

Regulation and Control of the United Kingdom Banking and Financial Structure

I

Stemming perhaps from its unwritten political constitution, Britain has always been a country that has placed a lot of faith in conventions and gentlemen's agreements. As a corollary, it has tended to avoid, except as a last resort, formal regulatory arrangements laid down by statute. The law as it were has been there to provide the necessary framework, but within that framework the objective has been to permit the maximum possible operational flexibility. And this works so long as conventions are observed and a man's word is his bond. The "system" begins to break down as soon as there is an erosion of conventions, a nibbling away of gentlemen's agreements (by observing the letter but not the spirit), or when a man's word ceases to be his bond and actual fraud begins to creep in.

It is possible that over recent years there have been rather more scandals in London than for some time. In these circumstances, the community which is the City of London begins to consider ways of protecting both the interests of its customers and its own good name.

In addition, there are questions that relate to the choice of regulatory technique — what type of control will operate best within the framework of a particular social and political environment? Further, if in the judgement of the authorities it is desirable to impose controls, there is always the problem of how much control can be introduced without destroying flexibility and enterprise. If enterprise is seriously discouraged, usually there will be an attempt to evade the control and to initiate operations that fall outside the regulatory framework. If it is decided to have controls and they are to be effective, they must be comprehensive, while yet leaving some room

for manoeuvre. Because this is a counsel of perfection, bank regulation in Britain so far has largely been by "suasion" not by statute. Moreover, suasion has been more particularly concerned with monetary policy and there is in Britain no formal framework for bank examination and inspection. There are various authorities responsible for a certain amount of piecemeal regulation, but this is for limited purposes only (1).

One reason why there seems now to be an awakening interest in the possibility of more comprehensive regulation of financial institutions is the splitting off of a "secondary" banking system (2), and the emergence of a complex of parallel money markets. The excessively severe restriction of bank activity during the early 1950's forced both lenders and borrowers to explore new ways of providing and finding finance, so that enterprise would not wholly atrophy. The banks were singled out for special attention because they were the most important group of "quick" lenders in the economy. Since they also represented a small, compact community, the authorities could by means of moral suasion usually expect a fairly prompt response to any action that might be taken. From a regulatory point of view, however, the difficulty is that such cutting down of credit as may be possible in the commercial banking sector may well be offset — at least in part — by an expansion of lending through non-bank financial intermediaries. This was what began to happen in Britain in 1952, when quantitative monetary action was again resorted to (following a long period of "cheap money"). At that time, the alternative sources of finance available to unsatisfied bank borrowers (3) were limited, but they did exist. They were to develop quite considerably over subsequent years and, indeed, the "leakages" (e.g. the growth in hirepurchase finance) came to constitute such a threat to the implementation of official controls over the volume of lending that the authorities have latterly sought to extend their controls (though again by suasion) to an ever-widening

(1) See "Banking Regulation in Britain - By 'Suasion' not Statute", *Midland Bank Review*, November 1967.

(2) See JACK REVELL: "Changes in British Banking - The Growth of a Secondary Banking System", *Hill, Samuel Occasional Paper*, No. 3.

(3) See J. S. G. WILSON: "Credit Rationing and the Relevant Rate of Interest", *Economica*, February 1954, reprinted as Chapter 2 of *Monetary Policy and the Development of Money Markets* (London, 1966).

range of institutions. It is this development that has prompted the more active consideration of comprehensive legislation to control banks and other financial institutions.

II

Before proceeding further, it would be as well briefly to consider the extent of relevant legislation that is currently to be found on the statute books. So far as the banks are concerned, there is no single law which specifically regulates their operations. For that matter, there is no general statutory definition of a bank, although a number of Acts offer their own definitions.

Immediately, the banks are affected by several pieces of legislation as follows. Most obviously, there is S.4[3] of the *Bank of England Act, 1946*, whereby the Treasury and the Bank of England have general powers to request information from, or make recommendations to bankers and may, with Treasury consent, issue directions in order to ensure that effect is given to such requests, recommendations or directions. There are two provisos, namely:

- (a) the request, etc. cannot apply to a particular customer's affairs and
- (b) the banker has the opportunity to make representations before the issue of a direction.

Although the Governor of the Bank of England makes requests of the banks from time to time, for example in relation to their lending, these statutory powers of direction have never been invoked and require the Treasury first to make an Order identifying the banks to which the direction relates.

