Lecture No. 03: The institutional and supervisory framework for bank governance

The presence of a regulatory and supervisory framework within the bank is considered an important and vital matter, in addition to the role of central banks in bank supervision, which has witnessed a significant change recently, as its role has become particularly the encouragement of working transparently to ensure the safety of the banking system. In this regard, the Basel Committee came, which is considered the most important step for international cooperation. In the field of banking control and supervision.

First: The establishment of the Basel Committee and its introduction

The main reason behind the emergence of the concept of capital adequacy dates back to the middle of the nineteenth century, when the United States of America issued a law specifying the minimum capital for each bank in terms of the population of the region in which it operates. Then the interest of the regulatory authorities increased and traditional financial ratios were established, such as the size of capital to... Total deposits, the size (deposits) to capital... However, it proved to be a failure, which is the main thing that prompted the largest banks in the world to search for the most effective way to estimate capital as a function of the size of risk-weighted assets.

The period from 1974 until the mid-eighties is considered the most important period in which several collapses occurred of the largest banks in the world, and several risks emerged that were not taken into account, such as settlement risks, replacement risks, and operational risks... In 1974, the largest American banks went bankrupt, and the Herstatt Bank in West Germany collapsed, causing severe losses. It was devastating for American and European banks due to their large transactions in the foreign exchange market and the interbank market, as well as the collapse of Franklin National Bank in the United States and then First Pennsylvania Banks, whose assets amounted to about 8 billion dollars.

In light of all these banking crises and collapses, serious thinking began about ways to address and avoid these risks, and an attempt to find a common thought between central banks in different countries of the world to coordinate between the various supervisory authorities to confront the various risks that banks may face, so the Basel Committee on Banking Supervision was established. Or what is known as the “Committee on Banking Systems and Practices” at the end of 1974, on the initiative of the governors of the central banks of the ten industrialized countries, under the supervision of the Bank for International Settlements in Basel, Switzerland.

Introduction to the Basel Committee on Banking Supervision

At the end of the year 1974, the Basel Committee for Banking Supervision was established by the governors of the central banks of the industrialized countries, which became (thirteen countries) composed of officials from the banking supervision bodies and the governors of the central banks as members, represented by Belgium, Canada, France, Germany, Italy, Japan, and the Netherlands. Switzerland, Sweden, Britain, Spain, Luxembourg and the United States of America.

This committee for banking supervision was established under the guardianship of the governors of the central banks of industrialized countries. It is not based on any international agreement, so it is considered unofficial. It is a technical committee that meets every four years to study the various shortcomings of bank supervision.

Goals of the Basel Committee

- Enhancing stability within the global banking system, especially the exacerbation of the external debt crisis of developing countries.

- Eliminating unfair competition between banks, especially in the restrictions imposed on banking work or in particular the methods of determining bank capital.

Developing methods to help the banking sector adapt to environmental changes, especially financial globalization resulting from financial liberalization and the liberalization of monetary markets, including regulations and legislation that limit the expansion of banking activity across the world.