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‘Trust is good, control is better’: The 1974 Herstatt Bank Crisis and its Implications for International Regulatory Reform

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With its international supervisory and regulatory implications, the failure of Bankhaus Herstatt is one of the landmarks of post-war financial history. This article offers the first comprehensive historical account of the Herstatt crisis, and contributes to the wider discussions on international supervisory and regulatory reform since the mid-1970s, including regulatory capture, markets’ self-regulation and resolution of failed banks. In doing so, it first argues that contrary to a widely held view, the German authorities received early and repeated warnings about Herstatt’s dealings but this involved only limited and ineffective regulatory/supervisory responses, then it turns to the actual collapse of the bank in June 1974, and finally explores the wider regulatory issues raised by the Herstatt case.

Keywords: Herstatt; internationalisation; regulation; supervision; management; banking history; bank failure; resolution; reputation; Basel Committee on Banking Supervision (BCBS); foreign exchange; Bundesbank; Bundesaufsichtsamt für das Kreditwesen

1. Introduction

A central issue of current debates about the causes of the 2008 financial crisis, international financial regulation and supervision has raised considerable scholarly interest. Much attention has been directed to the emergence of an international framework for financial oversight from the 1970s, and in particular the creation of the Basel Committee on Banking Supervision (BCBS) in 1975 and the subsequent Basel accords.¹ A number of bank failures that spurred fear in international financial markets over the summer of 1974 indeed called for a greater degree of international coordination. Franklin National Bank, the Israeli British Bank (IBB) and the Lloyds Lugano crisis all affected, to different extents, markets that were already shaken by earlier problems, such as the British secondary banking crisis of 1973.² The above-mentioned cases all raised significant questions as to who would regulate and supervise what and where.

Among these banking crises, the 1974 Herstatt Bank failure is traditionally considered as one of the most important. It is often said, for instance, that Herstatt’s collapse led to the creation of the BCBS.³ In addition to its institutional implications, the Herstatt failure is also an important case study providing an illustration of the consequences of a poor performance of the regulators as well as of market self-regulation, highlighting the importance and limits of reputation in banking, and finally sketching the implications of a bank failure with the creation of the Liko-Bank. Following risky foreign exchange

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operations in 1973 and early 1974, the German supervisory office, the Bundesaufsichtsamts für das Kreditwesen (BAKred), decided to close the bank on 26 June 1974. But the closure happened at the end of the working day in Frankfurt, which was in the morning of a working day in New York, thereby leaving a number of operations unfinished. This gave birth to the so-called Herstatt risk, that is, the risk taken by making operations across different time-zones. The Herstatt Bank failure is not just a page of distant history. Still in 2008, the leading German economic newspaper *Handelsblatt* published an article on the surviving of the Herstatt risk – and in 2004, the story was even turned into a theatre play, *Kölner Devisen!*⁴

With its international supervisory and regulatory implications, the failure of Herstatt became one of the landmarks of the 1974 international banking crisis. Yet the literature focusing on this case study is comparatively patchy. The German weekly *Der Spiegel* conducted a comprehensive inquiry into the Herstatt failure in early 1975 based on interviews with participants and legal documents released subsequently.⁵ Many authors refer to the Herstatt case, but it usually amounts to a brief summary of the collapse, with little attention to how the crisis actually unfolded.⁶ Christoph Kaserer analysed the Herstatt crisis mostly looking at deposit insurance.⁷ No archive-based account exists to date. True, a detailed archival research on the Herstatt case is rendered difficult by the closure of the BAKred archives, but based on research in the Bundesbank, the German national archives, the Commerzbank and Dresdner Bank archives, the Bank of England and some American archives, this article aims at rendering a comprehensive picture of the Herstatt crisis and replace it in the wider discussions on international supervisory and regulatory reform of the mid-1970s.⁸ It first looks at the origins of the Herstatt collapse in the early 1970s, and how and why some early warnings about Herstatt's dealings only involved limited and ineffective regulatory/supervisory responses, in order to underscore the inefficiency of both market self-regulation and state regulation, as well as the role played (or not played) by the growing negative reputation of the German bank. It then turns to the actual collapse of the bank in June 1974, and explores the issue of the timing of the bank's closure as well as the inappropriate resolution framework. Finally it explores the wider regulatory issues raised by the Herstatt case, and in particular the issue of international coordination.

2. Devisen-Roulett and Spielbank: the origins of the Herstatt collapse

A central theme of the financial regulation literature is the dichotomy between market self-regulation and state regulation.⁹ For a long time – that is, from the very first rumours about Herstatt's risky foreign exchange operations until the actual closure of the bank – the German authorities seem to have largely relied on some sort of market self-regulation. This constitutes the puzzle of the Herstatt crisis: given the extent of the failure – the size of the losses, the unrest provoked in the markets, the reputational costs incurred as well as the prudential consequences involved – it is difficult to believe that the crisis was unforeseeable. This section scrutinises the early warnings about Herstatt's activities, then it turns to the persistence of the rumours about its over-trading in 1973 and early 1974, and finally it examines the limited and ineffective response of the German supervisory authorities.

2.1 *The Herstatt Bank and the German supervisory context*

The German supervisory and regulatory authorities are essentially three: BAKred, the Bundesbank and the Finance Ministry (Bundesministerium der Finanzen).¹⁰ BAKred,

located in Berlin, is responsible for overseeing all German banks and taking all legal actions in banking regulation and supervision (licensing, enforcement actions, etc). The Bundesbank has no such responsibilities, but is involved in day-to-day regulatory and supervisory activities, and in particular in collecting economic data and information about banks. The decentralised structure of the Bundesbank means that Landeszentralbanken ([LBZ], central banks of the Länder) play an important role, as LBZ of Nordrhein-Westfalen did in the case of Herstatt. Finally, the Finance Ministry is responsible for banking regulation in the German government.

Jowan David Herstatt founded the eponymous bank in 1727 in Cologne.¹¹ In 1974, Herstatt was a rather small bank – the 80th largest in Germany – held in majority by Hans Gerling, the head of an insurance company.¹² The bank had important international connections due to its foreign exchange trading. This made its failure the ‘worst bank collapse since the crisis of 1931’ in Germany – although it must be noted that it was a completely different order of magnitude.¹³ The failure of the bank had important domestic (deposit insurance)¹⁴ and international consequences. As a note of the Federal Reserve of New York reports, ‘The Herstatt failure came as a severe shock to the New York market [...] In the two/three days just after the announcement [of Herstatt’s closure], dealers reported a drop in business of up to 90%, with an average fall-off of roughly 75%.’¹⁵

The bank collapsed because of over-trading on the foreign currency markets. Iwan Herstatt clearly left a lot of freedom to the foreign currency department, led by Daniel (Dany) Dattel. The head of the foreign currency department was very respected in the bank and beyond. He was a recognised expert in foreign exchange, regularly invited by the media in the 1970s.¹⁶ His ‘big hour,’ as Iwan Herstatt calls it, came with the free floating of the dollar in 1972, as this gave him opportunities in foreign currency trading.¹⁷ Yet his irregular activities, that will be detailed below, largely caused the failure of the bank.

The relaxed attitude of Iwan Herstatt towards his bank’s foreign currency division posed problem for the German supervisor, since, as the following pages will show, BAKred was at regular intervals getting in touch with the one person in the bank, Iwan Herstatt, who manifestly knew very little about what was actually going on in his own bank. Herstatt writes in his memoirs that he gave the responsibility to supervise the foreign currency dealings to Bernhard Graf von der Goltz, general representative of the bank, as he was absent because of his various other responsibilities.¹⁸

The self-portrait that Iwan Herstatt draws in his memoirs is, in that respect, revealing. He describes himself as a happy man running a healthy and prosperous bank: ‘As I celebrated my 60th birthday on 16 December 1973, I believed I had reached all what I could have imagined in my boldest dreams.’¹⁹ He also insists on his work efficiency (he claims it was his principle to answer letters the day they reached him at the bank, and that he never missed a day of work nor arrived late at his office in 18 years) and claims that ‘I [...] have never been a friend of big speculative operations.’²⁰ Herstatt clearly hoped, even in the midst of the negotiations on 26 June, that the bank would be saved.²¹

2.2 *Early warnings and the failure of market self-regulation*

Early warnings about Herstatt’s dealings contradict the belief in market self-regulation. The benefit of hindsight should not lead to interpret these early rumours about Herstatt’s dealings as clear hints that the bank was doomed to collapse. Their persistence, however, stresses that there was a long-standing problem with this bank, as well as a growing negative reputation that did not, however, prevent some banks from carrying on dealing with Herstatt. In its comprehensive inquiry into the origins of the Herstatt debacle,

Der Spiegel reports hints at problems within the West German bank as early as in 1971 when the bank auditor, Heinz Laaff, then criticised Herstatt's accounting methods.²² The Bundesbank confirmed the rumours reported by *Der Spiegel*. A note of the banking and statistics department of the LZB of Nordrheinwestfalen reports discussions about problems at Herstatt on 16 June 1971. Dr Hüchting, of the Westfalenbank's board, informed about hints that Herstatt 'was short.'²³ Symbolic of a tortuous transmission of information about this bank, the note recording this dates back from 7 April 1972 – that is, almost 10 months after the actual discussion took place. The information remained confined to the LZB.²⁴

Whether these rumours were taken seriously is an open question. A short episode highlights this: after Herstatt's collapse, at a meeting in Basel in 1974, Johannes Tüngeler (Bundesbank) admitted that it was the Bank of England's hints, 18 months earlier, that first alerted the German authorities on the situation of Herstatt.²⁵ Strangely, however, it is the same Tüngeler himself who had, on 23 March 1972, already alerted the Bundesbank, during a Zentralbankrat meeting, about Herstatt's foreign exchange transactions.²⁶ According to a reliable Swiss source, Tüngeler explained, Bankhaus Herstatt had been involved in the Swiss foreign exchange market, 'over the 100 million DM limit'. Ernst Fessler, president of the Nordrhein-Westfalen Landeszentralbank, recommended to analyse the risk situation.

