Activities of the Bank

The recent series of financial crises, of unanticipated intensity and power of contagion, gave added impetus to the pursuit of financial stability and better management of risk at the institutional and market level. Central banks have been at the forefront of efforts and initiatives in this field. Given its basic mandate and long experience in promoting central bank cooperation, the BIS has provided a forum that is particularly well suited to supplying the analytical background and logistical support for discussions among central bankers and other regulators. Financial stability has been at the centre of many of these discussions. However, the sharpened focus on issues of systemic stability has not distracted central banks' attention from their other core task of monetary policy formulation and implementation. Reflecting the many interlinkages between financial and monetary stability, these themes have remained high on the agenda of the regular and ad hoc meetings organised and coordinated by the BIS.

Over the period under review, the Bank also participated actively in the work of various groupings involved in promoting sound financial activity. The most important forms of participation have been the provision of secretariat assistance to the Finance Ministers and central bank Governors (and their Deputies) of the Group of Ten countries and extensive involvement in the Financial Stability Forum.

The attractiveness of the BIS as a counterparty in the financial operations of central banks was also evident during the past financial year. New financial instruments were introduced and competitive pricing was applied to meet the increasingly sophisticated investment needs of the Bank's customers. Particularly during the transition to the new millennium, central bank customers valued the safety and liquidity of deposits with the BIS. The Bank also continued its traditional role of providing agency and trustee functions for a variety of financial transactions.

This chapter presents an overview of the main activities of the Bank during the past financial year. The reports referred to below, as well as the Bank's research and policy papers, are available on the BIS website (www.bis.org) or, on request, in hard copy.

1. Direct contributions of the BIS to international monetary and financial cooperation

As in previous years, the Bank contributed to central bank cooperation by organising regular meetings of central bank Governors and senior central bank officials, and by providing the secretariat for a number of committees reporting to the central bank Governors of the G10 countries. A salient feature of last year's meetings was the growing involvement of central banks from systemically important emerging market economies. The BIS Representative Office for Asia and the Pacific has been an important catalyst in this respect. Another recent initiative, the Financial Stability Institute (FSI), has given momentum to the global dissemination of the standards and best practices of sound financial activity.

Regular consultations on monetary and financial issues

In the context of the bimonthly Board meetings of the BIS, central bank Governors met in three groupings: the G10 industrial countries; a broader grouping that brings together the G10 Governors with their counterparts from systemically important emerging markets; and a still more comprehensive group including the Governors of all BIS shareholding banks.

The focal point of the *meetings of the central bank Governors of the main industrial and emerging market economies* is the exchange of views and information on the current state of the global economy and financial markets, as well as the identification of potential medium-term vulnerabilities. In the year under review, the discussions confirmed and welcomed the improved and better balanced growth of the world economy, in conditions of generally well behaved prices. Nonetheless, Governors also voiced concern about the emergence of large imbalances in and between a number of economies, and examined the implications of, and policy responses to, possibly abrupt changes in the exchange rate relationships between the major currencies and/or a sharp correction in certain asset prices.

The economic and financial conjuncture also continued to figure prominently on the agenda of the *meetings of the Governors of the G10 countries*. In addition, the G10 Governors discussed a number of reports prepared by the various standing committees (see below). Several of these reports were approved for subsequent public release. The discussions also focused on issues of current central bank interest, including the proposed revision of the 1988 Basel Capital Accord, liquidity considerations related to the Year 2000 changeover, and the management and prevention of financial crises.

Meetings of the Governors of all BIS shareholding central banks during the past financial year reflected the wide range of topics currently preoccupying the monetary authorities. With a supporting role for public ratings in the new capital adequacy regulations being investigated, Governors explored the wider implications of such a development for the operations of rating agencies. Other financial stability topics included the potential for hedge funds to disrupt the functioning of financial markets, and the design and operation of financial safety nets. Still other topics discussed by the broader group of Governors were the conduct of monetary policy under managed floating, the strengthening of Asian financial systems, the impact of the euro on financial markets and portfolio choices, and the importance of central bank independence, accountability and transparency for good decision-making.

Among the other regular meetings organised by the Bank last year were those of the Gold and Foreign Exchange Committee of the G10 central banks.

The first year of the euro was a recurrent theme. In addition, central bank economists from the main industrial countries convened in late 1999 to discuss the growth of international financial markets and its implications for monetary and financial stability. A similar meeting in early 2000, in which emerging market central banks also participated, reviewed the current state of the world economy.

The Bank has continued to collect, analyse and disseminate information about the activities of central banks and the manner in which they carry them out. This work is performed under the aegis of the Central Bank Governance Steering Group composed of central bank Governors from a number of industrial and emerging market economies. The aim is to provide comparative factual information that will help central banks in their efforts to improve their operations. Last year, work was undertaken on the scope and nature of central bank mandates and the interconnection between autonomy, transparency and accountability.

The increasingly global character of the Bank's cooperative efforts resulted in a growing number of meetings mainly involving senior central bank officials from emerging market economies. During the period under review, two regional working parties were organised outside Basel to discuss strategic monetary policy issues. The first of these was co-hosted by the Banco Central de la República Argentina and focused on monetary policy challenges in Latin America. An Asian regional meeting was co-sponsored by the Bank of Korea. In addition, Deputy Governors from the most important emerging market economies convened in Basel for an in-depth discussion of debt and liquidity management. Finally, an important new initiative was the organisation of a meeting bringing together Deputy Governors of African central banks. The inaugural meeting dealt with financial sector development in Africa.

Promotion of financial stability through the permanent committees

Three committees established by the G10 central banks and supported by the BIS have made a significant contribution to the promotion of financial stability over the last quarter of a century. This issue has been considered from three different angles: institutional soundness (the Basel Committee on Banking Supervision), efficient market functioning (the Committee on the Global Financial System) and a key element of the financial system infrastructure (the Committee on Payment and Settlement Systems).

Given the diversity of their perspectives, the committees have been closely involved in various joint efforts in the area of financial stability in the past few years, most recently with regard to the Financial Stability Forum, in which each committee participates. Similarly, the Basel Committee and the CPSS, alongside the BIS itself, took part in the consultative process for the drafting of the IMF Code of Good Practices on Transparency in Monetary and Financial Policies, including the Supporting Document to the Code.

Basel Committee on Banking Supervision

Over the past year, the Basel Committee on Banking Supervision has launched several new initiatives that provide guidance on key banking supervisory issues and highlight the role that effective banking supervision programmes play in the global financial system. Efforts to reform the 1988 Basel Capital Accord culminated in the release of a consultative paper in June 1999 setting out a proposed new capital framework. This is proving to be the largest and most resource-intensive initiative the Basel Committee has ever undertaken. Since its implementation, the 1988 Accord has been adopted in more than 130 countries throughout the world. The proposed new Capital Accord is designed to improve the way regulatory capital requirements reflect underlying risks and to better address the financial innovations that have occurred in recent years. The review is also aimed at rewarding the improvements made in risk measurement and control and providing incentives for further enhancements. While there is a continued focus on internationally active banks, the underlying principles should be suitable for application to banks of varying levels of complexity and sophistication in all countries.

The proposed capital framework consists of three essential and complementary pillars: minimum capital requirements, which seek to develop and expand on the standardised rules set forth in the 1988 Accord; supervisory review of an institution's capital adequacy and internal assessment process; and effective use of market discipline as a lever to strengthen disclosure and encourage safe and sound banking practices. With regard to the first pillar, the Committee has proposed two primary approaches: an enhanced standardised approach that builds on the foundations of the current Accord; and an internal ratings-based approach that would draw on banks' own assessment of credit risk. The Committee believes that this will be an important step in the effort to align capital charges more closely with underlying risk.

The release of these and other proposals in the June 1999 consultative paper has resulted in an extensive dialogue within and between the supervisory and financial communities around the world. The consultation period ended on 31 March 2000 and elicited more than 200 written comments. These comments will be instrumental in providing guidance as the Committee continues its deliberations and drafts a comprehensive set of proposals.

The Basel Committee plays a vital role in developing global standards for prudential regulation and supervision. A large number of countries have declared their intention to implement these standards – the Core Principles for Effective Banking Supervision. The standards are also used by the IMF and the World Bank as a basis for judging the effectiveness of banking supervision in individual countries. An important vehicle for the dissemination of the standards is the Basel Committee's Core Principles Liaison Group, in which the supervisors of many non-G10 countries are involved and in which the IMF and the World Bank also participate. In October 1999, the Committee released the Core Principles Methodology, which is designed to assist evaluators in assessing adherence to the Principles by defining essential and additional criteria for each Principle.

