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Reflections on the BCCI Affair: A United Kingdom Perspective

The issues considered in this testimony are divided into two categories: (1) *preventive* regulation designed to prevent banks from getting into difficulties, and, (2) *protective* regulation designed to protect depositors and the stability of the financial system when a bank encounters serious problems.

I. Preventive Regulation

A. GUIDELINES ON THE ALLOCATION OF REGULATORY RESPONSIBILITIES

The 1983 Basle Concordat lays down guidelines for allocating regulatory responsibilities between home and host country authorities in respect of the liquidity and solvency of international banks.[1] However, the Concordat does not address the question of fraud, nor does it say which authorities are responsible for determining whether senior bank management is fit and proper. In light of BCCI, it would seem that clarification is needed in this area and it may be appropriate, as suggested by the British Bankers' Association, that host authorities should have specific responsibility for assessing the suitability of the management of foreign banks.

The Basle Concordat places primary responsibility for regulating the solvency of a foreign branch on the home country, which for this purpose means the country of incorporation. However, in the case of BCCI Luxembourg, as parent

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1. The Basle Concordat, *reprinted in* 22 I.L.M. 900 (1983), is a nonlegally binding agreement signed by the Group of Ten countries: all nations with representatives on the Committee on Banking Regulation and Supervisory Practices. This Committee, which operates under the auspices of the Bank for International Settlements, seeks not to harmonize national laws and practices, but rather, to coordinate disparate regulatory regimes with a view toward ensuring that all banks are supervised according to certain broad principles.

authority, has stated that "it was impossible to exercise adequate consolidated supervision over a group 98 percent of whose activities fell outside its jurisdiction and for which none of the other banking supervisory authorities involved was prepared to take responsibility as parent authority."[2] This gulf between legal structure and economic reality suggests the need for an alternative definition of home country jurisdiction. The EC Commission has proposed the main place of business while others favor the location of central management. The simplest approach (now adopted by Luxembourg) is for countries to refuse to incorporate banks whose main business lies outside their jurisdiction.

The Basle Concordat states that where holding companies are at the head of groups that include separately incorporated banks operating in different countries (the BCCI situation) the relevant supervisory authorities should endeavor to coordinate their supervision. However, BCCI has shown that such corporate structures can make effective supervision impossible (see below) and it would therefore seem more appropriate to prohibit these structures altogether.

B. Consolidated Supervision

It is a central principle of the Basle Concordat that the soundness of a bank cannot be properly assessed "unless [regulators] can examine the totality of each bank's business worldwide through the technique of consolidation."[3] Yet BCCI's complex structure enabled it not only to escape consolidated supervision[4] but to deliberately confuse regulators by shuffling its assets between different jurisdictions. In the words of John Bartlett of the Bank of England: "The Group structure and the way in which transactions have been dealt with within the Group makes it very difficult to understand what has been or is being done in the name of BCCI."[5]

In similar vein, U.S. regulators have stated that "BCCI operated without a supervisor who could regulate and examine the consolidated financial organization, and BCCI was therefore able to manipulate its books and conceal its actual financial condition with minimal chance of detection."[6] One example is suffi-

2. *See* H.C. (1991-92) 177-i, app. 8.

3. 22 I.L.M. 901 (1983).

4. Under consolidated supervision, parent banks and their supervisory authority monitor exposure to risk and capital adequacy on a groupwide basis. Such supervision does not necessarily involve consolidated accounting. *See* Consolidated Supervision of Institutions Authorized Under the Banking Act 1979, Bank of England Notice (Mar. 1986).