The results of this investigation, carried out by the banking and statistics department of the LZB and presented on 7 April 1972, led to a critical assessment of Herstatt's situation.²⁷ This judgement was based on three elements: the audit of the minimum reserves in November 1971 (no figure was provided); the recurring difficulties in the past three years in connection with the bank's business expansion; indications from banking circles of Herstatt's risk exposure. As far as this specific investigation was concerned, two dates had been looked at: 30 November 1971 and 29 February 1972 (see Table 1).

The note concluded that these figures were not so high that they must be reported to the Bundesbank. But it also added that 'the presumption is, though, that these figures do not reproduce the true extent of the foreign exchange transactions.' Three elements motivated this remark. Firstly, the audit of the reserve requirements in November 1971 had revealed a discrepancy between the last month, reaching its lowest situation under 100 million DM,

Table 1. Results of the investigation of the banking and statistics department of the Landeszentralbank on Bankhaus Herstatt's activities, April 1972.

	30 November 1971	29 February 1972
	- in million DM -	
I. Assets in foreign banks and companies		
a) in currency	59.0	80.0
b) in DM	64.4	72.4
Total	123.4	152.4
of which Switzerland	32.0	44.6
II. Liabilities towards foreign banks and companies		
a) in currency	36.0	21.4
b) in DM	76.1	53.5
Total	112.1	74.9
of which Switzerland	30.8	25.0

and the current month, rising up to 350 million DM. But in the present case, the weekly data did not report any figure which was considered as inappropriate (Table 2).

Secondly, the banking and statistics department noted that the monthly data was missing. The Swiss source which had been reporting excessive operations might have referred to daily swap operations (which, the department notes, had already played a role in the November audit). These operations show up as a one-day operation and could have indeed constituted the Swiss information. And they do not appear in the balances of the bank. Thirdly, the Swiss informant could have mixed up the Bankhaus-Herstatt Köln with its sister bank 'Compagnie financière Herstatt S.A.' based in Luxembourg. But LBZ did not have any documents about the operations of the parent bank.

This series of events, from June 1971 to the above-mentioned investigation, led LBZ's banking and statistics department to a critical assessment of the bank's situation. 'We suggest,' the report concluded, 'to seize now the new information from the Swiss side as an opportunity to inform the Bundesaufsichtsamt in detail about our observations and misgivings.' Fessler just wrote in the margin of the note 'agreed.' Coincidence or not, Dr Stauch, of the Bundesaufsichtsamt, and Iwan Herstatt talked over the phone in mid-April 1972.²⁸ The detail of the discussions is not available, but the archival record states that they discussed the question of Herstatt's capital increase, its 'repeated' exceeding of limits in the activities (also of the Herstatt's sister bank in Luxembourg) on the money market and risks resulting thereof. Reporting back the discussion, Stauch concluded that 'these matters will have to be followed in detail in prudential terms.'

2.3 From failed self-regulation to poor oversight

But the fact that the market and the regulators knew about Herstatt's unenviable reputation suggests that if self-regulation was ineffective, public regulation did not satisfactorily work either. Already in 1971 and 1972 indeed, Herstatt had attracted the attention of the German regulatory and supervisory authorities. On 9 July 1973 in Cologne, Stauch again reported to Herstatt the rumours that were circulating about his bank.²⁹ A foreign bank³⁰ had indicated to Stauch on 5 July 1973 that rumours were circulating about Herstatt in London. Herstatt replied that he was taking things very seriously and was aware of such rumours, but that they were however unfounded. He stated that his bank was not involved in the Bau-Kredit-Bank, a German bank that failed in June 1973.³¹ The currency dealings were checked daily by Graf von der Goltz and the bank's financial position in the last five months, Herstatt reports, were outstanding.

New rumours about Herstatt, from three different sources, reached Stauch on 10 December, who then immediately decided to call Iwan Herstatt.³² Rumours had it that the bank had daily contracts of between 200 and 500 million DM. This was causing concern in the 'big banks', that is, the three German 'big banks': Deutsche Bank, Dresdner Bank and Commerzbank. Stauch also expressed doubts that the general representative

Table 2. Results of the investigation of the banking and statistics department of the Landeszentralbank on Bankhaus Herstatt's activities, weekly data, April 1972.

	23 November 1971	23 February 1972
	- in million DM -	
Assets in foreign banks and companies	253.9	112.5
Liabilities towards foreign banks and companies	141.5	66.2

exercised a sufficient control of the currency traders.³³ Herstatt dismissed this gossip, adding that he had to live with it since the founding of his bank, that is, for 18 years.³⁴ He further argued that his bank was in a better state than before. Stauch called Iwan Herstatt on 12 December. Herstatt explained to him that the traders had a limit of 25 million DM for open positions.³⁵ The discussion did not go further. On 18 December, Stauch, following the rumours about foreign exchange transactions, considered calling on auditors to Herstatt – he eventually did not seem to have done so. The note adds that from that day on, the LZB has shared all information and rumours which it was aware of with BAKred.

The foreign exchange department of LBZ, following a note of the Bundesaufsichtsamt dated 12 December 1973 reported, on 21 December 1973, on the open positions taken by Herstatt (Table 3).³⁶ It gave account of new rumours in Düsseldorf among foreign currency traders, according to which Herstatt went ‘off the mark’ with considerable amounts since the continuous rise of the dollar since late October 1973 and the devaluation of the franc since September 1973. But in fact the note goes on ... to defend Herstatt, saying that there is little ‘concrete observations’ to support the rumours. The first point, already evoked before, concerned swap operations: it may have been that Herstatt tried to put off losses by making a considerable amount of swap operations. The note further adds that in the opinion of a foreign exchange trader, the supposition of a substantial imbalance could be explained by the fact that the *Chefhändler* had recently been appointed *Volldirektor*: ‘he must prove himself, otherwise his promotion would be “a big bluff”.’ No specific name is provided, so it is unclear whether this remark may be referring to Dany Dattel. There remains that engaging in risky behaviour to establish a reputation has often been observed since the early 1970s.³⁷ This also further highlights the importance of reputation in business history – both in positive and, in the present case, negative terms.³⁸ The second point is more general, and concerns the operations of Herstatt over the past six

Table 3. Investigation of the foreign exchange department of the Landeszentralbank into Bankhaus Herstatt’s activities, December 1973.

Net foreign-exchange positions of I.D. Herstatt KGaA, Köln					
- operations in million DM -					
	\$	£	FF	Hfl	Lit
1972					
October	- 7.3	+2.4	+2.0	+2.0	+1.1
November	- 15.6	+4.7	+2.8	+1.6	+1.2
December	- 29.7	+1.3	+1.3	+1.5	+0.2
1973					
January	+4.8	+2.2	+2.1	+0.5	+0.3
February	+33.9	+2.1	+1.7	- 12.3	+0.6
March	+5.0	+1.3	+1.2	- 0.1	+0.6
April	+11.4	+2.2	+0.7	- 0.1	+0.6
May	- 17.4	+0.7	- 0.8	- 0.9	+0.4
June	+33.9	+2.3	- 1.2	+1.5	+0.4
July	- 24.5	+16.4	+2.8	+0.3	+0.4
August	+41.1	+2.8	- 1.6	+3.2	+0.7
September	+92.2	+3.4	- 1.2	+5.3	+0.6
October	+79.3	+2.1	+3.1	+55.8	+0.5
November	+173.1	+1.6	+0.9	+28.5	- 0.8

months. Since July 1973 and the low point of the dollar, Herstatt has in no case gone ‘off the mark.’ The note contains a table of Herstatt’s positions supporting this (Table 3).

Incidentally, Herstatt was not the only German bank to suffer from such rumours. WestLB and Bankhauses Lampe were, too, said to be in difficulty.³⁹ Whether this should be reassuring in itself is not sure, and is not dealt with in the note. On 11 January 1974, it was commented that ‘the Bundesausichtsamt will ask Herstatt to commission its auditor first to examine its foreign exchange positions and then to report to them.’⁴⁰

The situation worsened in early 1974, underlining that neither the building of a consistent unenviable reputation nor supervisory responses were able to pre-empt the development of risky trading behaviour in the bank. On 9 January 1974, in a note to Otmar Emminger (the vice-president of the Bundesbank), Rolf Gocht and Tüngeler report that a colleague of the Bank of England stated that Herstatt no longer especially disturbed them, since English banks had in the meantime refused to conclude operations with the Cologne bank.⁴¹ About two weeks later, new rumours about Herstatt’s over-trading reached German authorities – ‘once more,’ as the note puts it.⁴² Edgar Krug (LBZ) and Stauch talked about it over the phone, on 25 January 1974. They were concerned not only by the activities of the Cologne bank but also by those of its Luxembourg subsidiary. Krug suggested to invite Iwan Herstatt to Berlin, where BAKred’s headquarters were, and added that LBZ would be interested in being represented at such a meeting. Stauch agreed and recalled that he was anyway expecting the report of the auditing company about Herstatt’s annual account.