Other policy papers and consultative documents recently released by the Basel Committee have covered a wide range of topics including corporate governance (September 1999), credit risk (July 1999), highly leveraged institutions (January 1999 and January 2000), loan accounting (July 1999), transparency and disclosure (July 1999 and January 2000), and the Year 2000 (September 1999 and March 2000). These papers are distributed as they are released, but the policy documents also become part of the Basel Committee Compendium, which is reissued early each year.

Progressively over recent years, the Committee has been actively expanding its links with supervisors in non-member countries with a view to strengthening prudential supervisory standards in all the major markets. As these contacts have developed, the Committee's pronouncements have become more and more influential as standards to which supervisory authorities, both in developed countries and in the emerging markets, aspire. Through its cooperation with non-G10 supervisors and its dissemination of topical information and guidance on important banking issues, the Basel Committee has contributed to strengthening financial systems in emerging markets. In addition, the Committee plays an active role in the provision of technical training and assistance, most recently through the Financial Stability Institute (see below). It also ensures efficient communication channels through maintenance and regular distribution of the "Bank Supervisors' Contact List" and through sponsorship and organisation of the biennial International Conference of Banking Supervisors (ICBS), which was initiated by the Basel Committee in 1979. The 11th ICBS will be held in Basel in September 2000 and will be co-hosted by the Swiss National Bank, the Swiss Federal Banking Commission and the BIS. This year's themes are (i) the review of the Capital Accord, and (ii) the financial industry in the 21st century. Attendance at the ICBS has doubled since its inception to an expected 300 delegates from 120 countries in September 2000.

Committee on the Global Financial System

During the period under review, the CGFS continued its monitoring of international financial markets and the assessment of specific issues related to the functioning of the global financial system. The Committee focuses on vulnerabilities in global financial markets, as well as in systemically important industrial and emerging market economies.

The specific topics addressed by the CGFS were: the design of liquid debt markets, market dynamics under stress, transparency in the information provided to market participants, and improvements in the BIS international banking statistics.

In May 1999, the Committee released a report on market liquidity containing research findings and selected policy implications. This was followed by the publication in October 1999 of a report with specific recommendations on how to develop deep and liquid government bond markets. The recommendations covered five areas: debt management strategies, taxation, transparency, trading rules and infrastructure, and the development of the repo, futures and options markets.

The CGFS devoted considerable attention to the issue of financial market dynamics under stress conditions. A study on the financial market events in the second half of 1998, published in October 1999, analysed the causes of the sudden increase in risk and liquidity premia and the speed with which markets subsequently stabilised. The report focused on the mechanisms which led to the evaporation of market liquidity across a variety of segments and amplified movements in relative asset prices. These included: the inadequate assessment of counterparty risks, which permitted excessive use of leverage by some institutions; the widespread emulation of certain financing, trading and risk management strategies; the failure to incorporate in risk management systems the potential feedback effects of market liquidity on price setting; compensation schemes encouraging a short-term focus in decision-making; and the lack of market information about aggregate positions.

The CGFS also established a working group to investigate the current use of stress testing at large financial institutions, and to explore the possibility that an aggregation of financial firms' stress test results might produce information of use to the authorities and market participants. The group's report summarised current practices in stress testing, discussed some of its limitations and acknowledged the practical difficulties involved in aggregation. As a follow-up to this initiative, the CGFS decided to prepare a survey of the scenarios used by risk managers. Other work in progress in early 2000 included a study on the potential impact on financial market dynamics of the increasing use of collateral and one on the implications of electronic trading systems for the functioning of financial markets.

Last year, the CGFS took forward its cooperation with the IMF in developing standards of disclosure by national authorities. Following the joint production in 1998 of a disclosure template for foreign currency assets, the CGFS cooperated with the IMF on a more detailed document containing guidelines for the implementation of this template in the context of the IMF's Special Data Dissemination Standard. Moreover, over the course of the year, the CGFS debated issues related to transparency in the information provided by private market participants. A working group which brings together various international regulatory groupings is analysing ways of improving the disclosure of the risk profile of a broad spectrum of financial institutions.

Finally, the CGFS continued to play its traditional role of overseeing and considering improvements to the BIS banking statistics. In this regard, a redesign of the consolidated banking statistics was proposed, with greater emphasis on the notion of ultimate risk. The coverage of derivatives exposures and contingent liabilities will also be strengthened.

Committee on Payment and Settlement Systems

During the period under review, the CPSS continued its efforts to promote robust payment and settlement systems and thereby strengthen financial market infrastructures and reduce systemic risk. In the process, the Committee intensified its cooperation with other international groupings, particularly the International Organization of Securities Commissions (IOSCO), and associated an increasingly wide group of non-G10 central banks with its work.

In December 1999, the CPSS Task Force on Payment System Principles and Practices, comprising G10 central banks and an equal number of non-G10 central banks as well as the ECB, the IMF and the World Bank, published a consultative report on Core Principles for Systemically Important Payment

Systems. The report will be finalised in the course of 2000, taking account of comments received from interested parties.

A further major cooperative effort was the creation of the joint CPSS/IOSCO Task Force at the end of 1999. This task force will draw up recommendations for securities settlement systems and identify the minimum requirements that such systems should meet in order to minimise systemic risks at both the domestic and international level. Recommendations will also address issues raised by cross-border settlement activity, such as cross-border linkages between settlement systems.

The previous joint CPSS/IOSCO Working Group on Securities Lending published its report on Securities Lending Transactions: Market Development and Implications in July 1999. The report provided an overview of the dynamics of the securities lending market, including the underlying motivations for securities lending, and considered legal, regulatory, tax and accounting issues. It also addressed the risks still present in these transactions and the practices and procedures that might be adopted by market participants to manage and reduce them.

The CPSS has continued to monitor and encourage the development of private sector schemes to reduce foreign exchange settlement risk and has also encouraged central banks worldwide to adopt strategies to address this risk. To assist them in the formulation and implementation of such strategies, a "toolkit" of relevant materials has been produced, which has already been sent to the monetary authorities in over 50 countries. In addition, the CPSS has worked closely with the Basel Committee on Banking Supervision to develop guidance for supervisors on foreign exchange settlement risk.

To assess adequately the challenges posed by recent and expected innovations in the retail payments area, the Committee's Working Group on Retail Payment Systems is carrying out a review of retail payment instruments and systems and related policy issues. In a report published in September 1999, the group identified and analysed recent and prospective trends in the use of retail payment instruments. A second report, to be published in mid-2000, will analyse clearing and settlement arrangements for retail payments. With respect to electronic money, the Committee, through its Secretariat at the BIS, has continued to monitor global developments of card-based and network-based products.

The Committee has continued to strengthen its cooperation with non-G10 central banks, particularly those from emerging market economies. Various individual central banks or regional central banking groups are preparing, with the support of the Committee's Secretariat at the BIS, publications that describe the payment systems in their country or geographical area. The Committee has also continued to support payment system workshops and seminars organised by the BIS in cooperation with regional central banking groups. Following its first meeting outside Basel in May 1999, the Committee organised a workshop in Hong Kong for central banks and monetary authorities from the Asia-Pacific region that was attended by over 26 institutions. The proceedings were published in December 1999.

In other areas of cooperation, the Committee, through its Secretariat, has actively supported and provided guidance to the World Bank's western hemisphere payments and securities clearance and settlement initiative. In addition, the CPSS has cooperated with the Group of Computer Experts on operational risk issues and electronic authentication, and has participated in the work of the G10 Working Party on Financial Sector Consolidation.

Representative Office for Asia and the Pacific

Since its opening in July 1998, the Representative Office for Asia and the Pacific located in the Hong Kong Special Administrative Region has undertaken a number of activities to enhance information exchange and cooperation among central banks in the region, and between them and central banks in the rest of the world. These activities include: (i) hosting meetings for central bank officials from within and outside the region; (ii) contributing to the Bank's financial and economic research and analysis in the Asia-Pacific region; and (iii) promoting BIS banking business relationships with regional central bank customers.

During the period under review, the Office actively supported over a dozen meetings in the region. These included a meeting of central bank officials in June 1999 to discuss risk management in investing international reserves. A special Governors' Meeting in January 2000 in Singapore provided an opportunity to discuss the global financial situation and review the management of national debt and liquidity. In March, a meeting of internal auditors compared recent changes and ongoing developments in their area of interest.