5. Affidavit in support of the petition to wind up BCCI, July 1991, at 2-3 [hereinafter Bartlett Affidavit].

6. *Hearings Before the House Comm. on Banking, Finance and Urban Affairs*, 102d Cong., 1st Sess. 44 (1991) (Testimony of Virgil Mattingly, William Taylor, and Gerald Corrigan). In this context, it is interesting to note that as early as 1975-76, the then-New York Superintendent of Banks, Mr. John Heimann, blocked attempts by BCCI to establish a banking presence in the United States because it lacked a primary regulator. House of Commons Treasury and Civil Service Comm., Fourth Rep., Banking Supervision and BCCI, Mar. 1992, Minutes of Evidence, at 20.

cient to demonstrate the ease with which BCCI avoided consolidated regulatory oversight of its operations. In the 1970s, BCCI's loans to the Gulf shipping group were moved from the U.K. to Grand Cayman in order to circumvent the large exposure guidelines imposed by the Bank of England in 1977.[7] Such loans averaged around 60 percent of BCCI's stated capital in the period 1977-81, far in excess of any reasonable prudential limit.[8]

One clear lesson from the BCCI affair, therefore, is that consolidated supervision should be mandatory for *all* international banks without exception. Unsafe corporate structures should not be "grandfathered"[9] (as happened under the U.K. 1987 Banking Act) or permitted by way of exception (as under the Basle Concordat). In this context it is interesting to note that the latest U.S. banking legislation includes the requirement that U.S. branches of foreign banks must be subject to comprehensive consolidated supervision in their home country.[10]

C. Adequacy of Supervisory Standards

The Basle Concordat attempts to ensure adequate supervisory standards by, in effect, requiring parent and host authorities to assess the quality of each other's supervision. Thus where a host authority considers that supervision of the parent institution of a foreign bank operating on its territory is inadequate, "the host authority should discourage or, if it is in a position to do so, forbid the operation in its territory of such foreign establishments."[11] Alternatively, "the host authority could impose specific conditions governing the conduct of the business of such establishments."[12]

Under the 1987 Banking Act, the Bank of England must satisfy itself that a bank meets the various statutory criteria for authorization. However, in the case of a bank whose "principal place of business" is in a country outside the U.K. the Bank may view these criteria as being met if (a) the relevant supervisory authority in that country informs the Bank that it is satisfied as to the prudent management and financial soundness of the institution and (b) the Bank is satisfied as to the quality of supervision exercised by that authority.

It is not entirely clear as to how the Basle guidelines and the U.K. statutory principles were applied in the case of BCCI. Luxembourg was not BCCI's "principal place of business" and the Luxembourg authorities themselves felt unable to supervise adequately BCCI's operations—a concern which eventually

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7. Report on Sandstorm SA (BCCI) under section 41 of the Banking Act 1987, June 22, 1991, at 22.
8. *Id.* at app. I.
9. Under the 1987 Banking Act, *supra* note 6, institutions which had previously been licensed as deposit-takers, but not accorded full bank status, were automatically authorized as banks.
10. 137 Cong. Rec. H11775 (daily ed. Nov. 26, 1991).
11. 22 I.L.M. 903-04 (1983).
12. *Id.* at 904.

led them to require BCCI to leave their jurisdiction.[13] Given BCCI's uncertain regulatory status, some form of restriction on BCCI's activities in the U.K. would presumably have been in keeping with the Basle Concordat's guidelines.

In view of the above, there is reason to question whether the Basle arrangements for ensuring adequate supervisory standards are working properly. Within the European Community, supervisory standards could be significantly strengthened by the EC Commission's current proposal to make the home country jurisdiction responsible for deposit insurance. Beyond this, national regulatory authorities appear generally to be opposed to any involvement in the supervisory process by a supranational body such as the International Monetary Fund. Nevertheless, it is worth noting that the IMF does already fund and organize technical assistance in banking supervision to LDCs and Central and East European countries. Furthermore, the Office of the Comptroller of the Currency in the U.S. has specifically suggested that the IMF might conduct formal supervisory reviews which could be incorporated into its existing country surveillance and consultation procedures.[14]

D. Supervisory Role of Bank Auditors

Banks' external auditors have an important role to play in the regulatory process. In the first place, regulatory authorities may look to auditors to provide them with relevant supervisory information.

