTER, *INSEAD and New York University*

CHARLES WYPLOSZ, *INSEAD and Centre for Economic Policy Research*

# 11

# Capital Requirements of German Banks and the European Economic Community Proposals on Banking Supervision

Bernd Rudolph

The German banking industry has seconded the proposal for a single European banking market and the establishment of a 'fair level playing field'. In banking services, this implies the harmonization of rules on capital adequacy. Currently, the Cooke committee at the Bank for International Settlements and the European Commission are working on new capital guidelines. It is argued in this chapter that capital adequacy regulations significantly affect the competitive positioning of the German banking industry and that the German Banking Act should be revised.

The chapter is structured as follows. The German banking system, its supervisory controls and the deposit insurance mechanisms are described in section 11.1 and the effects of the new capital regulations are assessed in section 11.2.

## 11.1 The German Banking Industry and its Supervisory System

### 11.1.1 The Structure of the German Banking System

It is common practice to divide the German banking industry into three groups differing mainly with respect to the legal form of their member banks and to their connecting banking associations as well as their related regulations and deposit protection schemes. These three groups are the commercial banks, the savings banks and the credit cooperatives. Two of these groups, the savings banks and the credit cooperatives, operate within well defined areas (*Regionalprinzip*) and therefore do not compete with one another. In this case the competing units are the banking groups, acting in joint competition (*Gruppenwettbewerb*).

*Commercial banks* are organized as stock corporations or limited liability companies. For statistical purposes they are usually divided into four subgroups: the three big banks with their Berlin subsidiaries and a nationwide network of more than 3,000 branches; the very heterogeneous group of so-called regional banks operating nationwide with only a limited number of branches, or only in a certain region, or as single banks like most of the subsidiaries of foreign banks belonging to this group; the branches of foreign banks; the private bankers, the oldest group within the banking industry but nowadays with only a few independent houses neither owned nor controlled by other banks.

The *savings bank sector* consists of nearly 600 local saving institutions and their 12 regional central institutions, the *Landesbanken/Girozentralen*, including a central institution, the Deutsche Girozentrale—Deutsches Kommunalbank, with similar functions. With a few exceptions savings banks are incorporated under public law and owned by their respective municipalities and districts. The *Landesbanken* are organized as public law corporations and owned by the state itself and/or the state savings banks association. At the moment the Hessian State is considering withdrawing from its *Landesbank* Helaba, leaving the Hessian savings banks association as the sole owner of this bank. Other *Landesbanken* are considering building larger groups through mergers with other giro institutions or larger savings banks.

The last of the three sectors, the *credit cooperatives* consists of more than 3,000 local credit cooperatives, eight regional institutions and a central institution. The local institutions are organized in the legal form of cooperatives, and the regional institutions are organized as stock corporations. At present the central institution of the credit cooperatives sector, the Deutsche Genossenschaftsbank, is planning to acquire the regional institutions with the aim of building the only two-tiered system in this sector. The final decisions have not been made. However, with the approach of 1992, merger activities will be stimulated in all sectors of the German banking system.

While the savings banks and cooperative banks show a certain 'unity and harmony, as a result of the regional organization which practically excludes competition within each group, commercial banks work together only on general economic and public relations matters' (Scheidl, 1988). Therefore, the central organization of the commercial banks (Bundesverband deutscher Banken) is a loose association representing its members' interests whereas the association of savings banks (Deutscher Sparkassen-und Giroverband) and the association of credit cooperatives (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken) undertake more central functions for their members.

The banks of all three banking groups are called *universal banks* because in principle they carry out the full range of commercial and investment banking services. This common characteristic does not exclude some specialization with respect to certain customers or business activities on the basis of historical, regional or strategic differences. Therefore we cannot speak of a uniform type of universal banks. Only the three large branch banks, some other large regional banks and the central institutions of the savings and corporate banks operate as universal banks, i.e. as institutions offering the whole range of banking services and at the same time holding shares and supervisory board memberships in non-bank companies as well as exercising equity voting rights.[1] The same institutions or most of them (with obvious and noteworthy differences) have built up a European or global network of subsidiaries and affiliates. The other institutions called universal banks offer a wide range of services in their regional district (partly in connection with their central institutions) but do not exhibit any other features of the large banks.