The Office also arranged a number of meetings in the region in support of work of the Basel-based committees and has worked closely with regional groupings of central banks. In May 1999 the Office co-hosted a meeting of the CPSS and a regional workshop (see above). In September 1999 it hosted a regional meeting of the Joint Year 2000 Council which reviewed preparations for the date change. The Office also co-hosted a seminar of financial market authorities on credit risk. A number of subcommittees of the Basel Committee on Banking Supervision also met in Hong Kong over the last year. In addition, in November 1999 the Office hosted a Financial Stability Forum Task Force meeting addressing the implementation of standards. In March 2000, it participated in and provided analytic support to an EMEAP (Executive Meeting of East Asian and Pacific Central Banks) forum reviewing developments in foreign exchange and related markets. In addition to writing background notes for such meetings, the Office's economists have researched topics of interest to central banks in the region and elsewhere. The Office also contributed to the Financial Stability Forum's study of the impact of highly leveraged institutions on market dynamics.

In the banking area, the BIS has decided to establish a dealing room at the Office to better serve central banks in the region. Dealing from the Hong Kong office is expected to begin towards the end of 2000.

Financial Stability Institute

The FSI is a joint initiative of the Bank for International Settlements and the Basel Committee on Banking Supervision with a mandate to help improve financial systems worldwide, initially through the strengthening of prudential supervision. Since the start of its programme in mid-1999, the FSI has concentrated on banking issues given that banking is the primary form of financial intermediation in many parts of the world. Securities and insurance supervision will gradually be added.

During its first year, the FSI has offered senior supervisors focused seminars on risk management, information technology, operational risk, fraud, consolidated supervision and corporate governance and has organised special seminars on capital adequacy and deposit insurance. In addition, the FSI has held a series of regional seminars and workshops on common supervisory problems and solutions. The programmes are based upon the Core Principles for Effective Banking Supervision and their accompanying Methodology, with emphasis on both the underlying concepts and techniques for implementation. Moreover, the FSI provided senior supervisors with relevant information on the latest supervisory developments and on key issues affecting banking supervision, from both official and market sources, to support efforts to enhance financial supervision and regulation.

The programmes have been designed to meet the needs of banking supervisors as expressed by 120 countries in an FSI survey conducted in spring 1999. Since then the FSI has organised 19 events with participation from 121 countries, resulting in a balanced global representation. Several of these events were held jointly with regional groups of supervisors. The FSI also presented its activities at conferences of regional development banks and annual meetings of regional groups of supervisors in order to reach out on relevant issues and to be in continuous contact with its worldwide audience.

The FSI coordinates activities and collaborates with other organisations providing programmes of assistance to financial supervisors. There is a strong working relationship with the Toronto International Leadership Centre for Financial Sector Supervision. Joint seminars with the Toronto Centre and also with IOSCO and the International Association of Insurance Supervisors have been scheduled.

The FSI's programme is designed to offer a variety of seminars and techniques in order to ascertain what is most relevant for the targeted countries. The IMF's Article IV consultations and the FSI's workshops on the assessment of progress give clear indications that many supervisory issues need to be addressed in greater detail. Good progress has been made but much more must be done to accomplish the challenging task of implementing effective supervisory systems in many countries.

2. BIS contributions to broader international financial cooperation

Group of Ten

Through both its participation as an observer institution and the provision of secretariat support, the BIS has traditionally contributed to the work undertaken by the G10 Finance Ministers and central bank Governors, their Deputies and the working parties set up under their auspices. During the period under review, the G10 focused on improvements in the functioning of the markets for emerging market bonds and the contribution that changes in contracting practices could make. To promote better understanding of the implications of the use of collective action clauses in sovereign bond issues, the G10 engaged in a dialogue with the private sector. G10 countries also examined the possibility of using such clauses in their own bond issues.

One of the most notable changes in the financial landscape in many industrial countries in recent years has been an acceleration of the consolidation process. During the period under review, the G10 established a working party to analyse the forces driving these changes and to assess their broader implications. The working party will look at six issues: patterns of financial consolidation; causes of consolidation; the implications of consolidation for financial risk; the conduct of monetary policy; competition and credit flows; and payment and settlement systems. The working party is expected to report to the Ministers and Governors by the end of 2000.

Financial Stability Forum

The FSF was established by the G7 Finance Ministers and central bank Governors in February 1999 to promote international financial stability through enhanced information exchange and cooperation in financial supervision and surveillance. The Forum comprises national authorities responsible for financial stability in significant international financial centres, international financial institutions, international supervisory and regulatory bodies, and central bank expert groupings. It is chaired by Andrew Crockett, General Manager of the BIS, in a personal capacity. Detailed information about the Forum, including the reports it has endorsed, is available on its website (www.fsforum.org). The FSF website also contains a directory of training opportunities worldwide in the field of financial supervision; this is a joint project between the IMF, the World Bank and the BIS.

At its meeting in Singapore on 25–26 March 2000, the Forum endorsed the recommendations of three working groups set up in April last year to address concerns related to highly leveraged institutions (HLIs), capital flows and offshore financial centres (OFCs).

The working group on HLIs recommended a package of measures to address both systemic risk and market dynamics concerns arising from the activities of HLIs (especially hedge funds). The key measures include strengthened risk management practices by HLIs and their counterparties, enhanced regulatory oversight of HLI credit providers and greater public disclosure by HLIs and other counterparties. The group also considered, but did not recommend at this stage, direct regulation of currently unregulated HLIs. The Forum emphasised that direct regulation would be reconsidered if a review to be carried out by 2001 revealed that the implementation of the report's recommendations was not adequately addressing the concerns identified.

The working group on capital flows recommended that national authorities put in place a risk management framework for monitoring and assessing the risks faced by their economies as a result of large and volatile capital flows. With the encouragement of the FSF, work is under way in the IMF and the World Bank to develop a set of guidelines for sound practice in sovereign debt and liquidity management. The group's report pointed to important ways in which national authorities and international bodies could support the process of enhancing risk management procedures in other sectors of the economy, for example by addressing gaps in available statistics, promoting greater transparency and eliminating laws and regulations that inadvertently encourage imprudent behaviour.

The working group on OFCs concluded that enhanced implementation of international standards by OFCs, particularly as regards regulation and supervision, disclosure and information-sharing, would help address concerns about some OFCs. The group's recommendations spell out a process for assessing OFCs' adherence to international supervisory standards, identify standards for priority implementation and assessment, and propose a menu of incentives that could be applied to enhance their adherence to international supervisory standards. The Forum stressed the urgency of making this framework operational. The working group also classified OFCs based on a survey it conducted of onshore and offshore supervisors and regulators to help set priorities for the standards assessment process recommended by the working group.

The Forum discussed how to foster the implementation of international standards to strengthen financial systems, based on a report prepared by a task force set up in September last year. The Forum endorsed a set of 12 key international standards particularly relevant to sound financial systems that countries should seek to implement with priority, depending on their circumstances. This set of key standards will be highlighted in the Forum's Compendium of Standards, which groups together internationally accepted standards relevant to sound financial systems and is available on the Forum's website.

The Forum also set up a working group to develop international guidance on deposit insurance arrangements, and undertook a study of developments in the insurance industry. Its discussions gave impetus to work being carried out elsewhere, including a review within the Joint Forum of the Basel Committee, IOSCO and IAIS, of the consistency of capital adequacy frameworks across banking, securities and insurance firms.

International Association of Insurance Supervisors

The BIS has hosted the Secretariat of the IAIS since the Secretariat's establishment in January 1998. Similar to the Basel Committee on Banking Supervision, but directed at insurance supervision, the IAIS aims to contribute to global financial stability by improving supervision of the insurance industry through the development of practical standards for insurance supervision, provision of mutual assistance and exchange of information on members' respective experiences.

So far, the IAIS has issued several international insurance supervisory principles, standards and guidance papers. The papers include the Insurance Core Principles, the Insurance Concordat, Principles for the Conduct of

Insurance Business, Guidance on Insurance Regulation and Supervision for Emerging Market Economies, a model Memorandum of Understanding, and Supervisory Standards on Licensing, On-Site Inspections, Derivatives and Asset Management. In collaboration with other international regulatory bodies (in the Joint Forum), the IAIS has also developed principles for the supervision of financial conglomerates. Moreover, the IAIS actively participates in the Financial Stability Forum.