Second, financial statements are relied upon by financial markets to assess and monitor the credit standing of banks—a crucial form of self-regulation. These two aspects of the auditors' supervisory role are considered briefly below.

1. *The Relationship Between Auditors and Regulatory Authorities*

In some regulatory regimes (the U.S. being a notable example) the regulators have their own teams of bank examiners who undertake regular on-site bank inspections. Here, the bank's external auditors do not normally report to the regulators. At the other extreme there are regulatory regimes, including several in Continental Europe, where extensive supervisory reliance is placed on bank auditors, who may have statutory obligations to report certain matters directly to the regulatory authorities.

The present U.K. arrangements fall somewhere between these extremes. Under the 1987 Banking Act, bank auditors are relieved of their confidentiality obligations when reporting to the Bank of England, but the reporting arrange-

13. Since the mid-1980s, Luxembourg had been trying to persuade BCCI to move out of its jurisdiction. Finally, in June 1990, the Luxembourg authorities gave the Group until June 30, 1991, to cease operating in Luxembourg and to transfer its operations elsewhere. Bartlett Affidavit, *supra* note 4, at 9.

14. *See* H.C. (1991-92) 177-i, app. 6.

ments themselves are governed by informal guidelines rather than statute or regulation.[15] At the same time, the Bank of England has adopted a recommendation made after the Johnson Matthey Bank collapse in carrying out periodic on-site bank examinations with a view to assessing the quality of management and the adequacy of banks' control systems—a practice followed in the case of BCCI.

Although evidence from the Bank of England suggests that the present relationship between the Bank and reporting accountants is working well, there are grounds for concern.

It is a statutory condition for authorization that a bank maintains "adequate accounting and other records of its business and adequate systems of control of its business and records."[16] The Bank of England has issued detailed guidelines on the scope of this requirement which apply to U.K. branches of foreign banks "regardless of whether any part of the business is supervised by another regulator."[17] In the case of BCCI the requirement was not met. Indeed, in support of its application for a winding up of BCCI the Bank of England made the point clearly:

> It appears from the Price Waterhouse Report (of June 1991) that the accounting records have completely failed and continue to fail to meet the standard required of institutions authorized under the Banking Act. It further appears that there is no proper or adequate system of controls for managing the business of BCCI.[18]

It is surely a matter for concern that such fundamental shortcomings became apparent only during the section 41 investigation in 1991 and were not discovered during: (a) the normal auditing process; (b) the numerous accountants' investigations commissioned by the regulators prior to 1991; (c) in particular the section 39 report commissioned in March 1990 to investigate if there were adequate systems and controls in place in the U.K. operation; and (d) the various Bank of England examinations of BCCI's control systems in the U.K.

In the light of this experience, consideration should surely be given to the desirability of appointing accountants other than the bank's own auditors when special investigations are called for. In addition, it may be desirable to strengthen the Bank of England's own investigative capacity in this area.

2. *The Relationship Between Auditors and Financial Markets*

Credible financial statements lie at the heart of the self-regulatory process. It is on the basis of such statements that depositors, general creditors, credit rating

15. *See* THE BANK OF ENGLAND'S RELATIONSHIP WITH AUDITORS AND REPORTING ACCOUNTANTS (Dec. 1987).

16. U.K. Banking Act 1987, Schedule 3, Section 4(7).

17. *See* BANKING SUPERVISION DIVISION, BANK OF ENGLAND, GUIDANCE NOTE ON ACCOUNTING AND OTHER RECORDS AND INTERNAL CONTROL SYSTEMS AND REPORTING ACCOUNTANTS' REPORTS THEREON (Sept. 1987).

18. Bartlett Affidavit, *supra* note 4, at 13.

agencies, and other market participants are able to assess the credit standing of individual banks. Bank auditors therefore have a key role in ensuring that reliable financial information is provided to the marketplace.