Some sections of the *Companies Act, 1948* are also relevant. The requirements of this Act, which governs the formation of companies in Great Britain and the registration of overseas companies setting up places of business in Great Britain, apply equally to the establishment here of banks or branches of foreign banks. In addition to the annual return to the Registrar of Companies required of all companies under Section 124 of the Act, a banking or discount company has to make a half-yearly statement of its share capital, assets and liabilities in the form prescribed by the Act; and this statement has to be exhibited at the registered office of the bank

and at every branch where the business is carried on. (A "banking or discount company" means one which has satisfied the Board of Trade that it should be treated as such.)

There is no restriction on the establishment in the United Kingdom of a branch of a company incorporated abroad, whether a bank or not. It is, however, required to deliver to the Registrar of Companies (in addition to an annual return of accounts):

- (a) a certified copy of its constitution;
- (b) a list of the Directors and Secretary of the company;
- (c) the name and address of at least one person resident in Great Britain and authorised to accept on behalf of the company service of process and notices.

General provisions covering the content and form of accounts of companies are laid down in Section 149 of the *Companies Act*, and more detailed requirements are set out in the Eighth Schedule. For companies recognised by the Board of Trade as banking or discount companies, however, the Schedule grants certain exemptions, in particular:

1. Banks may make undisclosed transfers to and from reserves before arriving at published profits.
2. They need not show the charge for U.K. tax as a deduction from published profits nor the basis on which such charge is computed.
3. They are not obliged to distinguish in the balance sheet between reserves, provisions and liabilities.
4. They need not show the market value of their investments.
5. They are not required to disclose the method adopted to value fixed assets or to show depreciation separately.

A Committee, chaired by Lord Jenkins, reviewed these exemptions in 1962 and reported in favour of the *status quo*. But a minority considered many of the exemptions unnecessary and suggested that banks should submit full accounts over a period of years to the Board of Trade to show how they had used the exemptions: in the light of these accounts the Board could decide how far the exemptions needed to be continued. In a written answer to a Parliamentary Question on December 20, 1967, the President of the

Board of Trade stated that the Government had decided to adopt this suggestion and had examined the full accounts of certain banks, but needed more time to assess the consequences of full public disclosure. Meanwhile, exempt banks incorporated in Great Britain are to submit full accounts, in confidence, to the Bank of England, and through them to the Board of Trade.

Finally, under Section 17 of this Act, no company can be registered with a name which, in the opinion of the Board of Trade, is undesirable. In this way use of the words "bank", "banker" or "banking" as part of a company's name is closely controlled.

In addition, three provisions of the *Companies Act, 1967* are particularly relevant to banks. These are:

(a) The Act empowered the Board of Trade to revoke in whole, or in part, the exemptions outlined in the paragraph above. Short of total abolition, the problem of defining a banking company for the purpose of these provisions will remain and, as at present, the decision will rest with the Board of Trade.

(b) The Act amended the *Moneylenders Acts, 1900 to 1927*, by authorising the Board of Trade to issue certificates to persons or companies which, for the purposes of these Acts, are carrying on the business of banking and, thereby, exempt from the restrictions imposed by these Acts.

(c) The Act changed the definition of a "banking or discount company" for the purposes of the *Protection of Depositors Act, 1963* (see below). The definition previously used had been that for banks and discount companies granted exemptions under Schedule 8 of the *Companies Act, 1948*.

Other pieces of legislation also apply. For example, under the *Income Tax Act, 1952*, banks which satisfy the Inland Revenue that they are "carrying on a *bona fide* banking business" may charge interest gross on advances without deduction of tax. The Inland Revenue's list of "banks" for the purposes of this Act is not published. Again, exemption from the provisions of the *Protection of Depositors Act, 1963*, which restricts advertising for deposits, and provides for the supervision of those companies so doing by requiring them to submit accounts regularly to the Board of Trade and the Registrar of Companies, is granted to a company which satisfies the Board of Trade that it ought to be treated for the pur-

poses of this Act as a "banking or discount company" (4). Also, the Board of Trade can grant exemption to banks from the provisions of the *Prevention of Fraud (Investments) Act, 1958*, which makes it illegal for anyone to carry on the business of dealing in securities except under licence issued by the Board of Trade. Finally, banks may be authorised by an Order of the Treasury to act for the purposes of the *Exchange Control Act, 1947*, as authorised dealers in relation to gold or, as the case may be, of foreign currency. Except with Treasury permission, no person other than an authorised dealer can buy gold or foreign currency from anyone other than an authorised dealer. Anyone holding gold or foreign currency who is not an authorised dealer must offer it for sale to an authorised dealer unless the Treasury consents to its retention.