In addition to the three groups of universal banks mentioned above, there are a number of specialized banks with different legal forms and sometimes with their own associations and regulations. Some of the specialized banks are included in the statistics of the German Central Bank, the Bundesbank, namely the mortgage banks, the special functions banks and the postal giro and postal savings banks. The grouping, of these statistics gives a rough idea of the institutional structure of the German banking system (see table 11.1 for this grouping, together with data on the number of the banks in each sector and their respective business volumes).

**Table 11.1** The institutional structure of the German banking system

| | No. of reporting banks at end of 1987 | Volume of business (billion DM) |
|---|---|---|
| Commercial banks | 314 | 875,782 |
| Large banks | 6 | 324,281 |
| Regional and other commercial banks | 157 | 425,541 |
| Branches of foreign banks | 59 | 69,846 |
| Private bankers | 92 | 56,114 |
| Savings banks | 598 | 1,400,595 |
| Central and regional giro institutions | 12 | 588,659 |
| Savings banks | 586 | 811,936 |
| Credit cooperatives | 3,487 | 641,410 |
| Central and regional institutions | 7 | 173,041 |
| Credit cooperatives | 3,480 | 468,369 |
| Mortgage banks | 38 | 523,491 |
| Private mortgage banks | 27 | 337,498 |
| Public mortgage banks | 11 | 185,993 |
| Special functions banks | 16 | 251,561 |
| Postal giro and savings banks | 15 | 55,957 |
| All categories of banks | 4,468 | 3,748,796 |

Other specialized banks, which are normally not included in the statistics of the Bundesbank, are the *Bausparkassen* (institutions similar to building and loans associations), investment companies, securities clearing houses and special guarantee banks. We shall not deal with these institutions here because, with one exception, they are not real competitors of the universal or specialized banks. The one exception is the building and loan associations which operate under a special law but are nevertheless central to the financial services industry. In the following we shall concentrate on the universal banks and only occasionally refer to related problems concerning the specialized banks.

### 11.1.2 The Development and Basic Structure of the Supervisory System

*Development of the supervisory system*

The fundamental law on the supervision of German banks is the *Banking Act* of 10 July 1961 (*Gesetz über das Kreditwesen, KWG*),[2] which replaced the Banking Act of 1934. The introduction of general supervision of banks was a consequence of the banking crisis of 1931, which culminated in the illiquidity of the Danatbank in 1931.[3] Prior to 1931 only partial legislation had existed with respect to banking supervision, for example the Mortgage Bank Act of 1899. In 1931 and 1932 a number of emergency orders set up for the first time a comprehensive system of governmental supervision of all banks. These orders were consolidated in the Banking Act of 1934 (*Reichsgesetz über das Kreditwesen*), which established the principle that banking had to be licensed and regulated following certain guidelines.

After the war bank supervision was carried out at state, as opposed to federal, level. A uniform regulatory framework did not exist until the passing of the Banking Act in 1961, which at the same time created the legal basis for the establishment of the Federal Banking Supervisory Office in Berlin.[4] The Banking Act of 1961, which remained essentially unaltered for 15 years, adopted the central elements of the pre-war legislation. The first substantial changes were brought about by the amendment of the Banking Act in 1976. This amendment act incorporated various attempts to remedy certain weaknesses in the banking system which had become particularly apparent in connection with the collapse of Bankhaus I.D. Herstatt on 26 June 1974 (stricter rules on the extension of large-scale credits, on the information required of borrowers and on the Banking Supervisory Office's rights of information and investigation). The 1976 amendments had been preceded and accompanied by other measures to improve the viability of the banking system. The developments following the Herstatt crisis support the thesis that the development of banking supervision is mainly a reaction to current political pressures: the introduction of Principle Ia to limit risks from open currency positions relative to the bank's liable capital in August 1974; the foundation of the *Liquiditätskonsortialbank* in September 1974 with the objective of standing by in cases of liquidity shortages; the establishment of the study group *Grundsatzfragen der Kreditwirtschaft* in November 1974;[5] the reform and further development of the deposit protection schemes by the savings banks in December 1975, by the commercial banks in May 1976 and by the credit cooperatives in April 1977.