The IAIS is currently formulating standards in the areas of solvency (capital adequacy) requirements, insurance accounting, reinsurance, market risk, electronic commerce, transparency, the coordination of supervision of international insurance groups, and the prevention of financial crime and regulatory abuse.

The IAIS has arranged several training programmes and provided training materials for insurance supervisors in order to help members comply with IAIS supervisory standards. In 1999 it organised regional training seminars for insurance supervisors in Asia (Singapore in February), Latin America (Argentina in April), central and eastern Europe (Poland in May), Africa (South Africa in July), all emerging markets (Tokyo in September) and offshore jurisdictions (Aruba in November).

Joint Year 2000 Council

The Joint Year 2000 Council, established in April 1998 by the Basel Committee, CPSS, IOSCO and IAIS, continued to take initiatives last year to ensure proper coordination of Year 2000 remediation efforts within the regulatory community as well as between public and private sector financial market organisations. At the beginning of 1999, there were indications of clear progress in making the worldwide financial market infrastructure ready for the Year 2000 changeover. Nevertheless, risks to market stability were still judged to be significant. These included uncertainty surrounding the preparedness of individual firms and markets, failures in the major support infrastructures, such as electricity, telecommunications and water, and potential overreaction by the general public. Therefore, the Council's attention shifted progressively to risk mitigation procedures, public communication and event management.

The Council intensified its communication efforts with the global regulatory community through various policy papers, newsletters, advisories and meetings. A second large-scale Round Table meeting in July 1999 provided a unique opportunity for senior policymakers and private sector executives to discuss strategies to minimise uncertainties and disturbances in markets during the transition to 2000.

In order to assist market authorities in preparing for the transition and understanding private sector expectations and strategy, the Council developed a monitoring strategy to help its sponsoring organisations and central banks in key financial centres identify critical issues and emerging developments.

Recognising that efficient cross-border communication among market authorities would be a vital ingredient for a smooth transition to 2000 in financial markets, the Council set up an information-sharing infrastructure

(Market Authorities Communication Services – MACS) in the second half of 1999 to meet the cross-border information needs of the regulatory community. The services provided by MACS included maintaining contact information for regulators in major markets, collecting and disseminating information on the operational status of core market components, and facilitating the organisation of conference calls. MACS, which was operated by the Council Secretariat at the BIS and relied on a dedicated website and teleconferencing facilities, eased communication amongst financial market authorities worldwide during the critical transition period. Overall, the Council's activities were effective in preparing financial market authorities for the changeover and in providing them with support during the transition to the new millennium.

3. Other areas of central bank cooperation

Cooperation with regional central bank groupings

The work of the BIS and the committees hosted by it has reflected both the accelerating speed of globalisation and the trend towards enhanced regional cooperation among central banks in various parts of the world. To foster closer interaction between central banks which share similar economic, financial and political challenges, the BIS and the Basel-based committees further intensified their contacts with various regional central banking groups in the period under review. These contacts included the AMF (Arab Monetary Fund), CEMLA (Centro de Estudios Monetarios Latinoamericanos), EMEAP (Executive Meeting of East Asian and Pacific Central Banks), GCC (Gulf Cooperation Council), SAARC (South Asian Association for Regional Cooperation), SADC (Southern African Development Community) and SEACEN (South-East Asian Central Banks).

As in previous years, BIS representatives were invited to address regional Governors' meetings as well as to participate in regional central bank workshops and seminars on specific topics relating to monetary and financial stability. The various regional groupings also assisted the BIS and the committees in disseminating standards and best practices to central banks in their regions by conducting an increasing number of joint meetings with Basel-based groups. Finally, as mentioned above, a number of BIS-sponsored meetings were organised in individual regions which brought together senior members of the various Basel-based committees with their counterparts from different areas of the world.

With respect to the training needs of the central banks of countries in transition, the BIS continued to contribute actively to the work of the Joint Vienna Institute (which is sponsored by the BIS, EBRD, IBRD, IMF, OECD and WTO). In close coordination with the FSI and various Basel-based committees, the BIS also organised several seminars for central banks and other financial market authorities.

Group of Experts on Monetary and Economic Data Bank Questions

Last year the number of participants in the BIS Data Bank, which is overseen by the Group of Experts on Monetary and Economic Data Bank Questions, increased to 23 institutions. They comprise the central banks of the G10 and EU countries, including the ECB, and of Australia, New Zealand and Norway. Apart from ongoing efforts to increase the number of macroeconomic and financial statistics reported and maintained in the Data Bank, attention centred last year on challenges and opportunities presented by the Year 2000. Moreover, under the guidance of a steering committee of central bank business and IT experts, a more modern and highly secure web-based technology was introduced for electronic data exchange with the BIS (known as Central Bank Information Services – CBIS). Finally, in cooperation with central banks and other international institutions, a new international generic statistical data exchange message for central banks was implemented (GESMES/CB). These various innovations will permit central banks to move away from mainframe connectivity for data exchange with the BIS, to implement improved communication facilities for the transmission of bulk data to Basel, and to achieve interactive web-based access to the BIS Data Bank. It should also allow participation in the Data Bank to be extended to central banks from key emerging market countries.

Group of Computer Experts

Discussions in the Group of Computer Experts focused on the efforts of central banks' IT departments to prepare for the Year 2000 date change, covering both technical issues and the organisational aspects of effective system and contingency support. The transition was successfully accomplished and some of the lessons learnt, for example in the area of contingency planning, are likely to be particularly valuable for the future.

During the period under review, the Group and its Working Party on Security Issues actively developed sound practices for central banks and considered measures to address the recurring threat of computer viruses. The Group also examined appropriate countermeasures to the risks posed by malicious mobile code and potential security weaknesses in widely used software components. Attention focused on the importance of effective electronic communications and, in this context, on the requirements of central banks for information exchange through extranet arrangements. Of particular interest in this area was central bank experience with the growing use of internet technologies, their integration with legacy environments and the securing of wide-area networks through the establishment of virtual private networks based on public key infrastructure technology.

4. Functions as Agent and Trustee

Trustee for international government loans

The Bank continued to perform its functions as Trustee for the funding bonds 1990–2010 of the Dawes and Young Loans during the year under review (for details on the Bank's functions in this regard see the 63rd Annual Report of June 1993). With regard to these funding bonds, the Deutsche Bundesbank as Paying Agent notified the Bank that in 1999 it had paid out approximately DM 7.2 million in respect of redemption and DM 7.1 million in respect of interest. Redemption values and other details were published by the Bundesschuldenverwaltung (BSV – German Federal Debt Administration) in the Bundesanzeiger (Federal Gazette).

The Bank maintained its reservations regarding the application by the BSV of the exchange guarantee clause for the Young Loan (stated in detail in its 50th Annual Report of June 1980), which also extend to the funding bonds 1990–2010. The Bank has also drawn attention to the fact that the introduction of the euro does not entail any change with regard to these reservations.

Collateral Agent functions

Under a number of agreements, the BIS acts in the capacity of Collateral Agent to hold and invest collateral for the benefit of the holders of certain foreign currency denominated bonds issued by countries under external debt restructuring arrangements. Current Collateral Pledge agreements include those for Brazilian bonds (described in detail in the 64th Annual Report of June 1994), Peruvian bonds (see the 67th Annual Report of June 1997) and Côte d'Ivoire bonds (see the 68th Annual Report of June 1998).

5. Financial assistance to central banks

Within the framework of an international financial support programme put together for Brazil in late 1998, the BIS coordinated a Credit Facility for up to $13.28 billion in favour of the Banco Central do Brasil. Funds made available by the BIS under this Facility were for the most part provided with the backing or guarantee of 19 participating central banks. A parallel Facility for up to $1.25 billion was also granted by the Japanese monetary authorities. Drawings on both arrangements were made in conjunction with Brazilian purchases under an IMF Supplemental Reserve Facility.

A first drawing of $4.15 billion was made on the BIS Facility on 18 December 1998. This drawing was partially renewed on 18 June 1999 for an amount of $2.9 billion, which was fully repaid on 20 December 1999. A second drawing of $4.5 billion occurred on 9 April 1999 and was partially renewed on 12 October 1999 for an amount of $3.15 billion, which was fully repaid on 12 April 2000. Proportional amounts were made available in each case under the Japanese Facility. Both facilities have now been terminated.

As part of its normal business activity, the BIS also made various short-term advances to central banks during the course of the year on an uncollateralised as well as on a collateralised basis.