III

If comprehensive legislation were to be introduced in Britain for the purpose of regulating banks and similar financial institutions, the two main bases for any such action should almost certainly be: (a) blocking off the "leakages" which have tended greatly to reduce the efficiency of credit controls as instruments of monetary policy; and (b) the desirability of re-integrating the banking structure by forging firmer links between the clearing banks and the so-called "secondary" banking system. This might be done initially by encouraging the further formation of banking groups with all the main range of financial activities being carried out by the several separate institutions within the group (in a number of instances, this has already happened) or, more distantly, the large banks may bring the several activities of their groups formally under one management, when business now being conducted through subsidiaries would be assigned to separate specialist departments within the main

(4) For a list of these companies as at December 31, 1966, see *Midland Bank Review*, November 1967, pp. 19-20. This list was prepared for the purposes of the Eighth Schedule to the *Companies Act, 1948*. In this context, the expression "banking or discount company" means "any company which satisfies the Board of Trade that it ought to be treated for the purposes of this Schedule as a banking company or as a discount company". For many years, the names of those exempted were not public knowledge; latterly, the names have been published, since the same list was adopted for purposes of exemption under the *Protection of Depositors Act, 1963*. This legislation has now been superseded by the *Companies Act, 1967*. For other examples, see *ibid.*, pp. 12-13.

bank (in competition with all remaining outside independent institutions) rather along the lines of the larger American banks, which conduct the whole range of banking and related business within the one institution and in competition with outside specialists. This would mean in Britain abandoning a system that in other respects (e.g. limiting the extent of the commitment) has obvious advantages.

Whether such integration took place or not, it would remain within the discretion of the authorities to move towards more comprehensive regulation and control whether by seeking to control specific groups of financial institutions or a range of specific operations. The choice would depend on institutional developments. The forms of control may influence the financial environment, but they must also take into account the kind of environment within the framework of which the authorities have to operate. But whatever path were chosen, if rules are to be applied, they must be operated without exemption over the whole range of relevant institutions. Thus, it may be argued in Britain that the soundness of bank procedures is adequately safeguarded by internal audit and inspection. But if bank examinations (on the American model) were to be introduced, they would have to be applied to all banks. This is the difficulty — the large banks are soundly run and adequately audited and inspected. Nevertheless, if a number of smaller institutions are to be regularly examined, the same rules should apply to all.

What in general terms would be the advantages of the general application of examination procedures? It could be the means of raising standards of behaviour and of ensuring soundness throughout the financial structure. In appropriate fields, it could encourage the development of a common code of practice and thereby assist in integrating the several parts of the financial structure and establishing standard conventions of behaviour that would assist in making credit and monetary controls more effective.

More specifically, it may be desirable to develop some kind of common pattern with respect to the capital and reserve structures of the banks and similar institutions. This would probably affect most directly the smaller institutions (of whatever kind), but consideration of these questions by the authorities would also assist in the determination of the appropriate boundaries between institutions of different types or with different emphases of business.

In general terms, for each category of institution, there might well be a requirement of an absolute minimum for paid-up capital

and regular allocations both to a general reserve fund and to special reserves (to cover risk of loss on loans and investments). There is also the question of the size of reserves in relation to capital and of the relationship between capital funds and deposits. Similarly, if one looks at the whole range of related institutions, cash reserves may vary widely. Should all banks and quasi-banks have rules applied to them and, if so, what degree of variation might there be in their implementation? Presumably, for banks other than the clearing banks, some appropriate minimum would be desirable. At the same time, especially where lender of last resort facilities are available, it is important that there should be a more economical use made of available cash. More generally, the emergence of stable behaviour patterns with respect to the holding of cash reserves would greatly assist the authorities in developing techniques calculated to influence the attitudes of financial institutions in the matter of loans and investments.