The next response of the Bundesbank, confronted with press reports, hints from banks and other rumours about Herstatt’s dealing, was to rely on some sort of informal supervision. On 29 January 1974, the Direktorium sent a letter to the board members, as well as to the Bundesaufsichtsamt, raising the issue of risks in open foreign exchange exposure.⁴³ ‘Since in our opinion the absolute ban on making open foreign exchange transactions would go well too far and also go against legal considerations, only measures through which the above-mentioned risks are limited come into question.’ What to do was still left open, and the letter only suggested that BAKred could warn about such risks.

Rumours about Herstatt’s operation reached the international central banking stage soon after – ironically highlighting that international cooperation and the sharing of gossip, one of the first topics of discussion of the BCBS the following year,⁴⁴ did not prove more effective. On 11 and 12 February 1974, during a meeting of central bank governors in Basel, Karl Klasen, president of the Bundesbank, was indeed alerted by some of his colleagues about Herstatt’s operations.⁴⁵ But Iwan Herstatt reassured once again German authorities on 16 February 1974. He talked over the phone with Herr Eckey, director of the Bundesbank Hauptstelle in Cologne, and explained that his bank did not have any open foreign exchange position, and that it made no loss on its open foreign exchange positions in the last months.⁴⁶ It is important to note that Herstatt was not, again, an isolated case. The Herstatt example was in fact reported together with two other instances, the Westdeutschen Landesbank and the Bankhaus Lampe (which suffered a 2 million DM loss over Swiss franc positions in March 1973). But of all three cases, Herstatt seemed to be the most worrying – to such an extent that, in mid-February, Stauch wrote to Herstatt to ask him to carry out a ‘particularly close examination of the forward book.’⁴⁷

Concrete hints such as the fact, highlighted in January, that some English banks refused to conclude operations with Herstatt, occurred again in March. They highlight an important degree of information asymmetry between the banks; and also show that self-regulation, because of these asymmetries, could not work. It is noticeable that during this critical period when many rumours circulated about the bank’s foreign currency

operations in February–March 1974, Iwan Herstatt was on holidays.⁴⁸ On 8 March, the foreign exchange department of LBZ reported, ‘from absolutely credible sources,’ that ‘numerous’ banks involved in foreign exchange trading now refused to deal with Herstatt.⁴⁹ If the sources in question were not disclosed, it is noticeable that, however diplomatic it was, the description of the quality of the source was this time even more underscored. All this remained at the level of rumours – but the room left for doubt was, this time, considerably reduced. On 14 March 1974, an unidentified French bank asked the German Bankhaus C.G. Trinkhaus & Burkhardt, which then reported it to LBZ, whether a specific bank in Nordrhein-Westfalen had difficulties in the foreign exchange market.⁵⁰ It was assumed that the French bank was thinking of Herstatt – though of course the reply given was that no one was aware of such problems.

The gossip according to which some banks refused to contract on the foreign exchange market led LBZ to try and understand why this was so. The foreign currency department of LBZ hence talked to Herr Bierbaum, exchange broker at the Düsseldorf stock exchange, in order to better grasp the situation. In a note dated 15 March 1974, the foreign currency department reports that Bierbaum explained that most banks implied in foreign exchange transactions set a limit to their trading with their possible partners on the market.⁵¹ The limit is determined by the size and the reputation of each partner. And once the limit is reached, no more trading can take place. Bierbaum added to this that the will to no longer deal with a specific bank can also come from ‘animosities’ between the banks. The example given was that of the Westfalenbank and the Bankhaus Herstatt. Still on Herstatt, Bierbaum explicitly said that the instructions not to deal with it ‘can be put down to the fact that Herstatt had reached the respective limit.’ The Devisenabteilung only commented that ‘the increase of such instructions furthermore shows that the banks are eager to limit risks in foreign currency dealings.’ Hence LBZ suspected, at least as early as on 15 March, that Herstatt had reached its limit in foreign exchange trading; while simultaneously congratulating itself for the alleged moderation of bankers on the foreign exchange market.

It was on 22 March 1974 that, for the first time, not only Iwan Herstatt but also Graf von der Goltz, general representative of the bank, admitted having ‘concluded in fact large [foreign exchange] transactions.’⁵² At the instigation of Thoma, vice-president of LBZ, Eckey had talked to Iwan Herstatt and Graf von der Goltz. Both Herstatt and von der Goltz however added that these foreign exchange positions had been kept ‘relatively low.’ They further assured that they oversaw these operations so closely that a notable risk was excluded and would not arise in the future. When Eckey mentioned the rumour according to which some banks would have withdrawn from foreign exchange dealings with Herstatt, the banker responded that this gossip was ‘without any basis.’ He was aware that his bank was suffering such rumours ‘surely out of jealousy’ – a claim that he repeated in his memoirs⁵³ – and that he could not do anything against it. These ongoing rumours about Herstatt relate again with the wider issue of reputation in banking. In explaining the importance of a positive reputation, Christopher Kobrak underscores that it can outlive the original qualities that it took to build.⁵⁴ The Herstatt story is in a sense showing that the exact opposite is also true: Herstatt had been building a negative reputation from 1971 at least, but somehow some market actors and regulators overlooked the origins of this reputation and carried on dealing with the German bank regardless.

2.4 Ineffective supervisory responses

Confronted with the rumours that Herstatt was in a bad situation, what was the reaction of the German supervisors and regulators? It is of course difficult to reconstruct BAKred’s

reaction because of the closure of its archives. But had it had taken an important measure in the years 1971 to 1974, some archival trace would have probably subsisted in other institutions' archives – and indeed this is the case in the Bundesbank archives, given its strong implication in the German financial supervisory and regulatory process. For the period 1971–1973, the German authorities appear to have limited their action to investigations and phone calls. This remained largely ineffective however, as risky dealing persisted. From early 1974 onwards, they attempted a more formal reaction, and wrote a warning letter to German banking federations.

A first move from the German supervisory office dates from 25 February 1974 – shortly after Klasen's meeting in Basle on 11 and 12 February – when BAKred wrote to the Karoli Wirtschaftsprüfung GmbH, the company in charge of the annual audit of Herstatt.⁵⁵ Stauch asked the auditor to pay particular attention to the nature and dimension of the risks taken by the bank in its foreign exchange operations. It is also interesting to note, in terms of supervisory practices, that it is reported that it would have been the LZB which was at the origin of this letter, as it disseminated new rumours about Herstatt's possible over-trading to the Bundesaufsichtsamt, and pressed the German supervisor to take some action.

The report provided by the Karoli Wirtschaftsprüfung disclosed the currency positions presented in Table 4.⁵⁶ The report notes that 'from the operations of January and February 1974 we did not gain any clue indicating that the bank is in difficulty.'

The auditor writes that the foreign exchange division was composed of seven active traders. Operations were registered in a computer (a Nixdorf-Kleincomputeranlage), and a list of these operations was printed daily. The Karoli Wirtschaftsprüfung concluded from this survey: 'We consider the current technical organisation as sufficient to process the volume of transactions.'

What the Karoli Wirtschaftsprüfung did not find out, however, was the existence of a 'cancel button' (Abbruchtaste). Using this button allowed the trader's operations not to

Table 4. Report of the Karoli-Wirtschaftsprüfung on Bankhaus Herstatt's currency positions, February 1974.

	US-\$ against				
	DM	Swiss francs	Pound sterling	Hfl	Saldo
1974					
January	+504.0	-102.0	-303.0	+79.0	+178.0
February	+303.1	+10.2	+260.6	+84.0	+657.9
March	-373.7	+111.0	-5.7	-35.5	-303.9
April	-217.7		+7.0	-32.0	-242.7
May	-218.9	-378.6	-40.6	+20.0	+139.1
June	+68.3	+100.0		-49.5	+118.8
July	-41.7				-41.7
August	-63.3	+365.0		-66.0	+235.7
September	-22.5				-22.5
October	-7.3	+200.0			+192.7
November	-15.3				-15.3
December	-35.2				-35.2
	-120.2	+1062.8	-81.7		+860.9
1975	-57.1				-57.1
1976–1979	-92.5				-92.5
	-269.8	+1062.8	-81.7		+711.3

appear in the daily list of operations carried out by the bank, printed out by the computer. Herstatt explains that Dattel could use this cancel button and could thus manipulate the daily balance sheets. According to *Der Spiegel*, this function had been used increasingly frequently since early 1973.⁵⁷ Herstatt adds in his memoirs that he has ‘subsequently found that Herr Dattel occasionally exceeded his limit up to 750 million.’⁵⁸

Three days later, on 28 February, the banking supervision experts of LBZ met with representatives of BAKred at the Bundesbank.⁵⁹ This was not a meeting organised on purpose given the ongoing rumours, rather a customary gathering. Yet given the circumstances, one of the important topics of discussion concerned the risks linked to open foreign exchange exposure of banks. The record of the discussion does not show any explicit mention of Herstatt – or indeed any other case such as the Bankhaus Lampe, or the Westdeutschen Landesbank mentioned before. Nevertheless, the meeting recommended three measures that are important with respect to regulatory and supervisory practices: to write a warning letter to banking associations, to amend the test guidelines, and to report statistics of forward exchange contracts (the returns which have to be submitted to BAKred did not show forward foreign exchange commitments). ‘A ban on proprietary trading appears in fact from a prudential perspective as the best solution, in order not to load the anyway meagre equity of the banks also with the risks of that kind of operations.’ Yet it was concluded that such a step could not be taken, either from a legal or a practical perspective – a warning letter was thus the best option left.