6. Operations of the Banking Department

At 31 March 2000 the Balance Sheet stood at 74,836 million gold francs, a record for the end of a financial year and a 13% increase over the total of 66,237 million registered 12 months previously. The modest overall appreciation of the US dollar between the beginning and the end of the financial year had a slightly negative impact (some 180 million gold francs) on the size of the Balance Sheet.

Reflecting in part customer concern about the liquidity of financial markets ahead of the millennium change, the BIS Balance Sheet expanded steadily last autumn to reach a maximum of 87,049 million gold francs at the end of December 1999 (this total fell a little short of the all-time record of 89,466 million registered in December 1998). As liquidity concerns diminished, this trend was largely reversed during the first quarter of 2000.

Liabilities

During the past financial year, the BIS took measures to further improve the quality of the financial services which it offers exclusively to central banks and international institutions. Pricing in certain areas was made significantly more competitive and a new collective investment vehicle was made available to customers. Subscriptions to US dollar Medium-Term Instruments (MTIs) continued to rise, encouraging the BIS to also issue MTIs in pounds sterling and euros.

On 31 March 2000 borrowed funds in gold and currencies (excluding repurchase operations) totalled 68,724 million gold francs, compared with 60,898 million at the end of the previous financial year. Gold deposits declined by 373 million gold francs to a total of 2,820 million, representing 4.1% of total borrowed funds against 5.2% a year earlier. Currency deposits, on the other hand, grew by a substantial 8,198 million gold francs over the period. The level of currency deposits can fluctuate significantly during the course of a year, reflecting the Bank's role as a safe haven in uncertain market conditions as well as the active use which central banks make of the BIS for liquidity management. Nonetheless, the daily average volume of borrowed currencies was 3.3% higher than in the previous financial year, a development assisted by the overall growth in global foreign exchange reserves as well as by more active marketing of a wider range of BIS financial products.

There was an increase of 5 billion gold francs (13.1%) in US dollar placements compared with the end of the 1998/99 financial year, and this accounted for the bulk of the expansion of 8.2 billion gold francs in borrowed currencies. The US dollar constituted 65.3% of total borrowed funds in currencies on 31 March 2000, little changed from 65.9% a year earlier. The share of the euro declined slightly over the same period from 20.2% to 19.4% of total borrowed funds in currencies.

Deposits by central banks rose from 54,016 million to 60,667 million gold francs, representing 92.1% of total borrowed funds in currencies at end-March 2000 against 93.6% the previous year. Funds placed by other depositors (mainly international institutions) amounted to 5,236 million gold francs, compared with 3,690 million on 31 March 1999.

Assets

The BIS conducts its operations in a highly prudent manner to ensure the safety of the deposits entrusted to it; credit risk, maturity transformation and exchange rate risk are rigorously monitored. A major objective in investing the Bank's assets is to preserve a high degree of liquidity in order to respond effectively to unforeseen cash requirements of customers.

Investments in currencies stood at 71,127 million gold francs on 31 March 2000, compared with 62,189 million a year earlier. These assets represent deposits with first-class institutions of international standing as well as short-term negotiable securities, including treasury bills. The Bank also grants advances to central banks: at end-March 2000 the total of such advances outstanding amounted to 1,941 million gold francs, the bulk of which represented funds extended under the multilateral Credit Facility coordinated by the BIS in favour of the Banco Central do Brasil and guaranteed by the participating central banks (see Section 5 above).

The Bank's assets in gold declined from 3,879 million to 3,506 million gold francs during the financial year, reflecting the decrease in gold deposits received.

Apart from its holdings of 192 tonnes of gold, the Bank's own funds are largely held in liquid securities issued or guaranteed by the governments of the major industrial countries as well as top-rated supranationals.

The Bank also makes use of certain derivative instruments, essentially with a view to managing its own funds more efficiently and hedging risks on its borrowed funds (see Note 8a to the Balance Sheet).

7. Net profits and their distribution

The accounts for the 70th financial year ended 31 March 2000 show a net profit of 307,824,257 gold francs, compared with 303,618,800 gold francs for the preceding financial year. Although the volume of the Bank's own funds increased, interest income from own funds investments fell slightly, because interest yields, while rising, were on average lower than in the previous year. Underlying income from borrowed funds operations also showed a slight decline as a result of a narrowing of margins on deposit intermediation, which more than offset the increased income from the higher average Balance Sheet total during the year. These declines were outweighed by significant book gains, which were realised as a number of central banks became more active in trading their portfolios of BIS instruments in an environment of rising interest rates. However, the rise in rates also led to realised capital losses on the Bank's investment portfolios and a reduced contribution from securities trading. Finally, the Board of Directors reduced further the amount deducted from profits and transferred to the provision for banking risks and other eventualities.

This year's result is shown after deduction of 68,731,981 gold francs in respect of costs of administration, an increase of 3% over the previous year. Most of this increase was attributable to the rise in the depreciation charge, which resulted from the Bank's higher investment in IT and other equipment, particularly for its new property in Basel. Costs of administration before depreciation increased by 10% in terms of Swiss francs, the currency in which most of the Bank's expenditure is incurred, and this was attributable to the Bank's expanding activities. The fall in value of the Swiss franc restricted the growth of costs of administration before depreciation expressed in gold francs to 1%.

On the basis of Article 51 of the Statutes, the Board of Directors recommends that the net profit of 307,824,257 gold francs be applied by the General Meeting in the following manner:

(i) an amount of 54,658,243 gold francs in payment of a dividend of 340 Swiss francs per share (the dividend payable in respect of the 12,000 new shares which were issued in the second half of the financial year 1999/2000 being settled on a pro rata basis according to the relevant date of subscription);

(ii) an amount of 50,633,203 gold francs to be transferred to the general reserve fund;

(iii) an amount of 3,000,000 gold francs to be transferred to the special dividend reserve fund; and

(iv) an amount of 199,532,811 gold francs, representing the remainder of the available net profit, to be transferred to the free reserve fund. This fund can be used by the Board of Directors for any purpose that is in conformity with the Statutes.

The Board of Directors has proposed that the above-mentioned dividend be paid on 1 July 2000 to the shareholders whose names are contained in the Bank's share register on 20 June 2000.

The Bank's accounts have been duly audited by PricewaterhouseCoopers AG, who have confirmed that the Balance Sheet and the Profit and Loss Account, including the notes thereon, give a true and fair view of the Bank's financial position at 31 March 2000 and of the results of its operations for the year then ended. Their report is to be found immediately following the accounts.

8. Increase in the number of shareholding central banks

With a view to further strengthening central bank cooperation, the Board of Directors decided on 8 November 1999 to invite the Banco Central de la República Argentina, the European Central Bank, Bank Indonesia, Bank Negara Malaysia and the Bank of Thailand to become members of the Bank and subscribe 3,000 shares each of the third tranche of the capital of the BIS. By the close of the financial year, which also marked the end of the subscription period, all except Bank Indonesia had taken up the Board's offer, thereby becoming members of the BIS.

The Board's decision on this sixth issue of the third tranche of the Bank's capital was taken in accordance with Articles 6 and 8(3) of the Statutes. The founder central banks represented on the Board waived their rights to the subscription in equal proportions of at least 55% of any additional shares (ie 8,250 of the 15,000 shares issued for subscription). It was decided that these 8,250 shares would be made available to new shareholding central banks.

At its meeting in November, the Board fixed the issue price until the end of the subscription period at 5,020 gold francs per share, equivalent to 1,475.317 grams of fine gold. As the Bank's shares are paid up to the extent of 25%, or 625 gold francs per share, the issue price of 5,020 gold francs included a premium of 4,395 gold francs per share. The subscribing central banks were given the option of settling the issue price for the new shares either in gold or by paying, in a convertible currency acceptable to the BIS, the amount which would be necessary to purchase the same weight of gold on the market on the value date of the payment.

As a consequence of the subscription of 12,000 new shares of the third tranche of the Bank's capital by the close of the financial year, the number of the Bank's issued shares has risen from 517,165 to 529,165 shares, and the amount of the paid-up capital of the Bank appearing in the Balance Sheet at 31 March 2000 has increased by 7.5 million gold francs to stand at 330.7 million gold francs. The aggregate premium received from the subscribing central banks amounted to 52.7 million gold francs, of which 750,000 gold francs has been allocated to the legal reserve fund and 51,990,000 gold francs to the general reserve fund.