If a system of bank examinations were established, examiners of the smaller and/or more peripheral institutions might also play a useful role by supervising and advising upon the content of loan and investment portfolios. The problem in Britain is that relatively few institutions would require education in loan vetting techniques, more realistic loan repayment programmes, or advice on the distribution of investment assets by type and maturity. In order to safeguard the interests of a small number of depositors, it would be necessary to set up an elaborate system of bank examination procedures, for the implementation of which it would be difficult to find staff (except from commercial banks themselves, since Bank of England personnel would not know enough about commercial bank techniques and procedures adequately to inspect their operations). Much the same would be true of any licensing authority set up to decide upon the location of new branches.

All Bank of England staff could be expected to do would be in consultation with the banks themselves to provide a regulatory framework based on the observance of certain ratios. This is virtually the central bank's current role. Nevertheless, although banks must publish regular balance sheets, the actual make-up and disposition of their liabilities and assets are not subject to specific legal controls. Certain ratios governing the deployment of assets are observed by the clearing banks in accordance with the wishes of the authorities, but these are not embodied in any legislation. They are maintained on

the basis of suasion. Moreover, although they originated as conventions based on banking prudence, today these ratios and procedures are applied primarily for the purposes of monetary policy. If there is to be a case for specific legislation it will be in order to apply this regulatory machinery over a much wider field — to small banks and to the several groups of non-bank financial intermediaries.

It is here that one faces something of a dilemma. Commercial banks are general lenders and when credit restrictions are applied, except at times for fairly general qualitative guidance, the U.K. banks are left very much to themselves to decide upon the precise details of their implementation. Hence, the particular needs of the general run of commercial and industrial firms may at least to some extent be safeguarded. However, if specific controls are applied suddenly to this or that form of hire purchase — even to hire purchase in general — the impact of controls is often harsh and damaging. The authorities may feel, for example, that hire-purchase restrictions produce quick short-run effects that cannot be achieved in other ways, but what is frequently overlooked is the impact on the durable consumers goods industries with sometimes heavy financial losses and unemployment in these sectors of the economy.

It is for this reason that in the case of the non-bank financial intermediaries the present author would prefer to see arrangements limited to regulating the *rate of growth* of their business, with the general lenders (like banks) still being expected to absorb the primary impact of monetary policy measures (like credit restrictions). For the economy as a whole, these restrictions would be re-inforced by open market activity and debt management operations calculated to influence rates of interest, yields, and the general structure of liquidity. In this way, a general influence would also be exerted on the non-bank institutions without running the risk of brutal effects on particular industries, which not infrequently within a period of months will again find themselves looking for labour. The aim should be the maintenance of steady growth in the business of these institutions. If that can be achieved, or even approximated to, a major contribution will have been made towards greater stability.

It is agreed that finance houses, building societies, credit unions and the like do not themselves create credit (which is one of the main reasons given for regulating the activities of the commercial banks). At the same time, independently of the banks, these institutions are capable of making more active moneys that might otherwise

have remained relatively less active; by increasing the rate of turnover (velocity of circulation) they in effect add to the quantum of liquid resources being made available per unit of time to borrowers for use in the private sector. In addition, in situations in which the commercial banks may be subject to regulation and control, the banks are inclined to resent what they regard as “unfair competition”. This is bad for morale and, if a central bank is to secure the degree of co-operation so necessary to the successful implementation of its policies, that morale must be maintained at high levels. In considering the degree to which there is — or might be — “unfair competition”, it is not so much the competition for deposits that concerns the banks — funds attracted, for example, by finance companies tend to return to the banking system as re-deposits. It is rather the potential loss of lending business that is the major worry, though this is in fact likely to have repercussions on the formation of deposits, because the lending business that is lost — had it been undertaken by the banks — would have led to an expansion of bank deposits. Alternatively (and this is what is more likely to concern the authorities), the operations of the non-bank financial intermediaries by increasing the activity of moneys that might otherwise have remained relatively idle enable a given volume of bank deposits to support an increased flow of spending.

Although there would appear to be a clear case for including the non-bank financial intermediaries in any attempt to regulate an increase in lending, this was not the view of the British Radcliffe Committee (5). They were opposed to the imposition of “a complex of controls” on a wide range of financial institutions “not mainly because of its administrative burdens, but because the further growth of new financial institutions would allow the situation continually to slip from under the grip of the authorities”. With this view, the present author completely disagrees. It may be that one control tends to breed another — there is much evidence to support that thesis — but it is better in his judgement to regulate the growth of new financial institutions than to be faced with a situation where a sizeable evasion of the controls is possible.