On 11 March 1974, Stauch told Herstatt that Klasen had received information about risks in the bank’s currency dealings.⁶⁰ Stauch expressed doubts about von der Goltz’s daily controls of the currency positions. This was the first time that Stauch demonstrated such specific doubts related to the way in which daily operations were recorded in the bank. Stauch asked to see the annual report of the bank (Iwan Herstatt handed it over to Stauch on 25 April),⁶¹ and concluded that were no changes to follow, he saw a threat to the existence of the bank. Herstatt protested and affirmed that everything was in order.

A further meeting took place, on 28 March 1974, between representatives of the Bundesaufsichtsamt, LBZ and the Direktorium of the Bundesbank in order to draft the warning letter evoked above.⁶² On 6 May 1974 Dürre sent the letter to the main German banking federations. It is quite surprising to observe it took nearly 10 weeks to write a fairly general two-page long letter, especially given the persistent rumours evoked above. He intended to warn banks about ‘risks in forward foreign exchange transactions.’⁶³ Dürre’s opening was very didactic, explaining that foreign exchange transactions had become riskier since the end of the fixed exchange rates regime, which led some banks to encounter ‘not insignificant losses.’ He did not, however, provide the names of the banks in question. ‘This prompts me,’ Dürre explained, ‘to alert you on these developments, and to ask you not to speculate in foreign currencies. If foreign exchange transactions are carried out, you must circumscribe their perimeter in such a way that also the external calculable risk can be worked out in all cases without endangering the creditors of the banks.’ Dürre added that it was the responsibility of each bank’s management to take all the necessary measures so that ‘an effective control of this field of work is guaranteed.’ The president of the Bundesaufsichtsamt then made clear that the auditor was responsible for inspecting the effectiveness of the system of control, and had to report on it, including the development of risks in foreign exchange transactions (both already completed during the year, and those still open). The German supervisory office’s warning letter was certainly sent off too late, however. Herstatt carried on its business, the collapse of which is the focus of the next section.

On 25 April 1974, Stauch and Herstatt talked in Berlin. Herstatt handed over the balance sheet for 1973.⁶⁴ It showed positions with a risk of \$12 million.⁶⁵ Herstatt dismissed the

Table 5. Audit report on Bankhaus Herstatt, April 1974.

- figures in million DM -					
Financial year	Annual profit (= balance sheet profit + additional reserves)	‘Other incomes’ (source: published results)	Ordinary income (source: audit report)	Income from foreign exchange (source: audit report)	As percentage of the ordinary income
1970	3.3	11.7	30.0	1.2	4.0
1971	4.9	10.8	39.4	5.9	15.0
1972	7.8	17.5	42.9	3.7 + 6.1 (income from precious metals trading)	8.6
1973	10.0	55.1	70.5	40.4 + 9.5 (income from precious metals trading)	57.3

conjectures that some currency operations could possibly be implemented under a cover address. He reiterated that under his instruction no open position could be taken over 25 million DM, and that the general representative, von der Goltz, carried out daily controls of these positions. He described Herr Dattel, the currency trader, as ‘an excellent expert.’⁶⁶

The publication, in late April, of Herstatt’s annual report, showed a constant increase of the annual profit as well as the ‘other incomes’ (Table 5). What the audit report added to this was the income from foreign exchange transactions, which jumped from 3.7 million DM in 1972 to 40.4 million DM in 1973.⁶⁷ LBZ later acknowledged this.

In a meeting of Herstatt’s supervisory board in late April it was reported that during the first quarter of 1974 there existed hidden reserves of 30–40 million DM, and this was confirmed by Dr Christoph of the Karoli-Wirtschaftsprüfung.⁶⁸ Dr Christoph warned in May 1974 about an expansion in currency operations. Anton Weiler, the financial officer, wrote to Herstatt on 17 May 1974 to request information about these currency operations. Herstatt replied on 22 May 1974 that everything was in order, reminded again that the daily limit for open currency operations was 25 million DM, and that the profit up to now in currency operations was of 4 million DM.

3. A failed resolution

Herstatt’s situation suddenly worsened in June 1974. This section analyses how this happened, and why the German authorities decided to close the bank rather than to bail it out.

3.1 *Diary of the collapse*

Before turning to this examination however, it is first necessary to examine when the German authorities actually realised the situation in which Herstatt found itself. The previous section has shown that rumours had been going on for quite a while about Herstatt’s difficulties and questionable practices, and thereby highlighted both the failure of market self-regulation and the poor performance of the supervisors and regulators. Yet they did not prompt the German supervisory office to take immediate concrete measures, as it probably considered that the extent of the problem was not too worrying. According to the Bank of England, ‘It was, apparently, in the week ending 22nd June that the enormity of Herstatt’s losses became revealed.’⁶⁹

Iwan Herstatt became aware of the first significant losses of his bank on 10 June. On that day von der Goltz called Herstatt to tell him that ‘we have been lied to, and suffered around 100 million losses in currency trading in the current year.’⁷⁰ Once back in Cologne, Herstatt learnt that the effective loss was somewhat lower, at 64 million. As a consequence, he decided, with regret, to sell back the bank’s building to the Gerling group. On 14 June, when the transaction took place, Herstatt asked Dattel, to be sure, whether there were no further losses. ‘Herr Dattel explained me with a firm voice that no further losses existed. Relieved, I closed the meeting.’⁷¹ Following further investigation on 13 and 14 June 1974, it appeared that the losses were significantly higher than expected.⁷² The figures were incorrectly reported in the books. These losses were dissimulated through fictitious swap operations with Econ Bank, Zürich (around 450 million DM) and fictitious amounts of currency reserves (around 350 million DM). After deduction of realised and unrealised profit from currency and gold dealings as well as of the hidden reserves in estates of the bank, there remained an uncovered loss of around 470 million DM. Gerling promised to balance this personally.

Shortly after the first discovery of the losses on 10 June, some alerts reached German supervisors. On 12 June 1974, LBZ wrote to the Cologne Hauptstelle about Herstatt’s sudden rise of debts with foreign banks: ‘Checking through the monthly data of Bankhaus Herstatt, it is striking that the receivables due daily to foreign banks have raised in April of this year by 283 to reach 589 and in May this year by a further 257 to reach 846; so that they reach a good third of the bank’s balance sheet of 2421.’⁷³ The situation of Herstatt’s subsidiary in Luxembourg was equally a source of concern. LBZ reported that it had risen by 4067 million lfrs to 5554 million lfrs (that is, by 260 million DM to 360 million DM) in April of this year. The May figures were as yet unavailable, preventing LBZ from drawing conclusions as to the further transfer of funds from Herstatt to its Luxembourg subsidiary. Nevertheless, LBZ concluded that ‘Since the shown development is possibly not completely harmless, we ask to obtain immediate written detailed clarifications from Bankhaus I.D. Herstatt.’ LBZ specifically looked for three elements: the identity of the foreign banks concerned, the reason for this unusual rise in liabilities, and the extent to which Herstatt was sure to be able to repay these debts without causing problems for the borrowers.

That same day, Stauch spoke to Iwan Herstatt about the activities of his bank with his subsidiary in Luxembourg.⁷⁴ He pointed out that ‘the amounts due daily now of about 900 million DM put at the disposition of the Luxembourg bank should be put off.’ Iwan Herstatt commented that the increase of these amounts was due to the repercussions of the collapse of Bau-Kredit-Bank, it was difficult, also in Luxembourg, to finance itself. In addition, he told Stauch that ‘at present, only still 400–450 million DM of amounts due daily have been given to the Luxembourg subsidiary, the rest concerns other banks.’ Stauch asked Herstatt to provide ‘on a voluntary basis and until further notice’, via LBZ, a quarterly status report of the development of the Luxembourg subsidiary. This was an interesting step as it stressed an attempt, by the German Federal supervisor, to monitor the activities of an overseas subsidiary.

On 19 June, LBZ Cologne Hauptstelle received from Herstatt – ‘following a reminder’ – the report of the Karoli-Wirtschaftsprüfungs-GmbH about the annual accounts.⁷⁵ It contained the data presented in [Table 6](#).

The report commented: ‘considerable profit, no clue of “difficulties”’ and ‘satisfactory technical organisation for completion of operations.’ The archival record is silent for the period going from 19 June and LBZ consultation of the auditors report on Herstatt, until the beginning of the negotiations about Herstatt’s rescue four days later.

Table 6. Report of the Karoli-Wirtschaftsprüfung on Bankhaus Herstatt's annual accounts, June 1974.