There is, however, a difficulty here in that recent case law has established that an auditor's duty of care is confined to the general body of shareholders only and does not extend to general creditors or other stakeholders.[19] This point has particular significance in relation to banks, which are typically dependent on depositors rather than shareholders for well over 90 percent of their total funding. Since the interests of depositors and shareholders are not necessarily the same, this leaves depositors in an unsatisfactory position: as the predominant suppliers of funds to banks they do not have access to financial statements which are prepared with their interests in mind.

This weakness in the self-regulatory regime is amply illustrated by the BCCI experience. BCCI's 1989 accounts were not qualified, even though the auditors were aware of serious problems, the nature of which had been reported to the bank's majority shareholders. In explaining the decision not to qualify, the auditors have argued that in general terms a bank's accounts cannot be qualified without risking a collapse in confidence and a potentially calamitous withdrawal of deposits. While this approach may be consistent with an auditor's established legal obligation to shareholders, it is not necessarily in the interests of existing depositors, cannot be in the interests of prospective depositors, and is difficult to justify on public policy grounds. In particular, once it becomes known that banks' accounts will never be qualified, bank financial statements cease to be a source of reliable information on the basis of which markets can fulfill their key role of credit assessment. For the banking system as a whole the absence of credible financial information is likely to mean an increased incidence of destabilizing bank runs.

A radical solution to this problem would be to broaden bank auditors' duty of care to include depositors. Such a step would, however, inevitably involve a large increase in auditing costs (notably the costs of professional indemnity insurance) and it is a matter of judgment as to whether the increased protection for depositors would justify such a step.

E. Bank Secrecy

Evidence received from the U.S. regulatory agencies suggests that bank secrecy can be a serious problem in supervising multinational banks such as BCCI. It seems that such laws can "greatly impede" access to customer information while also restricting the sharing of such information with regulators from other

19. In Al Saudi Banque v. Clarke Pixley (1989) it was held that the company's auditors owed no duty of care to lending banks. Furthermore, in Caparo Industries v. Dickman (1990) the House of Lords determined that the auditors' duty of care is confined to the general body of shareholders.

countries.[20] Furthermore, the Office of the Comptroller of the Currency states that "our collective experience . . . strongly suggests that bank secrecy laws have all too often been used as a cloak to conceal unlawful activity."[21] The U.S. Federal Reserve Board also believes that criminal activity may be attracted to jurisdictions which combine weak supervisory arrangements with stringent bank secrecy laws.[22] These observations again highlight the absence of any mechanism within the present international regulatory framework for ensuring the adequacy of supervisory standards.

II. Protective Regulation

A. Criteria for Revoking/Restricting Authorization of a Foreign Bank

Given the wide discretionary powers it possesses to revoke authorization (in particular sections 11(1)(a) and 11(1)(d) of the Banking Act 1987) it would seem that the Bank of England could have revoked BCCI's authorization some time before the decision was taken to seek liquidation. This might have been done by imposing a time-limited authorization so as to permit an orderly repayment of deposits. Alternatively, BCCI's U.K. operations could have been curtailed under a restricted authorization. However, the Bank's stated policy[23] is to avoid revocation or restricted authorization where it considers that speedy remedial steps are likely to be taken (for example, injection of new capital, appointment of new directors) and that such action would protect the interests of existing and potential depositors. One issue which needs clarification here is whether the interests of potential depositors should be given equal weight with those of existing depositors. For instance, in the case of a bank under suspicion or investigation, might it not be reasonable in the interests of potential depositors to prohibit the solicitation of new deposits (as allowed for in section 12 of the Banking Act), even if this entails some increased risk for existing depositors?