The second larger revision of the Banking Act was brought about by the Third Act to Amend the Banking Act which came into effect on 1 January 1985. Legislative actions which led to the 1985 amendments were expedited by the financial difficulties of the private bankers Schroeder, Münchmeyer, Hengst & Co. (SMH-Bank) in the autumn of 1983, although this case resulted in a remarkable rescue operation by the private banking community in concert with the authorities.

The 1985 amendments produced extensive changes in the regulatory system. Most importantly, they prescribed consolidation of banking groups, including foreign subsidiaries, for the purpose of both capital adequacy ratios and large-scale credit ratios. Until then the banks could build up so-called credit pyramids through their subsidiaries without a corresponding increase in the capital base of the parent bank, thereby bypassing the restrictions on business based on the bank's liable capital. In addition to these consolidation requirements the 1985 amendments reduced the ceiling for large-scale credits from 75 to 50 per cent of the equity, supplemented the provisions on equity by establishing stricter requirements for silent capital participation and by recognizing special participation rights, the so-called *Genußscheine*, as equity capital.[6] Such capital must not, however, exceed 25 per cent of the other liable capital.

### *Aims and regulating instruments of banking supervision*

Section 6 of the Banking Act quotes three functions of the supervisory authority which has the task of supervising banking institutions in accordance with the provisions of the Banking Act: the Federal Banking Supervisory Office shall counteract undesirable developments in banking which may endanger the safety of the assets entrusted to banks, adversely affect the orderly conduct of banking business or result in serious disadvantages for the domestic economy.

There is some debate as to whether the three functions are of equal importance or whether there are one or two main functions. In the past some authors seemed to give equal prominence to the protection of deposits and therefore to a special protection of the deposit owners on the one hand and the safeguarding of the orderly functioning of the banking system on the other hand. However, there has recently been a tendency to define the protection of the functioning of the banking system as the main task of banking supervision. The 1985 amendments to the Banking Act underline this position in explicitly stating in section 6 (3) that the supervisory authority shall exercise its functions exclusively in the public interest.[7] In addition to this debate, some hold the opinion that the instruments of the supervisory authority which serve the objective of deposit or lender protection also serve the objective of protecting the functioning of the banking system. This view can be legitimately held if one remembers that a bank collapse can be infectious.[8]

The instruments of the supervisory authority can be classified in several ways. One possibility is to distinguish the instruments regulating entry to and exit from the banking market (licensing, start-up capital, powers to intervene) and instruments governing banking operations. We shall only deal with the second class of instruments concerning ongoing banking activities. These instruments can be classified as the so-called structural norms and the informational rights and obligations.

Structural norms are as follows:

1 provisions regarding equity and liquidity;
2 limitations of investments;
3 rules governing the extension and diversification of large-scale loans;
4 rules governing loans to borrowers closely associated with the lending bank (Organkredite).

Informational norms are as follows:

1 reporting obligations;
2 annual financial statements;
3 credit information exchange concerning loans of a million DM or more;
4 bank audits;
5 rights of information and investigation.

*Basic features of the structural norms*

The structural norms on banking operations, which are set forth in sections 10–20 of the Banking Act, relate to the definition of bank equity, the maintenance of adequate capital and liquidity, consolidation for supervisory purposes, and finally to the limitations of investments and credits in relation to equity capital.

Section 10 of the Banking Act defines what is to be regarded as liable capital (paid-up share capital plus reserves plus certain elements according to the legal form of the bank). Section 10 also requires banks to maintain adequate liable capital in order to fulfil their obligations to their creditors and particularly in order to safeguard the assets entrusted to them. The Federal Banking Supervisory Office draws up Principles according to which it assesses as a rule whether the requirement of adequate liable capital is satisfied.

Principle I stipulates that a bank's loans and investments should not exceed eighteen times its liable capital. For calculating the Principle I ratio the loans are weighted in accordance with various risk groups. The parent banks of banking groups must ensure that Principle I is also complied with on a consolidated basis.

Principle Ia limits the open positions in foreign exchange and precious metal trading as a proportion of the bank's liable capital (on a daily basis, on the basis of any calendar month and of any half of calendar year).