Turnover in foreign exchange trading in 1973	64 billion DM
Open position per 31 December 1973	711 million US\$
Open position per 8 February 1974	80 million US\$

3.2 A false dilemma: continuation or liquidation

Intense discussions took place from 23 June until 26 June, date of the official closure of the bank. These discussions focused on what to do with Bankhaus Herstatt once the losses had been discovered, namely, to close the bank or to try to save it. These meetings involved the German supervisory authorities, representatives from Herstatt (Iwan Herstatt notes he unfortunately was not involved in the negotiations)⁷⁶ and a representative of the German 'big banks'. The Bundesbank learnt on Saturday 22 June in the evening the Herstatt losses; BAKred did so on Sunday 23 in the evening. Both became aware of the irregularities only in the course of the negotiations for saving the bank.⁷⁷

After various meetings with Fessler, Dürre, Klasen and representatives of the Gerling group, the figure of 470 million DM losses in foreign exchange dealings was advanced on 23 June.⁷⁸ Gerling, himself, offered to pay off these losses from his personal wealth and this possibility was discussed in the Landeszentralbank of Nordrhein Westfalen on 24 June. Because the Gerling group never published a consolidated balance sheet, it was agreed that Gerling's pledge could not be considered as reliable – unless a 'big bank' would guarantee it. In any case it was considered that Gerling could not bear this burden over the long-term; in addition to concerns that the final losses might be a lot higher than predicted at the time. The discussion carried on in the afternoon of 24 June in Bonn. Gerling confirmed his readiness to take on responsibility for Herstatt's losses but Dürre clearly doubted that Gerling could carry out such an operation in the given circumstances. The discussion then moved on to the disadvantages of a collapse of Herstatt Bank. Fessler noted that there were two options: rehabilitation through the guarantee of one or more 'big bank', or liquidation. He clearly stated that, in his opinion, there was no interest in the preservation of the bank. In an effort to gather the necessary support from a 'big bank', Gerling nominated Franz Heinrich Ulrich, spokesman of the Deutsche Bank's board of managing directors, as the biggest and most probable consortium bank leader to speak to. The participants adjourned the meeting and agreed to reconvene the next day, once Ulrich could be consulted.

A preparatory meeting took place beforehand at the Bundesbank, on 25 June, with the Direktorium of the Bundesbank, Fessler, Stauch and Dürre. The principal outcome of this encounter was agreement among the participants, following Klasen's advice, on the need for a cautious attitude in the negotiations with Ulrich. In informing the Direktorium, Dürre once more expressed his scepticism at Gerling's plan. Out of the 470 million DM losses, he considered that the Gerling group would only realistically be able to bear the burden of 200 million DM, at a 10% interest over 10 years. The remaining 270 million DM would have to be taken on from outside, like a 'big bank' consortium, perhaps even backed by a counter-guarantee of the Federal Republic.

The meeting with Ulrich and the other participants then took place at the Bundesbank, later on 25 June.⁷⁹ Ulrich said that a rescue of Herstatt was not impossible, but that action should be taken urgently. He added that for the Deutsche Bank the figures mentioned were too high to take on alone, and that only a consortium of the three 'big banks' could be envisaged. Dürre repeated his scepticism about a 'Gerling-only' option, without guarantee

from the ‘big banks’ and reiterated his idea of a partial contribution from Gerling (but this time the figure of 270 million DM was given) combined with a guarantee of the ‘big banks’ for the rest (200 million DM) on an acknowledgement of debt by Gerling. Gerling seemed to agree to that solution. Incidentally, Dürre explained that at the moment they were talking, Herstatt still had excessive debts, and ‘this forces the Bundesaufsichtsamt to immediately close the bank’ – and that as a consequence the liquidity issue was only a matter of hours. This shows that a closure of the bank was explicitly envisaged at least 24 hours before the actual decision was taken. This confirms some criticisms aired in New York.⁸⁰ Ulrich objected that if Gerling was ready to take on Herstatt’s debts, there was no liquidity issue. Dürre replied that there existed doubts as to Gerling’s capacity to actually take on these debts. Gerling said that one should rely on his word.

The meeting taking place on 26 June started with some delay, only at 13:20 – due to a delayed departure of the flight and traffic jams, the reports says.⁸¹ This detail is not so trivial as it highlights that the decision to close Herstatt might have been taken a bit earlier, had the meeting begun in timely fashion. In summarising the situation, Ulrich identified two problems: one was limited to Herstatt and its liquidity and capital issues; the other was more general, a crisis of confidence in the banking industry. Working out the first one would not solve the second, however. Ulrich recalled that Herstatt, for a long time, was considered very critically from outside. On top of this, the 470 million DM figure did not represent all losses, but necessarily all the actual ones, as a dissimulation of the losses for ‘a small quarter of the balance is possible,’ Ulrich suggested.⁸² Indeed the ‘big banks’ also take into account ‘not insignificant risks’ linked to the securities and the debtors. A continuation of the Herstatt Bank, was not, therefore, possible. Gerling concurred, and withdrew his original offer. A report of the Commerzbank anyway noted that ‘from the discussions [...] we had the impression that Herr Gerling no longer mastered the thing. He mixed up the simplest ideas [...]’.⁸³ Essentially, the Deutsche Bank pulled out of its support for the rescue of Herstatt and it was doomed to immediate closure. The three ‘big banks’ refused to save Herstatt also because the real amount of the losses was not clear.⁸⁴ The Bundesaufsichtsamt confirmed that ‘at this point the withdrawal of the authorisation [was] to start immediately.’ Fessler left the meeting at 14:10, in order to give the order to the Landeszentralbank of Nordrhein-Westfalen to count the statement.

Dürre and the signatory drafted the authorisation’s withdrawal, and tried to contact Iwan Herstatt. When Iwan Herstatt called back, he said that he still could not explain how the bank arrived at this situation. Indeed, during his last conversation with him over the phone on 12 June, Stauch reported that Iwan Herstatt still considered that his foreign exchange dealings were in credit of 50 million DM. Stauch interrupted Herstatt and explained that the ongoing negotiations involving the Bundesaufsichtsamt, the Bundesbank, the ‘big banks’ and Gerling had failed to reach a solution to cover the bank’s debts, and that as a consequence, Herstatt had to be closed. Iwan Herstatt replied that he was not aware of such ongoing negotiations. He himself of course did not have enough money to cover the bank’s debts, and could only accept the liquidation. This could not be processed over the phone, however, and had to be done in Cologne – although he could be legally prosecuted if he had taken on new operations after the time the authorisation’s withdrawal had been announced to him, that is, at 14:40. The order to close the counter was given at 15:00 to the financial officer Herr Weiler at Herstatt. Graf von der Goltz, general representative at Herstatt, called Stauch around 15:20/15:30 to know what was going on: he stated that around 15:00 Iwan Herstatt had suddenly left the bank and was since then impossible to reach. Stauch explained him the situation. It took therefore three days of intense discussions to arrive at a conclusion that Dürre had apparently

foreseen from the beginning, namely that Gerling's plans to save the bank were unreliable, and that Herstatt would have to be closed. Added to the unfortunate delayed meeting of 26 June, it shows how German authorities seemed to have no awareness of the international consequences a closure of Herstatt would have. This logically gave more prominence later on to the need for international coordination.

4. Reforming an ineffective supervision

Herstatt's collapse raised two major questions: why didn't the German authorities take any concrete measure prior to the crisis eruption? And what reaction did the collapse of Herstatt spur among German and international supervisors and regulators?

4.1 *A foretold failure?*

As the previous sections made plain, not only rumours but also fairly tangible evidence made clear that the Bankhaus Herstatt was in danger. Yet the German authorities never went beyond pious calls and informal supervision. From the first contacts between BAKred in mid-1972 until early 1974, German authorities mainly maintained informal contacts with the bank, and scrutinised auditing reports. It is clear from the German archival record that German authorities – that is, Bundesbank, BAKred, finance ministry and LBZ alike – were suspicious of Herstatt's activities. The German government was aware since around mid-1973, thanks to information gathered by BAKred and the Bundesbank, that rumours were circulating that Herstatt carried unusually high currency operations.⁸⁵ The German finance ministry however states that 'it is not accurate that the bank effectively lived from 1970 to 1972 from foreign exchange transactions.' To sustain this claim, the German finance ministry recalls the foreign currency dealings as a percentage of total ordinary income that are summed up in [Table 7](#).

Of course, the 1973 figure is very striking. Yet the German finance ministry claims that it became aware only very late of the situation. The audit report of the Karoli-Wirtschaftsprüfung for 1973 was published in April 1974, it went to BaKred on 18 June, and to LBZ only on 19 June. 'In light of the following developments there was no more scope, time-wise, for eventual banking supervisory measures,' the German finance ministry notes.⁸⁶

What is more surprising is that the German authorities themselves did not seem to remember these suspicious activities very well (or did not want to). In two different instances, one taken from each of the two most important German institutions involved in the policy process, that is, the Bundesbank and BAKred, the recollection of events was quite vague. As noted above, it was from a Swiss source that the first real alert came, in March 1972. And it is the same person – Tüngeler – who both acknowledged that the Bank of England attracted his attention to the Herstatt situation, while he himself had already explicitly pointed at the German bank's problems. The second such example comes from BAKred. After Herstatt's collapse, Stauch told a Bank of England official that 'it was in the summer 1973 that rumours first percolated to the Supervisory Office that Herstatt were over-trading in foreign currencies.'⁸⁷ As much as Tüngeler misrepresentation (equally told to the Bank of England), this is quite inexact: as noted above, Stauch himself talked over the phone with Herstatt as early as in mid-April 1972 about the bank's 'repeated' exceeding of the limits in its activities on the money market. He had even concluded that this would have to be 'followed in detail in prudential terms.'⁸⁸

Table 7. Foreign currency dealings as percentage of total ordinary income.^a

1970	1971	1972	1973
4%	15%	9%	57%

^aBAK, B 126/59464, der Bundesminister der Finanzen an den Chef des Bundeskanzleramtes, Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Katzer, Mick, Dr Müller-Hermann, Nordlohne, Dr Hornhues, Ey, Eilers (Wilhelmshaven), Breidbach, Müller (Remscheid) und Genossen – Drucksache 7/24 38, Betr.: Zusammenbruch des Bankhauses I.D. Herstatt KG a.A., 28 August 1974.