9. Amendment of the Bank's Statutes

In connection with recent developments relating to the Bank's membership, administration and immunities, an Extraordinary General Meeting was held on 8 November 1999 with a view to amending Articles 31, 55 and 56 of the Statutes. The changes to Article 31 of the Statutes provide for a reduction of the minimum number of Board meetings which must be held each year and expressly allow for decisions of the Board to be taken by means of teleconference or in writing. The purpose of the amendments to Article 55 of the Statutes is to redefine the Bank's immunities from jurisdiction and execution in the light of general practice in international law. Finally, amendments to the definitions contained in Article 56 of the Statutes were made to accommodate membership in the BIS of cross-border central banking systems.

10. Changes in the Board of Directors

Guy Quaden, Governor of the National Bank of Belgium, appointed Alfons Verplaetse as a member of the Board of Directors from April 1999 to February 2000, ie for the unexpired part of the mandate of Philippe Wilmès, who had previously decided to relinquish his membership. In February 2000, Mr Quaden reappointed Mr Verplaetse for a further term of three years until 28 February 2003.

Eddie George, Governor of the Bank of England, reappointed Lord Kingsdown as a member of the Board of Directors for a further period of three years expiring on 6 May 2002. Upon the proposal of Urban Bäckström, Chairman of the Board of Directors, Lord Kingsdown was also re-elected as Vice-Chairman of the Board for a period terminating on 6 May 2002.

On 1 September 1999, Ernst Welteke succeeded Hans Tietmeyer as President of the Deutsche Bundesbank and became an ex officio Director of the Board. To replace Helmut Schlesinger, who resigned as a member of the Board at end-August 1999, Mr Welteke appointed Mr Tietmeyer for the unexpired period of Mr Schlesinger's term of office until end-December 1999. From January 2000, Mr Tietmeyer was reappointed for a further period of three years expiring on 31 December 2002.

Antonio Fazio reappointed Vincenzo Desario as a member of the Board for a further period of three years ending on 7 November 2002.

There were two changes amongst the Alternates of ex officio Directors. In September 1999, Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve System, appointed Edward W Kelley as his Alternate to succeed Alice M Rivlin. Mr Kelley was replaced in November 1999 by Roger W Ferguson.

The Bank was saddened to hear of the death of Bernard Clappier on 25 September 1999 at the age of 85. Mr Clappier – as Governor of the Bank of France – held the position of ex officio Director from 1974 to 1979, and of Vice-Chairman of the Board from 1983 to 1985 and from 1989 to 1991.

With deep regret, the Bank took note of the death of two former members of the Bank's senior management. Hans Heinrich Mandel died on 31 January 2000 at the age of 92; Mr Mandel was Head of the Banking Department from 1962 to 1972. Frédéric-Edouard Klein, who was appointed Legal Adviser in 1974 and who held this position until his retirement in 1986, died on 28 April 2000 at the age of 78.

Balance Sheet and Profit and Loss Account

at 31 March 2000

Balance Sheet at 31 March 2000

(in gold francs – see Note 2(a) to the Accounts)

1999	Assets	2000
	Gold	
2 801 471 476	Held in bars	*2 265 425 772*
1 077 182 612	Time deposits and advances	*1 240 342 623*
3 878 654 088		3 505 768 395
8 289 300	Cash on hand and on sight account with banks	11 382 465
7 314 049 359	Treasury bills	7 853 868 515
	Time deposits and advances in currencies	
21 413 790 799	Not exceeding 3 months	*33 292 191 933*
11 009 185 563	Over 3 months	*8 561 682 741*
32 422 976 362		41 853 874 674
	Securities purchased under resale agreements	
276 014 585	Not exceeding 3 months	1 268 088 300
	Government and other securities at term	
4 658 672 728	Not exceeding 3 months	*4 295 857 750*
17 509 173 124	Over 3 months	*15 844 081 595*
22 167 845 852		20 139 939 345
124 693 036	Land, buildings and equipment	120 715 280
44 554 468	Miscellaneous	82 028 737
66 237 077 050		74 835 665 711

After allocation of the year's net profit		Before allocation of the year's net profit	After allocation of the year's net profit
1999	Liabilities	2000	
323 228 125	Paid-up capital	330 728 125	330 728 125
2 605 641 703	Reserves	2 658 381 703	2 911 547 717
265 360 020	Valuation difference account	191 954 649	191 954 649
	Deposits (gold)		
2 775 616 571	Sight	*2 240 270 927*	*2 240 270 927*
233 632 571	Not exceeding 3 months	*197 558 564*	*197 558 564*
183 327 484	Over 3 months	*382 379 118*	*382 379 118*
3 192 576 626		2 820 208 609	2 820 208 609
	Deposits (currencies)		
3 005 634 040	Sight	*3 423 192 926*	*3 423 192 926*
51 674 794 423	Not exceeding 3 months	*55 284 677 726*	*55 284 677 726*
3 025 353 687	Over 3 months	*7 195 784 903*	*7 195 784 903*
57 705 782 150		65 903 655 555	65 903 655 555
	Securities sold under repurchase agreements		
121 452 148	Not exceeding 3 months	103 048 449	103 048 449
1 965 670 119	Miscellaneous	2 519 864 364	2 519 864 364
	Profit and Loss Account	307 824 257	
57 366 159	Dividend payable on 1 July		54 658 243
66 237 077 050		74 835 665 711	74 835 665 711

Profit and Loss Account

for the financial year ended 31 March 2000
(in gold francs)

	1999	2000
Interest and discount, and other operating income	4 050 134 509	4 222 389 680
Less: interest and discount expense	3 679 753 312	3 845 833 442
Net interest and other operating income	370 381 197	376 556 238
Less: costs of administration		
Board of Directors	*1 330 121*	*1 177 264*
Management and staff	*40 819 397*	*40 619 621*
Office and other expenses	*18 596 527*	*19 363 373*
Costs of administration before depreciation	*60 746 045*	*61 160 258*
Depreciation	*6 016 352*	*7 571 723*
	66 762 397	68 731 981
Net profit for the financial year	303 618 800	307 824 257

The Board of Directors recommends to the Annual General Meeting that the net profit for the year ended 31 March 2000 be allocated in accordance with Article 51 of the Statutes as follows:

	1999	2000
Dividend: 340 Swiss francs per share on 517 165 shares (1999: 320 Swiss francs)	*57 366 159*	*54 444 185*
on 12 000 newly issued shares (pro rata as from the value date of share subscription)	–	*214 058*
	57 366 159	54 658 243
	246 252 641	253 166 014
Transfer to general reserve fund	49 250 528	50 633 203
	197 002 113	202 532 811
Transfer to special dividend reserve fund	3 000 000	3 000 000
	194 002 113	199 532 811
Transfer to free reserve fund	194 002 113	199 532 811
	–	–

Movements in the Bank's paid-up capital and reserves

during the financial year ended 31 March 2000
(in gold francs)

I. Paid-up capital

	Number of shares	Gold francs
Shares of 2 500 gold francs, of which 25% is paid up:		
Balances at 31 March 1999 as per Balance Sheet	517 165	323 228 125
Shares issued during the financial year 1999/2000	12 000	7 500 000
Balances at 31 March 2000 as per Balance Sheet	529 165	330 728 125

II. Development of the reserve funds

	Legal reserve fund	General reserve fund	Special dividend reserve fund	Free reserve fund	Total of reserve funds
Balances at 31 March 1999 after allocation of net profit for the financial year 1998/99	32 322 813	1 156 441 190	65 530 055	1 351 347 645	2 605 641 703
Add: allocation of the premium received on the issue of 12 000 new shares	750 000	51 990 000	–	–	52 740 000
Balances at 31 March 2000 before allocation of net profit	33 072 813	1 208 431 190	65 530 055	1 351 347 645	2 658 381 703
Add: allocation of net profit for the financial year 1999/2000	–	50 633 203	3 000 000	199 532 811	253 166 014
Balances at 31 March 2000 as per Balance Sheet	33 072 813	1 259 064 393	68 530 055	1 550 880 456	2 911 547 717

III. Paid-up capital and reserve funds at 31 March 2000 (after allocation) were represented by:

	Paid-up capital	Reserve funds	Total of capital and reserves
Net assets in			
Gold	330 728 125	330 985 192	661 713 317
Currencies	–	2 580 562 525	2 580 562 525
Balances at 31 March 2000 as per Balance Sheet	330 728 125	2 911 547 717	3 242 275 842

Notes to the Accounts

for the financial year ended 31 March 2000

1. Introduction

The Bank for International Settlements (BIS) is an international financial institution which was established pursuant to the Hague Agreements of 20 January 1930. The headquarters of the Bank are in Basel, Switzerland. The objects of the BIS, as laid down in Article 3 of its Statutes, are to promote the cooperation of central banks, to provide additional facilities for international financial operations and to act as trustee or agent for international financial settlements. Forty-nine central banks are currently members of the Bank and exercise the rights of representation and voting at General Meetings in proportion to the number of BIS shares issued in their respective countries. The Board of Directors of the Bank is composed of the Governors of the central banks of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States of America, as well as appointed directors from six of those countries.