Section 11 of the Banking Act stipulates that banks invest their funds in such a way as to ensure adequate liquidity all the time. Liquidity is assessed according to principles II and III.

Principle II restricts the sum of the long-term assets to certain financial resources which are deemed to be long term.

According to Principle III the sum of various short- and medium-term assets should not exceed short- and medium-term financial resources.

In essence Principles II and III establish limitations on the banks' ability of maturity intermediation and transformation. Table 11.2 shows the average

**Table 11.2** Average utilization of Principles I, II and III

| | Principle I (limit 18) | Principle II (limit 100%) | Principle III (limit 100%) |
|---|---|---|---|
| *All banks (average on an annual basis)* | | | |
| 1977 | 12.7 | 86.1 | 73.5 |
| 1978 | 13.0 | 87.4 | 73.4 |
| 1979 | 13.6 | 89.3 | 77.9 |
| 1980 | 14.0 | 91.7 | 82.9 |
| 1981 | 14.3 | 92.1 | 85.1 |
| 1982 | 14.1 | 91.0 | 83.4 |
| 1983 | 13.7 | 90.1 | 80.9 |
| 1984 | 13.6 | 89.9 | 80.4 |
| 1985 | 13.4 | 90.2 | 78.2 |
| 1986 | 12.7 | 87.9 | 71.3 |
| 1987 | 12.3 | 86.7 | 65.2 |
| *Banking groups (averages on the basis of 1987)* | | | |
| Commercial banks | 12.7 | 84.1 | 83.2 |
| Central and regional giro institutions | 14.6 | 91.7 | 55.2 |
| Regional institutions of the cooperative sector | 6.7 | 83.2 | 47.6 |
| Savings banks | 12.0 | 87.7 | 52.1 |
| Credit cooperatives | 11.2 | 81.6 | 61.1 |
| All banks | 12.3 | 86.7 | 65.2 |

ratios of Principles I, II and III in the last ten years and makes clear that on average, banks can follow the requirements on capital and liquidity better today than in the past. However, there are marked differences between the banking groups, and we know that there are also large differences between the individual banks which cannot be obtained from the statistics.

Section 12 of the Banking Act stipulates that a bank's fixed assets and shareholdings in other enterprises must not exceed its liable capital.

In section 13 of the Banking Act the loans to a single borrower exceeding 15 per cent of the bank's liable capital (large loans) are restricted in two ways to enforce diversification: no single loan may exceed 50 per cent of the liable capital, and all large loans taken together must not exceed eight times the liable capital. These limits also apply to banking groups as a whole. Finally, loans to borrowers closely linked to the lending bank (insider loans) must be granted on the basis of unanimous decisions by all managers of the bank and only with the explicit approval of the supervisory board (section 15 of the Banking Act).

### 11.1.3 **Deposit Protection Schemes**

All banks belong to one of the deposit guarantee funds set up on a voluntary basis by the banking associations. The fund established for the commercial banks aims primarily at protecting depositors, while the schemes operated by the savings banks and credit cooperatives are designed to avert insolvency of member banks.

The Deposit Guarantee Fund of the commercial bank sector safeguards non-securitized liabilities to non-bank creditors in cases of insolvency. The protected deposits per creditor amount to up to 30 per cent of the last published annual liable capital number. Larger liabilities are protected up to this guarantee limit. Protection covers both deposits in the Federal Republic of Germany and those at branches abroad, irrespective of the currency in which they are denominated and no matter whether the creditors are residents or non-residents. The banks have to pay a contribution of 0.3 per thousand of the balance-sheet item 'liabilities to other creditors arising from banking business'.

Although in the case of public savings banks responsibility for indemnifying depositors ultimately rests with the local authorities which set up the bank, the savings banks and giro associations have nevertheless set up guarantee funds. The by-laws of the credit cooperatives provide for a limited obligation of members to pay up further capital if called. However, the guarantee scheme operated by the credit cooperatives has ensured that not a single insolvency with full loss of value for one of the members has yet arisen in the credit cooperative sector.