Whether this vague recollection of events is voluntary or not is difficult to tell, but in any case it does highlight well both a problem of coordination within the German administration – information was seemingly not passed on to the responsible authorities very well – and also the difficulty to really gauge the activity of Bankhaus Herstatt, and whether or not it was really overtrading. LBZ stated that it received Herstatt's annual report only in late April 1974 – an annual report which did not contain details about the bank's foreign exchange transactions.⁸⁹ These were set out in the auditor's report, which LBZ received, 'after a reminder,' on 19 June – that is, once further developments had rendered belated any new measure. Why LBZ or the Bundesaufsichtsamt did not try to insist further (and, most importantly, earlier) to obtain more details about Herstatt's foreign exchange positions remains an open question. The fact that BAKred had changed its strategy in early 1974 by sending out a warning letter to German banking federations was certainly too little, too late. It is also surprising that some German authorities somewhat felt helpless.⁹⁰ For instance, although it was aware that many banks refused to deal with Herstatt on the foreign exchange market, LBZ did not take any further action. A comment added after the 8 March note reporting further instances of banks refusing to deal with Herstatt explained that 'the LBZ had no occasion to take further steps, because the auditing instructions given by the Bundesaufsichtsamt to the auditor about the investigation of the foreign exchange transactions had just been extended.'⁹¹

Not only had many rumours circulated prior to 1974 about Herstatt's risky foreign exchange dealings, but also the possibility of closing Herstatt had already been explicitly evoked by the Bundesaufsichtsamt at least 24 hours prior to the actual closure. And it is not only that the three 'big banks' were unwilling to back Gerling's plan, it was also that Dürre himself, from the very beginning did not believe in it and refused to support it. At least 24 hours before the actual closure of the bank, Dürre hence explicitly evoked the possibility of closing down Herstatt. It is also striking to note that the delay in taking the official decision to close Herstatt at 14:40 had been influenced by the delay with which the last meeting had started – itself the result of a flight delay and traffic jams.

4.2 *International consequences*

The collapse of Bankhaus Herstatt had two main consequences: it affected international financial markets, and as a consequence it spurred reflection on German and international supervisory and regulatory reform. The most obvious consequence of the liquidation of Herstatt was that the reputation of German banks seemed severely hit. Herstatt Bank was the third German bank to run into difficulties because of foreign exchange transactions. The other two cases were the Westdeutsche Landesbank-Girozentrale and the Hessische Landesbank.⁹² The latter led to the resignation of its president. The closure of the Bass and Herz Bank later in 1974, although in no way related to Herstatt (the failure was not even the consequence of foreign exchange speculation) and small in size, contributed to worsen

the atmosphere.⁹³ Swiss and US bankers expressed concern regarding the effects of the Herstatt collapse on the international payments system.⁹⁴ Herstatt's collapse also affected international financial transactions, causing an increase in the Eurodollar market interest rates as smaller banks in particular found it impossible to borrow on the market. Banks became more cautious, and privileged dealing with big familiar ones.⁹⁵

New York creditors were far more affected than London banks (Table 8). Chase Manhattan Bank in New York was caught with about \$620 m of transfers due to customers on account of Herstatt.⁹⁶ Among more than 30 banks, claimants to the account included Morgan Guarantee (\$13 m), a Swiss subsidiary of Seattle-First (\$42.5 m), Hesse-Newman of Germany (\$39.7 m), Citibank (\$10 m), Svenska Handelsbanken (\$7 m). About 3000 creditors made claims on Herstatt.

In particular, one unintended consequence of the Herstatt collapse was to put the IBB into trouble, and thereby add a further example of cross-national banking that posed important international regulatory challenges.⁹⁷ Part of the solutions envisaged to avoid another Herstatt-like failure were domestic in nature, and concerned the creation of the Liquidity Consortium Bank, or Liko-Bank, jointly owned by the Bundesbank and the banking industry. It was designed to provide liquidity on a short-term basis to institutions that were otherwise financially sound banks.⁹⁸ In addition, following these crises, the Bundesbank 'has introduced a reporting requirement for forward exchange obligations of German banks. The reporting requirement will cover about 400 domestic banks including German branches of foreign banks which already have to report their foreign short-term assets and liabilities. The banks will have to report forward foreign exchange contracts with maturities of less than one month, one to three months, and more than three months. The volume of transactions will have to be reported in deutschemarks with dollar and sterling transactions to be reported separately.'⁹⁹

As the previous sections made plain, the question of an effective early identification of problems with a bank's operations is at the heart of the regulatory process. It was certainly difficult for BAKred and the Bundesbank to adequately react to rumours saying that Bankhaus Herstatt was overtrading, and it was equally difficult for them to know what was going on in its Luxembourg subsidiary. The German authorities failed to detect and prevent Herstatt's collapse, and this collapse had important cross-border implications, so the issue became discussed internationally. The creation of the cross-national BCBS was aimed at ensuring that there were no gaps in prudential supervision and to design an 'early warning system' should another Herstatt-type failure threaten systemic stability. The contribution of the Herstatt episode was to alert supervisors to the danger that a failure of a relatively minor and mainly national bank could have systemic effects on confidence in international banking markets.¹⁰⁰ However, the suggestion of an 'early warning system' was quickly dismissed, and the BCBS reverted instead to the sharing of rumours. Given

Table 8. Losses of London banks to Herstatt (USD million).^a

Williams and Glyn	\$9 m deposit
Chase Manhattan	\$5 m swap
Moscow Norodny	\$365 m swaps
Union Bank of Switzerland	\$25 m swap
Hill Samuel	\$21 m swap
United Bank of Kuwait	\$190 m swap
First Wisconsin National Bank of Milwaukee	\$10 m swap
Antony Gibbs	\$1.25 m swap

^a BoE, 349A/2 Memo JLS 27 June 1974 and 29 July 1974.

how effective the sharing of rumours had been in the Herstatt example, this was certainly not promising future effective international regulation and supervision.

5. Conclusions

Paradoxically, it is not what came to be known as the ‘Herstatt Risk’ that brought down the Herstatt bank – it was rather one of its consequences. This article has however shown, through a detailed reconstruction of events, that the Herstatt risk – the risk of dealing across different time zones – partly amounts to a pure chance outcome. Had the 26 June meeting started in a timely fashion, thanks to no flight delays nor traffic jams, then perhaps the closure of the bank would have happened prior to the start of the business day on the other side of the Atlantic, and thereby might have considerably reduced (if not completely removed) the international implications of the bank’s closure. The Herstatt risk might thus have come out in the open later, on another occasion, and under a different name. It is also noticeable that the German authorities explicitly mentioned the possibility of closing down Herstatt throughout the last 24 hours preceding its actual closure. There was therefore little surprise in the eventual outcome of the three day long negotiations over the future of the bank, although it seems that the German regulators and supervisors had little understanding of the international consequences this decision would precipitate.

This in-depth study of the Bankhaus-Herstatt collapse highlights the perennial competition between the supervisor and the supervised, the regulators and the regulated. It reveals that in spite of credible rumours about Herstatt’s over-trading, neither the Bundesaufsichtsamt für das Kreditwesen nor the Bundesbank managed to take necessary measures to prevent the Cologne bank from continuing in its errors. And once the German authorities decided to act, in early 1974, it was arguably too little too late to save Herstatt.

The reasons for the Herstatt debacle did not amount to regulatory capture, understood as a control of regulation by those regulated.¹⁰¹ At no point has the Herstatt bank and whoever worked for it been in a position to influence the regulatory policymaking process, nor was able to use government regulation to serve the interests of the bank. If one may consider that some people at Herstatt managed to fool the German supervisors, this cannot amount to regulatory capture. ‘Capture implies conflict,’ as Posner writes,¹⁰² and there has been no conflict at any stage in the Herstatt story. The Herstatt debacle amounts rather to a combination of poor oversight performance on the part of the German authorities, irregularities in the bank’s foreign exchange operations as well as significant information asymmetries that led a number of banks to keep dealing with Herstatt while others knew of the bank’s unenviable reputation, and therefore refrained from dealing with it. These three factors combined to an unfortunate delay in the start of the last critical meeting led to a much delayed action by the German authorities, and hence of financial consequences much greater than they could otherwise have been given the relatively small size of Bankhaus Herstatt.