What is more difficult to establish are the *kinds* of control that are likely to be effective. It is the technical difficulty of discovering an appropriate regulatory mechanism that constitutes the major prob-

(5) *Committee on the Working of the Monetary System, Report* (Cmd. 827, 1959).

lem. With hire-purchase finance, for example, the usual techniques have been to vary the percentages required (usually, by classes of commodities) by way of down-payment and the length of the pay-out periods for a range of durable consumers goods. In addition, it is usual for bank loans to the finance houses to be restricted during times of general credit squeeze and their rate of growth has also been retarded (when it has been considered necessary) by restraints on the making of new capital issues. These techniques are capable of producing quick and substantial effects. But these likewise are often the source of difficulty. The trouble with the direct regulation of hire-purchase finance is that it attacks only a very narrow sector of the economy — mainly consumer durables, where it is likely to produce quite severe fluctuations in demand (with, as the economy develops, related localised effects on employment). Even if these controls are operated with greater smoothness (by choosing smaller intervals of variation) or supplemented by resort to a fiscal regulator, which varies (again by small intervals) the amounts of purchase tax chargeable on durable consumers goods, this is still a variation on the same theme.

In the light of experience, it would seem better to avoid this periodic twisting of the arm and to make a positive attempt to regulate the rate of growth of the non-bank financial intermediaries. There are two aspects to this problem — one relating to the longer term and the other to the “leakage” effect in times of credit squeeze. For our purposes, it is probably sufficient to concentrate by way of example on measures relating to hire-purchase finance, since these activities may be regarded as typical of the wider experience, but other groups of institutions that in the United States have on occasion caused concern include the savings and loan associations (similar to the British building societies) and (more recently and to a lesser extent) the credit unions.

If regulation of the rate of growth of any financial institution is to be maintained effectively over the longer term, the first step is the compilation and maintenance of a register; this could be combined with the licensing of the relevant institutions. On the basis of this register, the authorities could then require the observance of certain minimum standards of behaviour (e.g. minimum capital, reserve and liquidity requirements; possibly also some regulation of the distribution of earning assets as between categories and/or in terms of geographic spread) in order to provide the bases for

avoiding insolvency and maintaining sound growth. Furthermore, in the case of finance houses, for each class of durable good concerned, they might be required at all times to insist upon a specified minimum percentage of the total purchase price as deposit or down-payment; and contracts might be similarly regulated with respect to the relevant pay-out period. And for all non-bank financial intermediaries, the requirement of minimum liquidity ratios would provide depositors with a margin of safety (what constitutes liquid assets would also need definition); borrowing potential could be restricted (e.g. by limiting the attraction of deposits to a certain multiple of own capital and free reserves); there could be insistence on a minimum of paid-up capital; a minimum provision for reserves; and so on.

In the shorter term, it is the problem of “leakage” that is important, but again the solution might be approached by regulating the rate of growth both of deposits and of the related provision of loan finance. The problem is that at a time of credit squeeze resulting from a cutback in bank lending unsatisfied borrowers seek out alternative sources of finance and are often accommodated outside the banking system. It is this that constitutes the leakage and, to some extent, reduces the impact of the reduction in bank credit. It is true that such moneys can only be borrowed at higher rates, but finance is available from these other sources. However, the availability of these moneys can be attacked, if something can be done to stem the inflow of funds to the non-bank financial institutions themselves. Usually, additional funds are attracted by offering high rates of interest. It is this (plus the risk factor) that postulates the charging of even higher rates on loans. Hence, if the maximum rates that might be offered on deposits could be regulated (on all categories of deposits — with the possibility of some discrimination, since there may develop a number of channels through which funds can be secured and one will wish to avoid the “slipping away” effect that the Radcliffe Committee feared so much) (6), the relevant institutions can be controlled and the growth of their business regulated in the short-run as well, simply by varying the terms they are permitted to offer for the moneys basic to the undertaking of enlarged lending. Even without the registration of institutions, this should be possible, since would-be lenders in these “secondary” markets for loans must

(6) *Ibid.*, Para. 394, p. 134.