The accounts for the financial year 1999/2000 are presented in a form approved by the Board of Directors pursuant to Article 49 of the Bank's Statutes.

2. Significant accounting policies

(a) Unit of account and currency translation

The unit of account of the Bank is the gold franc, which is equivalent to US$ 1.94149… . Article 4 of the Bank's Statutes defines the gold franc (abbreviated to GF) as representing 0.29032258… grams of fine gold. Items representing claims on gold are translated into gold francs on the basis of their fine weight. Items denominated in US dollars are translated into gold francs on the basis of a gold price of US$ 208 per ounce of fine gold (this price was established by the Bank's Board of Directors in 1979, resulting in the conversion factor of GF 1 = US$ 1.94149…). Items denominated in other currencies are translated into US dollars at the spot market rates of exchange prevailing at the balance sheet date, with the resulting US dollar balances converted into gold francs accordingly.

Exchange differences arising on the translation of currency assets and liabilities denominated in currencies other than the US dollar are taken to the valuation difference account.

The net balance resulting from exchange differences on the translation of forward currency contracts and swaps is included under miscellaneous assets or liabilities.

(b) Basis of valuation and determination of profit

Except as otherwise stated, the accounts of the Bank are drawn up on the historical cost basis and income and expense items are recorded on the accruals basis. Profits and losses are determined on a monthly basis, translated into US dollars at the spot market rate of exchange prevailing at each month-end and translated into gold francs as set forth above; the monthly profits thus calculated are accumulated for the year.

Profits and losses arising on the sale of investment securities are taken to the securities equalisation account, which is incorporated within miscellaneous liabilities. Credit balances accumulated in this account are amortised to the Profit and Loss Account over a period corresponding to the average term to maturity of the Bank's investment portfolio; a net debit balance at the year-end would be charged immediately to the Profit and Loss Account.

(c) Gold

Gold assets and liabilities are stated on the basis of their fine weight.

(d) Treasury bills; Government and other securities at term

Treasury bills and Government and other securities at term are stated at cost, plus accrued interest where applicable, adjusted for the amortisation of premiums or discounts over the period to maturity; interest and discount income includes such amortisation.

(e) Time deposits and advances in currencies

Time deposits and advances are stated at their principal value plus accrued interest.

(f) Securities purchased under resale agreements

Securities acquired in connection with purchase and resale agreements are stated at the amount advanced to the counterparty plus accrued interest.

(g) Land, buildings and equipment

The Bank capitalises its land, buildings and equipment, which are recorded in Swiss francs, and depreciates its buildings and equipment on a straight line basis over their estimated useful lives, as follows:

Land – not depreciated.
Buildings – 50 years.
Building installations and machinery – 15 years.
Information technology equipment – 4 years.
Other equipment – 4 to 10 years.

(h) Valuation difference account

The valuation difference account records the effect of exchange differences as described in item (a) above; these valuation changes relate essentially to that portion of the Bank's own funds held in currencies other than the US dollar.

(i) Deposits

Deposits are book claims on the Bank and are stated at their principal value plus accrued interest. Certain claims are issued at a discount to the value payable on the maturity of the deposit; in such cases the accounting treatment is analogous to that applied to dated securities held by the Bank (see item (d) above).

(j) Securities sold under repurchase agreements

Securities sold in connection with sale and repurchase agreements are stated at the amount received from the counterparty plus accrued interest.

(k) Provision for banking risks and other eventualities

The Board of Directors sets aside an amount each year from the Profit and Loss Account to the above provision, which is incorporated in miscellaneous liabilities.

Notes to the Balance Sheet

for the financial year ended 31 March 2000

1. Gold holdings

The following table shows the composition of the Bank's total gold holdings:

Assets	*1999*	2000
Gold bars held at central banks	*2 801 471 476*	2 265 425 772
Gold time deposits:		
Not exceeding 3 months	*274 154 547*	261 412 650
Over 3 months	*803 028 065*	978 929 973
	3 878 654 088	3 505 768 395

The Bank's own gold holdings at 31 March 2000 amounted to GF 661.7 million, equivalent to 192 tonnes of fine gold (1999: GF 662.0 million; 192 tonnes).

2. Treasury bills

The Bank's holdings were as follows:

	1999	2000
Book value	*7 314 049 359*	7 853 868 515

The market value of Treasury bills at 31 March 2000 was GF 7 854.1 million (1999: GF 7 319.2 million).

3. Government and other securities at term

The Bank's holdings were as follows:

	1999	2000
Book value	*22 167 845 852*	20 139 939 345

The market value of Government and other securities at term at 31 March 2000 was GF 20 120.0 million (1999: GF 22 331.4 million). The excess of book value over market value is covered by the provision for banking risks and other eventualities.

4. Land, buildings and equipment

	Land & buildings	IT & other equipment	Total
Cost:			
Opening balance at 1 April 1999	133 888 421	46 802 899	180 691 320
Capital expenditure	10 703 595	6 742 218	17 445 813
Exchange adjustments	–15 013 674	–5 328 015	–20 341 689
Cost at 31 March 2000	129 578 342	48 217 102	177 795 444
Depreciation:			
Accumulated depreciation at 1 April 1999	29 358 673	26 639 611	55 998 284
Depreciation charge for the current year	2 048 614	5 523 109	7 571 723
Exchange adjustments	–3 105 119	–3 384 724	–6 489 843
Accumulated depreciation at 31 March 2000	28 302 168	28 777 996	57 080 164
Net book value at 31 March 2000	101 276 174	19 439 106	120 715 280

The cost of the Bank's land at 31 March 2000 was GF 23 769 312 (1999: GF 26 610 450).

5. Capital

The Bank's share capital consists of:

	1999	2000
Authorised capital:		
600 000 shares, each of 2 500 gold francs	*1 500 000 000*	1 500 000 000
Issued capital: 517 165 shares	*1 292 912 500*	
529 165 shares		1 322 912 500
of which 25% paid up	*323 228 125*	330 728 125

6. Reserves

The Bank's reserves (after allocation) consist of:

	1999	2000
Legal reserve fund	*32 322 813*	33 072 813
General reserve fund	*1 156 441 190*	1 259 064 393
Special dividend reserve fund	*65 530 055*	68 530 055
Free reserve fund	*1 351 347 645*	1 550 880 456
	2 605 641 703	2 911 547 717

The yearly allocation to the various reserve funds is governed by Article 51 of the Bank's Statutes. The amounts transferred are shown in the table entitled "Development of the reserve funds".

7. Deposits

Gold deposits placed with the Bank originate entirely from central banks. The composition of currency deposits placed with the Bank was as follows:

	1999	2000
Central banks		
Sight	*2 890 343 276*	3 351 789 605
Not exceeding 3 months	*48 100 323 078*	50 119 848 005
Over 3 months	*3 025 353 687*	7 195 784 903
Other depositors		
Sight	*115 290 764*	71 403 321
Not exceeding 3 months	*3 574 471 345*	5 164 829 721
	57 705 782 150	65 903 655 555

8. Off-balance sheet items

(a) Derivatives

In the normal course of business, the Bank is party to off-balance sheet financial transactions including forward exchange contracts, currency and interest rate swaps, forward rate agreements, futures and options. These instruments are used to hedge the Bank's interest rate and currency exposure on assets and liabilities, and to manage the duration of its liquid assets. The Bank applies the same credit criteria in considering off-balance sheet commitments as it does for all other investments.

Notional principal amounts

(in millions of gold francs)	*1999*	2000
Exchange rate contracts:		
Foreign exchange swaps and forwards	*10 470.4*	9 291.3
Currency swaps	*2 796.1*	2 259.3
Interest rate contracts:		
Interest rate swaps	*7 222.0*	9 842.5
Forward rate agreements and futures	*5 987.8*	15 629.6

The notional or contracted principal amounts of the various derivatives reflect the degree to which the Bank is active in the respective markets but give no indication of the credit or market risk on the Bank's activities. The gross replacement cost of all contracts showing a profit at prevailing market prices on 31 March 2000 was GF 354.4 million (1999: GF 484.1 million).