The reaction of the German supervisory authorities also interestingly foreshadows that of the Bank of England following the Lloyds Lugano scandal.¹⁰³ In 1974, Marc Colombo, a Swiss trader in the Lugano branch of Lloyds Bank International (LBI), hid his losses in the foreign exchange market. This posed a regulatory problem, as it was not clear who was responsible for the supervision of the Lugano branch: the Bank of England (since it was LBI) or the Swiss authorities? Discussion about supervision and regulation of overseas branches in Threadneedle Street prompted the Bank of England to draft a letter of guidance for banks to control their overseas branches. If the context was certainly different (the Lugano debacle asked the question of the supervision of overseas branches of UK

banks) the issue was similar (foreign exchange trading) and the supervisory outcome quite close (the supervisor issues a warning letter reaching commercial banks). In both instances, the Bank of England and BAKred wrote an unbinding letter of intentions and counted on moral suasion. Where the two responses importantly differed was in their timing: the Bank of England wrote its warning letter after the Lugano debacle, while the Bundesaufsichtsamt sent its message before the Herstatt collapse. In spite of its importance however, the collapse of Herstatt did not spur, in the end, the creation of a more effective system of international regulation and supervision. The BCBS instead focused on the sharing of gossip, which had been largely ineffective in preventing Herstatt's collapse, and shifted its attention to filling gaps in international supervision, as highlighted by the Lloyds and IBB debacles.

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1. Kapstein, 'Resolving the Regulator's Dilemma: International Coordination of Banking Regulations,' *International Organization* 43, no. 2 (April 1, 1989): 323–347; Goodhart, *The Basel Committee on Banking Supervision: A History Of the Early Years, 1974–1997* (Cambridge: Cambridge University Press, 2011); Cassis, *Crises and Opportunities: the Shaping of Modern Finance* (Oxford: Oxford University Press, 2011). The quotation in the article's title is taken from Herstatt, *Die Vernichtung. Glanz und Ende des Kölner Bankhauses I.-D. Herstatt oder Wie ich um mein Lebenswerk betrogen wurde* (Berlin: edition q, 1992), p. 88.
2. Schenk, 'Summer in the City: Banking Scandals of 1974 and the Development of International Banking Supervision,' *English Historical Review*, forthcoming; Reid, *The Secondary Banking Crisis, 1973–75: Its Causes and Course* (London: Hindsight Books, 2003).
3. See for instance Goodhart, *The Basel Committee*, pp. 3–4 and 11; Kapstein, *Governing the Global Economy. International Finance and the State* (Cambridge: Harvard University Press, 1996), p. 41. See also the BCBS's official presentation on the Bank for International Settlements' (BIS) website: <http://www.bis.org/bcbs/history.pdf>. This view is also frequently held in the press, see for instance Audrey Fournier, 'De Herstatt à Lehman Brothers: trois accords de Bâle et 35 ans de régulation bancaire,' *Le Monde*, 3 October 2011.
4. 'Das Herstatt-Risiko lebt weiter,' *Handelsblatt*, 14 May 2008; Eckhard Fuhr, 'Angestellten-Bauerntheater. Deutscher Moment,' *Die Welt*, 10 November 2004.
5. *Der Spiegel* published a three-episode series entitled 'Gespielt, getäuscht, gemogelt: Die Anatomie der Herstatt-Pleite,' on 24 March, 31 March and 7 April 1975.
6. See for instance Goodhart, *The Basel Committee*, pp. 31–32.
7. Kaserer, 'Der Fall der Herstatt-Bank 25 Jahre danach. Überlegungen zur Rationalität regulierungspolitischer Reaktionen unter besonderer Berücksichtigung der Einlagensicherung,' *Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte*, Volume 86, no 2, 2000, pp. 166–192.
8. English translations are mine unless otherwise noted. The archival material of the last bank out of the three 'big banks', the Deutsche Bank, is closed for all documents related to the post-1945 period.
9. For a discussion of this theme, see Hupkes, 'Regulation, Self-Regulation or Co-Regulation?,' *Journal of Business Law* (June 10, 2009): 427–446; see also Goodhart et al., *Financial Regulation: Why, How, and Where Now?* (London: Routledge, 1998).

10. Busch, *Banking Regulation and Globalization* (Oxford: Oxford University Press, 2008), pp. 95–97.
11. Herstatt, *Die Vernichtung*.
12. Busch, p. 100.
13. Busch, p. 100.
14. Busch, pp. 100–113.
15. Archives of the Federal Reserve Bank of New York (thereafter AFRB NYC), C261, Kubarych to Coombs, Exchange market conditions in New York post-Herstatt, 18 July 1974.
16. Caspar Dohmen, 'Commander Dattel und seine Goldjungs,' *Süddeutsche Zeitung*, 17 May 2010. See also Peter Brors and Thomas Knüwer, 'Der Fall der Goldjungen,' *Handelsblatt*, 19 May 2004.
17. Herstatt, p. 83.
18. Herstatt, p. 84.
19. Herstatt, p. 75.
20. Herstatt, p. 78 and p. 84.
21. Herstatt, p. 96.
22. 'Gespielt, getäuscht, gemogelt: Die Anatomie der Herstatt-Pleite,' *Der Spiegel*, 24 March 1975.
23. Historisches Archiv der Deutschen Bundesbank (thereafter BB), B330/49970, Übersicht über Vorgänge und Vorkommnisse betreffend die Devisengeschäfte des Bankhauses I.D. Herstatt in Köln, undated (but posterior to Herstatt's collapse).
24. BB, B330/49971, Note of the Abteilung Bankwesen und Statistik, Ber/Kö, Bankhaus I.D. Herstatt KGaA, Köln, hier: Hinweis auf überhöhte Devisengeschäfte am Schweizer Devisenmarkt, 7 April 1972.
25. The Bank of England Archive (thereafter BoE), Gold and foreign exchange meeting, Basle: I.D. Herstatt, 11 July 1974.
26. BB, B330/49971, Note of Fessler, Bankhaus I.D. Herstatt KGaA, 24 March 1972. See also BAK, B 126/59464, CDU/CSU Fraktion des deutschen Bundestages, Herstatt – Geschädigten muss geholfen werden, 6 September 1974 and Bundesarchiv (thereafter BAK), B 126/59464, der Bundesminister der Finanzen an den Chef des Bundeskanzleramtes, Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Katzer, Mick, Dr Müller-Hermann, Nordlohne, Dr Hornhues, Ey, Eilers (Wilhelmshaven), Breidbach, Müller (Remscheid) und Genossen – Drucksache 7/24 38, Betr.: Zusammenbruch des Bankhauses I.D. Herstatt KG a.A., 28 August 1974.
27. BB, B330/49971, Note of the Abteilung Bankwesen und Statistik, Ber/Kö, Bankhaus I.D. Herstatt KGaA, Köln, hier: Hinweis auf überhöhte Devisengeschäfte am Schweizer Devisenmarkt, 7 April 1972.
28. BB, B330/49971, Übersicht über Vorgänge und Vorkommnisse betreffend die Devisengeschäfte des Bankhauses I.D. Herstatt in Köln, undated (but posterior to Herstatt's collapse).
29. BAK, B 126/59463, Note of Stauch, Betreff: Bankhaus I.D. Herstatt KG a.A., Köln, 12 July 1973.
30. The name of the bank as well as the person who contacted Stauch have been hidden on the document.
31. Kurt Wendt, 'Skandal in Raten,' *Die Zeit*, 5 October 1973.
32. BAK, B 126/59463, Note of Stauch, Betr.: I.D. Herstatt, 12 December 1973. Only one name is provided in the note, but it has been erased. See also BB, B330/49971, Übersicht über Vorgänge und Vorkommnisse betreffend die Devisengeschäfte des Bankhauses I.D. Herstatt in Köln, undated (but posterior to Herstatt's collapse).
33. BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974.
34. BB, Note of Stauch, I.D. Herstatt, 12 December 1973.
35. In his memoirs, Herstatt explains that the limit used to be set at \$50 million but that it has been reduced to \$25 million after November 1973 because of the oil crisis. He also adds that Dattel, head of the currency division in the bank, had to notify in writing a position report about the state of affairs. See Herstatt, p. 83.
36. BB, B330/49971, Devisenabteilung, Offene Positionen des Bankhauses I.D. Herstatt KGaA, Köln, Bezug: Vermerk des Bundesaufsichtsamtes für das Kreditwesen vom 12. Dezember 1973, 21 December 1973. The original note dated 12 December 1973 was not available in the archives.