In his evidence before this Committee the Governor of the Bank of England indicated a number of reasons for not taking action against the U.K. branches of BCCI prior to July 1991. These reasons included (a) the policy of preserving banks where possible,[24] (b) the fact that the U.K. branches appeared to be "not working badly" with possibly an asset surplus,[25] (c) the practical difficulties of dealing with a foreign bank incorporated overseas,[26] (d) the appeal procedure

20. *See* H.C. (1991-92) 177-i, app. 6.
21. *Id.*
22. *See* H.C. (1991-92) 177-i, app. 9.
23. *See* Banking Supervision Division, Banking Act 1987 Section 16: Statement of Principles (May 1988).
24. *Second Report from the Treasury and Civil Service Committee,* H.C. (1991-92) 26, Q.1.
25. *Id.* Q.13.
26. *Id.* Q.77, Q.86.

under the 1987 Banking Act,[27] (e) the need to succeed in the Luxembourg courts,[28] (f) the need to persuade the Luxembourg regulatory authorities,[29] and (g) the fear of triggering a generalized run on BCCI's global operations.[30]

In view of the wide statutory powers available to control U.K. branches of foreign banks, and the apparent difficulties encountered in exercising those powers, it is necessary to consider the various policy options for "ring-fencing" branch operations in the U.K.

In this context it should be noted that the Bank of England was sufficiently concerned about BCCI to attempt to "ring-fence" its U.K. branches (that is, financially insulate these branches from BCCI's non-U.K. operations) by limiting the extent to which deposits gathered in the U.K. could be used to fund other parts of the Group overseas. However, this initiative appears to have been largely ineffective in protecting U.K. depositors.

B. Ring-Fencing the U.K. Operations of Foreign Banks

There are three alternative approaches to regulating the U.K. branches of foreign banks—bearing in mind that branches, unlike subsidiaries, have no separate legal identity and are, from a legal standpoint, part of the group to which they belong.

First, there is the present regime of relying heavily on the quality of home country supervision to protect the interests of depositors in the host jurisdiction. The problem here is to ensure adequacy of supervisory standards in the home country. As noted previously, the U.S. has responded to this difficulty by passing legislation allowing authorization of a foreign branch in the U.S. only if the bank is subject to "comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country."[31] However, such a requirement only serves to emphasize again the absence of any international mechanism for monitoring supervisory standards.

Second, it would be possible to require foreign banks to operate through subsidiaries rather than branches—an approach that is now under review in the U.S. (It is relevant to note here that the Bank of England evidently rejected a proposal in the mid-1980s that BCCI's operations in the U.K. should be incorporated—although U.K. incorporation was one element of the planned restructuring of BCCI being considered by the Bank of England and other regulators in early 1991). The British Bankers' Association has suggested that for non-EC banks the Bank of England should be given reserve powers to require a foreign bank to incorporate its U.K. branches when reliance cannot be placed on

27. *Id.* Q.10.
28. *Id.* Q.51.
29. *Id.*
30. *Id.* Q.86.
31. 137 CONG. REC. H11,775 (daily ed. Nov. 26, 1991).

the quality of home country supervision.[32] This would, however, be a very cumbersome policy instrument and one which would very likely trigger a run on the bank if exercised.

Finally, the insolvency rules could be changed to allow U.K. branch assets to be assigned to U.K. depositors. The present position in English law has been stated as being that "the attempt to put a ring-fence around either the [branch] assets or the [branch] creditors to be found in any one jurisdiction . . . is not correct and destined to failure."[33] However, this is not the position in some other countries. For instance, section 606 of the New York State Banking Law provides that where the Superintendent of Banks closes a foreign branch he may take possession of the property of that branch (as well as any property of the foreign parent situated in New York State) and the branch depositors and creditors will then have a preferential claim against those assets. Only when these preferential claims have been met will any surplus be turned over to the principal office of the foreign bank or its liquidator.

Any unilateral change in insolvency rules along these lines would invite retaliatory action by other countries. What is urgently needed is a multilateral approach to insolvency law that would avoid the conflict-of-law problems that have already been encountered in BCCI's liquidation proceedings.