## 11.2 The Development of the German Bank Supervisory System under the Second Banking Directive

German regulations concerning the soundness of individual banks as well as the stability of the banking system are currently being reviewed. Principles I and Ia on capital adequacy will have to be adjusted to account for new financial instruments, such as financial futures, options and swaps, and to incorporate the new EEC proposals. In what follows, we give a short overview of these new rules and their effects on German law. More specifically, we focus on capital adequacy regulation.

As discussed in chapter 1, the driving force of the European Economic Community (EEC) proposals is not the complete harmonization of national regulations, but rather the opening of financial markets guided by three principles: mutual recognition, home country control and minimal harmonization of the definition of own funds and capital rules.

### 11.2.1 **The Regulation of Capital**

The Commission intends to follow closely the recommendations of the Cooke committee *International Convergence of Capital Measurement and Capital Standards*, with one major difference. The Cooke regulations concern international banks exclusively, while the EEC proposals concern all credit institutions. In what follows, we consider the proposals of the Cooke committee and those of the Commission together.

The Cooke report deals with four topics: the definition of bank capital, the risk-weighting systems for assets, the solvency ratio and the timetable for implementation. The definition of capital is the most controversial issue.

Bank own funds are divided in two tiers, core capital and supplementary capital. Core capital includes equity (issued and fully paid ordinary shares as well as perpetual non-cumulative preference shares) and disclosed retained earnings. It is wholly visible in the published accounts and is the basis on which market judgements are made. The committee requires at least 50 per cent of capital to consist of core elements. Supplementary capital consists of the following elements which may be included by national authorities at their discretion. Elements not mentioned in the proposals cannot be included in the second tier.

Undisclosed reserves are unpublished or hidden reserves which can be included if they have passed through the profit and loss account and if they are accepted by the authority. In the Federal Republic of Germany, this reserve is identified by the so-called 26a reserve. According to section 26a of the Banking Act, banking firms are allowed to show accounts receivables and securities held as current assets at a lower value than actual ones. These reserves are a special vehicle to safeguard against the particular risks inherent in the business of banking institutions. According to the 1986 Council Directive on Annual Accounts, these reserves have to be limited to 4 per cent of assets. The reserves defined under section 26a will probably be included in supplementary capital.

Revaluation reserves may arise when a bank revalues certain assets to reflect current market values. The German associations are calling for the legal acceptance of revaluation, while the Bundesbank wants to exclude such reserves.[9]

General loss reserves are created by banks to absorb anticipated but as yet unidentified future credit losses. The effective accounting law for German banks does not recognize general loan provisions, but Article 38 of the European Directive on Annual Accounts defines such an item. Therefore, we can anticipate that German law will recognize general reserves.[10]

Hybrid debt capital instruments are instruments which combine some characteristics of debt and equity. In the Federal Republic of Germany *Genußcheine* do qualify for own funds (up to 25 per cent of the other components). Therefore, in this case, core capital as specified by Cooke is more narrowly defined.

### 11.2.2 Consequences of the New Capital Regulations for German Banks

Calculations by the Bundesbank have shown that the minimum solvency ratios of the Cook guidelines – 4 per cent for core capital and 8 per cent in total – are being met by German banks with 5 per cent and 9 per cent respectively. However, these calculations take all capital elements into account, even if they are not accepted by German regulation. This is understandable, since, in the opinion of the Bundesbank, the Cooke ratio is only voluntary at present.

This voluntary basis cannot be maintained for the solvency ratios of the EEC. Supplementary capital will only include those elements accepted by the German Banking Act. It is not yet clear what will be included, but it seems that the Bundesbank will follow a narrow definition of capital. This raises a question about the impact of the capital guidelines on the competitive positioning of the German banking industry.

In a pure Modigliani–Miller world, capital ratios will have no effect on profitability. Larger equity leading to higher solvency will be reflected in lower cost of deposits. However, this reasoning assumes full information, rationality of depositors and tax neutrality, three hypotheses which can be questioned. Our view is that capital is a costly resource.