(b) Fiduciary transactions

Fiduciary transactions are not included in the balance sheet, since they are effected on behalf of and at the risk of the Bank's customers, albeit in its own name.

(in millions of gold francs)	*1999*	2000
Nominal value of securities		
Held in safe custody	*7 167.8*	7 093.0
Gold held under earmark	*671.2*	666.1

(c) Staff Pensions System and Savings Scheme

The Bank operates a Pensions System and a Savings Scheme. The two funds are similar to trust funds, having no separate legal personality. Their assets are administered by the Bank for the sole benefit of current and former members of staff who participate in the two schemes. All payments under these schemes are charged to the fund concerned.

The Bank is committed to maintaining a minimum coverage ratio of 105% for both funds and remains ultimately liable for all benefits payable under the Pensions System and Savings Scheme. The Bank's share of the contributions in respect of current service is included in its costs of administration each month.

At 31 March 2000 the market value of the net assets of the Pension Fund was GF 266.7 million (1999: GF 295.5 million), representing a coverage ratio of 125% (1999: 127%) based on the latest annual actuarial value of the fund's obligations as at 30 September 1999. The market value of the net assets of the Savings Fund was GF 23.8 million at 31 March 2000 (1999: GF 25.8 million), representing a coverage ratio of 105% (1999: 109%) with reference to the liabilities of the scheme at that date. The most recent annual accounts of the Pension and Savings Funds relate to the year ended 30 September 1999.

Report of the Auditors

Report of the Auditors
to the Board of Directors and to the General Meeting
of the Bank for International Settlements, Basel

We have audited the accompanying Balance Sheet and Profit and Loss Account, including the notes thereto, of the Bank for International Settlements. The Balance Sheet and Profit and Loss Account have been prepared by the Management of the Bank in accordance with the Statutes and with the principles of valuation described under significant accounting policies in the notes. Our responsibility under the Statutes of the Bank is to form an independent opinion on the Balance Sheet and Profit and Loss Account based on our audit and to report our opinion to you.

Our audit included examining, on a test basis, evidence supporting the amounts in the Balance Sheet and Profit and Loss Account and related disclosures. We have received all the information and explanations which we have required to obtain assurance that the Balance Sheet and Profit and Loss Account are free of material misstatement, and believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Balance Sheet and Profit and Loss Account, including the notes thereto, have been properly drawn up and give a true and fair view of the financial position of the Bank for International Settlements at 31 March 2000 and the results of its operations for the year then ended so as to comply with the Statutes of the Bank.

PricewaterhouseCoopers AG

Ralph R Reinertsen Anthony W Travis

Basel, 27 April 2000

Five-year summary of the Balance Sheet

(in millions of gold francs)

Financial year ended 31 March	1996	1997	1998	1999	2000
Gold					
Held in bars	*4 364.2*	*3 547.3*	*3 037.1*	*2 801.5*	*2 265.4*
Time deposits and advances	*637.3*	*956.7*	*1 122.4*	*1 077.2*	*1 240.4*
	5 001.5	4 504.0	4 159.5	3 878.7	3 505.8
Cash on hand and on sight account with banks	9.8	384.4	7.8	8.3	11.4
Treasury bills	4 105.7	2 813.4	1 863.9	7 314.0	7 853.9
Time deposits and advances in currencies	37 328.1	42 355.1	34 862.2	32 423.0	41 853.9
Securities purchased under resale agreements	1 652.2	884.2	2 781.0	276.0	1 268.1
Government and other securities at term	10 488.1	15 651.1	18 517.1	22 167.9	20 139.9
Land, buildings and equipment	–	–	–	124.7	120.7
Miscellaneous assets	32.8	200.8	258.7	44.5	82.0
Total assets	58 618.2	66 793.0	62 450.2	66 237.1	74 835.7
Paid-up capital	295.7	323.2	323.2	323.2	330.7
Reserves *(after allocation of the net profit for the year)*					
Legal reserve fund	*30.1*	*32.3*	*32.3*	*32.3*	*33.0*
General reserve fund	*803.3*	*974.9*	*1 016.3*	*1 156.4*	*1 259.1*
Special dividend reserve fund	*56.5*	*59.5*	*62.5*	*65.5*	*68.5*
Free reserve fund	*893.6*	*995.1*	*1 157.4*	*1 351.4*	*1 550.9*
	1 783.5	2 061.8	2 268.5	2 605.6	2 911.5
Valuation difference account	373.5	351.1	247.2	265.4	192.0
Deposits					
Gold	*4 245.0*	*3 836.4*	*3 473.7*	*3 192.6*	*2 820.2*
Currencies	*49 649.2*	*57 585.6*	*54 023.6*	*57 705.8*	*65 903.7*
	53 894.2	61 422.0	57 497.3	60 898.4	68 723.9
Securities sold under repurchase agreements	376.6	674.8	30.7	121.5	103.0
Staff pension scheme	283.1	252.6	257.0	–	–
Miscellaneous liabilities	1 558.3	1 658.7	1 773.7	1 965.6	2 519.9
Dividend	53.3	48.8	52.6	57.4	54.7
Total liabilities	58 618.2	66 793.0	62 450.2	66 237.1	74 835.7

Five-year summary of the Profit and Loss Account

(in millions of gold francs)

Financial year ended 31 March	1996	1997	1998	1999	2000
Net interest and other operating income	254.3	263.8	314.9	370.4	376.6
Less: costs of administration					
Board of Directors	*1.5*	*1.3*	*1.3*	*1.3*	*1.2*
Management and staff	*46.6*	*42.9*	*39.4*	*40.9*	*40.6*
Office and other expenses	*18.3*	*16.3*	*15.0*	*18.6*	*19.4*
Costs of administration before depreciation	*66.4*	*60.5*	*55.7*	*60.8*	*61.2*
Depreciation	–	–	–	*6.0*	*7.6*
	66.4	60.5	55.7	66.8	68.8
Net operating surplus	187.9	203.3	259.2	303.6	307.8
Less: amounts transferred to					
Provision for exceptional costs of administration	*3.5*	*3.0*	–	–	–
Provision for modernisation of premises and renewal of equipment	*3.1*	*6.0*	–	–	–
	6.6	9.0	–	–	–
Net profit for the financial year	181.3	194.3	259.2	303.6	307.8
Dividend	53.3	48.8	52.6	57.4	54.7
	128.0	145.5	206.6	246.2	253.1
Transfer to general reserve fund	38.4	41.0	41.3	49.2	50.6
	89.6	104.5	165.3	197.0	202.5
Transfer to special dividend reserve fund	3.0	3.0	3.0	3.0	3.0
	86.6	101.5	162.3	194.0	199.5
Transfer to free reserve fund	86.6	101.5	162.3	194.0	199.5
	–	–	–	–	–

Board of Directors

Urban Bäckström, Stockholm
Chairman of the Board of Directors,
President of the Bank

Lord Kingsdown, London
Vice-Chairman

Vincenzo Desario, Rome
Antonio Fazio, Rome
Edward A J George, London
Alan Greenspan, Washington
Hervé Hannoun, Paris
Masaru Hayami, Tokyo
William J McDonough, New York
Hans Meyer, Zurich
Guy Quaden, Brussels
Gordon G Thiessen, Ottawa
Hans Tietmeyer, Frankfurt am Main
Jean-Claude Trichet, Paris
Alfons Verplaetse, Brussels
Nout H E M Wellink, Amsterdam
Ernst Welteke, Frankfurt am Main

Alternates

Roger W Ferguson or
Karen H Johnson, Washington
Jean-Pierre Patat or
Marc-Olivier Strauss-Kahn, Paris
Ian Plenderleith or
Clifford Smout, London
Jean-Jacques Rey or
Jan Smets, Brussels
Carlo Santini or
Stefano Lo Faso, Rome
Jürgen Stark or
Helmut Schieber, Frankfurt am Main

Senior Officials of the Bank

Andrew Crockett	General Manager
André Icard	Assistant General Manager
Gunter D Baer	Secretary General, Head of Department
William R White	Economic Adviser, Head of Monetary and Economic Department
Robert D Sleeper	Head of Banking Department
Marten de Boer	Manager, Special Adviser to the General Manager
Renato Filosa	Manager, Monetary and Economic Department
Mario Giovanoli	General Counsel, Manager
Guy Noppen	Manager, General Secretariat
Günter Pleines	Deputy Head of Banking Department