37. As in the case of the Lloyds Lugano rogue trading scandal, see Schenk, ‘“Like Lightning in a Clear Blue Sky”: Rogue Trading at Lloyds Bank International 1974,’ paper presented at the LSE Economic History Seminar, January 2013.
38. Kobrak, ‘The Concept of Reputation in Business History,’ *Business History Review* 87, no. 4 (2013): 763–786, doi:10.1017/S000768051300113X.
39. BB, B330/49971, Übersicht über Vorgänge und Vorkommnisse betreffend die Devisengeschäfte des Bankhauses I.D. Herstatt in Köln, undated (but posterior to Herstatt’s collapse).
40. Ibid.
41. Ibid.
42. BB, B330/49971, Abteilung Bankwesen und Statistik, Ma/gt, Bankhaus I.D. Herstatt, KGaA, Köln, 25 January 1974.
43. BB, B330/49968, Deutsche Bundesbank, Direktorium (Gocht/Reichstein), Risiken aus offenen Devisenengagements der Kreditinstitute, 29 January 1974.
44. Goodhart, *The Basel Committee on Banking Supervision*, chapter 5.
45. BB, B330/49971, Übersicht über Vorgänge und Vorkommnisse betreffend die Devisengeschäfte des Bankhauses I.D. Herstatt in Köln, undated (but posterior to Herstatt’s collapse). See also BAK, B 126/59464, der Bundesminister der Finanzen an den Chef des Bundeskanzleramtes, Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Katzer, Mick, Dr Müller-Hermann, Nordlohne, Dr Hornhues, Ey, Eilers (Wilhelmshaven), Breidbach, Müller (Remscheid) und Genossen – Drucksache 7/24 38, Betr.: Zusammenbruch des Bankhauses I.D. Herstatt KG a.A., 28 August 1974.
46. BB, B330/49971, Note of Thoma, Schieflage bei offenen Devisenpositionen, 18 February 1974.
47. BoE, 3A49/2, I.D. Herstatt, 4 July 1974.
48. Herstatt writes in his memoirs that he went on holiday in February (no precise date is given) and came back on 11 March. See Herstatt, p. 88.
49. BB, B330/49971, LBZ Nordrhein Westfalen, Devisenabteilung, Devisenhandel: Bankhaus I.D. Herstatt KGaA, Köln, 8 March 1974.
50. BB, B330/49971, Note of Thoma, Bankhaus I.D. Herstatt, Köln, 14 March 1974.
51. BB, B330/49971, LBZ Nordrhein Westfalen, Devisenabteilung, Mch/Fp, Vertraulich, Devisengeschäfte an der Düsseldorf Börse, hier: Anweisungen an den Kursmakler, mit bestimmten Kreditinstituten nicht zu kontrahieren, 15 March 1974.
52. BB, B330/49971, Eckey to Thoma, Bankhaus I.D. Herstatt KGaA, Köln, hier: eigene Devisenpositionen, 22 March 1974.
53. Herstatt writes that his bank’s successes made him enemies, see Herstatt, p. 82.
54. Kobrak, ‘The Concept of Reputation in Business History,’ 767.
55. BAK, B 126/59463, Stauch (Bundesaufsichtsamt für das Kreditwesen) to the Karoli Wirtschaftsprüfung GmbH, Jahresabschlussprüfung beim Bankhaus I.D. Herstatt KGaA, Köln, 25 February 1974.
56. BAK, B 126/59463, Report of the Karoli-Wirtschaftsprüfung, undated, presumably February 1974.
57. ‘Gespielt, getäuscht, gemogelt: Die Anatomie der Herstatt-Pleite,’ *Der Spiegel*, 31 March 1975.
58. Herstatt, p. 139.
59. BB, B330/49968, Niederschrift über die 29. Besprechung mit den Referenten der Landeszentralbanken für Bank- und Bankaufsichtsfragen und Vertretern des Bundesaufsichtsamtes für das Kreditwesen am 28. Februar 1974 im Hause der Deutschen Bundesbank in Frankfurt am Main.
60. BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974.
61. Herstatt, p. 89.
62. BB, B330/49968, Niederschrift über eine Besprechung des Arbeitsstabes für die Vorbereitung einer Meldung über Devisenterminengagements der Kreditinstitute am 28. März 1974 im Hause der Deutschen Bundesbank.
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64. BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974.

65. Herstatt, p. 89.
66. BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974.
67. BB, B330/49971, LBZ NRW, Abteilung Bankwesen und Statistik, Köp/gt, Bankhaus I.D. Herstatt KGaA, Köln, hier: Im Zusammenhang mit einer kleinen Anfrage der CDU/CSU-Fraktion im Deutschen Bundestag zu beantwortende Fragen, 6 August 1974.
68. BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974.
69. BoE, 3A49/2, I.D. Herstatt, 4 July 1974. See also *ibid.*, RCHH to McMahon, Herstatt & Co., 27 June 1974.
70. Herstatt, pp. 90–92.
71. Herstatt, p. 92.
72. BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974. These elements have been reported by Weiler at a meeting at LBZ in Düsseldorf on 23 June 1974.
73. BB, B330/49971, Krug and Malzahn (LBZ Nordrhein-Westfalen) to Hauptstelle Köln, Bankhaus I.D. Herstatt KGaA, hier: Forderungen an ausländische Kreditinstitute (Beträge in Mio DM, sofern nicht anders angegeben), 12 June 1974. See also BAK, B 126/59464, der Bundesminister der Finanzen an den Chef des Bundeskanzleramtes, Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Katzer, Mick, Dr Müller-Hermann, Nordlohne, Dr Hornhues, Ey, Eilers (Wilhelmshaven), Breidbach, Müller (Remscheid) und Genossen – Drucksache 7/24 38, Betr.: Zusammenbruch des Bankhauses I.D. Herstatt KG a.A., 28 August 1974.
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75. BB, B330/49970, Übersicht über Vorgänge und Vorkommisse betreffend die Devisengeschäfte des Bankhauses I.D. Herstatt in Köln, undated (but posterior to Herstatt's collapse).
76. Herstatt, p. 94.
77. BAK, B 126/59464, der Bundesminister der Finanzen an den Chef des Bundeskanzleramtes, Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Katzer, Mick, Dr Müller-Hermann, Nordlohne, Dr Hornhues, Ey, Eilers (Wilhelmshaven), Breidbach, Müller (Remscheid) und Genossen – Drucksache 7/24 38, Betr.: Zusammenbruch des Bankhauses I.D. Herstatt KG a.A., 28 August 1974.
78. BB, B330/21993, Note of Stauch, I.D. Herstatt KGaA, Köln, 30 June 1974.
79. BB, B330/21993, Note of Stauch, Bankhaus I.D. Herstatt, KGaA, Köln: Fortsetzung der Vermerke über eine Reihe von Besprechungen in der vergangenen Woche, 2 July 1974. See also BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974.
80. Archives of the Federal Reserve Bank of New York, C261, Kurtz to Burns, Bankhaus I.D. Herstatt – Cologne, 5 July 1974.
81. BB, B330/21993, Note of Stauch, Bankhaus I.D. Herstatt, KGaA, Köln: Fortsetzung der Vermerke über eine Reihe von Besprechungen in der vergangenen Woche, 2 July 1974. See also BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974.
82. BAK, B126/59464, Note of Reuther, Zeitplan über Einflussnahmen des BAKred auf die Herstatt-Bank, 20 August 1974.
83. Historisches Archiv der Commerzbank (thereafter HAC), Record of a meeting (Rantzau) on 26 February 1974 in the Bundesbank, 27 February 1974.
84. BAK, B 126/59464, der Bundesminister der Finanzen an den Chef des Bundeskanzleramtes, Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Katzer, Mick, Dr Müller-Hermann, Nordlohne, Dr Hornhues, Ey, Eilers (Wilhelmshaven), Breidbach, Müller (Remscheid) und Genossen – Drucksache 7/24 38, Betr.: Zusammenbruch des Bankhauses I.D. Herstatt KG a.A., 28 August 1974.
85. *Ibid.*
86. *Ibid.*
87. BoE, 3A49/2, I.D. Herstatt, 4 July 1974.

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89. BB, B330/49971, LBZ NRW, Abteilung Bankwesen und Statistik, Köp/gt, Bankhaus I.D. Herstatt KGaA, Köln, hier: Im Zusammenhang mit einer kleinen Anfrage der CDU/CSU-Fraktion im Deutschen Bundestag zu beantwortende Fragen, 6 August 1974.
90. Equally surprising were the irregularities in Herstatt's capital structure and ownership. The Bank of England reported that Gerling, principal shareholder in an insurance company bearing his name, owned 80% of Herstatt, while 'under the law insurance companies are forbidden to hold more than a 25% interest in any bank.' (BoE, 3A49/2, Note for the record, 27 June 1974) The Bank of England, on 27 June 1974, even wondered whether it was not the prime reason why Herstatt would have lost its license: the German supervisors would have discovered this irregularity and closed the bank.
91. BB, B330/49971, Übersicht über Vorgänge und Vorkommnisse betreffend die Devisengeschäfte des Bankhauses I.D. Herstatt in Köln, undated (but posterior to Herstatt's collapse).
92. National Archives and Records Administration (NARA), Electronic Records Archives (ERA), Failure of the West German I.D. Herstatt Bank, 27 June 1974.
93. NARA, ERA, Bank failure: Bass and Herz, 12 August 1974.
94. NARA, ERA, Swiss reaction to collapse of German bank, 3 July 1974.
95. NARA, ERA, Swiss bank views re eurocurrency market, 16 August 1974.
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97. Catherine R. Schenk, 'Summer in the City: Banking Scandals of 1974 and the Development of International Banking Supervision,' *English Historical Review*, forthcoming.
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99. NARA, ERA, Failure of the West German I.D. Herstatt Bank, 27 June 1974.
100. Schenk, 'Summer in the City.'
101. Stigler, 'The Theory of Economic Regulation,' *The Bell Journal of Economics and Management Science* 2, no. 1 (April 1, 1971): 3–21, doi:10.2307/3003160; Laffont and Tirole, 'The Politics of Government Decision-Making: A Theory of Regulatory Capture,' *The Quarterly Journal of Economics* 106, no. 4 (November 1, 1991): 1089–1127, doi:10.2307/2937958; Boot and Thakor, 'Self-Interested Bank Regulation,' *The American Economic Review* 83, no. 2 (May 1, 1993): 206–212.
102. Posner, 'The Concept of Regulatory Capture: A Short, Inglorious History,' in *Preventing Regulatory Capture. Special Interest Influence and How to Limit It*, n.d.
103. Catherine Schenk, "'Like Lightning in the Clear Blue Sky': Rogue Trading at Lloyds Bank International,' paper presented at the LSE Economic History Seminar, 31 January 2013.

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