advertise somewhere (e.g. in the newspapers) for the funds they will require to borrow as a basis for their lending. In any event, there are precedents for "administered" maximum rates of interest (e.g. on savings and time deposits in the United States under Regulation Q), though it is important that the regulation of rates should be extended to the whole structure, because it is relative rates that matter and a level established in one part of the structure will certainly give rise to repercussions elsewhere, until a degree of consistency obtains. Hence, it would be important to regulate maximum rates on deposits of finance companies, savings banks, savings departments of commercial banks, building societies, local authorities, and for national savings programmes. It is also implied that there would need to be some provision for differential treatment, such that funds could be encouraged to flow (when necessary) in one direction rather than another. Admittedly, this would involve some degree of arbitrariness, but all policy short of *laissez-faire* is arbitrary. Moreover, if they had the fullest possible access to all the available information, the authorities would be in a good position to view the situation as a whole and, on that basis, to decide where to exert pressure and to what extent.

Where a country already possesses a central bank, one would expect the supervision of any such regulatory mechanism to be placed in the hands of a specialist department within the Bank. Probably, in the U.K., it would be thought appropriate to place this with the Bank of England, but this does not necessarily follow, since the regulatory function may be thought to differ somewhat from central banking proper. For example, one could set up a Banking Commission (as in France) or a Registrar of Banks (as in South Africa, with power to supervise the activities of other financial institutions as well, since virtually all of them are there defined as "banks"). But whatever method is followed, a close liaison must be established and maintained between the regulatory body and the central bank.

IV

Finally, there is the question of appropriate legislation. So far as concerns central bank regulation and control of commercial banking activity, there is much to be said for continuing existing arrangements, i.e., depending largely on moral suasion but with the backing

of the so far unused powers contained in Section 4[3] of the *Bank of England Act, 1946* (referred to above). In drawing up some central bank constitutions (and the Bank of England has no written constitution), it has been common to include the possibility of almost every type of credit control that can be catalogued. Even if in the beginning due account is taken of the peculiar characteristics of the local economic and financial environment, new types of control are likely to be evolved from time to time as a result of experience and experiment and the central bank constitution that attempts to cover everything very soon begins to look somewhat old-fashioned. If, therefore, there is sufficient confidence in the wisdom of the authorities, there is a lot to be said for drafting a central bank's powers in the widest possible terms (as above).

The danger of a detailed listing of powers is that "it enshrines in a legislative enactment the monetary and economic doctrines of a particular period, and of a particular phase of economic development. Fashions in economic thinking are no less volatile than fashions in many other departments of human behaviour. The heresies of one period may become the orthodoxies of the next. The objectives of social and economic policy and the community's scale of values are continually changing" (7). The techniques of central banking are "necessarily the product of a continuous process of evolution, of adaptation to changing situations. Flexibility is the hall-mark of a good central banking policy. Anything which hinders that flexibility or encourages a 'rule-of-thumb' attitude to essentially dynamic problems is for that reason undesirable" (8).

There are no simple panaceas. The most sensible policy is after a full consideration of all the relevant factors to select whatever combination of measures appears to be most appropriate at the time and to exclude nothing that even in a small way is likely to help in the achievement of the final objective. In other words, one must choose the "package" that suits the occasion and what is relevant will vary from one set of circumstances to another. Having chosen what would seem to be the appropriate "package", it is important to act promptly. It should also be apparent that monetary and credit policy cannot be either formulated or considered in isolation. In

(7) H. A. DE S. GUNASEKERA: *From Dependent Currency to Central Banking* (London, 1962), pp. 264-5.

(8) *Ibid.*, p. 264.

some countries, there have been times when it seemed that monetary policy was expected to bear virtually the full burden. "But it is now generally appreciated that monetary measures can achieve little, unless they are implemented in conjunction with appropriate fiscal action. It is not a question of determining which are more powerful and effective. Both are necessary. Indeed, one should go further and seek to see all aspects of economic policy operating as part of a co-ordinated whole" (9).

This still leaves open the matter of regulating the non-bank financial intermediaries (those which like merchant banks have some affinity to the clearing banks might well be left to Bank of England control under the general powers already conferred). What it is important to consider here are matters of definition — what is a bank and what is a non-bank? Should there be a system of licensing new banks and/or other financial institutions? On the whole, licensing of new institutions has much to recommend it, especially if there is a thorough preliminary investigation. Should the Bank of England or (say) a new Registrar of Financial Institutions be given power to regulate the activities of finance houses, building societies, savings banks, insurance companies, pension funds, investment and unit trusts, even (under some heads) the local authorities?