C. Lender of Last Resort

One of the lessons of BCCI is that it is dangerous for a large international bank to be permitted to operate without access to a lender of last resort. According to Price Waterhouse, the senior management of BCCI believed that the bank could not afford to show a weak balance sheet or poor operating results "given the bank's vulnerability as result of the absence of a lender of last resort."[34] It was apparently this thinking which lay behind the subterfuge to disguise losses on loans to the Gulf Group in early 1985 and which also helps to explain BCCI's failure to disclose the Treasury losses incurred in the period 1977-1985.

If reliance is to be placed on home country supervision in the case of foreign branches operating in the U.K., it is surely also appropriate to require, as a condition of authorization, that the home country jurisdiction has a lender of last resort capability.

III. Conclusion

The fundamental policy issue arising out of the BCCI collapse is whether national authorities failed to use their existing regulatory powers in an appropri-

32. *See* H.C. (1991-92) 177-i, app. 3.

33. Statement by the Vice-Chancellor, Sir Nicolas Browne-Wilkinson, in the Winding Up Petition to Wind Up BCCI, July 30, 1991, at 9.

34. Report on Sandstorm SA, *supra* note 6, at 1.

ate manner or whether the apparent supervisory failure was mainly the result of defects in the international regulatory regime. Any assessment is complicated by the fact that until BCCI's closure regulators were seeking to protect depositors by securing the financial and managerial support of the majority shareholders rather than by terminating or restricting the bank's activities.

Whatever the final judgment on this point, the BCCI affair has highlighted a number of weaknesses in present international regulatory arrangements.

First, the responsibilities of home and host regulatory authorities set out in the Basle Concordat need to be further clarified.

Second, the principle of consolidated supervision should be applied without exception to all banks operating internationally, even if that means dismantling some existing structures.

Third, the Basle approach to regulatory coordination does not incorporate any effective mechanism for assessing the adequacy of supervisory standards. This is a matter of particular concern in relation to those offshore financial centers which tend to attract criminal activity by combining stringent bank secrecy laws with lax supervision.

Fourth, the regulatory role of bank auditors should be reviewed. The practice of appointing a bank's own auditors as investigating accountants may not always be appropriate. More importantly, financial markets may be better served by widening bank auditors' legal duty of care to include depositors—although the costs of such a move would have to be carefully considered.

Finally, all international banks should have access to a lender of last resort in their country of origin and this should be a condition for authorization.

APPENDIX

Bank of Credit and Commerce International (BCCI) Timetable of Events: 1972-1991

1972	BCCI SA (owned directly by its shareholders) incorporated in Luxembourg.
1974	Current structure of BCCI (a number of subsidiaries below a Luxembourg holding company) created.
1976	New York regulators turn down BCCI's attempts to buy a U.S. bank using an intermediary because of BCCI's lack of a lead regulator.
1978	U.S. court affidavit shows Bank of America (30 percent shareholder in BCCI) critical of BCCI's lending. Bank of America decides to dispose of its shareholding in BCCI. (Divestment completed in 1980.)
1978	U.K. branch expansion blocked by Bank of England.
1980	Bank of England turns down BCCI's request for recognized status under Banking Act 1979. Instead accorded licensed deposit-taker status.
1985	Huge losses revealed in BCCI's Treasury Division (legally part of BCCI (Overseas) Ltd., the Cayman Island Company). This division transferred to Abu Dhabi.
1985	Bank of England discourages Luxembourg's suggestion that BCCI set up separately incorporated company in U.K. so that Bank of England take on role of lead regulator.
1986	Ernst & Whinney writes to BCCI complaining about excessive management power and weakness of BCCI's accounting controls.
1986	BCCI's Treasury Division losses (see 1985 above) revealed to Bank of England.
1987	Price Waterhouse appointed sole auditor.
1987	Establishment of College of Regulators for BCCI agreed.
1987	BCCI, as licensed deposit taker recognized under 1979 Banking Act, is automatically authorized under 1987 Banking Act.
June 1988	First meeting of College of Regulators.