So far, it is not clear whether the German regulatory authorities will adopt a narrow or a broad definition of capital. Probably there will be a compromise. It should be based on the concept of two-tier equity and abandon the current single definition of capital. Unfortunately, neither the Cooke report nor the EEC directive offer a thorough explanation of the function of second-tier capital. A well-known study by the Committee on Financial Markets of the Organization for Economic Cooperation and Development (OECD) has come up with a useful definition: 'Core capital should include all elements permanently available to absorb losses; they must not impose contractual charges against earnings; they must not be redeemable at the holders' request' (Pecchioli, 1987). Revaluation and undisclosed reserves clearly meet these standards and should be included in core capital. The current capital ratio of 18, which can be converted into a capital-to-asset ratio of 5.5 per cent, will pose no problem for German banks since the current 5.5 per cent can include subordinated debt up to 20 per cent. Therefore Principle I is in line with the 4 per cent core capital ratio. The main issue lies with supplementary capital and the inclusion or exclusion of hidden reserves or revaluation of assets.

In conclusion, the supervisory authorities in the Federal Republic of Germany should avoid penalizing the German banks. This implies a revision of the Banking Act, the introduction of the concept of two-tier capital and a broad definition of supplementary capital.

## Notes

1 Cable (1985) states that the German banking system is virtually indispensable to companies seeking external finance. This finding is somewhat outdated as far as debt financing is concerned. Bank control, through board membership, shareholding and proxy rights, relates mainly to large stock companies. These companies succeed in avoiding controls by maintaining about ten core relationships with banks. Moreover, large companies have access to the Euromarkets. However, the *hausbankprinzip* seems to play a larger role for external equity financing.

2 For a more detailed analysis of the development of bank supervision in the Federal Republic of Germany, see Deutsche Bundesbank, Banking Act of the Federal Republic of Germany, Deutsche Bundesbank Special series no. 2, Schneider (1984), Schneider et al. (1986) and Fitzenreiter (1988).

3 James (1985) states that the collapse of 1931 was immediately attributable to monetary conditions. The best known study on this topic is that of Born (1967).

4 The Banking Act provides for cooperation with the Deutsche Bundesbank. While the Federal Banking Supervisory Office is the only institution responsible for granting or withdrawing banking licences, the Bundesbank is involved in permanent supervision by collecting and processing data.

5 The study group published its report *Grundsatzfragen der Kreditwirtschaft* in 1979. The work and results of this extensive study of universal banking in Germany are outlined by Krummel (1980).

6 For a short description of the main characteristics of *Genußcheinskapital* see Rudolph (1988).
7 Therefore no depositor has the right of recourse to the supervisory authorities in the case of a bank failure.
8 See the article 'Bundesbank ist besorgt uber EG-Beschluss', in *Frankfurter Allgemeine Zeitung*, 14 December 1988.
9 See note 8.
10 Loan loss general reserves are part of core capital in the latest version of the EEC proposal (Article 2).

## References

Born, K.E. (1967) *Die Deutsche Bankenkrise 1931*. Munich.

Bahre, I.L. and Schneider, M. (1986) *KWG-Kommentar*. Munich.

Cable, J. (1985) Capital information and industrial performance: the role of West German banks. *Economic Journal*, 95, 118–32.

Fitzenreiter, J. (1988) Bank supervision. In *Germany's Financial Centre*. London: Euromoney Publication.

James, H. (1985) *The Reichsbank and Public Finance in Germany 1924–1933. A Study of the Politics of Economics During the Great Depression*. Frankfurt.

Krummel, H.J. (1980) German universal banking scrutinized. *Journal of Banking and Finance*, 4, 133–55.

Pecchioli, R. (1987) *Prudential Supervision in Banking*. Paris: OECD.

Rudolph, B. (1988) The market for *Genußscheine* of German banks. In *Frankfurt, Germany's Financial Centre*. London: Euromoney Publications.

Scheidl, K. (1988) West Germany. In A Hendrie (ed.), *Banking in the EEC*. London: Financial Times Business Information.

Schneider, H., Hellwig, H.J. and Kingsman,D. (1986) *The German Banking System* (4th edn). Frankfurt.

Schneider, U. (1984) Die Entwicklung des Bankenaufsichtsrechts. In Deutscher Sparkassen- und Giroverband (ed.) *Standortbestimmung: Entwicklungslinien der Deutschen Kreditwirtschaft*. Stuttgart.

# Index

*Index by Jackie McDermott*