If it is agreed that there should be such regulation and which should be the relevant authority, there remains the question of powers. This is a matter that needs to be looked at in some detail, but sufficient has been said already to indicate in general terms what the probable content would be. Apart from matters of definition, which are not unimportant (especially when it comes to the border line between bank and non-bank; also as and when the several categories of institution begin to invade each other's fields), there is the question of building up registers of institutions and of licensing procedures; the possibility of encouraging the concentration of resources by means of amalgamations (if not of stipulating a minimum capital size) — e.g. of building societies, trustee savings banks, the smaller finance houses, unit trusts, and so on; the prescription of ratios (e.g. for capital, reserves, and liquidity requirements) and for finance houses and building societies of contract terms (minimum deposits, pay-out periods, etc.); the definition of what constitutes

(9) J. S. G. WILSON: *Monetary Policy and the Development of Money Markets* (London, 1966), p. 131.

liquid assets and the purposes for which reserves might be held; the imposition of interest rate ceilings (possibly on a differential basis); and the periodic scrutiny of their asset structures and investment and loan portfolios.

It is clear even from this outline that effective regulation of the non-bank financial intermediaries would require the appointment of a sizeable and specialist staff and might well be regarded as the kind of responsibility that should be passed to a separate and new authority and not be placed as an added burden upon the shoulders of the Bank of England as such. In any event, if the foregoing arguments were accepted, such regulation would not represent an arm of monetary policy and the case for establishing a separate authority which nevertheless liaised and consulted with the Bank of England would then be all the stronger.

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APPENDIX A

PRINCIPAL LEGISLATION RELATING TO OTHER FINANCIAL INSTITUTIONS IN THE UNITED KINGDOM

Insurance Companies and Collecting Societies.

Insurance Companies Act 1958
Companies Act, 1967, Part II
Industrial Assurance Acts 1923-58
Industrial Assurance and Provident Societies Acts 1893-1913
Industrial and Provident Societies Acts 1965-67

Life Assurance Act 1774
Gaming Act 1845
Marine Insurance Act 1906
Fire Prevention (Metropolis) Act 1774
Law of Property Act, 1925
Third Parties (Rights Against Insurers) Act 1930
Road Traffic Act 1960

Finance Acts, 1952, 1956, 1965, 1966, 1967

Pension Funds.

Superannuation and Other Trust Funds (Validation) Act 1927
 Local Government (Superannuation) Acts 1937-53
 Income Tax Act 1952
 Finance Acts 1956, 1965
 Trustees Act 1925
 Trustee Investments Act 1961

Building Societies.

Building Societies Act 1962
 Building Societies (Forms and Fees) Order 1962
 Building Societies (Authorised Investments) Orders 1962, 1964, 1966
 Building Societies (Accounts and Annual Return) Orders 1964, 1966
 Building Societies (Designation for Trustee Investments) Order 1964
 Building Societies (Rules) Order 1962
 Building Societies (Additional Security) Orders 1963, 1965
 Building Societies (Special Advances) Order 1963
 Housing Act 1964
 Finance Acts 1951, 1958, 1965
 Housing Subsidies Act 1967

Finance Houses.

Hire Purchase Act 1964
 Hire Purchase Act 1965
 Emergency Law (Re-enactments and Repeals) Act 1964
 Advertisements (Hire Purchase) Act 1967
 Protection of Depositors Act 1963
 Moneylenders Acts 1900-27
 Bills of Sale Acts 1878, 1890, 1891
 Companies Act 1967, Part V

Unit Trusts.

Prevention of Fraud (Investments) Act 1958
 Trustee Act 1925

Investment Trusts.

Finance Act 1965

Friendly Societies.

Friendly Societies Acts 1896-1958

Savings Banks.

Trustee Savings Banks Acts 1954-58
 (See also the current Trustee Savings Bank Bill)
 Post Office Savings Bank Act 1966

Miscellaneous Institutions.

Charities Act 1960
 Administration of Justice Act 1965
 University and College (Trusts) Act 1947
 Church Funds Investment Measure 1958
 Trustee Investments Act 1961 (applies to local authorities)

J. S. W.