Oct. 1988	Drug indictment against BCCI (relating to Tampa branch) issued in U.S. BCCI's U.K. management sets up investigation. Bank of land kept informed. Bank of England insists on daily balances and liquidity statistics, and on weekly meetings.
Feb. 1989	Bank of England's meeting with BCCI become monthly and figures weekly.
Jan. 1990	Bank of England institutes formal review of U.K. operations of BCCI in respect of drug money laundering.
Early 1990	Bank of England becomes aware of terrorist finance accounts at BCCI.
Mar. 1990	Evidence of poor banking emerges from Price Waterhouse's work on BCCI's 1989 report and accounts.
Mar. 1990	Section 39 report commissioned by Bank of England from Price Waterhouse on adequacy of BCCI's accounting system to detect drug money laundering.
Mar. 1990	Under pressure from Price Waterhouse, BCCI sets up task force to review bad loans and related transactions, using Price Waterhouse's report of March 14th as briefing note.
Apr. 1990	Price Waterhouse's report to the Board of BCCI (received by Bank of England on April 18th) sets out task force findings, including confirmation of previously identified problem loans, but also finds evidence of accounting transactions and statements mainly offshore, being "either false or deceitful." Recommends contingency provisions. Bank of England later argued this report contained no evidence of systematic fraud.
Apr. 4, 1990	Governor of Bank of England briefs the Chancellor of the Exchequer on aftermath of Tampa.
Apr. 20, 1990	College of Regulators meets. Considers Price Waterhouse's report. Leads to injection of capital (in mid-1990) by Abu Dhabi, which gives it shareholding of over 75 percent.
Apr. 30, 1990	College of Regulators meets. Still not satisfied by current provisions, wants $600m. Reported to College that in-house reorganization committee has been set up to reorganize BCCI. Headquarters to be moved to Abu Dhabi.
May 16, 1990	Governor of the Bank of England briefs the U.K. Chancellor on BCCI's reconstruction plans.
June 1990	Luxembourg gives BCCI a year to move its operations.
June 1990	Price Waterhouse's section 39 report shows BCCI's systems and controls are satisfactory.

Oct. 1990	Follow-up to Price Waterhouse's April report shows need for additional financial support of $1.5n[35] needed to cover potential losses. Said previous management may have colluded with customers to misstate transactions. Abu Dhabi agrees to meet liabilities and make management changes. Naqvi and Abedi step down. Bank of England later says it still had no evidence of fraud to justify revocation at this stage.
Dec. 1990	In last week of December, BCCI executive tells Price Waterhouse of substantial unrecorded deposits.
Jan. 1991	In first week of January, Bank of England is told of these unrecorded deposits. Abu Dhabi agrees to make good any shortfall in respect of these deposits. Price Waterhouse informs Bank of England that some irregular transactions may have gone through U.K. branches and investigates, keeping Bank informed.
Jan. 25, 1991	Bank of France bans BCCI from taking new deposits because of inadequate capital requirements.
Mar. 4, 1991	Price Waterhouse commissioned to investigate BCCI under section 41 of Banking Act.
Apr. 1991	Bank of England briefs the Chancellor that BCCI's U.K. branches in "pretty sound shape."[36]
May 1991	Financial package signed by BCCI's shareholders.
June 24, 1991	Bank of England receives Price Waterhouse's draft section 41 report. Report reveals "massive and widespread fraud" going back a number of years and involving not only past but existing management, even after the reconstruction. Uses evidence provided by Naqvi's 6,000 personal files, previously concealed from Price Waterhouse.
June 28, 1991	Governor of the Bank of England receives the section 41 report.[37]
July 1, 1991	Bank of England alerts Serious Fraud office.
July 2, 1991	College of Regulators meets. Abu Dhabi not informed.
July 4, 1991	Governor of the Bank of England informs Prime Minister and Chancellor of decision to close BCCI.
July 5, 1991	Coordinated closure of BCCI.

36. Date revised from that given by the Governor of the Bank of England in H.C. (1991-92) 26, QQ.22-23.

37. Date revised from that given by the Governor of the Bank of England in H.C. (1991-92) 26, Q.70.